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IHS Markit Hong Kong SAR PMI™

PMI signals weak end to 2019 as private sector downturn persists

Key findings

Declines in output and new orders ease but remain sharp

Purchasing activity and inventories fall at marked rates

Business confidence remains negative

Hong Kong's private sector economy rounded off 2019 mired in a severe downturn. December PMI data showed business activity and new sales still falling sharply amid the ongoing political unrest. As a result, firms remained negative about the year-ahead business outlook, with signs of pessimism also reflected by further deep cuts to input purchases and inventories. Employment was stagnant, while both input and output prices continued to fall.

The seasonally adjusted headline IHS Markit Hong Kong SAR Purchasing Manager's Index™ (PMI™) rose from 38.5 in November to 42.1 in December, signalling the slowest deterioration in the health of the private sector since July. However, the rate of deterioration remained sharp. With December data, the average PMI reading (40.0) for the fourth quarter is the lowest since the survey started 21-and-a-half years ago.

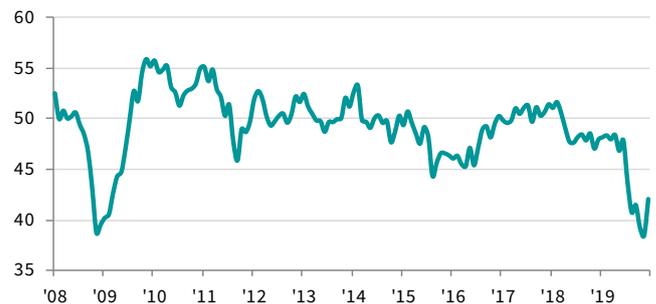
The headline PMI is a composite single-figure indicator of economic performance derived from indicators for new orders, output, employment, suppliers' delivery times and stocks of purchases. Any figure greater than 50.0 indicates overall improvement of the economy.

Firms continued to struggle as political protests persisted into the end of the year, according to survey participants. Business activity fell sharply in December, though the rate of decline was slower than November's record.

Demand conditions deteriorated further during December. Survey data indicated another steep decline in new business intakes, though the pace of decrease was softer than seen in November. Overall sales declines were linked to the ongoing unrest and trade tensions. New sales from mainland China contracted for a twentieth month in a row during December and at one of the fastest rates since this question was added to

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:

"December PMI data showed Hong Kong's private sector economy finished off 2019 stuck in a severe downturn as businesses continued to struggle against the headwinds of a political crisis."

"The average PMI for the fourth quarter signalled that GDP had fallen by around 5%, indicating that the economic downturn had deepened during the closing quarter of the year."

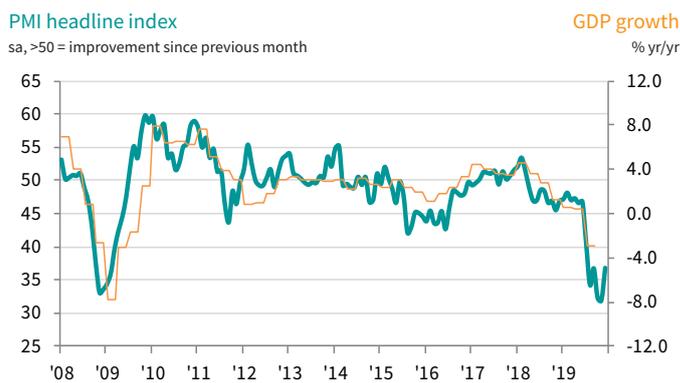
"There are scant hopes of any imminent improvement as local political tensions failed to show any signs of easing into the new year. Business confidence continued to run at one of the lowest levels in the series history while new orders continued to fall sharply in December. Facing gloomy prospects, companies again made deep cuts to purchasing activity and inventories."

the survey in March 2005. Falling sales contributed to a further decline in the level of backlogs.

In an environment of rapidly worsening business activity, confidence about output in a year's time remained downbeat. While the Future Output Index, a gauge of sentiment, rose from recent lows during December, it remained at one of the lowest levels since data on this variable were first available in April 2012. Pessimism was often linked to the business uncertainty surrounding the political crisis.

Amid a negative outlook, firms cut back further on purchasing activity and inventories. While the rates of reduction in both measures eased from November's records, they remained steep. Employment meanwhile was largely stagnant in December. Delivery times were also broadly unchanged despite lower demand for inputs.

Finally, overall input prices continued to fall in December, dropping at the steepest rate for almost four years. Lower cost burdens were led by a further decline in purchasing costs. Staff costs meanwhile rose marginally in December after falling in November. In line with reduced business expenses, companies discounted selling prices for a sixth straight month in December amid reports of high competition and the downturn in new sales.



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.

December 2019 data were collected 5-18 December 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.