HSBC Purchasing Managers' Index™ Press Release

compiled by markit

Embargoed until: 10:30 (Hong Kong), 3 June 2015

HSBC Hong Kong PMI®

Operating conditions deteriorate at sharpest pace since September 2011

Summary

Operating conditions in Hong Kong's private sector economy deteriorated for the third month in a row during May. Output contracted at the quickest pace since November 2011, as new business declined at a steeper rate. Data suggested that weaker client demand in Mainland China was a key factor driving new business lower in May, with new order intakes from the Mainland falling at the sharpest rate since December 2008. In line with lower production requirements, firms reduced their purchasing activity again in May, while staff numbers were cut for the fourteenth month in a row.

The HSBC Hong Kong *Purchasing Managers' Index™ (PMI®)* posted at 47.6 in May, down from 48.6 in April, and signalled a further deterioration in Hong Kong private sector business conditions. Furthermore, the health of the sector has now worsened for three consecutive months, with the latest deterioration the strongest recorded since September 2011.

Hong Kong private sector output fell for the second successive month in May, with the rate of reduction the strongest seen in three-and-a-half years. Anecdotal evidence suggested that companies lowered their output in line with deteriorating market conditions and an associated downturn in client demand. This was highlighted by a solid fall in new business placed at Hong Kong private sector firms in May. Latest survey data suggested that softer client demand in Mainland China was a key factor contributing to fewer new orders. Furthermore, the latest reduction in new business from Mainland China was the sharpest seen since December 2008.

Weaker demand conditions led companies to temper their production schedules in May, with purchasing activity falling for the eleventh straight month. As a result, stocks of inputs also fell over the month, with the latest decline in pre-production inventories the most marked since December 2011.

Private sector employment meanwhile fell for the fourteenth successive month in May, amid reports of reduced production requirements. That said, the pace of job shedding eased since April to the slowest in eight months. Despite lower workforce numbers, a number of companies mentioned excess capacity at their units due to fewer new orders. Consequently, companies were able to work through their outstanding business again in May, and at a solid pace that was little-changed from April.

Meanwhile, both total input costs and output charges decreased in May, albeit at weaker rates than those seen in April.

Comment

Commenting on the Hong Kong PMI® survey, Annabel Fiddes, Economist at Markit, said:

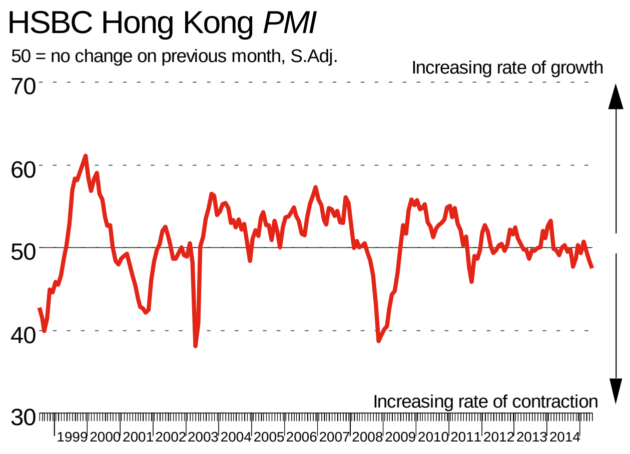
"The downturn in Hong Kong's private sector intensified in May, with output falling at the quickest rate in three-and-a-half years amid a faster contraction of new orders. Furthermore, new business from Mainland China fell at the quickest rate since December 2008.

"Overall, the data suggest that Hong Kong's economy may struggle to recover any growth momentum in the near-term, as companies continued to shed staff and reduced their input buying in response to weaker demand conditions."

Key points

- Output and new orders both contract at faster rates
- New business from Mainland China falls at quickest rate since December 2008
- Employment declines for fourteenth month in a row

Historical Overview



Sources: HSBC, Markit.

markit®

HSBC

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

Gareth Hewett
Media Enquiries
Telephone +852-2822-4929
Email garethhewett@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 more than 6,200 offices in both established and emerging 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 52 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 74 countries and territories in Europe, the Asia-Pacific region, the Middle East, Africa, North America and Latin America.

Listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by about 216,000 in 129 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 3,500 people in 10 countries. Markit shares are listed on Nasdaq under the symbol MRKT. For more information, please see www.markit.com.

About PMI:

Purchasing Managers' Index™ (PMI®) surveys are now available for over 30 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