

# HSBC Hong Kong PMI®

## Output falls for first time in eight months, partly reflecting further decline in new orders

### Summary

Business conditions in Hong Kong's private sector deteriorated in May, albeit only marginally. A second monthly reduction in new order volumes contributed to a renewed decline in output, the first contraction since last September. Meanwhile, firms reduced their staff numbers further over the month, but the rate of job losses was nonetheless the weakest in the current three-month sequence. On the price front, input costs rose solidly in May, with the rate of inflation the fastest since January.

After adjusting for seasonal variation, the HSBC Hong Kong Purchasing Managers' Index™ (PMI®) registered below the 50.0 no-change mark that separates growth from contraction in May. At 49.8, down marginally from April's 49.9 and an eight-month low, the PMI was consistent with a slight deterioration in overall 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.

The volume of new orders received by monitored companies fell for the second consecutive month in May. The reduction was the strongest since last September and reflected a sharp decline in new work from Mainland China. Firms generally cited weak client demand as the main cause behind the contraction in total new business.

The reduction in new orders contributed to the first decline in output for eight months. That said, business activity fell only marginally over the month. Concurrently, the quantity of inputs bought by panellists decreased slightly in May and stocks of purchases were depleted, ending a ten-month sequence of inventory accumulation.

Suppliers' delivery times lengthened further in May, as has been the case in each month of 2013 so far. Moreover, the latest deterioration in vendor performance was moderate and to a greater extent than one month previously.

The level of outstanding business at monitored companies fell further during the latest survey period. Moreover, the rate of depletion was modest and the strongest for a year.

Private sector employment in Hong Kong fell for the third consecutive month in May. However, the rate of job losses was only marginal and the weakest in this sequence.

Input costs faced by firms rose solidly and at the strongest pace in four months during May. Meanwhile,

output charges were broadly unchanged since April. Although some panellists raised their charges to pass on greater costs to clients, other respondents reduced their selling prices, citing stronger competitive pressures.

### Comment

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

*"Businesses in Hong Kong are stalling, a little. But given how fast Mainland client demand has deteriorated (fastest pace since mid-2009), activity is holding up relatively well. Job market conditions weakened for the third straight month, but only marginally. More importantly, wages are still rising at an above-trend rate, helping to underpin domestic spending. GDP looks well placed to expand again in Q2, although likely at a cooler pace in light of sluggish external demand."*

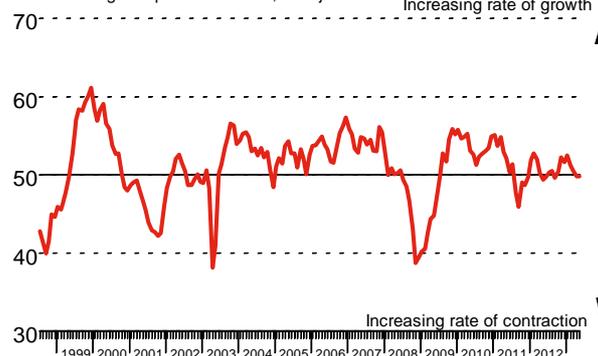
### Key points

- Marginal reduction in private sector output in May
- New orders fall at strongest rate since last September
- PMI signals slight deterioration in overall operating conditions

### Historical Overview

#### HSBC Hong Kong PMI

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](mailto:economics@markit.com).

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