

Nikkei Hong Kong PMI™

Private sector conditions deteriorate in June

Key points:

- Sustained falls in both output and new orders
- Sharp rise in purchase costs
- Business confidence worsens

Data collected June 11–26

Hong Kong's private sector suffered another deterioration in business conditions at the end of the second quarter, with both output and new orders showing further declines in June. Employment levels also decreased as firms preferred to tap on existing labour to keep on top of their workloads. Backlogs of work fell further.

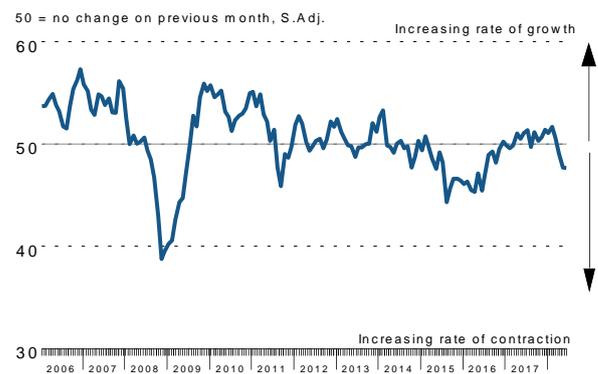
Firms also cut back on purchasing activity which, in turn, led to another fall in input inventories. The downturn was accompanied by mounting cost pressures amid reports of higher prices for paper, copper and plastics. Moreover, pessimism about the future fell to its lowest level in over a year.

The seasonally adjusted headline **Nikkei Hong Kong Purchasing Manager's Index™ (PMI™)** – a single-figure measure of developments in overall business conditions – edged lower to 47.7 in June, from 47.8 in May, signalling the steepest deterioration for nearly two years. The latest reading brought the average for the second quarter to 48.2, representing the first quarterly decline since early 2017.

Weighing on the headline PMI were contractions in both output and new orders. Survey data indicated that production and new business inflows continued to decrease at a marked rate, albeit slightly slower than May.

Companies reported softer client demand, especially from China. Sales to China fell for a second straight month, though at a slower rate than in May. According to anecdotal evidence, lower sales were linked to high competition, poor weather and a weaker economic environment. There were mentions that rising China-US trade frictions also restrained new orders.

Nikkei Hong Kong PMI™_{will}



Sources: Nikkei, IHS Markit.

Reduced sales allowed firms to work through their workloads, contributing to another fall in backlogs of work which, in turn, weighed on hiring heading towards mid-2018. Job creation has not been reported so far this year. Meanwhile, supply-side constraints remained evident during June, with delivery times of inputs continuing to lengthen. Limited stocks at distributors were a major reason for shipment delays.

Stretched supply chains, global commodity shortages, and higher prices for raw materials were reportedly responsible for the solid rise in cost inflation during June. Latest data showed that overall input costs rose to the strongest degree in four months, with inflation for purchase costs at the highest for over six-and-a-half years. Despite accelerating, wage growth remained mild. Higher operating expenses pushed firms to pass these onto clients, resulting in the first rise in output prices for four months, albeit at only a marginal rate.

Finally, business sentiment remained negative during June and maintained its downward trend. Pessimism was the sharpest recorded by the survey since March 2017 with firms pointing to increasing trade tensions between the US and China as a factor.

Comment:

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

“The deterioration of private sector activity in Hong Kong extended into the end of the second quarter, as PMI surveys suggested the economy suffered its first quarterly decline since the start of 2017.

“Output and new orders both continued to decline at solid rates, with Chinese demand softening for a second straight month. Business confidence fell to the lowest in 15 months, dampening any hopes that the private sector could mount a quick recovery. Furthermore, anecdotal evidence highlighted concerns that rising trade frictions between the US and China will weigh on growth.

“Private-sector firms also faced other difficulties, including limited stocks at distributors and a sharp rise in paid prices for inputs. Purchase cost inflation was lifted to the highest in nearly seven years, with increased prices for paper, plastics and copper cited as sources of increased costs. While firms want to pass these increased costs onto clients, weak demand conditions restricted the extent to which they can raise selling prices.

“The Nikkei PMI exhibits a strong correlation with Hong Kong’s GDP, with a two-month lead, suggesting that recent poor performances will be keenly felt during the third quarter.”

-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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