News Release

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IHS Markit Hong Kong PMI™

PMI sinks to decade-low in July

Key findings

Both new orders and output fall sharply

Trade wars and local protests hit all aspects of demand in July

Lowest business confidence since January 2016

The start of the third quarter saw the deepest deterioration in private sector conditions across Hong Kong for over a decade, according to the latest PMI survey data. Sharp declines in both business activity and new orders alongside a notably steeper fall in input stocks dragged down the headline PMI. Meanwhile, business confidence fell to lowest since January 2016 as firms highlighted concerns over US-China trade frictions and large-scale political protests.

The seasonally adjusted headline IHS Markit Hong Kong *Purchasing Manager's Index™ (PMI™)* sank to 43.8 in July, down from 47.9 in June, signalling the steepest deterioration in the health of the private sector since March 2009. The latest reading also stretched the current sequence of deterioration to 16 months.

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.

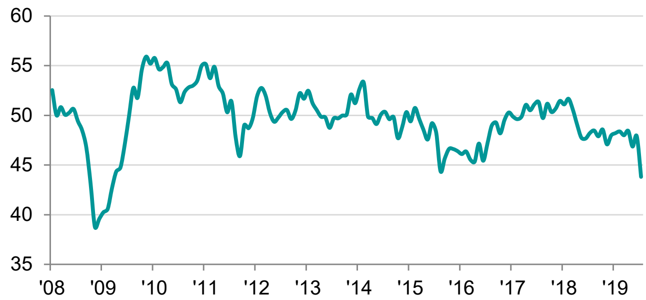
The ongoing US-China trade dispute and recent large-scale political demonstrations significantly dampened demand for Hong Kong's goods and services in July, according to survey data. Inflows of new business fell at an accelerated pace, the fastest seen for over a decade, partially weighed down by reduced Chinese demand. New orders from mainland China declined at the steepest rate for nearly four years in July.

The considerable weakness in demand conditions adversely impacted business activity and contributed further to the development of spare capacity. Output contracted sharply in July, with the pace of decrease the fastest recorded since the first quarter of 2009. At the same time, backlogs of work

continued...

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 faced an increasingly gloomy outlook at the start of the third quarter, with latest IHS Markit PMI data showing the deepest deterioration in business conditions since the heights of the global financial crisis.

"The rate of decline in both new orders and business activity was the steepest for over a decade, reflecting worsening demand conditions brought on by an ongoing US-China trade war and an escalation in large-scale political protests in Hong Kong.

"Consequently, firms became increasingly pessimistic in July, with business expectations of output in the year ahead falling to the lowest for three-and-a-half years. This in turn saw companies cut back further on stock-building amid rising business uncertainty.

"The survey is now broadly indicative of the economy contracting at an annual rate of around 2.0%."

declined further in July, as has been the case in each month for nearly one-and-a-half years.

The sustained reduction in output led firms to cut back on purchasing activity and instead tap into current stock-holdings to meet output requirements. The depletion in input inventories was the sharpest seen in just over 16 years. Survey respondents mentioned that lower sales and a pessimistic business outlook were reasons for the sharp fall in stocks.

Indeed, business expectations remained downbeat, with the Future Output Index, a gauge of business confidence, sinking to the lowest level for the past three-and-a-half years. A quarter of panel members expect lower output over the next 12 months.

With reduced appetite for inputs, vendors improved on their performance, with survey data showing that the time taken for deliveries shortened in July.

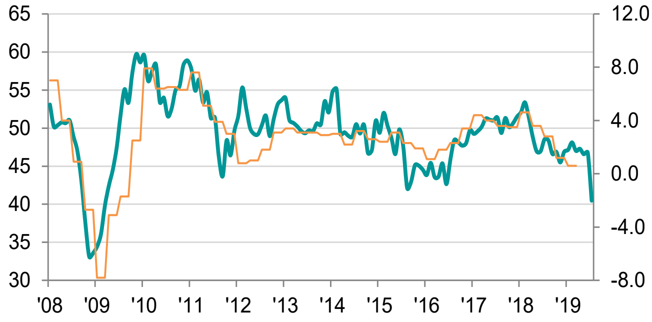
The survey also brought signs of deflation at the start of the third quarter. Despite a steady rise in wages, overall cost burdens decreased in July, led by a solid decline in purchase costs for inputs. Consequently, firms lowered their selling prices for the first time in three months, reflecting efforts to clear stocks and attract new clients in the face of a deteriorating business environment.

PMI headline index

GDP growth

sa, >50 = improvement since previous month

% yr/yr



Sources: IHS Markit, HK Census and Statistics Department.

Contact

Bernard Aw
Principal Economist
IHS Markit
T: +65 6922 4226
bernard.aw@ihsmarkit.com

Joanna Vickers
Corporate Communications
IHS Markit
T: +44-207-260-2234
joanna.vickers@ihsmarkit.com

Methodology

The IHS Markit Hong Kong 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.

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.

July 2019 data were collected 12-26 July 2019.

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

About IHS Markit

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