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IHS Markit Hong Kong SAR PMI™

PMI slides to lowest since April as further COVID-19 wave hits Hong Kong SAR

Key findings

New business falls at slower rate

Input inventories up for first time in nearly two years

Business sentiment still negative

Data were collected 04-18 December 2020

The Hong Kong SAR economy lurched into a further steep downturn in December as a further wave of COVID-19 infections prompted a tightening of social distancing measures. The ongoing pandemic also led to the highest incidence of supply chain delays in the two-decade history of the survey, further constraining output and sales but also pushing costs higher. Although the downturn led to increased job losses, gloom about the outlook eased to the lowest for one-and-a-half years.

The headline seasonally adjusted IHS Markit Hong Kong SAR Purchasing Manager's Index™ (PMI™) slumped from 50.1 in November to 43.5 in December, signalling a renewed deterioration of business conditions at the end of 2020 after a brief stabilisation in November. The decline signalled by the December PMI was the steepest since April.

Output and new orders both fell at the sharpest rates since April as the COVID-19 restrictions dampened demand, curbed business activity and hit supply chains. Although the declines were less severe than seen during the initial lockdowns earlier in the year, such steep falls in output and orders have rarely been seen since the global financial crisis.

Exports, including new business inflows from mainland China, fell at a markedly increased rate during the month, exacerbating a worsening of domestic demand. The latest export decline was blamed on slumping demand due to intensifying lockdowns in some key export markets, though shipping delays were also reported to have discouraged overseas buyers.

Employment was cut in response to the need to reduce costs in the deteriorating business environment, with job losses gathering pace to the highest since April. The resulting fall in headcounts was among the sharpest since the global financial crisis. Staff costs decreased slightly, reflecting the reduction to

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Hong Kong SAR PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Chris Williamson, Chief Business Economist at IHS Markit, said:

“Hong Kong's economy slumped into a further steep downturn in December. Businesses have been struck by a collapse in domestic demand and tumbling exports, as the fourth wave of COVID-19 infections has occurred alongside similar waves in other countries, driving a renewed tightening of containment measures. The hit to demand has also been exacerbated by record supply chain delays and rising costs, as the pandemic has reduced international transport capacity and led to logistics bottlenecks.

“While the December data add to the economic gloom of 2020, companies grew less downbeat about prospects for the year ahead, with hopes pinned on the encouraging recent news of vaccine developments. However, the severe downturn signalled by the latest PMI data underscores how the economic situation may yet deteriorate further amid the rising wave of infections before improvements are seen.”

working hours and headcounts.

Other costs rose, however, linked to an increase in raw material prices, notable for imports. Prices paid for purchases rose at the joint-fastest rate seen over the past two years. Supplier price hikes were commonly linked to growing supply constraints, in turn linked to shipping delays and global demand outstripping supply for many key inputs. The incidence of supplier delays was the highest recorded since the survey began in 1998. Inventories of inputs fell sharply as a result, dropping at a rate rarely exceeded in the survey’s two-decade history.

Despite reporting highest costs, firms cut average prices charged for goods and services during December, citing the need to offer discounts to stimulate demand. The fall in prices was the steepest since July.

Looking ahead to the coming 12 months, the number of pessimists continued to outnumber optimists, reflecting renewed worries about the ongoing pandemic and potential future waves of the virus. However, the overall degree of pessimism eased to the lowest since June 2019 as hopes of life starting to return to normal in 2021 were raised by recent encouraging vaccine news.



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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.

December 2020 data were collected 04-18 December 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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