

HSBC Hong Kong PMI®

Operating conditions deteriorate fractionally in September

Summary

Operating conditions faced by Hong Kong private sector companies deteriorated for the second successive month in September. That said, the rate of deterioration was similar to the previous month and only fractional. Output increased slightly in September, offsetting a marginal reduction in August, while volumes of new business were broadly unchanged from the previous month. Meanwhile, job shedding across the sector persisted, with the pace of reduction quickening slightly from August, and purchasing activity fell for the third straight month.

The HSBC Hong Kong *Purchasing Managers' Index*™ (PMI®) posted below the 50.0 no-change mark at 49.8 in September, up fractionally from 49.6 in August, and signalled a fractional deterioration in Hong Kong's private sector operating conditions. Business conditions have remained near stagnant throughout the past seven months. The PMI is a composite index designed to provide timely indications of changes in prevailing business conditions in Hong Kong's private sector economy.

Latest data signalled a renewed expansion of Hong Kong private sector output in September, albeit only slight. Anecdotal evidence suggested that improved client demand and new product launches boosted production over the month. Meanwhile, total new business was little-changed from the previous month in September, following a four-month sequence of contraction. Data suggested that new order growth was partly dampened by new work intakes from Mainland China, which declined for the second month in a row.

Private sector companies in Hong Kong continued to cut their staff numbers in September, amid reports of relatively muted client demand. Though only modest, the rate of job shedding was the quickest in four months. Meanwhile, backlogs of work rose for the second successive month, albeit fractionally. Where higher volumes of unfinished work were noted, these were generally attributed to greater than expected volumes of new work.

Purchasing activity declined for the third month in a row, with a number of companies lowering their input buying due to subdued client demand. Consequently, stocks of inputs fell for the first time since November last year, albeit marginally.

Average cost burdens faced by private sector firms in Hong Kong rose for the twenty-sixth consecutive month in September and at a modest rate. Data suggested that overall input price inflation was largely driven by

higher staffing costs, as purchasing prices rose only fractionally over the month. Furthermore, the pace of wage inflation accelerated to the strongest in eight months.

Average output prices also increased in September, albeit at a marginal pace that was similar to that recorded in August.

Comment

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

"Hong Kong's economy is starting to stabilise, but the impact of the cyclical slowdown is being felt through deteriorating labour market conditions. Although output grew marginally in September, firms cut employment at a faster pace and that could put a downward drag on consumption in the next few quarters. New orders will likely have to pick up more significantly in the coming months before the downward trend in employment reverses."

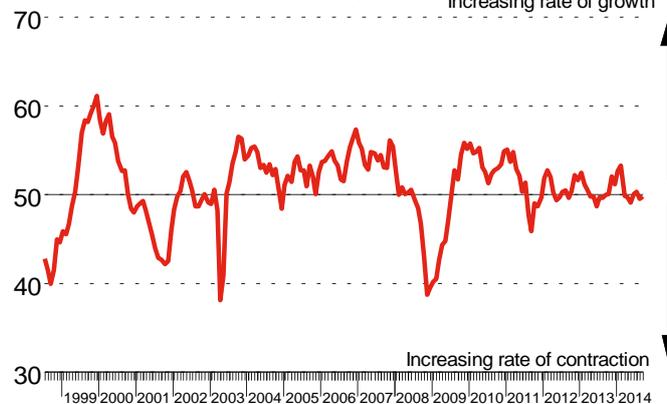
Key points

- Renewed expansion of private sector output...
- ...while new order volumes stabilise
- Employment levels decline modestly

Historical Overview

HSBC Hong Kong PMI

50 = no change on previous month, S.Adj.



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 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 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

The intellectual property rights to the HSBC Hong Kong *PMI*[®] provided herein is owned by or licensed to Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. *Purchasing Managers' Index*[™] and *PMI*[®] are either registered trade marks of Markit Economics Limited or are licensed to Markit Economics Limited. HSBC use the above marks under license. Markit is a registered trade mark of Markit Group Limited.