HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC Hong Kong PMI®

PMI signals first deterioration in Hong Kong business conditions since December

Summary

May data indicated a slight deterioration in Hong Kong private sector business conditions. Output fell over the month, albeit marginally, while incoming new work was broadly unchanged from April. Firms generally cited weak client demand and the economic crisis in Europe. Concurrently, employment fell in May, ending a two-month period of job creation, and the rate of input price inflation slowed to its weakest pace since August 2009.

After adjusting for seasonal variation, the headline HSBC Hong Kong *Purchasing Managers' Index*™ (*PMI*®) – a composite index designed to provide timely indications of changes in prevailing business conditions in Hong Kong's private sector economy – posted below the 50.0 no-change mark in May, signalling a deterioration in overall operating conditions. At 49.4, down from 50.3 in April, this was the first sub-50 reading since last December. Nevertheless, the PMI was only slightly below the neutral threshold and indicated only a marginal deterioration overall.

The volume of new orders received by Hong Kong private sector firms was broadly unchanged in May, with companies generally commenting on weak client demand. New business from Mainland China fell for the second consecutive month, albeit at a weaker rate than in April.

Output at monitored companies fell for the first time in 2012 so far. Although the rate of contraction was the fastest in six months, it was nonetheless only marginal. Panellists generally attributed lower output to weak client demand, while other firms also commented on the crisis in Europe. Outstanding business also fell in May, ending a four-month period of accumulation.

Reflective of lower production requirements, the quantity of inputs bought by firms fell sharply in May. Stocks of purchases were also depleted, with the rate of decline the strongest in five months. Concurrently, suppliers' delivery delays lengthened in May, with the corresponding index the lowest in six months.

Job losses were reported in Hong Kong's private sector in May, in contrast to job creation registered in both March and April. Approximately one-tenth of panellists reduced their headcounts over the month, with the overall decline in employment the strongest since September 2011.

Input prices faced by companies rose further during May, with both purchases costs and salary bills having increased since April. The rate of input price inflation was solid, but nonetheless the weakest in 33 months. Firms partly passed greater cost burdens on to clients by raising their selling prices. However, the rate of output charge inflation was only marginal, and unchanged from that recorded in April.

Comment

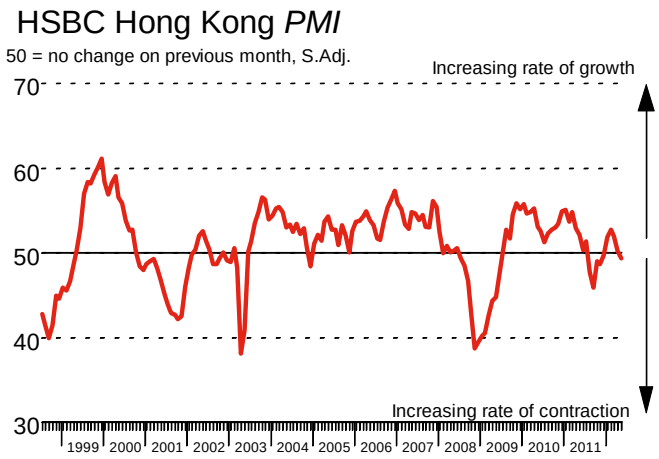
Commenting on the Hong Kong PMI® survey, Donna Kwok, Economist, Greater China Economic Research, HSBC, said:

"Hong Kong's private sector has yet to buckle under the weight of an intensifying eurozone crisis and feeble Mainland demand. But, it is starting to show the first signs of fissures. Even the job market, which has shown remarkable resilience since the New Year, stepped down a gear in May. There's no need to panic as businesses are still humming, but China is going to have to rev up soon, if Hong Kong is to fend off incoming turbulence from the West for the rest of this year."

Key points

- HSBC PMI marginally below the 50.0 no-change mark, suggesting only a slight overall deterioration
- Marginal decline in private sector output in May
- Employment falls at fastest rate since September 2011

Historical Overview



Sources: Markit, HSBC.

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Notes to Editors:

The HSBC Hong Kong PMI is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 300 companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on industry contribution to Hong Kong GDP. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The *Purchasing Managers' Index™ (PMI®)* is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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