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IHS Markit Hong Kong SAR PMI™

Private sector conditions stabilise at start of fourth quarter

Key findings

Output and new orders fall at slower rates

Jobs growth seen for first time in three months

Business sentiment least negative since June 2019

Data were collected 12-27 October 2020

Latest PMI data saw Hong Kong's private sector conditions stabilise during October, with business activity and new sales falling at much slower rates when compared to recent months. Notably, demand from mainland China shrank at the weakest rate in the current 30-month sequence of decline. Business confidence remained negative, but the degree of pessimism was the least for over a year. Employment fell back into decline, however, amid reports of redundancies.

The headline seasonally adjusted IHS Markit Hong Kong SAR *Purchasing Manager's Index™ (PMI™)* rose from 47.7 in September to 49.8 in October, the highest reading since March 2018. By coming in only fractionally below the 50.0 no-change level, the latest reading indicated broadly unchanged business conditions in the private sector.

Measures to restrict the spread of coronavirus disease 2019 (COVID-19) remained in place during October, which continued to weigh on business operations and consumer behaviour. Business output contracted further in October, but the rate of decline was the slowest for just over two-and-a-half years.

Similarly, inflows of new business dropped further, though the pace of contraction eased to the weakest for four months. This was in part linked to a markedly slower fall in orders from mainland China. The move towards stabilisation seen in sales contributed to a marginal decline in backlogs of work, which fell to the least extent since early-2018.

Following a mild rise in September, employment fell in October, with anecdotal evidence mentioning layoffs. Firms continued to scale back purchasing activity in response to weak demand. Consequently, stocks of purchases fell further, though at the weakest rate since June.

Hong Kong SAR PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Bernard Aw, Principal Economist at IHS Markit, said:

"Hong Kong's private sector steadied at the start of the fourth quarter, according to the latest PMI data. Activity and sales both fell at noticeably softer rates while sentiment towards the year-ahead outlook was the least negative for over a year, reflecting an increasing number of firms that anticipate a rise in future output."

"Employment fell back into decline, however, with anecdotal evidence pointing to forced redundancies."

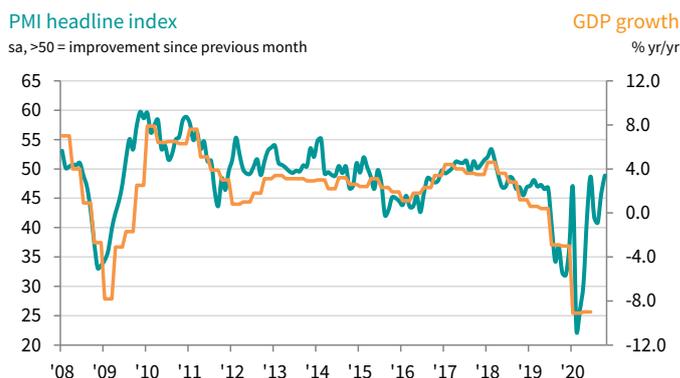
"That said, a further relaxation of containment measures on 30 October will provide a further economic relief, putting the economy in a better position to return to growth territory as the end of the year approaches."

continued...

Pressure on supplier capacity persisted in October, as indicated by a further sharp increase in delivery times. Where delays were reported, firms mentioned transportation issues, and a shortage of materials at distributors.

The survey showed that price trends diverged at the start of the fourth quarter, with overall input prices rising for the first time since June while output charges fell further. Costs were primarily driven by increased paid prices for inputs as wage costs were broadly steady. Meanwhile, firms provided discounts to stimulate sales amid higher competition and subdued demand.

Finally, business sentiment towards the year-ahead output remained negative. However, the degree of pessimism was the weakest since June 2019 as a greater proportion of firms expect activity to rise over the coming 12 months. While negative sentiment is linked to the impact of social distancing measures on activity, as well as concerns over the global economy, optimistic firms anticipated further improvements in market conditions.



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.

October 2020 data were collected 12-27 October 2020.

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

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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.

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