HSBC Purchasing Managers' Index™ Press Release

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HSBC Hong Kong PMI®

PMI points to only marginal improvement in operating conditions in March

Summary

Business conditions in the Hong Kong private sector improved only marginally in March. Firms reported only a modest rise in new business and this contributed to the slowest expansion in output in the current six-month sequence. Concurrently, job losses were recorded in March, more than reversing job creation one month previously. Meanwhile, input costs increased further, but at the weakest rate since August 2012.

The seasonally adjusted HSBC Hong Kong *Purchasing Managers' IndexTM (PMI®*) posted above the 50.0 nochange mark for the sixth consecutive month in March, signalling a further expansion of Hong Kong's private sector. However, the PMI registered 50.5, its lowest reading since October 2012, and was consistent with only a marginal rate of growth 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 work received by Hong Kong private sector firms increased for the fifth consecutive month in March. Companies that reported an increase in new orders largely attributed this to greater client demand. That said, the rise in total new business was only modest and, despite a stronger reduction in new orders from Mainland China, the overall rate of growth was unchanged from February's four-month low.

Meanwhile, output rose only marginally in March and at the weakest pace in the current six-month sequence of increases. Concurrently, the quantity of inputs bought by companies was largely unchanged since February, and input inventories were accumulated at the weakest rate in the current nine-month sequence of growth.

Suppliers' delivery times lengthened for the third consecutive month in March. Anecdotal evidence attributed the increase in lead times to a combination of goods shortages and transportation problems. Overall, the deterioration in vendor performance was modest, but to a lesser extent than in February.

Private sector employment in Hong Kong fell during the latest survey period. Job losses have been reported in two out of the past three months, with the latest reduction modest.

Firms in Hong Kong's private sector recorded higher input costs in March. Despite being the weakest since August 2012, the rate of inflation was solid and generally reflective of larger salary bills as purchase prices were broadly unchanged from February. Monitored companies passed on greater costs to clients

by raising their selling prices in the latest survey period, with the latest increase modest.

Comment

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

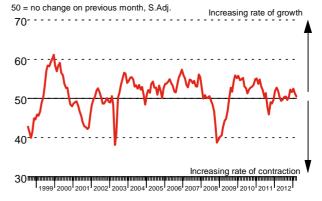
"Businesses in Hong Kong finished the first quarter on a solid footing, with output and new orders expanding. The economy's fundamentals look good for further growth this year, although alongside reviving inflationary pressures. As loose liquidity conditions continue to fuel asset price growth, the biggest challenge for policy makers will be to strike a balance between growth and inflation concerns."

Key points

- PMI falls to five-month low, signalling only marginal improvement in business conditions
- Output growth weakest in current sequence
- Job losses more than reverse February's increase

Historical Overview

HSBC Hong Kong PMI



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' 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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