

HSBC Hong Kong PMI®

First increase in private sector employment for six months in October

Summary

The HSBC Hong Kong *Purchasing Managers' Index*™ (PMI®) bounced back above the 50.0 no-change mark in October, signalling an improvement in private sector business conditions. This generally reflected returns to growth for both output and employment, and a weaker month-on-month fall in new orders. However, the improvement in operating conditions was only marginal. Inflationary pressures meanwhile remained muted, with input prices increasing at a rate slower than the long-run series average in October.

After adjusting for seasonal variation, the headline PMI rose from 49.6 to 50.5 in October, indicating improved business conditions in Hong Kong's private sector. However, the PMI nonetheless remained below its long-run series average of 51.1 and signalled only a marginal improvement overall. The PMI is a composite index designed to provide timely indications of changes in prevailing business conditions in Hong Kong's private sector economy.

The volume of new orders received by private sector companies fell for the second month running in October. The latest reduction partly reflected the sharpest contraction in new orders from Mainland China since March 2009. However, the overall decline in total new business was only marginal, having eased from September, with a number of firms reporting greater demand domestically.

Private sector output increased in October, reversing the reduction reported one month previously. One-in-five firms reported higher levels of business activity, with this largely linked to recent new product launches. Backlogs of work were meanwhile broadly unchanged from the level recorded in September.

The quantity of inputs bought by companies fell for the sixth consecutive month in October. That said, firms continued to accumulate stocks of purchases, although the latest rise in input inventories was the weakest in the current four-month sequence. Lower purchasing volumes eased supply chain pressures to some extent in October, with suppliers' delivery times lengthening at the weakest rate since April.

Employment in Hong Kong's private sector increased in October, ending a five-month sequence of job losses. Although the corresponding index signalled only a marginal rate of job creation, it was at a level on par with the long-run series average.

Companies reported a third monthly rise in input prices during October, with both purchase prices and staffing

costs increasing over the month. Firms passed higher costs on to clients by raising their charges. Although this was the first rise in four months, the rate of output price inflation was only moderate.

Comment

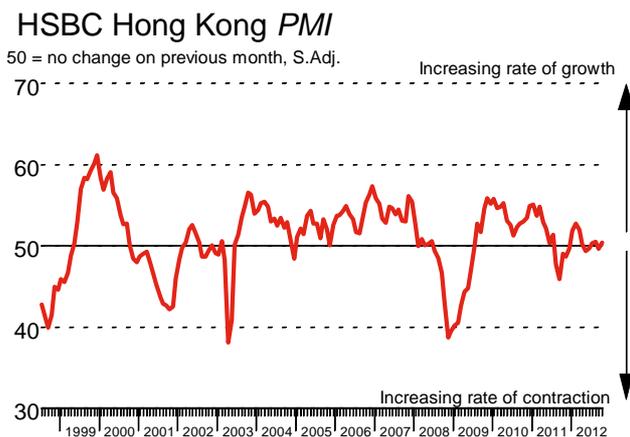
Commenting on the Hong Kong PMI® survey, Donna Kwok, Economist, Greater China Economic Research, HSBC, said:

"Despite still soft Mainland demand, Hong Kong's economy bucked the regional trend to start Q4 in expansion mode. New product launches and healthy domestic demand kept employers hiring through October, underpinning headcount increase and more than three years of uninterrupted wage growth; putting Hong Kong in good stead to rebound through the fourth quarter."

Key points

- Both output and employment increase over the month
- Marginal reduction in total new business
- PMI posts slightly above 50.0 mark, signalling improved overall business conditions in Hong Kong

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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