

Nikkei Hong Kong PMI™

Private sector conditions deteriorate in August

Key points:

- Both output and new orders decline further
- Despite higher costs, firms cut selling prices to boost sales
- Business confidence lowest in 20 months

Data collected August 13–28

Hong Kong's private sector suffered another deterioration in business conditions midway through the third quarter, with output and new orders falling further in August. Notably, export sales to China fell again amid escalating trade tensions. Companies remained pessimistic about future output, which was also accompanied by another drop in purchasing activity and input inventories. Consequently, firms reduced selling prices to support sales despite a further rise in input costs. Both employment and backlogs continued to decline.

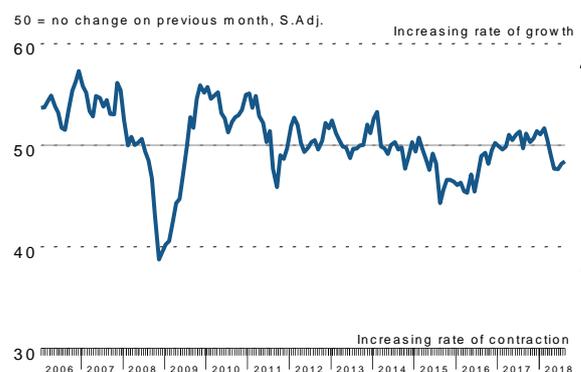
The seasonally adjusted **headline Nikkei Hong Kong Purchasing Manager's Index™ (PMI™)** rose from 48.2 in July to 48.5 in August, signalling a modest deterioration in the health of the private sector. The headline index is a single-figure measure of developments in overall business conditions.

There were further signs of softer client demand midway through the third quarter. Inflows of new orders fell for a fifth consecutive month during August which, in turn, weighed on business activity. Weaker demand conditions saw firms scale back on output.

Meanwhile, the sustained fall in sales meant that companies were able to work through their backlogs. The level of unfinished business decreased in August, reflecting ongoing spare capacity in Hong Kong's private sector.

Lower employment continued to be reported in the middle of the third quarter. Job creation has not been seen so far this year. Weak client demand also saw firms being cautious about their inventory policies. Companies cut back further on buying activity which partially led to another decline in stocks of purchases.

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Sources: Nikkei, IHS Markit.

Despite lower appetite for inputs, suppliers remained under pressure to meet delivery deadlines. Average lead times lengthened further, extending the current trend to nearly one-and-a-half years. Anecdotal evidence suggested that China's environmental regulations, supply shortages and slower shipments were primary reasons for delivery delays.

Milder cost pressures were seen across Hong Kong's private sector. Overall input price inflation eased to the weakest in just over a year. Higher prices for raw materials and a weaker Hong Kong dollar were key reasons for inflation.

At the same time, firms reduced selling prices, having raised them in the previous two months. Panellists pointed to efforts to boost sales amid a weaker renminbi, high competition and clients' requests for discounts.

Hong Kong's private sector businesses remained pessimistic about future output, with confidence falling to the lowest since the end of 2016. Anecdotal evidence suggested that the negative impact on activity of the US-China trade frictions was a key concern. Competitive pressures and dollar strength were other reasons behind pessimism.

Comment:

Commenting on the Hong Kong PMI survey data, **Bernard Aw**, Principal Economist at IHS Markit, which compiles the survey, said:

“Hong Kong’s private sector is on track for a second quarterly decline after latest Nikkei PMI data indicated another deterioration in business conditions during August. Other survey indicators suggest the downturn is likely to continue.

“The current sequence of deteriorating business conditions is the longest since the end of 2016. Survey evidence suggested that the key concern of Hong Kong’s private sector businesses was the adverse impact on economic activity from rising US-China trade frictions. The PMI’s gauge of business expectations, the Future Output Index, fell to the lowest level since the end of 2016. Firms cut selling prices to boost sales amid weak demand conditions. Cost inflation remained mild.

“Overall, the latest headline PMI is consistent with GDP growth running around an annual rate of 2% in the third quarter.”

-Ends-

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Notes to Editors:

The Nikkei 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 by company size 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.

IHS 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 IHS Markit. Please contact economics@ihsmarkit.com.

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