

IHS Markit Hong Kong SAR PMI™

Private sector downturn eases in September on looser COVID-19 curbs

Key findings

Output and new orders fall at slower rates

Jobs growth seen for first time in three months

Business sentiment least negative since June 2019

Data were collected 11-25 September 2020

Business conditions across Hong Kong's private sector continued to deteriorate at the end of the third quarter amid an extension of the social distancing curbs designed to prevent the spread of the coronavirus disease 2019 (COVID-19). The rate of decline slowed, however, as some of the pandemic restrictions were relaxed. Activity and sales contracted at noticeably slower rates, as did purchasing activity and input inventories. Encouragingly, employment rose for the first time since June. Business confidence remained negative, but the degree of pessimism was the least for over a year.

The seasonally adjusted headline IHS Markit Hong Kong SAR Purchasing Manager's Index™ (PMI™) rose from 44.0 in August to 47.7 in September, the highest in three months. However, by remaining below the 50.0 no-change level, the latest reading indicated a further deterioration in the health of the private sector.

Containment measures were extended until October 1st, but some restrictions were eased, including the size of public gatherings allowed and length of operating hours permitted. While some firms benefited, the relaxation of social distancing rules was insufficient to lift overall activity. Business output shrank further in September, though at the slowest rate for three months.

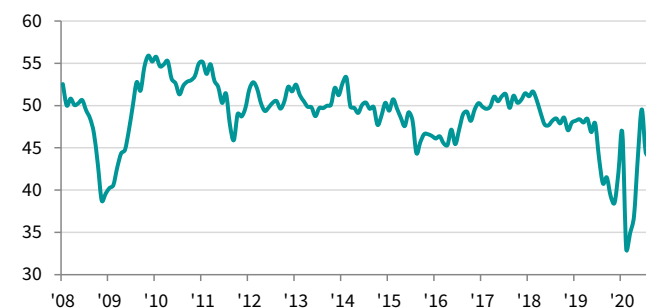
Similarly, there was a further drop in new business inflows, though the rate of contraction was the weakest since June. The fall in total sales was partially linked to a continued decline in export sales, including from mainland China. Lower orders subsequently contributed to a further depletion of backlogs.

Despite weak sales, Hong Kong private sector firms reported a rise in workforce numbers. While mild, the rate of increase in employment was the fastest for six-and-a-half years. Underlying

continued...

Hong Kong SAR 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 moved closer towards stabilisation at the end of the third quarter, with the latest PMI data indicating a slower deterioration in business conditions as some social distancing curbs were relaxed.

"Business activity and new orders both fell at softer rates. Sentiment towards the year-ahead outlook was also the least negative for over a year. Most encouraging was the rise in workforce numbers during the month, reportedly in firms operating in food services and ICT sectors.

"Nevertheless, the average PMI for the third quarter was only modestly higher than the second quarter: a rise from 43.5 to 45.4, hinting that the Hong Kong economy will continue to face formidable challenges in the months ahead. The uncertainty surrounding the pandemic trajectory remains a key concern in the absence of an effective vaccine."

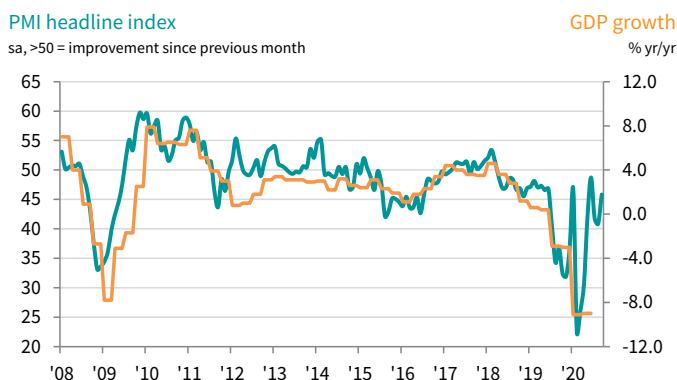
data showed job creation in firms operating in sectors such as food services and computer & information services.

Firms continued to scale back purchasing activity in line with reduced output. However, the decrease in input buying was much slower than in the previous two months and was only modest overall. Input inventories were consequently depleted further as firms tapped into existing stocks to meet current demand.

Supply chains remained under pressure as limited freight capacity reportedly contributed to delivery delays.

On the price front, overall input prices stabilised, with paid prices for inputs and wage costs broadly unchanged. Output charges meanwhile fell further, though at the slowest rate since July 2019.

Finally, the proportion of firms expecting activity to fall in the coming 12 months dropped from over one-third in August to a quarter in September, resulting in the least degree of pessimism in 15 months. Negative sentiment reflected the ongoing uncertainty about the pandemic trajectory and its associated measures, while optimistic firms pointed to increased sales.



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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.

September 2020 data were collected 11-25 September 2020.

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.

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