Private sector expansion eases in October

Key findings

Demand and output growth slow in October

Employment levels shrink while wages rise

Price pressures ease from recent peaks

Hong Kong SAR's private sector continued to expand, though the rate of growth tapered into October. Demand and output growth both decelerated, leading to slower input accumulation while employment levels shrank once again. Vendor performance meanwhile continued to deteriorate, with a range of supply issues contributing to a rise in backlogs and sustained price pressures. Firms’ confidence nevertheless improved into the start of Q4.

The headline seasonally adjusted IHS Markit Hong Kong SAR Purchasing Manager's Index™ (PMI™) posted 50.8 in October, down from 51.7 in September. This represented a ninth successive month in which the Hong Kong SAR private sector registered better business conditions, though the rate of growth slipped to a six-month low.

New orders and output continued to expand in October with COVID-19 conditions well under control in Hong Kong SAR. That said, the paces of growth eased from September with anecdotal evidence suggesting some weather disruptions underpinning the slowdown.

External demand however continued to decline both from Mainland China and more generally abroad. Persistent COVID-19 disruptions were blamed by panellists for the lower new orders received from outside of the Hong Kong SAR.

Amid the growth in demand, buying activity increased in October though at a slower rate compared to September. This was likewise the case for the stocks of purchases which increased at the slowest rate in two months.

On employment levels, job shedding was seen in October for the first time since July. Panellists highlighted both redundancies and resignations having contributed to the fall in employment levels. This was amid a rise in wage inflation in Hong Kong

Comment

Commenting on the latest survey results, Jingyi Pan, Economics Associate Director at IHS Markit, said:

“The IHS Markit Hong Kong SAR PMI showed that the private sector continued to grow into Q4 with the COVID-19 conditions under control, although the pace of expansion further tapered in October.

“Supply constraints meanwhile continued to feature alongside the growth deceleration in October with suppliers’ delivery times deteriorating amid shortages and shipping issues, likewise leading to higher costs. At the same time, labour constraints appear to be present between the lower employment levels and higher wages reported.

“That said, Hong Kong SAR private sector firms remained broadly optimistic with regards to output in the next 12 months. Business confidence improved from September with hopes that economic growth will continue despite the ongoing COVID-zero strategy.”
SAR with anecdotal evidence suggesting salary increases were implemented to retain workers, alongside higher commission payouts.

Supply constraints meanwhile persisted with suppliers’ delivery times lengthening at a more severe rate in October. Shipping delays and power disruptions in Mainland China were cited as reasons causing the deterioration of vendor performance.

In turn, backlogged work continued to increase in October, underpinned also by the increase in new orders and production issues such as power shortages.

On prices, overall input costs continued to rise at a strong rate, though the pace of inflation eased from the recent peak in September, which was the fastest in close to a decade. This was supported by both higher purchase prices, attributed to higher raw material costs, and wages. As a result, private sector firms continued to pass on these costs to clients, leading to higher output charges in October.

Overall business sentiment meanwhile improved into the start of Q4 with firms generally hopeful that economic conditions will continue to improve with the COVID-19 conditions well under control.

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 range from 0 to 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.

October 2021 data were collected 12-26 October 2021. For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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