Nikkei Hong Kong PMI™

PMI signals another deterioration at start of fourth quarter

Key points:

- Declines in output, new orders and input purchases
- Suppliers' delivery times lengthen at sharpest rate since April 2011
- Firms cut selling prices further amid weak sales and high competition

Data collected October 12–26

The health of Hong Kong's private sector deteriorated further at the start of the fourth quarter. New business continued to decline at a marked rate, prompting firms to cut back on output. Weak demand conditions also saw firms scaling down on inventories and manpower.

Lower sales also contributed to a further fall in backlogs, freeing up spare operating capacities. However, delivery delays continued to be reported, often linked to weather-related disruptions and supply shortages. Diverging price indicators meanwhile painted a mixed picture for prices as overall input costs rose but output charges decreased.

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 47.9 in September to 48.6 in October, indicating a soft footing at beginning of the fourth quarter. The latest figure signalled a further deterioration in business conditions of the private sector.

Survey data signalled soft client demand in October. Firms observed lower inflows of new work, partly due to a sharp decline in Chinese demand. Total new business declined at a marked pace, despite the rate of contraction easing from September.

Notably, the decline in sales to Chinese markets was the greatest since April 2016. In response, firms reduced output further.

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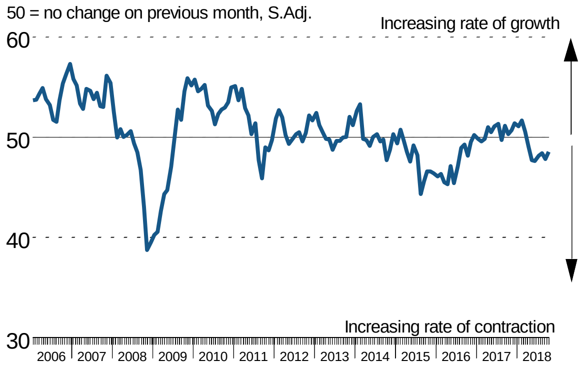

Sources: Nikkei, IHS Markit.

To adjust for lower workloads, which was also reflected in another decline in backlogs of work, input purchases and staffing levels were reduced in October. Employment growth has now not been seen so far this year.

Firms tapped into existing inventories, where the level of stocks of purchases decreased for a tenth straight month. Despite lower appetite for inputs, supply chains continued to be squeezed by raw material shortages and weather-related disruptions. The rate at which delivery times lengthened was the sharpest since April 2011.

The survey also painted a mixed picture for price pressures. While overall input costs returned to inflationary territory, output prices continued to fall. That said, input prices rose only mildly, driven by a modest rise in wages. Notably, purchase costs for inputs declined sharply. Amid weak demand conditions and high competition, firms lowered their selling prices to reinvigorate sales.

Finally, firms remained pessimistic about future output in October, with a greater proportion of panellists expecting lower output over the coming year, influenced by the ongoing US-China trade dispute. Other reasons for negative sentiment were high competition and a weaker renminbi.

Comment:

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

"Trade wars and tariffs continued to weigh on demand in Hong Kong as the fourth quarter began. Latest Nikkei PMI data indicated another deterioration in the health of Hong Kong's private sector in October.

"Both new business and output fell for a seventh straight month, which further dampened firms' confidence. Future expectations remained negative, influencing companies to cut back on purchasing activity and hiring.

"Meanwhile, the depreciation of the renminbi has eroded Chinese purchasing power which, in turn, reduced China's demand for Hong Kong's goods and services.

"The PMI survey remains indicative of GDP growth waning below 2% in the fourth quarter, and forward-looking indicators such as measures of business expectations and new order inflows suggest that further momentum could be lost in the months ahead."

-Ends-

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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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