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IHS Markit Hong Kong SAR PMI™

PMI signals weak start to 2021 as COVID-19 continues to hit 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 12-26 January 2021.

The ongoing coronavirus disease 2019 (COVID-19) pandemic and restrictions to contain the virus took a further toll on the Hong Kong SAR economy in January. Output, order books and purchasing activity all fell sharply as businesses struggled against slumping demand, the highest incidence of supply chain delays in the two-decade history of the survey and rising costs. Although the downturn eased compared to the particularly steep decline seen in December, business confidence was knocked further due to intensified worries about the pandemic.

At 47.8, the headline seasonally adjusted IHS Markit Hong Kong SAR Purchasing Manager's Index™ (PMI™) remained firmly below 50.0 and therefore in contraction territory in January, though it rose from 43.5 in December to signal a moderation in the rate of deterioration after the heavy hit from the reintroduction of COVID-19 related restrictions in December.

Output and new orders both continued to fall at steep rates as virus restrictions and social distancing dampened demand and curbed business activity. Although rates of decline eased compared to December, in both cases the downturns were the second-steepest since August. Exports also fell sharply to add to the slump in domestic demand, likewise suffering the worst monthly fall since August barring the drop seen in December, fuelled in part by a further marked loss of business from mainland China.

Purchasing activity meanwhile sank to a degree not seen since August, in part due to companies scaling-back their buying due to weaker sales. However, reduced purchasing was also widely seen as a symptom of growing supply problems: the January survey found increased reports of supply shortages and shipping or other logistical delays. Suppliers' delivery times in fact lengthened to the greatest extent recorded since the survey began in 1998, signalling an unprecedented incidence of supply

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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 SAR saw a difficult start to the year, with business activity slumping once again as companies struggled against the ongoing headwind of COVID-19, both at home and abroad. Domestic demand and export sales sank sharply lower, supply delays rose at an unprecedented rate, and worries about further waves of the virus knocked firms’ confidence in the near-term outlook.”

“More encouragingly, although dented, business expectations remain far higher than seen throughout much of last year as firms focus on the prospect of life returning to normal with the roll-out of vaccines. A further contraction of the economy looks inevitable in the first quarter, but the longer-term picture has brightened.”

constraints.

Prices paid for inputs rose for a fourth month running, increasing at the sharpest rate for two-and-a-half years, linked to rising raw material costs as well as increased shipping fees. Output prices fell at an increased rate, however, as tough competition and weak sales led many firms to offer discounts, hinting at squeezed margins. The fall in selling prices was the largest recorded since last July.

Employment was cut fractionally overall, in some cases reflecting redundancies. However, in most cases headcounts were kept steady as firms reviewed their capacity requirements after having reduced workforce numbers sharply in December. Staff costs fell to the greatest extent for five months, reflecting lower wages and staff cuts.

Looking ahead to the coming 12 months, the number of pessimistic firms increasingly outnumbered those who were optimistic compared to December due to heightened concerns over the duration of the pandemic, both at home and in export markets. However, sentiment over the past two months has improved markedly compared to that seen in the first half of last year amid brighter news on vaccine roll-outs.



Sources: IHS Markit, HKSAR Census and Statistics Department.

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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.

January 2021 data were collected 12-26 January 2021.

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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