HSBC Purchasing Managers' Index™ Press Release

Embargoed until: 10:30 (Hong Kong), 5 June 2014

HSBC Hong Kong PMI®

Business conditions deteriorate at strongest rate since last June

Summary

Private sector business conditions in Hong Kong deteriorated for the third successive month in May, and at the strongest pace in 11 months. Following a slight rise in April, total new orders fell moderately during May, with a number of companies citing weak market conditions. Consequently, firms cut their output for the third month in a row and reduced their staffing levels moderately. Fewer new orders also led to reduced purchasing activity, which declined at the fastest rate since June 2012.

The HSBC Hong Kong *Purchasing Managers' Index™ (PMI®)* posted 49.1 in May, down from 49.7 in April, and signalled a slight deterioration in the health of Hong Kong's private sector. It was the lowest PMI reading since June 2013, as the index continued to recede from February's 35-month high. 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 reduction in the headline PMI partly reflected a renewed decline in total new business placed at Hong Kong private sector firms in May. Moreover, latest data signalled the quickest fall in new orders in 11 months, with a number of panellists commenting that weak economic conditions softened client demand. New business from mainland China also fell over the month, and at the strongest rate since August 2013. In line with fewer new orders, companies reduced their output for the third successive month in May. Though slight, the rate of contraction was the strongest since September 2012.

Private sector firms continued to trim their staffing levels in May, extending the current sequence of job shedding to two months. Furthermore, the latest reduction of workforce numbers was the quickest in 2014 so far, with a number of respondents mentioning company restructuring plans.

Purchasing activity fell for the third month running in May, and at a faster pace. Furthermore, it was the sharpest reduction in input buying since June 2012. Anecdotal evidence suggested that activity fell in line with fewer new incoming orders. Meanwhile, stocks of purchases rose solidly in May. Reports from panellists suggested that a key driver of stock growth was lower production requirements.

Overall input costs faced by Hong Kong private sector firms continued to increase in May. However, the rate of inflation was only modest, having eased to a 21-month low.

Output charges also rose in May, and at the fastest rate in three months. Anecdotal evidence linked higher charges to the implementation of new pricing policies.

Comment

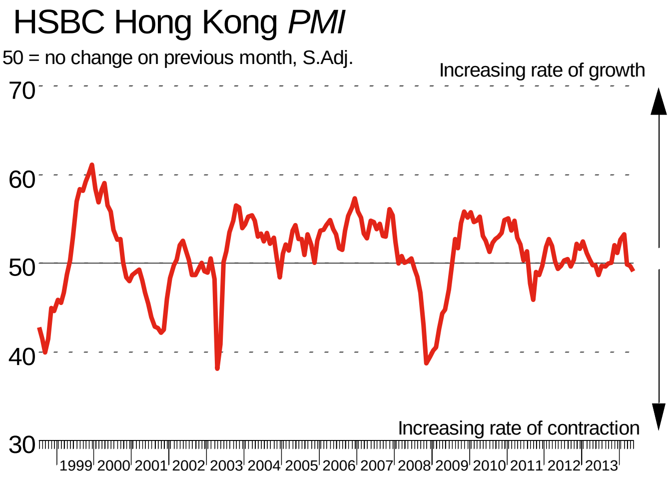
Commenting on the Hong Kong PMI® survey, John Zhu, Economist at HSBC in Asia, said:

"Hong Kong's economic momentum saw a broad-based decline in May as both activity and employment fell. New orders also fell back after a small rebound in April, with new business from Mainland China falling particularly sharply. It would appear that the slowdown in Mainland China is now feeding through to Hong Kong."

Key points

- Both output and new business contract
- Further reduction of staff numbers
- Strongest reduction of purchasing activity in nearly two years

Historical Overview



Sources: HSBC, Markit.

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

John Zhu, Greater China Economist
Telephone +852-2996-6621
Email john.zhu@hsbc.com.hk

Helen Lam, Media Enquiries
Telephone +852-2822-4992
Email helenwylam@hsbc.com.hk

Jerome Tam, Media Enquiries
Telephone +852-2822-2481
Email jeromegntam@hsbc.com.hk

Markit

Annabel Fiddes, Economist
Telephone +44-1491-461-010
Email annabel.fiddes@markit.com

Joanna Vickers, Corporate Communications
Telephone +44-207-260-2234
Email joanna.vickers@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 diversified provider of financial information services. We provide products that enhance transparency, reduce risk and improve operational efficiency. Our customers include banks, hedge funds, asset managers, central banks, regulators, auditors, fund administrators and insurance companies. Founded in 2003, we employ over 3,000 people in 11 countries. For more information, please see www.markit.com

About PMI:

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