HSBC Purchasing Managers' Index™ Press Release

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HSBC Hong Kong PMI®

Private sector output increases at fastest rate since February

Summary

December PMI data pointed to a further improvement in private sector business conditions in Hong Kong, with both output and new orders increasing over the month. In particular, the expansion in activity was the strongest since February. Firms largely commented on greater client demand and improved economic conditions. Employment meanwhile rose for the third month running, albeit only modestly, and the rate of input price inflation slowed slightly from November.

The seasonally adjusted headline HSBC Hong Kong *Purchasing Managers' Index* TM (PMl^{\otimes}) remained above the 50.0 no-change mark for the third successive month in December. At 51.7, down from 52.2 in November, the PMI was consistent with a modest improvement in private sector operating conditions. The PMI is a composite index designed to provide timely indications of changes in prevailing business conditions in Hong Kong's private sector economy.

Incoming new work at private sector firms increased for the second successive month in December. Companies largely commented on greater demand and improved economic conditions. That said, the rate of growth eased, with the volume of new orders from Mainland China falling modestly from one month previously.

Output also increased in December, with the latest rise solid and the greatest in ten months. Concurrently, the level of outstanding business at monitored companies was broadly unchanged, after having increased at the fastest pace in eight months during November.

Reflective of new order growth, the quantity of inputs bought by firms increased in December. Purchasing volumes rose only marginally, but was nonetheless the first increase since April. Input inventories rose for the sixth successive month.

In December, suppliers' delivery times shortened for the first time since April. Moreover, the latest improvement in vendor performance was the greatest for almost ten years.

Private sector employment in Hong Kong increased for the third consecutive month in December. Firms that hired additional staff generally attributed job creation to greater output requirements. That said, the rate of growth was only modest and slightly weaker than that registered in November.

Input costs faced by companies increased in December, with both purchase prices and staffing costs having risen since November. Although strong and faster than the long-run series average, the rate of inflation slowed

over the month. Firms passed greater costs on to clients by raising their output charges, but the latest increase also eased from November.

Comment

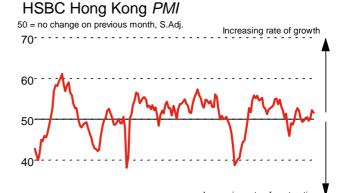
Commenting on the Hong Kong PMI[®] survey, Donna Kwok, Economist, Greater China Economic Research, HSBC, said:

"With Q4's average PMI notably stronger than the previous quarter's average, and retail sales growth holding firm, we should see further improvement in the next GDP release. The softening of new business inflows from China is a concern, but can be partly attributed to a post-Christmas orders Iull. With healthy local job market conditions still underpinning domestic demand, Hong Kong's economy looks set to strengthen through year-end."

Key points

- Both output and new orders rise modestly in December
- Faster suppliers' delivery times, with corresponding index highest for almost ten years
- Input price inflation remains strong, despite easing slightly since November

Historical Overview



On The Contraction | Increasing rate of contraction | Increasing rate of contraction | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2010 | 2010 | 2011 | 2012 | 2010 | 2011 | 2012 | 2010 | 2011 | 2012 | 2010 | 2011 | 2012 | 2010 | 2011 | 2012 | 2010 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2012 | 2012 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 | 2013 |

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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