HSBC Purchasing Managers' Index™ Press Release

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HSBC Hong Kong PMI®

Private sector output falls for second month running in June, albeit marginally

Summary

June data signalled a further deterioration in operating conditions in Hong Kong, but this was only marginal and to a lesser extent than in May. Firms generally commented on weaker client demand as global business conditions worsened. Although new orders increased slightly over the month, output fell for the second consecutive month and contributed to further job losses and a solid reduction in purchases. This eased inflationary pressures to some extent, with the rate of input price inflation slowing to its weakest pace in three years.

After adjusting for seasonal variation, the headline HSBC Hong Kong *Purchasing Managers' Index* TM (PMI^{\otimes}) – a composite index designed to provide timely indications of changes in prevailing business conditions in Hong Kong's private sector economy – remained below the 50.0 no-change mark in June, signalling a further deterioration in overall operating conditions. However, at 49.8, up from 49.4 in May, the PMI suggested that the latest deterioration was only slight.

Private sector output in Hong Kong fell for the second consecutive month in June. Approximately 13% of surveyed firms reported a reduction in activity since May, with deteriorating global business conditions often cited. That said, output fell only marginally, with the rate of decrease unchanged from that registered previously.

Meanwhile, incoming new work at firms increased in June, with a number of companies commenting on recent product launches. However, new business from Mainland China fell for the third month running and at the sharpest rate since last November. Although total new order growth was only marginal, it was nonetheless in contrast to the stagnation recorded in May.

Reflective of lower output requirements, the quantity of inputs bought by companies fell for the second month running in June. Lower stocks of purchases were also reported by survey respondents. Meanwhile, suppliers' delivery times lengthened further during June, with the latest deterioration in vendor performance the greatest in seven months.

Job losses in Hong Kong's private sector were reported for the second consecutive month in June. A number of firms commented on staff resignations. The latest reduction in staff headcounts was modest, although the rate of decline eased from that registered in May.

Continuing the trend that has been registered in each month since July 2009, input costs faced by private sector firms rose further in June. However, the latest

increase was nonetheless the weakest in this sequence of inflation.

Comment

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

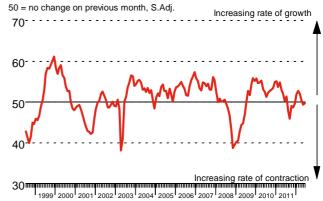
"The simultaneous weakening of European and Mainland demand continues to hamper Hong Kong's private business sector growth. Despite that, Hong Kong's business activities continue to hold up significantly better than it did during the last downturn of 2008-2009. The resilience of its domestic demand remains intact, and it was strong enough to push new orders back into expansion mode in June. While the job market is showing initial signs of strain, wage growth remains positive, which suggests that the impact of external headwinds on wage earners remains contained for now."

Key points

- Activity declines further, despite a marginal rise in new business
- Rate of input price inflation slowest in three years
- HSBC PMI remains below 50.0 no-change mark, indicating a further deterioration in business conditions

Historical Overview

HSBC Hong Kong PMI



Sources: Markit, HSBC.





For further information, please contact:

HSBC

Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research
Telephone +852-2822-2025
Email hongbinqu@hsbc.com.hk

Donna Kwok, Greater China Economist Telephone +852-2996-6621 Email donnahjkwok@hsbc.com.hk

Helen Lam, Media Enquiries Telephone +852 2822 4992 Email helenwylam@hsbc.com.hk Jerome Tam, Media Enquiries Telephone +852 2822 2481 Email jeromegntam@hsbc.com.hk

Markit

Mark Wingham, Economist
Telephone +44-1491-461-004
Email mark.wingham@markit.com

Caroline Lumley, Corporate Communications
Telephone +44-20-7060-2047
Mobile +44-781-581-2162
Email caroline.lumley@markit.com

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' IndexTM (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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