

HSBC Hong Kong PMI®

PMI signals strongest improvement in business conditions in 11 months

Summary

January PMI data signalled the strongest improvement in private sector business conditions in Hong Kong since last February. Both output and new orders increased solidly over the month, with the rates of growth having quickened to 11-month highs. However, firms were cautious towards hiring, reducing their headcounts for the first time in four months in January. On the price front, both input costs and output charges increased since December, with the rate of input price inflation in particular the strongest in ten months.

The seasonally adjusted headline HSBC Hong Kong Purchasing Managers' Index™ (PMI®) remained above the 50.0 no-change mark for the fourth consecutive month in January, signalling a further improvement in overall operating conditions. At 52.5, up from 51.7 in December, the PMI was consistent with a solid improvement in business conditions, with the rate of growth the strongest in 11 months. 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 firms in Hong Kong increased for the third month running in January. Firms generally linked the rise to improved market conditions and greater client demand. New business from Mainland China also increased over the month, after having fallen in December. Overall, the rise in total new orders was solid and the fastest since last February.

Reflective of higher new order requirements, output increased further at the start of 2013. The rate of growth was solid and at an 11-month high. Meanwhile, backlogs of work also increased, after having remained broadly unchanged in December.

The quantity of inputs bought by monitored companies increased further in January, with the rate of growth the strongest since last March. Input inventories similarly rose, with the rate of stock accumulation the sharpest since November 2007. Concurrently, suppliers' delivery times lengthened in the latest survey period, albeit the deterioration in vendor performance was only marginal.

Private sector employment in Hong Kong fell during January, following a three-month sequence of job creation. Approximately 5% of surveyed firms reported job losses (while less than 1% hired additional staff), with the rate of contraction moderate overall.

Monitored companies reported a further increase in input costs in the latest survey period, with both

purchase prices and salary bills having risen over the month. Overall, the rate of input price inflation was strong and the fastest in ten months.

Comment

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

"Hong Kong's steady recovery strengthened into the New Year, boosted further by the renewed expansion of Mainland orders. Robust demand conditions continue to fan inflationary pressures, an issue that will likely resume dominance in policy maker concerns again by mid-year, especially as business activity picks up additional momentum."

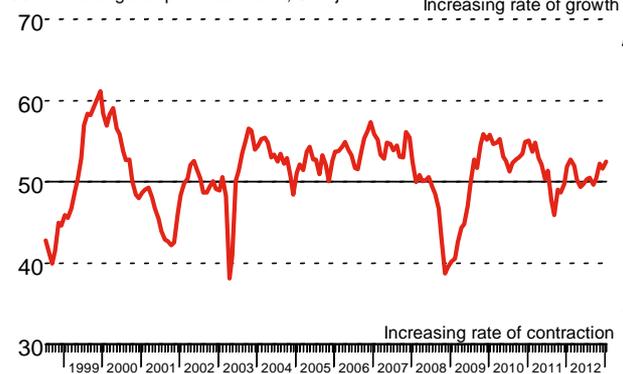
Key points

- PMI consistent with solid improvement in operating conditions during January
- Fastest rates of output and new order growth since February 2012
- Moderate reduction in employment

Historical Overview

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50 = no change on previous month, S.Adj.



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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