The outbreak of the coronavirus had a severe impact on Hong Kong’s private sector economy during February. PMI data showed that business conditions deteriorated at the steepest pace since the survey began in July 1998. Both output and new orders plunged at survey-record rates that, in turn, led firms to cut back on hiring amid a severe development of excess capacity, as reflected by a sharp fall in backlogs of work. Supply chains were affected by the Covid-19 situation, leading to delivery delays and higher costs for purchased inputs.

Business activity dropped sharply midway through the first quarter as the Covid-19 situation reportedly led to fewer working days and falling sales. The fall in output was at an unprecedented rate in the series history. Firms that actually reported increased activity commented on higher demand for essential items, plus cleaning and disinfecting products.

Demand was severely dented by the coronavirus outbreak in February. Total new sales plunged at a survey-record rate, dragged down also by a sharp drop in orders from mainland China. Similarly, new business from other overseas markets sank at the fastest pace in the survey history.

Business confidence about the year-ahead outlook sank to the lowest on record amid expectations that the coronavirus impact will persist in the coming months.

The seasonally adjusted headline IHS Markit Hong Kong SAR Purchasing Manager’s Index™ (PMI™) plunged to 33.1 in February, down from 46.8 in January, signalling the sharpest deterioration of private sector conditions since the survey started over 21-and-a-half years ago. The average PMI reading so far (39.9) for the first quarter indicates that Hong Kong’s private sector economy looks set for a deeper downturn during the opening quarter of 2020.

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Commenting on the latest survey results, Bernard Aw, Principal Economist at IHS Markit, said:

“The latest PMI flashed red warning lights on the dire private sector conditions across Hong Kong SAR in February amid the coronavirus outbreak, with the headline index plunging to an unprecedented level since the survey started in July 1998.

"Measures taken in response to the Covid-19 situation and general fear of being infected saw business activity and new sales sinking at a record pace in an economy that has been beset earlier by political protests and US-China trade war tensions.

"Business confidence plummeted in the city, with a majority of firms anticipating lower future output amid expectations that the coronavirus situation will persist in coming months. Consequently, firms cut employment and purchasing activity sharply in preparation for challenging times.

"With the Hong Kong SAR economy shrinking 1.9% during 2019, the average PMI so far for the first quarter of 2020 points to a deepening recession, raising the urgency for policy support."

continued...
Unsurprisingly, business expectations about output in a year’s time plummeted to the lowest level since the data on this variable were first available in April 2012. The majority of panelists anticipated lower output over the next 12 months, citing concerns that the adverse impact of the coronavirus on activity will persist in the months ahead.

The downturn in sales led to a further (and more severe) development of excess capacity. This was reflected by the level of unfinished work falling at a survey-record rate in February which, in turn, weighed on hiring. Firms cut back on employment, with the pace of job shedding the quickest for over 18 years. Purchasing activity was meanwhile reduced at the second-sharpest rate in the survey history. Firms instead tapped into existing stocks, which saw input inventories depleted at one of the fastest rates seen in the series.

The coronavirus situation put a severe strain on the capacity of many suppliers, with average lead times lengthening at the fastest pace for almost nine years.

With serious supply shortages, purchase prices for inputs rose for the first time in four months, albeit modestly. That said, overall input costs continued to fall in February and at the fastest rate since the end of 2008. A fall in staff costs, the steepest rate ever recorded, helped lower overall business expenses.

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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.

February 2020 data were collected 12-25 February 2020.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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