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HSBC Hong Kong PMI®

Business conditions continue to deteriorate in August

Key findings:

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

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™* (*PMI®*) 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 intakes 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.

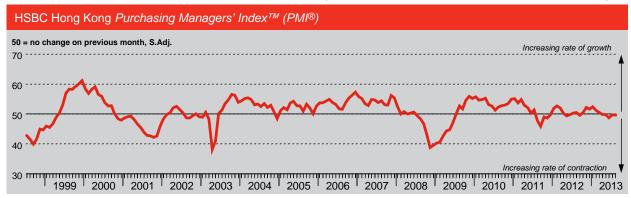
Outstanding business at monitored companies meanwhile fell further in the latest survey period. The rate of backlog depletion was solid and the strongest since December 2011.

Reflective of lower new order volumes, the quantity of inputs bought by private sector firms fell during August. However, the decline in purchasing activity 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 had 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 monitored companies 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. Both purchasing prices and salary bills increased in cost over the month, with the latter posting the stronger rise. Overall, the rate of input price inflation was moderate and weaker than the long-run series average. Average selling prices similarly increased in the latest survey period. That said, the latest rise was the weakest since May.



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

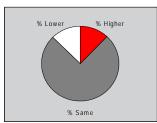




Output Index

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



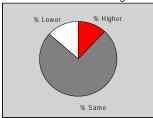


After adjusting for seasonal variation, private sector output in Hong Kong fell for the fourth consecutive month in August. The rate of contraction was only marginal, however, and little-changed from July. Monitored companies that reported a reduction in activity levels (one-in-eight) generally attributed this to lower volumes of new business.

New Orders Index

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



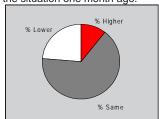


Private sector companies in Hong Kong received a lower volume of new orders in August. New business has fallen in each month since April and, although marginal, the rate of contraction accelerated slightly over the month. Approximately 14% of survey respondents reported a reduction in new work, often linking this to weaker market conditions.

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.



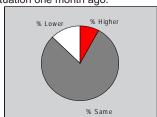


The seasonally adjusted Mainland China New Orders Index remained below the 50.0 no-change mark for the seventh consecutive month in August. This signalled a further reduction in the volume of new business from the Mainland received by Hong Kong private sector companies. Moreover, the index fell to its joint-lowest level for almost four-and-a-half years, consistent with a strong rate of decline.

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 firms continued to fall during August, taking the current sequence of contraction to six months. Approximately 13% of monitored companies reported lower levels of work-in-hand (while 8% registered an increase), and largely linked this to the weak trend for new orders. Overall, the rate of backlog depletion was solid and the strongest since December 2011.

Suppliers' Delivery Times Index

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





Suppliers' delivery times lengthened further in August, as has been the case in each month of 2013 so far. Anecdotal evidence suggested that some vendors had production problems in the latest survey period. Overall, the latest deterioration in supplier performance was modest, and little-changed from one month previously.

Employment Index

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



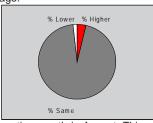


Private sector employment in Hong Kong fell for the sixth successive month in August. Approximately 4% of survey respondents reduced their workforces since July, compared with 2% that hired additional staff. Overall, the rate of contraction was modest but, having eased over the month, the slowest since May.

Prices Charged Index

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





Average selling prices at monitored companies in Hong Kong increased for the fourth consecutive month in August. This was indicated by the seasonally adjusted Prices Charged Index remaining above the 50.0 no-change level. However, the rate of output price inflation was only modest and, with the index having fallen to a three-month low, slower than in July.

Overall Input Costs Index

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



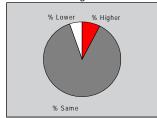


Private sector firms faced higher input costs in August, as has been the case in each month since August 2012. The latest increase in cost burdens reflected a rise in purchase prices, as well as larger salary bills. Overall, the rate of inflation was moderate, but slower than the long-run series average and weaker than that registered one month previously.

Input Costs: Purchase Prices Index

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



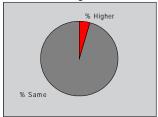


Following a stagnant trend in July, the average price paid for purchases by monitored companies increased in August. Approximately 8% of panellists reported an increase in purchasing costs, particularly for raw materials, compared with 5% that registered a reduction. Nonetheless, the latest rise in purchase prices was modest and weaker than the long-run series average.

Input Costs: Staff Costs Index

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



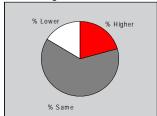


Staffing costs in Hong Kong's private sector continued to rise in August, taking the current sequence of inflation to 49 months. Anecdotal evidence provided by panellists linked the latest increase in salaries to attempts to incentivise staff. Despite having eased over the month, the overall rate of wage growth was solid and broadly in line with the historic trend.

Quantity of Purchases Index

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



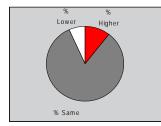


The seasonally adjusted Quantity of Purchases Index posted below the 50.0 no-change mark in August, signalling a further reduction in the amount of inputs bought by monitored companies in August. However, the rate of decline was marginal, with the index registering only fractionally below the neutral threshold. Firms generally attributed the latest reduction in purchases to lower volumes of new business.

Stocks of Purchases Index

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





Input inventories at private sector companies in Hong Kong increased for the second successive month in August. However, the rate of stock accumulation, unchanged from July, was only marginal. Approximately 11% of panellists registered an increase in stocks of purchases in the latest survey period, compared with 7% that registered a reduction.

International PMI

US Purchasing Managers' Index



Source: Institute for Supply Management (ISM).

Operating conditions in the US manufacturing sector improved at the fastest pace in 25 months during July, with the headline PMI posting 55.4, up from June's 50.9. Non-manufacturing companies also reported improved operating conditions. The headline index rose from 52.2 in June to 56.0 in July, the joint-highest reading in 17 survey periods.

Eurozone *Purchasing Managers' Index™*



Source: Markit.

July marked a tentative return to expansion for the eurozone economy, as manufacturing output posted a solid expansion and the trend in services activity moved close to stabilisation. At 50.5 in July, the Markit Eurozone PMI Composite Output Index rose to a near two-year high and posted above the neutral 50.0 mark for the first time since January 2012.

China Purchasing Managers' Index™



Source: HSBC; Markit.

HSBC China Composite PMI data (which covers both manufacturing and services) signalled a contraction of output for the second successive month in July. Although the Output Index signalled only a marginal rate of reduction, posting at 49.5 in July, down from 49.8 in June, it was the fastest recorded since November 2011.

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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