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IHS Markit Hong Kong SAR PMI™

Growth of activity ends three-year sequence of decline

Key findings

Output expands, while new orders stabilise

Strongest optimism for more than seven years

Purchase cost inflation accelerates sharply

Data were collected 12-27 April 2021.

The Hong Kong SAR private sector started the second quarter of the year on a positive note, as three-year long sequences of decline in output and new orders came to an end. Business confidence improved to the highest in more than seven years, while employment increased for the third month running. Meanwhile, rising raw material prices meant that purchase costs increased at a much sharper pace, but firms continued to lower their own selling prices.

The headline seasonally adjusted IHS Markit Hong Kong SAR Purchasing Manager's Index™ (PMI™) posted 50.3 in April following a reading of 50.5 in March. This represented the third successive month in which a marginal improvement in business conditions has been recorded.

A reduced level of COVID-19 case numbers and the loosening of restrictions contributed to improving business conditions at the start of the second quarter of the year.

As a result, business activity expanded, thereby ending a three-year sequence of decline.

Total new orders had fallen for the same length of time, but stabilised during April. While the situation regarding the pandemic had shown signs of improvement, a number of firms continued to be negatively impacted, preventing more pronounced expansions in output and new orders.

Indeed, both new export orders and new business from Mainland China continued to fall amid the pandemic.

Hopes that the recent signs of the pandemic being brought under control will continue, alongside more people being vaccinated and the further loosening of restrictions, supported confidence in the 12-month outlook for business activity. Moreover, optimism reached the highest since February 2014.

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Hong Kong SAR PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Andrew Harker, Economics Director at IHS Markit, said:

"After facing challenging business conditions over a number of years, there is some light at the end of the tunnel for Hong Kong SAR firms. The latest PMI data showed that business activity increased for the first time in just over three years, while new orders also stabilised.

"The positive picture reflected an improvement in the situation regarding the COVID-19 pandemic, and while experience tells us that this could reverse again quickly, firms themselves are at their most confident in more than seven years amid hopes that the pandemic will remain under control and that more people will receive vaccinations. IHS Markit forecasts GDP to grow 4.4% in 2021."

Companies in Hong Kong SAR took on extra staff for the third month running in April. The rate of job creation remained modest and was slightly softer than seen in March.

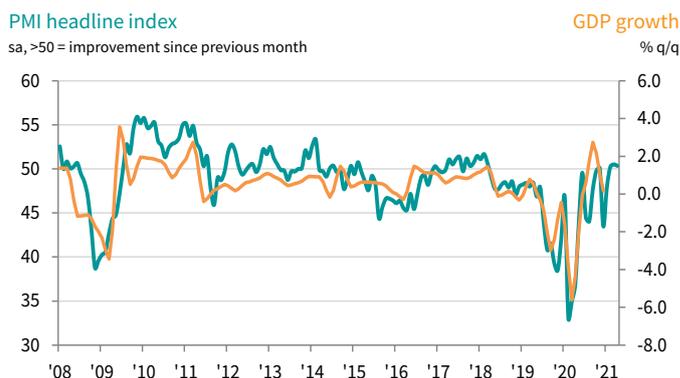
The latest increase in workforce numbers was insufficient to prevent a build-up in backlogs of work, the first in 38 months.

After having raised input buying in March, companies scaled back purchasing during April amid some reports that inventory holdings were sufficient for current workloads. Stocks of purchases also dipped, following a marked accumulation in the previous month.

Firms recorded an improvement in vendor performance during April, ending a 15-month sequence of lengthening lead times. Delivery times shortened to the greatest extent since December 2012.

The rate of purchase cost inflation accelerated sharply and was the fastest in 34 months. According to respondents, higher raw material costs were behind the rise. Staff costs also increased, albeit only modestly and at a much slower pace than purchase prices.

Overall input costs rose at the sharpest pace in three-and-a-half years, but Hong Kong SAR companies continued to lower their own selling prices in April. Respondents indicated that discounts were offered as part of efforts to attract customers and in response to competitive pressures. Charges decreased only marginally, however.



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.

April 2021 data were collected 12-27 April 2021.

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

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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.

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