

HSBC Hong Kong PMI®

PMI at seven-month high, but signals little change in business conditions

Summary

Hong Kong private sector business conditions were broadly stable in October. Although output increased marginally, the volume of new business received by companies was the same as in September. Employment continued to fall, and at the greatest extent since July, while the overall rate of input price inflation eased to a moderate pace.

At 50.1, the seasonally adjusted HSBC Hong Kong Purchasing Managers' Index™ (PMI®) was slightly above the 50.0 neutral threshold, signalling little change in business conditions in October. Although having risen to its highest reading in seven months, the headline index was below the long-run series average of 51.0. 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 Hong Kong private sector companies was unchanged in October. This followed a slight increase in September. Meanwhile, incoming new work from Mainland China continued to fall, and at a faster rate than one month previously. Panellists generally linked the stagnant trend in total new business to weak market conditions.

Despite the flat trend for new orders, output at private sector firms increased for the second consecutive month in October. However, the rate of activity growth was only slight and weaker than the long-run series average. Subsequently, the amount of outstanding business fell for the eighth month running. However, the rate of backlog depletion was marginal and the weakest in the current sequence.

Reflective of higher output requirements, the quantity of inputs bought by firms increased in October. Although marginal, this was the first rise in purchasing volumes in seven months. The increase in input buying was partly in response to a depletion of stocks of purchases, the first inventory reduction since June.

Suppliers' delivery times lengthened further in the latest survey period. Moreover, the latest increase in lead times for inputs was the greatest for two-and-a-half years.

Private sector employment in Hong Kong continued to fall in October. The rate of contraction was moderate but, having accelerated slightly over the month, the fastest since July.

Input costs faced by private sector firms increased in October, as has been the case in each month since August 2012. Overall, the rate of inflation was moderate and weaker than in September. Firms passed on

greater costs to clients by raising their selling prices. That said, the latest increase in output charges was marginal and the weakest in five months.

Comment

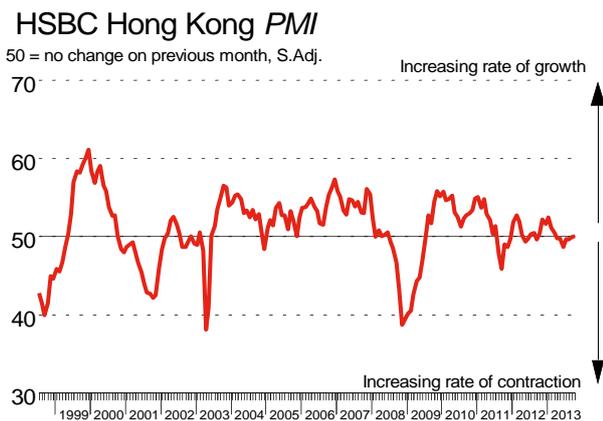
Commenting on the Hong Kong PMI® survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC, said:

"Despite rising to a seven-month high, Hong Kong's overall business conditions remained mostly flat in the month as the major sub-indices moderated from September, with overall business from China still remaining weak. Yet the modest uptick in the headline starts 4Q-2013 on a high, indicating a steady pace of growth in the current quarter as well."

Key points

- PMI suggests only fractional improvement in operating conditions
- Marginal rise in output, despite no change in new orders
- Employment contracts at fastest pace since July

Historical Overview



Sources: HSBC, Markit.

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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.

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