

# HSBC Hong Kong PMI®

## PMI signals only marginal deterioration in business conditions in July

### Summary

Business conditions in Hong Kong's private sector continued to deteriorate in July, with both output and new orders falling over the month. However, the rates of contraction eased since June and were only marginal. Employment declined for the fifth month running, albeit at a weaker rate. On the price front, the rate of input cost inflation accelerated to a moderate pace, but remained slower than the long-run series average.

The seasonally adjusted HSBC Hong Kong *Purchasing Managers' Index*™ (PMI®) remained below the 50.0 no-change mark in July, suggesting a further deterioration in operating conditions. However, at 49.7, up from 48.7 in June, the headline index indicated that the rate of contraction was only marginal. 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 companies fell for the fourth consecutive month in July, with firms generally linking the latest decline to weak client demand and fragile market conditions. That said, the rate of contraction slowed to only a marginal pace. New orders from Mainland China also decreased over the month, although the latest reduction was the weakest in the current six-month sequence.

Reflective of lower new order volumes, the levels of both output and business outstanding fell during July. Nonetheless, the latest decline in activity was the weakest in the current three-month sequence of contraction.

Private sector companies reduced the quantity of inputs bought in the latest survey period. The rate of decline was moderate, and the strongest in three months. Meanwhile, stocks of purchases increased, albeit marginally, following two months of inventory depletion. Concurrently, suppliers' delivery times lengthened further in July. The latest deterioration in vendor performance was moderate and to a greater extent than one month previously.

Employment in Hong Kong's private economy fell for the fifth consecutive month in July. Although the latest round of job losses was solid, it was to a lesser extent than June's 21-month record.

Firms faced higher input prices in July, taking the current sequence of inflation to a year. The latest rise in costs largely reflected higher salary bills, however, as the average price for purchases were the same as in June. Overall, the rate of input price inflation was moderate, but slower than the long-run series average.

Average selling prices similarly increased for the third month running in July, as greater costs were generally passed on to clients. Nonetheless, output charges rose only modestly and at a weaker rate than the rise in input prices.

### Comment

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

*"With one-third of its economy attributed to China, it is no surprise that Hong Kong's private sector continues to soften. Indeed, in light of the 20-month low recorded by China's July composite PMI (output), the relatively slower and only marginal pace of deterioration of Hong Kong business activity highlights the city's resilience against external headwinds. Employment conditions are still worsening and merits concern, but sustained salary increases suggests that weakening new business inflows have yet to dent job market conditions in a meaningful way. We expect Hong Kong's GDP growth to weaken through 3Q13, but for the pace of decline to be modest and for the city to stay out of recession this year."*

### Key points

- Rates of contraction for both output and new orders ease
- Employment falls for fifth month running
- Input price inflation strengthens from June, largely reflecting higher salary bills

### Historical Overview

#### HSBC Hong Kong PMI

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



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 jeromegtam@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' 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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