

HSBC Hong Kong PMI®

Output and new orders both increase marginally in September

Summary

In September, business conditions in Hong Kong's private sector were unchanged from August. Output and new orders both increased over the month, albeit only marginally, while employment continued to decline. Meanwhile, price pressures picked up, with input costs and output charges rising at the fastest rates in four and eight months respectively.

The seasonally adjusted HSBC Hong Kong *Purchasing Managers' Index*™ (PMI®) posted exactly at the 50.0 no-change mark in September, indicating that business conditions were unchanged from August (49.7). Nonetheless, the stable trend marked an improvement from the declines seen in the previous five months. The PMI is a composite index designed to provide timely indications of changes in prevailing business conditions in Hong Kong's private sector economy.

Following a five-month sequence of reductions, the volume of new orders received by Hong Kong private sector firms increased in September. Panellists largely linked this to new contract wins and greater demand. However, the rate of growth was only fractional. A further reduction in new work intakes from Mainland China weighed on the overall rise in new orders.

Concurrently, output increased in September, after a four-month period of reduction. Although marginal, the rate of activity growth was the strongest since March. The level of outstanding business at private sector companies continued to fall, but at only a marginal rate.

The quantity of inputs bought by firms in Hong Kong's private sector was broadly unchanged in September. Meanwhile, input inventories increased for the third consecutive month, albeit marginally and at the weakest rate in this sequence.

Suppliers' delivery times lengthened for the ninth month running in the latest survey period. That said, the latest deterioration in vendor performance was only marginal and the weakest in three months.

Private sector employment in Hong Kong continued to fall in September, with approximately 6% of survey respondents reducing their workforces since August. Job losses have been recorded in each month since March, with the latest overall reduction moderate and stronger than one month previously.

Input costs faced by private sector companies continued to rise in September, taking the current sequence of inflation to 14 months. Overall, total costs rose at a solid rate, which was the fastest in four months and slightly stronger than the long-run series average.

Firms passed on greater costs burdens to clients by raising their output charges. Average selling prices rose for the fifth month running, with the latest increase the strongest since January.

Comment

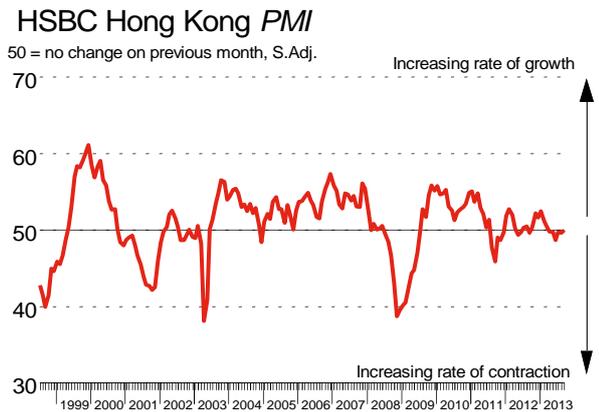
Commenting on the Hong Kong PMI® survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC, said:

"Business activities in Hong Kong are stabilising as the September headline PMI ended the previous five consecutive months of contraction thanks to gradual improvements of new orders and output. Hong Kong's economy should find support from the on-going recovery of the mainland economy, improving global demand and steady local labour market conditions."

Key points

- PMI posts at 50.0 mark, suggesting no change in overall business conditions
- Weak new order growth weighed down by fall in Mainland China new business
- Employment down for seventh month running

Historical Overview



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

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 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*[™] (*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.

HSBC:

HSBC is one of the world's largest banking and financial services organisations. With around 6,600 offices in both established and faster-growing markets, we aim to be where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and ultimately helping people to fulfil their hopes and realise their ambitions.

We serve around 55 million customers through our four global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking. Our network covers 80 countries and territories in six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa, North America and Latin America. Our aim is to be acknowledged as the world's leading international bank.

Listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by about 216,000 shareholders in 130 countries and territories.

About Markit:

Markit is a leading, global financial information services company with over 3,000 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce

risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information please see www.markit.com

About PMIs:

Purchasing Managers' Index[™] (*PMI*[®]) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics

The intellectual property rights to the HSBC Hong Kong *PMI*[®] provided herein is owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. *Purchasing Managers' Index*[™] and *PMI*[®] are trade marks of Markit Economics Limited, HSBC use the above marks under license. Markit and the Markit logo are registered trade marks of Markit Group Limited.