HSBC Purchasing Managers' Index™ Press Release

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HSBC Hong Kong PMI®

Business conditions continue to deteriorate in August

Summary

Operating conditions in Hong Kong's private sector continued to deteriorate in August, albeit marginally. Both output and new orders fell at weak rates, and contributed to a further round of job losses. That said, the latest decline in employment was the slowest in three months. Price pressures meanwhile eased, with both the rates of input price and output charge inflation having slowed over the month.

At 49.7 in August, the seasonally adjusted HSBC Hong Kong *Purchasing Managers' Index* $^{\text{TM}}$ ($PMl^{^{\otimes}}$) posted below the 50.0 no-change threshold for the fifth month running, and suggested a further deterioration in business conditions. However, the headline index, unchanged from July, was consistent with only a marginal rate of contraction. The PMI is a composite index designed to provide timely indications of changes in prevailing business conditions in Hong Kong's private sector economy.

New business received by private sector companies in Hong Kong fell for the fifth successive month in August. The rate of contraction was modest, despite accelerating slightly since July. The stronger reduction in total new work partly reflected the joint-fastest decline in new orders from Mainland China since March 2009.

Concurrently, firms reduced output fell for the fourth consecutive month in August. However, the latest reduction in activity levels was only marginal. Firms generally linked the decline to lower volumes of new business and weaker market conditions.

Outstanding business at monitored companies fell further in August. The rate of backlog depletion was solid and the strongest since December 2011.

Reflective of lower new order volumes, the quantity of inputs bought by surveyed firms fell in August. However, the decline was only slight. Meanwhile, input inventories increased for the second month running. The rate of growth was unchanged from July's marginal pace.

Despite the drop in input purchases, suppliers' delivery times continued to lengthen in August. Panellists suggested that some vendors experienced production problems in the latest survey period.

Private sector employment in Hong Kong continued to fall in August, taking the current sequence of job losses to six months. Approximately 4% of panellists reduced their workforces since July, with the overall rate of decline modest and the weakest in three months.

Firms faced higher input costs in August, as has been the case in each month since August 2012. The rate of input price inflation was moderate and weaker than the long-run series average. Average selling prices similarly increased, although the latest rise was the weakest since May.

Comment

Commenting on the Hong Kong PMI[®] survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC, said:

"Business activity in Hong Kong remains stagnate alongside the deterioration of Mainland client demand. Employment continues to fall for the sixth month running, albeit at a relatively modest rate. Firms saw inventory of purchases increase for the second consecutive month despite rising input prices, suggesting a likely improvement in operating conditions in the near future, underpinned by still resilient domestic demand."

Key points

- Output and new orders contract at marginal rates
- Employment falls at weakest rate since May
- Price pressures ease

Historical Overview

HSBC Hong Kong PMI



30 Increasing rate of contraction 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013

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 hongbingu@hsbc.com.hk

Jun Wei Sun, China Economist Telephone +86-10-5999-8234 Email junweisun@hsbc.com.cn

Helen Lam, Media Enquiries
Telephone +852-2822-4992
Email helenwylam@hsbc.com.hk

Jerome Tam, Media Enquiries Telephone +852-2822-2481 Email jeromegntam@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™* (*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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