News Release

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Nikkei Hong Kong PMI™

PMI signals a weak end to 2018

Key points:

- Decline in new orders, particularly those from China
- Business confidence remains negative
- Inflationary pressures accelerate

Data collected December 5–18

Hong Kong's private sector rounded off the year on a weak footing, with PMI data signalling a further deterioration in business conditions during December. The impact of trade wars continued to weigh on business activity. Both output and new orders declined again, alongside a further decrease in sales to mainland China. Firms remained negative about the year ahead business outlook, which saw them scaling back on hiring and purchasing activity.

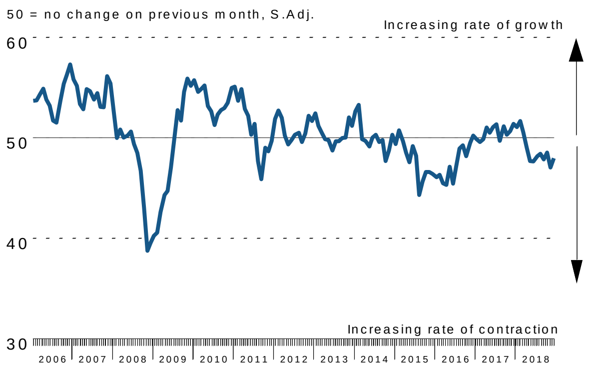
There was also a lack of capacity pressure across the private sector, as indicated by another drop in backlogs. On the price front, inflationary pressures accelerated, with faster rises seen in both input prices and output charges.

The headline PMI is a composite indicator designed to measure the performance of Hong Kong's private economy. The seasonally adjusted **headline Nikkei Hong Kong Purchasing Manager's Index™ (PMI™)** rose from 47.1 in November to 48.0 in December, marking another deterioration in business conditions of the private sector. The latest reading is the ninth time in as many months that the headline index has recorded below the neutral 50.0 level.

December saw further signs of weak demand conditions. New business intakes fell for a ninth straight month, dragged by another decline in Chinese orders. Escalating trade tensions reportedly remained the key reason affecting sales. This in turn weighed on business activity and resulted in lower backlogs. Firms cut back on output in December, as was the case in each month since April this year.

Lower output requirements generated spare operating capacities. Employment levels declined further in December. Job creation has now not been recorded throughout 2018.

Nikkei Hong Kong PMI™



Sources: Nikkei, IHS Markit.

Companies also reduced their purchasing activity in the latest survey month, preferring to tap into current inventories.

Having reported deteriorating vendor performance for 20 months, December data signalled a stabilisation in supply chains, as indicated by no changes to delivery times.

Despite softening demand, companies raised selling prices for the first time in five months. Anecdotal evidence suggested that rising marginal costs for output due to lower business activity pushed firms to hike prices to protect margins. Higher input prices were also another reason for charge inflation. Cost inflation was recorded for a third month running during December, accelerating to the fastest since July as paid prices for inputs rose. Increased raw material prices, particularly gold, were cited as a factor for inflation. In addition, firms also reported a larger wage bill.

Finally, business confidence remained downbeat at the end of the year. Almost one-fifth of panellists projected lower output in the year ahead, with many highlighting concerns about trade war effects on business activity as well as greater competition.

Comment:

Commenting on the Hong Kong PMI survey data, **Bernard Aw,** Principal Economist at IHS Markit, which compiles the survey, said**:**

"Hong Kong's private sector finished off the year on a weak note. December saw a further deterioration in business conditions amid trade war concerns. The latest reading contributed to another weak quarterly average, which marks the lowest since mid-2016.

"With soft demand conditions, as indicated by another decline in new business inflows, particularly from China, firms were pessimistic about the business outlook, citing increasing uncertainty in the economic environment as well as greater competition. Negative sentiment saw them holding back on hiring and reducing purchasing activity. As such, PMI indicators suggest that economic momentum is likely to slow further into next year.

"The recent spate of downbeat PMI data supported recent downgrades to GDP projections. The PMI survey is indicative of annual GDP growth below 3% in the fourth quarter, while IHS Markit expects the Hong Kong economy to expand by an annual rate of 2.6% in 2019."

-Ends-

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For further information, please contact:

IHS Markit (About PMI and its comment)

Bernard Aw, Principal Economist
Telephone +65 6922-4226
Email bernard.aw@ihsmarkit.com

Jerrine Chia, Marketing and Communications
Telephone +65 6922-4239
E-mail jerrine.chia@ihsmarkit.com

Nikkei inc.

Ken Chiba, Deputy General Manager, Public Relations Office
Atsushi Kubota, Manager, Public Relations Office
Telephone +81-3-6256-7115
Email koho@nex.nikkei.co.jp

Notes to Editors:

The Nikkei Hong Kong *PMI*™ is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 300 companies. The panel is stratified by company size and by Standard Industrial Classification (SIC) group, based on industry contribution to Hong Kong GDP. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The Purchasing Managers' Index™ (PMI™) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

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