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## IHS Markit Hong Kong SAR PMI™

### August sees deepest fall in business activity since end of 2008

#### Key findings

Private sector downturn accelerates

Trade wars and local protests hurt demand in August

Lowest business confidence in over seven years

The latest PMI survey indicated that Hong Kong SAR's private sector downturn deepened in August as escalating trade wars and local political demonstrations dampened demand. Business activity fell at the steepest rate since the end of 2008, reflecting a sharper decline in new order intakes. Pessimism spread to more firms, with business confidence slumping to its lowest on record.

The seasonally adjusted headline IHS Markit Hong Kong SAR *Purchasing Manager's Index™ (PMI™)* sank to 40.8 in August, down from 43.8 in July, signalling the steepest deterioration in the health of the private sector since February 2009. The PMI has now posted below the 50.0 no-change mark for 17 months in succession.

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.

New business deteriorated to a greater extent during August. According to survey data, inflows of new work fell at the steepest rate since February 2009, dragged down by a series-record decline in orders from mainland China. Nearly half of survey respondents reported reduced Chinese demand, citing the ongoing US-China trade dispute, a sharp depreciation in the renminbi and large-scale protests as reasons.

The rapid deterioration in new sales resulted in the deepest contraction in business activity since the end of 2008. Growing pessimism among firms meanwhile was indicated by the Future Output Index falling to its lowest level since February 2009. The proportion of panel members first collected in April 2012. The proportion of panel members expecting lower output over the next 12 months

*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:

*"The latest PMI data reveal a Hong Kong SAR economy flirting with recession in the third quarter as business activity is increasingly aggravated by protest-related paralysis."*

*"The survey is now broadly indicative of the economy contracting at an annual rate of around 4.0-4.5%."*

*"The executive authorities of the Hong Kong SAR recently unveiled an economic stimulus plan to support flagging growth momentum, but any further economic weakness will mean policymakers are likely to consider larger stimulus measures."*

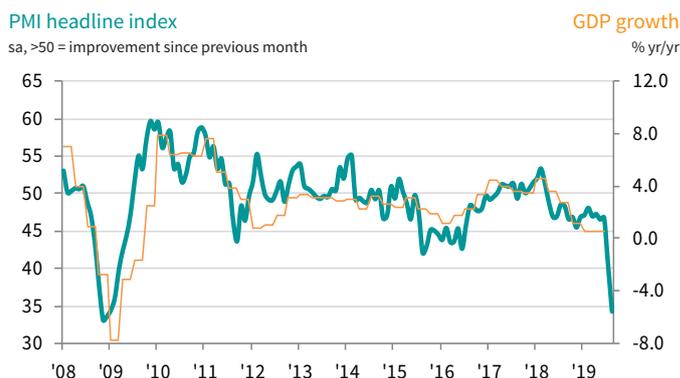
*"The rates of decline in output, new orders and export sales accelerated sharply in August, with the only other time that the PMI survey has recorded a steeper downturn, in its more than two decades of history, been during the SARS epidemic in 2003 and the global financial crisis in 2008-2009."*

expanded from a quarter in July to one-third in August.

The steeper reduction in output and increasing uncertainty led firms to exercise greater caution towards inventory management. The extent of the cut-back in purchasing activity during August was the greatest seen since the survey started in July 1998. This led to a record depletion in input inventories. Anecdotal evidence pointed to lower sales and a pessimistic business outlook as the primary factors behind the sharp fall in stocks.

Meanwhile, for the first time in six months, longer delivery times were reported as delays were reportedly linked to increased security checks and protest-related disruptions.

Deflationary pressures also persisted into the middle of the third quarter. Overall cost burdens declined for a second straight month in August, albeit marginally. This helped provide room for firms to reduce their selling prices at the sharpest rate since the start of 2016. Panellists signalled this reflected efforts to clear inventories and boost sales amid a worsening business environment.



Sources: IHS Markit, HK 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.

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.

August 2019 data were collected 12-27 August 2019.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

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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](https://ihsmarkit.com/products/pmi.html).