

# HSBC Hong Kong PMI®

## New business falls at fastest pace since September 2011

### Summary

Operating conditions in Hong Kong's private sector continued to deteriorate in June, and at the strongest rate since November 2011. Both output and new orders fell at accelerated rates, partly reflecting the weak economic environment, and this contributed to the sharpest reduction in employment for 21 months. On the price front, input prices and output charges both rose modestly in June, although the latest rise in costs was the weakest since last August.

After adjusting for seasonal variation, the HSBC Hong Kong Purchasing Managers' Index™ (PMI®) remained below the 50.0 no-change mark that separates growth from contraction for the third month running in June. At 48.7, down from 49.8 in May, the PMI was the lowest since November 2011 and consistent with a modest deterioration in private sector business conditions.

The volume of new orders received by private sector companies in Hong Kong fell for the third consecutive month in June. The rate of decline was solid, and the fastest since September 2011. New business from Mainland China meanwhile fell for the fifth straight month, albeit at the weakest pace in three months. Firms generally linked the latest reduction in total new work to the fragile economic environment.

Reflecting the decline in new work intakes, companies reduced output and depleted their outstanding business. Activity fell for the second month running, with the latest decline modest overall. Meanwhile, backlogs of work decreased for the fourth consecutive month, and at the fastest pace in that sequence.

The quantity of inputs bought by monitored companies fell marginally in June. Concurrently, stocks of purchases were depleted for the second month running, with the rate of decline accelerating to its fastest in a year. Suppliers' delivery times were meanwhile broadly the same as in May.

Employment in Hong Kong's private sector continued to fall in the latest survey period, with approximately 7% of panellists reducing their workforces over the month. Job losses have been reported on balance for four consecutive months, with the latest reduction in staff numbers solid and the greatest since September 2011.

Total input costs faced by private sector companies continued to rise in June. Firms reported higher purchase prices and larger salary bills compared to May, with the greater rise recorded for the latter. Nonetheless, the overall rate of input price inflation was modest and the slowest in ten months.

Panellists passed on greater costs to clients by raising their output charges in June. Average selling prices rose modestly, and at a rate broadly in line with the increase for input costs.

### Comment

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

*"Persistent weakness in the West and more importantly China's reform-induced slowdown is inevitably cooling Hong Kong's economy. For now, sustained wage growth is setting a floor beneath private consumption. But with hiring activities softening as sentiment worsens (over fears about QE tapering by the US Fed and an even faster drop-off in Mainland demand), we expect GDP growth to have decelerated this quarter."*

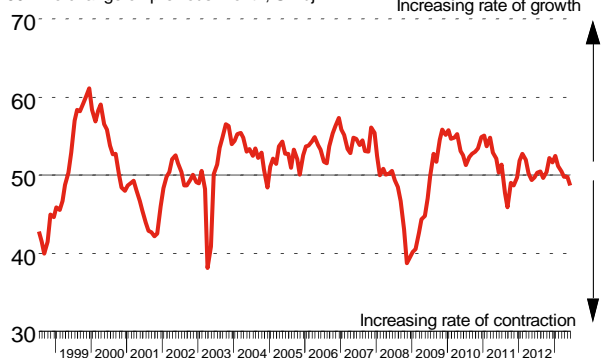
### Key points

- PMI falls to 19-month low, indicating further deterioration in business conditions
- Both output and new orders fall at sharper rates in June
- Strongest decline in employment for 21 months

### 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*<sup>™</sup> (*PMI*<sup>®</sup>) 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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