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## HSBC Hong Kong PMI®

### Health of private sector deteriorates only marginally in December

#### Key findings:

- PMI rises to five-month high but remains below the 50.0 no-change mark
- New order growth recorded for first time since July, albeit only marginal
- Input price inflation quickens to a strong pace

Private sector businesses in Hong Kong recorded only a marginal deterioration in operating conditions during December. The rate at which the health of the private sector economy declined eased from November. However, as demand for Hong Kong's goods and services remained weak, outstanding business was depleted at a solid rate. While this helped support activity, output still fell for the fifth consecutive month. Firms also reduced employment and inventory stocks over the month, due to the subdued market conditions.

The headline HSBC Hong Kong *Purchasing Managers' Index*™ (PMI®) – a composite index designed to provide timely indications of changes in prevailing business conditions in Hong Kong's private sector economy – registered 49.7 in December, up from 48.7 in November. This represented the weakest deterioration in the operating conditions faced by Hong Kong's private businesses since the current sequence of sub-50.0 PMI readings began in August.

In an attempt to limit the impact of slow new order growth on output, businesses in Hong Kong depleted outstanding business at a solid rate during December. While the pace of decline in backlogs of work decelerated, it remained solid.

The rate at which output was reduced slowed from November, to only a marginal pace. Nevertheless, the decline in activity extended the current period of contraction to five months.

New orders received by businesses in Hong Kong increased during December for the first time since July. However, the rate of growth was only marginal. New business from Mainland China declined solidly over the month, albeit at a slower pace than in November.

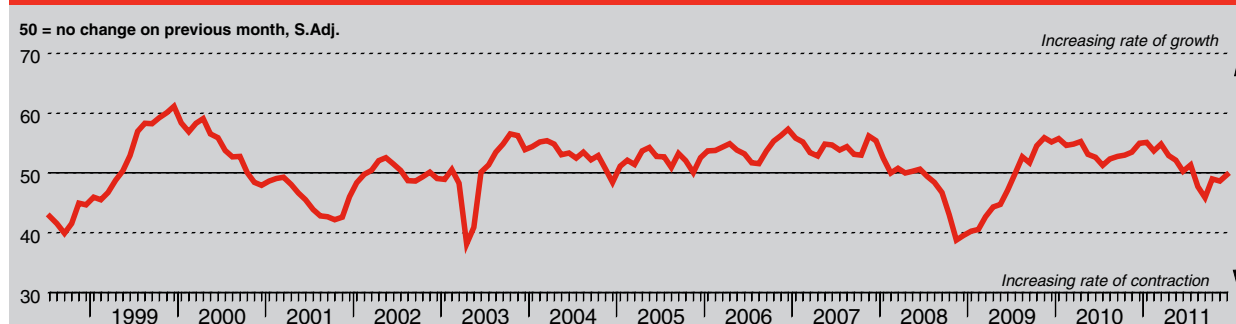
With new order volumes signalling only weak demand, firms in Hong Kong reduced employment at a marginal rate over the month. The net fall in headcounts in the private sector economy was the fifth in as many months. Survey participants suggested that a lack of labour was behind a moderate lengthening in lead times during December.

Lower production requirements encouraged firms to continue their destocking efforts in December. Pre-production inventories contracted at a strong pace - the quickest recorded for 33 months.

Hong Kong's private sector firms increased their selling prices at a solid rate during December, having reduced them for the first time in over two years in November. Reports showed that the main reason for raising charges was sharper input price inflation.

Costs increased at a strong overall rate during the latest survey period. Data suggested that inflation of purchase prices and staff costs accelerated, and were broadly in line with their long-run averages.

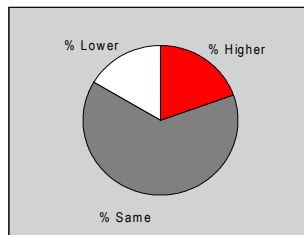
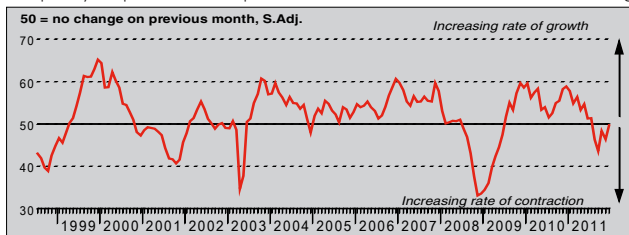
HSBC Hong Kong *Purchasing Managers's Index*™ PMI®



The HSBC Hong Kong *Purchasing Managers' Index* (PMI) is a composite indicator designed to provide an overall view of activity in the Hong Kong economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI below 50.0 indicates that the manufacturing economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index. *Purchasing Managers' Index*™ and *PMI*® are trade marks of Markit Economis Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

### Output Index

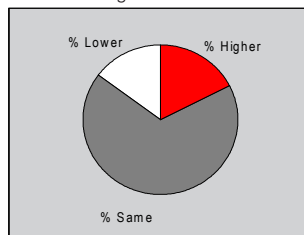
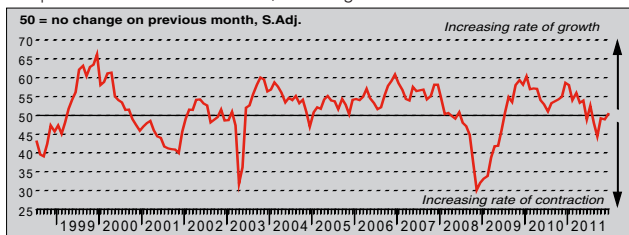
Q. Please compare your production/output this month with the situation one month ago.



Having adjusted for seasonal variations, Hong Kong's private sector output contracted only marginally during December. The pace of decline slowed from November, as the headline index rose to a five-month high. Slow growth of new orders amid a worsening economic environment were behind the latest reduction in output, according to respondents. Approximately 17% of panel members recorded a fall in activity over the month.

### New Orders Index

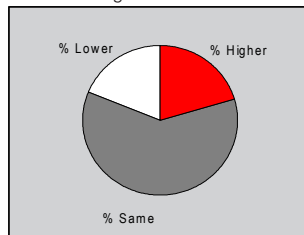
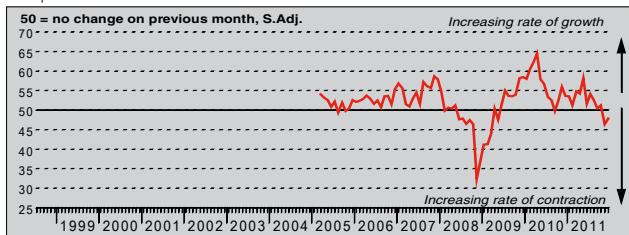
Q. Please compare the level of new orders/incoming new business received this month with the situation one month ago.



The seasonally adjusted New Orders Index posted above the no-change mark of 50.0 in December for the first time in five months. The rate of expansion signalled by the index was only marginal, however, and below the long-run series average. Firms cited sales promotions and new product launches as key reasons for gains in new work.

### New Orders Index: Mainland China

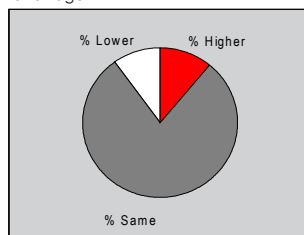
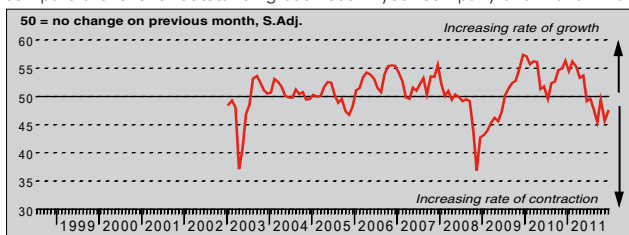
Q. Please compare the level of new business received from mainland China this month with the situation one month ago.



New orders from Mainland China were down for the second consecutive month in December. The contraction in new business from the Mainland was solid, but eased from November. Reduced market demand and worsening economic conditions in China were among the reasons given by panellists for the fall in new orders from the Mainland. The current two-month period of decline followed more than a year of continuous growth.

### Backlogs of Work Index

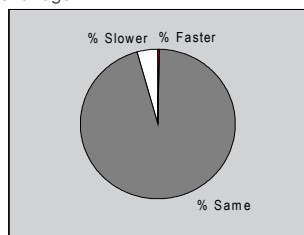
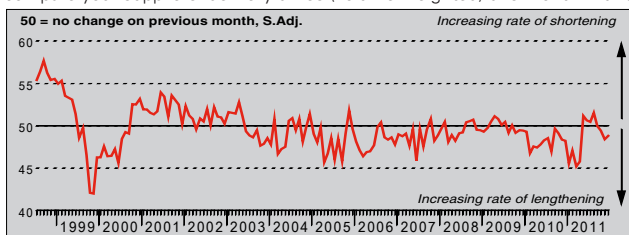
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Outstanding business at Hong Kong's private sector companies declined in December, albeit at a slightly slower pace than in November. Work-in-hand has been depleted throughout the second half of the year. Weak new order growth was mentioned by a number of respondents as a reason for the latest fall, while others commented on worsening economic conditions.

### Suppliers' Delivery Times Index

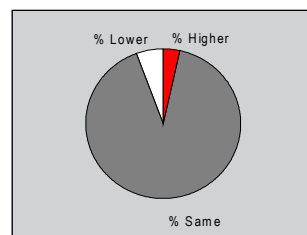
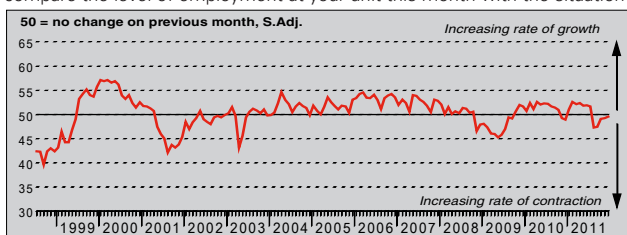
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Hong Kong's private sector companies noted longer input delivery times in December than the previous month. Vendor performance has now deteriorated for three straight months. Survey participants stated that the moderate lengthening in lead times reflected a lack of labour at business units. However, times were only slightly longer than in November.

### Employment Index

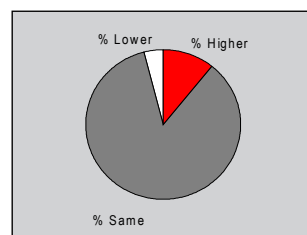
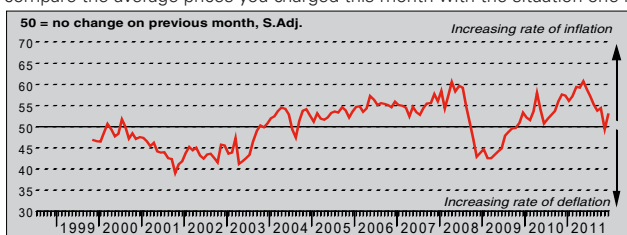
Q. Please compare the level of employment at your unit this month with the situation one month ago.



The seasonally adjusted Employment Index remained below the no-change threshold of 50.0 in December, indicating another contraction in staffing across the Hong Kong private sector. Job shedding has been recorded in each of the last five months. Respondents linked the fall in employment to lower activity in the private sector. The decline in headcounts was only marginal, however, as the vast majority of panel members (almost 91%) reported no net change to the number of overall staff.

### Prices Charged Index

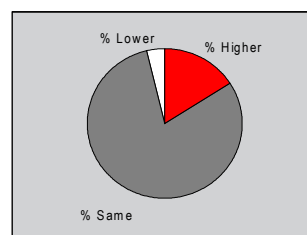
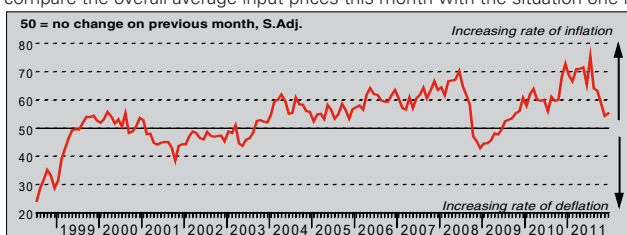
Q. Please compare the average prices you charged this month with the situation one month ago.



Hong Kong's private sector firms increased their selling prices in December, having lowered them during November. Reports showed that the main reason for raising charges was sharper overall input cost inflation. While the rate of charge inflation was slower than that recorded earlier in the year, it was nevertheless solid, and quicker than the long-run series average.

### Overall Input Costs Index

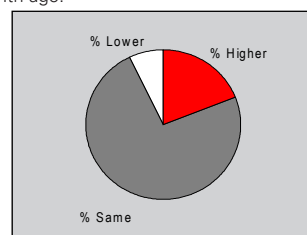
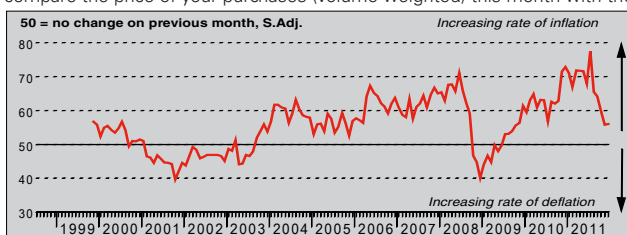
Q. Please compare the overall average input prices this month with the situation one month ago.



Total input price pressures strengthened during the latest survey period, having eased considerably during November. Despite the rate of cost inflation being strong, it was significantly weaker than the current 30-month sequence average. Data suggested higher inflation of both purchase prices and staff costs during December.

### Input Costs: Purchase Prices Index

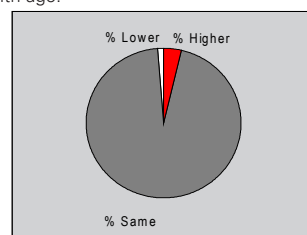
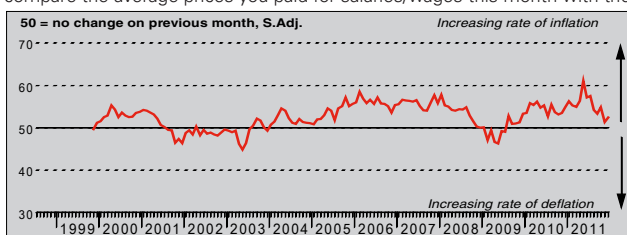
Q. Please compare the price of your purchases (volume weighted) this month with the situation one month ago.



As almost double the number of respondents recorded higher purchase prices during December than in the previous month, the rate of inflation accelerated to a strong pace. The rise in prices was mainly due to an increase in the cost of raw materials, according to the majority of anecdotal evidence. Exactly 19% of respondents reported an increase in costs, while 12% registered a fall.

### Input Costs: Staff Costs Index

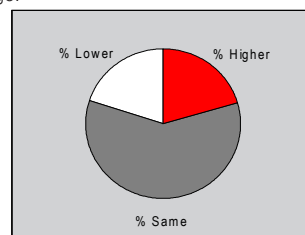
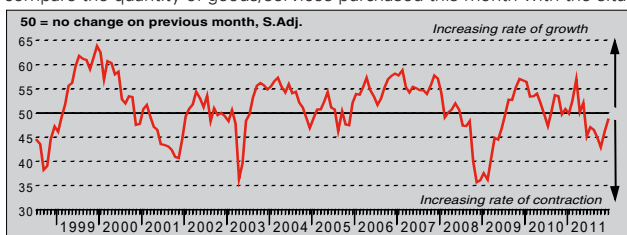
Q. Please compare the average prices you paid for salaries/wages this month with the situation one month ago.



Average salaries paid to those employed in Hong Kong's private sector continued to rise at the end of the final quarter of 2011. Respondents stated that payments to workers had risen, as salary adjustments were made. Bonuses was also cited as a cause of higher employment related costs. The rise in staff costs was moderate, despite quickening from November.

### Quantity of Purchases Index

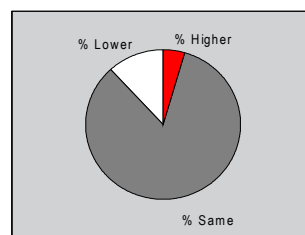
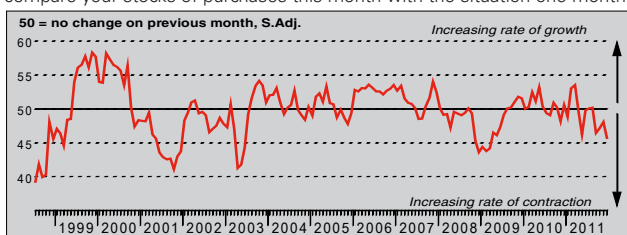
Q. Please compare the quantity of goods/services purchased this month with the situation one month ago.



Buying activity by businesses in Hong Kong fell moderately during December, and at the slowest rate recorded in the current seven-month sequence of decline. Over 20% of panellists cut their input purchases over the month, many of whom commented that marginal growth of new orders and softer market demand were the predominant causes.

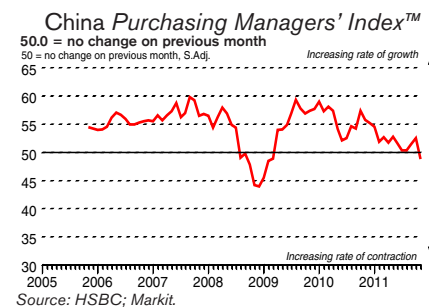
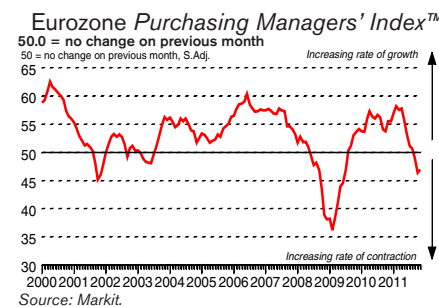
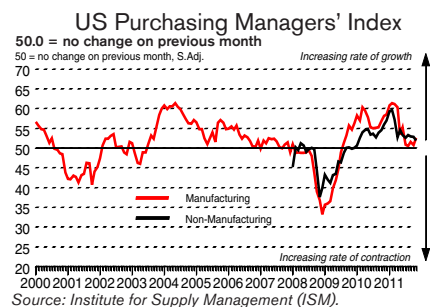
### Stocks of Purchases Index

Q. Please compare your stocks of purchases this month with the situation one month ago.



Input materials held at Hong Kong's private sector companies fell for the fourth consecutive month during December. The rate of depletion was strong, and the sharpest for 33 months. Panellists indicated that stock levels were reduced as a result of lacklustre intakes of new work in recent periods.

### International PMI



The ISM US Manufacturing PMI climbed to a five-month high of 52.7 in November, from 50.8. Supporting this upward movement were sharp rises in both the output and new orders indices. The Non-Manufacturing Index, meanwhile, fell to a 22-month low of 52.0 (from 52.9). Weighing on the NMI was a contraction in employment, which occurred despite sharper growth of activity and new work.

The Eurozone private sector economy contracted for the third month running in November. At 47.0, up from 46.5 in October, the Eurozone PMI Composite Output Index signalled a slight easing in the rate of decline. Output of the combined manufacturing and service sectors declined across all of the big-four nations for the first time since July 2009.

Composite Chinese PMI data showed output falling for the first time in 32 months during November, with the seasonally adjusted HSBC Composite Output Index (covering manufacturing and services) posting 48.9, from 52.6 in October. Manufacturers recorded a first monthly reduction in output since July, while service providers saw activity growth ease to a three-month low.

### Notes on the Data and Method of Presentation

The *Purchasing Managers' Index* is a monthly publication, researched and published by Markit Economics, featuring original research data from a survey of purchasing managers in companies operating in Hong Kong. The survey panel comprises around 300 companies that have been carefully selected to accurately represent the true structure of the Hong Kong economy, including manufacturing, services, retail and construction. The panel is stratified by Standard Industrial Classification (SIC) group, based on industry contribution to 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 tables show 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 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, Stocks of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction. 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.

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