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HSBC Hong Kong PMI®

First increase in private sector employment for six months in October

Key findings:

- Both output and employment increase over the month
- · Marginal reduction in total new business
- PMI posts slightly above 50.0 mark, signalling improved overall business conditions in Hong Kong

The HSBC Hong Kong PMI bounced back above the 50.0 nochange mark in October, signalling an improvement in private sector business conditions. This generally reflected returns to growth for both output and employment, and a weaker monthon-month fall in new orders. However, the improvement in operating conditions was only marginal. Inflationary pressures meanwhile remained muted, with input prices increasing at a rate slower than the long-run series average in October.

After adjusting for seasonal variation, the headline HSBC Hong Kong *Purchasing Managers' Index* $^{\rm TM}$ (*PMI*) posted above the 50.0 no-change threshold in October, indicating improved business conditions in Hong Kong's private sector. At 50.5, up from 49.6 in September, the PMI nonetheless remained below its long-run series average of 51.1 and signalled only a marginal improvement overall. 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 private sector companies fell for the second month running in October. The latest reduction partly reflected the sharpest contraction in new orders from Mainland China since March 2009. However, the decline in total new business was only marginal, having eased from September, with a number of firms reporting greater demand domestically.

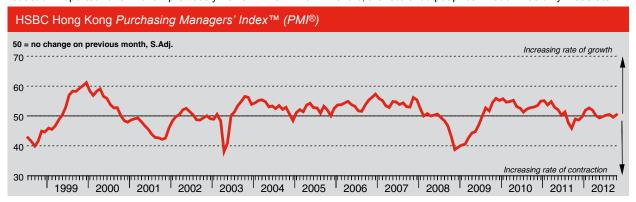
Private sector output increased in October, reversing the reduction reported one month previously. One-in-five firms

reported higher levels of business activity in the latest survey period, with this largely linked to recent new product launches. Backlogs of work were meanwhile broadly unchanged from the level recorded in September.

The quantity of inputs bought by monitored companies fell for the sixth consecutive month in October. That said, the rate of decline was only marginal and the slowest in this period of contraction. Concurrently, firms continued to accumulate stocks of purchases, although the latest rise in input inventories was the weakest in the current four-month sequence. Lower purchasing volumes eased supply chain pressures to some extent in October, with suppliers' delivery times lengthening at the weakest rate since April.

Employment in Hong Kong's private sector increased in October, ending a five-month sequence of job losses. Approximately 5% of respondents hired additional staff since September, while only 3% reported job losses. Overall, the corresponding index signalled only a marginal rate of job creation, yet was at a level on par with the long-run series average.

Companies reported a third monthly rise in input prices during October, with both purchase prices and staffing costs increasing over the month. That said, the rate of inflation eased slightly since September. Firms passed higher costs on to clients by raising their charges. Although this was the first rise in four months, the rate of output price inflation was only moderate.



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's are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

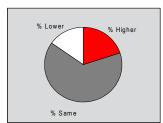




Output Index

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



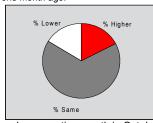


The seasonally adjusted Output Index posted above the 50.0 no-change mark in October, signalling an increase in activity in Hong Kong's private sector. Although the rise in output was only modest, it nonetheless reversed a decline registered in September. Approximately one-in-five surveyed firms reported higher business activity levels over the month, with this largely linked to recent new product launches.

New Orders Index

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





After adjusting for seasonal variation, incoming new work at monitored companies fell for a second consecutive month in October. That said, the rate of decline was only marginal, having eased since September. Anecdotal evidence attributed the latest reduction in new orders to weak economic conditions, but this was partly offset by greater client demand in the month.

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.



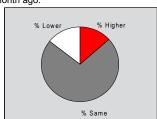


Hong Kong private sector companies received a lower volume of new orders from Mainland China in October. New business from the Mainland has fallen in six out of the past seven months, with the rate of contraction the fastest since March 2009. Approximately 29% of firms reported a reduction in new business from Mainland China (while 18% recorded an increase), with a number of monitored companies citing weak market conditions.

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 private sector companies was broadly unchanged in October. This was indicated by the seasonally adjusted Backlogs of Work Index posting only marginally above the 50.0 no-change threshold. The amount of work-in-hand was also broadly unchanged in September. The majority of survey respondents (approximately 72%) reported the same level of outstanding business as one month previously.

Suppliers' Delivery Times Index

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



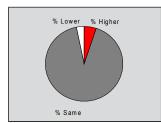


Lead times on inputs lengthened further during October, as indicated by the seasonally adjusted Suppliers' Delivery Times Index remaining below the 50.0 no-change mark. The index signalled only a modest deterioration in vendor performance in the latest survey period, however, and rose to its highest level in six months.

Employment Index

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





In contrast to the declines that had been reported in each month since May, employment in Hong Kong's private sector increased in October. Where higher staff headcounts were recorded, panellists largely linked this to greater output requirements. Nonetheless, the rate of job creation was only marginal, with the seasonally adjusted Employment Index only slightly above the 50.0 no-change mark.

Prices Charged Index

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



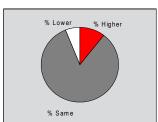


Average selling prices increased in October, with approximately 11% of surveyed firms raising their output charges since September. A number of monitored companies commented on passing higher costs on to clients during the latest survey period. The rate of increase was the fastest since February, and in contrast to the previous three months of price reductions.

Overall Input Costs Index

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



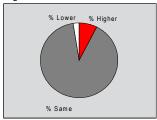


Overall input costs increased for the third consecutive month in October. Approximately 11% of panellists reported an increase in costs burdens, compared with 6% that registered a decline. Both purchase prices and staffing costs were greater than recorded one month previously. Although the overall rate of inflation was moderate, it remained weaker than the long-run series average.

Input Costs: Purchase Prices Index

Q. Please $\underline{\text{compare the price of your purchases}}$ (volume weighted) this month with the situation one month $\underline{\text{ago}}$.



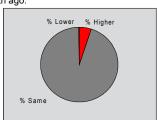


Private sector firms reported higher purchase prices in October, with a wide range of raw materials mentioned as having risen in cost since September. Moreover, a number of companies also commented that unfavourable exchange rates had contributed to the latest rise in purchase prices. Overall, purchasing costs have increased for three months running, although the rate of inflation eased during the latest survey period.

Input Costs: Staff Costs Index

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



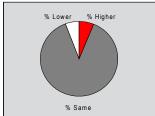


The seasonally adjusted Staff Costs Index remained above the 50.0 no-change level in October, signalling a further rise in average salaries paid by Hong Kong private sector companies. Surveyed firms linked the latest rise in labour costs to attempts to motivate their employees. The rate of wage inflation was moderate and, having quickened slightly since September, was the fastest since May.

Quantity of Purchases Index

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



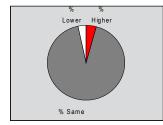


After adjusting for seasonal variation, the quantity of inputs bought by monitored companies fell for the sixth successive month in October. Anecdotal evidence provided by panellists attributed the latest reduction in purchasing volumes to lower new order requirements. That said, the rate of decline was only marginal, having slowed to its weakest in the current sequence of contraction.

Stocks of Purchases Index

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





Following the trend that has been registered in each month since July, stocks of purchases at private sector firms in Hong Kong increased in October. The rate of stock accumulation was only marginal, however, and the weakest in this sequence of growth. Where an increase in input inventories was reported, a number of firms commented on building emergency stocks in the latest survey period.

International PMI

US Purchasing Managers' Index





The US manufacturing sector saw its first improvement for four months in September, according to PMI data from the ISM. The PMI index rose from 49.6 to 51.5, and signalled a modest improvement in business conditions. The non-manufacturing sector fared better, with the NMI index pointing to the strongest improvement since March (55.1).

Eurozone *Purchasing Managers' Index*™



Source: Markit.

The Eurozone economy contracted further at the end of the third quarter, with the Markit Eurozone Composite Output Index remaining below the 50.0 no-change mark. Moreover, having fallen marginally from 46.3 in August to a four-month low of 46.1 in September, the index has indicated contraction for eight successive months.

China Purchasing Managers' Index™



Source: HSBC; Markit.

At 50.3, the September PMI Output Index (covering both manufacturing and services) signalled a renewed, albeit marginal, expansion in business activity. This followed on from August's slight contraction (49.9), when activity fell for the first time since March. The service sector drove the overall improvement, as output continued to fall in manufacturing.

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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