

Hong Kong *Purchasing Managers' Index*

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First indicator of Hong Kong business conditions each month

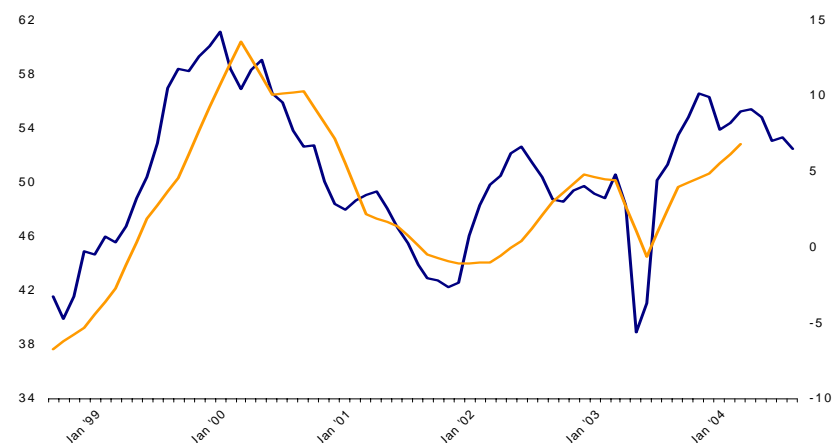
Solid expansion of HK economy underpinned by robust growth of output and new business in July.

- At 52.5 in July, the seasonally adjusted Hong Kong **Purchasing Managers' Index**[™] registered a level above the neutral mark of 50.0 for the fourteenth consecutive month. Moreover, despite falling from June's reading of 53.4, the PMI remained at a level indicative of a solid improvement of business conditions.
- The PMI has been an excellent indicator of business conditions in the Hong Kong economy throughout the history of the survey (see chart below), and anticipated the robust growth of official GDP during the first quarter of 2004. PMI data are available for the whole of Q2 2004, and suggest that the growth rate of the economy remained solid throughout the second quarter. Official GDP data for Q2 are scheduled for release on August 27th, almost two months after PMI data for this period were first available.
- Companies benefited from stronger market confidence in July, which supported a continuation of the current upturn of new business. **New orders** have risen in each of the past fourteen months, with the latest data pointing to further robust growth of new work (although the rate of expansion was less marked than one month ago). **Economic activity** also increased for the fourteenth month in a row, as companies raised their level of output in response to the increase in their workloads. Growth of activity was robust, with almost one-quarter of survey respondents reporting a rise in output at their units.
- Business activity increased in the manufacturing, non-retail services, construction and retail sectors during July, with the strongest rate of expansion recorded for manufacturing.
- Higher levels of activity and new business encouraged a number of Hong Kong firms to recruit extra staff during July, the sixth successive monthly increase in **private sector employment**.
- **Total input costs** increased for the eleventh month running in July. **Raw material prices** rose sharply, as the current strength of oil and steel prices continued to exert upward pressure on factor costs. Meanwhile, **average wages and salaries** rose for the seventh consecutive month, albeit at a more subdued rate than raw material prices. Panellists generally attributed the rise in staff costs to the recent improved buoyancy of the recruitment market.
- **Output prices** declined for the first time in eight months, as strong competition (especially from mainland China) eroded the pricing power of Hong Kong companies. However, the latest survey data suggested only a slight fall in average charges compared to one month ago.
- The survey data are derived from a representative panel of Hong Kong companies that supply monthly information on actual business levels. As such, it is not based on opinion or business confidence but instead reflects hard data and accurately anticipates official economic growth data.

Hong Kong PMI v Gross Domestic Product

Dark line: Hong Kong PMI (left hand scale)

Light line: Gross domestic product – monthly interpretation of annual % change (right hand scale)



Summary of key indexes

	Jul'04	Jun'04	Interpretation
PMI	52.5	53.4	Hong Kong economy continued to expand at a solid rate in July
Output Prices	49.4	52.9	Average charges declined for the first time in eight months
Employment	50.6	52.1	Employment rose for the sixth consecutive month, slower rate than a month ago
Purchase Costs	59.2	56.4	Marked inflation of average purchase prices, faster rate than a month ago

To obtain a full copy of the Hong Kong PMI report please contact Richard Willis on +44 1491 418 689 or email richard_willis@ntc.co.uk

What are PMI surveys?

The Hong Kong Purchasing Managers' Index is a monthly publication, researched and published by NTC Research in association with the Chartered Institute of Purchasing and Supply Hong Kong, featuring original research data from a survey of purchasing managers in companies operating in Hong Kong.

The survey panel comprises 300 companies that have been carefully selected to accurately represent the true structure of the Hong Kong economy, including manufacturing, services, retail and construction. Data are collected at mid-month, asking respondents to compare a variety of business conditions with the situation one month ago. Data have been collected since July 1998.

The PMI is derived from indices which measure changes in output, orders, employment, suppliers' delivery times and stocks. As with all indices in this release, a reading below 50.0 indicates that the economy is generally declining; above 50.0 that it is generally expanding.

The PMI and related indices are directly comparable with all other national Purchasing Managers' Indices, including those of the ISM in the United States and the Eurozone PMI produced by NTC for Reuters, and are produced using identical methodologies in each country.

The following quotes reflect the high regard in which NTC's PMI surveys are held:

"One of the most reliable high-frequency indicators of overall activity is the composite PMI, which covers manufacturing and services."

JP Morgan Weekly Global Data Watch, October 2001

"the best coincident indicator of economic activity in the eurozone"

Barclays Capital, data commentary newsletter, April 2003

"Provides the first indication of economic trends each month and a consistent means of comparing activity between countries"

Tony Norfield, global head of foreign exchange research, ABN-Amro

"... highly valued by economists as more timely indicators than official figures of the state of the economy."

Financial Times, June 8 2002

"In terms of coincidental indicators, the euro zone PMI is hard to beat"

Deutsche Bank research newsletter, March 2003

"The Eurozone PMI is one of the most accurate indicators of euroland industrial production. It has been a useful guide to ECB decisions."

Goldman Sachs European Economic Research report, March 2003

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