

IHS Markit Hong Kong SAR PMI™

Private sector downturn softens at start of 2020

Key findings

Declines in output and new orders ease but remain sharp

Purchasing activity and inventories fall at marked rates

Business confidence remains negative

Although operating conditions in Hong Kong's private sector remained challenging, January data pointed to softer contractions across a number of key measures. Total new orders, output, exports and input buying all fell at slower rates, while employment stabilised.

The latest results also showed that another reduction in overall input prices provided further room for companies to lower their charges. Looking ahead, firms remained downbeat towards the 12-month outlook for business activity, though the degree of pessimism moderated.

At 46.8 in January, the seasonally adjusted headline IHS Markit Hong Kong SAR Purchasing Manager's Index™ (PMI™) signalled a further worsening of private sector conditions in Hong Kong. However, rising from 42.1 in December, the headline figure moved further away from November's recent low to indicate the slowest pace of contraction since mid-2019.

Companies indicated that weak underlying demand, trade tensions, competitive pressures and tough economic conditions continued to hamper sales during January. The fall in new work intakes was the twenty-second in consecutive months, but the slowest since last June.

Concurrently, private sector output decreased at a solid pace that was nonetheless the weakest since mid-2019. In addition to lower sales, companies linked the fall in business activity to lingering political and social unrest.

Similar to the trend for total sales, there was a softer decline in new export work received by Hong Kong private sector firms. The contraction was the slowest in six months, though still sharp. According to panel members, political issues and trade disputes continued to restrict international demand for local goods and services.

continued...

Hong Kong PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Pollyanna De Lima, Principal Economist at IHS Markit, said:

"Although the latest PMI results show that prolonged political turmoil continued to impact on the performance of Hong Kong's private sector, solace can be taken from the slowdown in rates of contraction in sales, output and input buying.

"It was also encouraging to see that some companies refrained from cutting jobs, which led to a stabilisation of private sector employment.

"Offering some respite to firms, overall expenses fell further. This enabled businesses to continue with their price-discounting strategies aimed at boosting sales.

"Worryingly, however, companies remain downbeat regarding the year-ahead outlook for business activity, with many expecting that political headwinds, social unrest and trade disputes will continue to harm output. IHS Markit forecasts a 0.4% contraction in GDP during 2020 as a whole."

With the downturn in sales losing strength, businesses left employment unchanged in January. At the same time, a slower reduction in input purchasing contributed to a softer depletion in holdings of raw materials and semi-finished items.

January data highlighted a further decrease in overall input costs, the third in as many months. The fall was solid and the quickest in four years.

Data suggested that falling purchase prices was the main cause of lower overall expenses, as staff costs increased further in January. However, the rate of salary inflation was only fractional.

The lack of cost inflationary pressures, coupled with sales-boosting efforts, underpinned a further reduction in average selling prices. The fall was the seventh in consecutive months and solid overall.

Elsewhere, January data pointed to a lack of pressure on firms' capacities as outstanding business decreased again. Vendor performance worsened, which panel members associated with low stock levels and reduced capacity at suppliers.

Regarding the outlook, companies remained pessimistic. Concerns over lingering political troubles, tough economic conditions and trade disputes were among the reasons cited for the downbeat assessment.

PMI headline index

sa, >50 = improvement since previous month

GDP growth

% yr/yr



Sources: IHS Markit, HKSAR Census and Statistics Department.

Contact

Bernard Aw
Principal Economist
IHS Markit
T: +65 6922 4226
bernard.aw@ihsmarkit.com

Katherine Smith
Public Relations
IHS Markit
T: +1-781-301-9311
katherine.smith@ihsmarkit.com

Methodology

The IHS Markit Hong Kong SAR PMI™ is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 400 private sector companies. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. The sectors covered by the survey include manufacturing, construction, wholesale, retail and services. Hong Kong is a Special Administrative Region of China.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

January 2020 data were collected 13-28 January 2020.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

Disclaimer

The intellectual property rights to the data provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS 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 IHS 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 licensed to Markit Economics Limited. IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates.

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates. All other company and product names may be trademarks of their respective owners © 2020 IHS Markit Ltd. All rights reserved.

If you prefer not to receive news releases from IHS Markit, please email katherine.smith@ihsmarkit.com. To read our privacy policy, click here.

About PMI

Purchasing Managers' Index™ (PMI™) surveys are now available for over 40 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 ihsmarkit.com/products/pmi.html.