

IHS Markit Hong Kong PMI™

Business activity falls at fastest pace in over 21 years

Key findings

Private sector downturn deepens

Fall in new business the sharpest since start of 2009

Growing pessimism among firms

Hong Kong's private sector remained mired in a severe downturn at the start of the fourth quarter, according to the latest PMI data. Business activity and new sales fell at steeper rates during October, while demand from mainland China declined at the sharpest pace in the series history. Business confidence was dragged lower amid ongoing political unrest and a worsening trade environment, with growing pessimism seen among firms. Companies also cut back on purchasing activity and input inventories at the fastest rate in the survey history. Meanwhile, output prices fell further despite cost pressures picking up during the month.

The seasonally adjusted headline IHS Markit Hong Kong Purchasing Manager's Index™ (PMI™) fell to 39.3 in October, down from 41.5 in September, signalling the worst deterioration in the health of the private sector since November 2008.

The headline PMI is a composite single-figure indicator of economic performance derived from indicators for new orders, output, employment, suppliers' delivery times and stocks of purchases. Any figure greater than 50.0 indicates overall improvement of the economy.

Not only did business activity across the private sector shrink further in October, but the rate of decline was the fastest since the survey began over 21 years ago. According to anecdotal evidence, protest-related disruptions continued to dampen economic activity, particularly in the retail and tourism sectors.

Amid political unrest and trade tensions, overall demand conditions continued to weaken at the start of the fourth quarter. New business inflows fell at the sharpest rate since January 2009, led by a record decline in new orders from mainland China. As a result, backlogs of work declined further and at a marked pace.

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Hong Kong 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 remained mired in one of its worst downturns for the past two decades during October, with the latest PMI survey signalling a deepening economic malaise."

"The ongoing political unrest and impact of trade tensions saw business activity fall at the sharpest pace since the survey started over 21 years ago. Anecdotal evidence revealed that the retail and tourism sectors remained particularly affected."

"As new orders continued to fall sharply, led by a record decline in demand from mainland China, firms were becoming increasingly pessimistic about the outlook. Business sentiment fell to a level not seen for over seven-and-a-half years as companies were concerned about the impact of protests and a deterioration in the global trade environment on economic activity."

"Adding to its economic woes were rising input costs. Firms not only had to absorb the increase in costs amid the economic downturn but also provided price discounts to boost sales."

The worsening of private sector conditions further dented confidence, with the Future Output Index, a measure of business sentiment, slumping to a new record low. Survey data revealed that a larger proportion of survey respondents expect lower business activity in one year's time. Companies remained concerned about the impact of local protests and US-China trade tensions on business activity.

In a sign of growing pessimism, firms cut back further on their purchasing activity and input inventories in October, reducing both at a rate not seen since the survey started in July 1998. The fall in demand for inputs meanwhile enabled vendors to shorten their delivery times, albeit only marginally. There were reports of delivery delays due to protest-related roadblocks.

Input costs increased in October, with higher purchase prices and staff costs mentioned. Total input prices rose for the first time in four months, albeit only modestly. However, companies were unable to pass on higher expenses to customers amid the economic downturn. On the contrary, output prices were reduced for a fourth straight month during October on the back of efforts to boost sales via price discounts.

One positive area from the latest survey was a return to growth of employment following two months of decline. That said, the rate of job creation was only marginal as the vast majority of panellists left staffing levels unchanged.



Sources: IHS Markit, HK 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.

October 2019 data were collected 11-28 October 2019.

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. To learn more go to ihsmarkit.com/products/pmi.html.