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## IHS Markit Hong Kong SAR PMI™

# Business activity across Hong Kong continues to fall sharply in September

### Key findings

Private sector remains in contraction

Trade tensions, local protests continue to hurt demand in September

Lowest business confidence in seven-and-a-half years

September saw Hong Kong's private sector economy remain stuck in a sharp downturn, according to the latest PMI data. Both new order volumes and business activity declined at steep rates as trade tensions and political unrest continued to dampen demand. The survey brought signs of growing pessimism among firms, with business confidence sinking to a new low.

The seasonally adjusted headline IHS Markit Hong Kong SAR *Purchasing Manager's Index™ (PMI™)* edged up to 41.5 in September, from 40.8 in August, signalling the second-steepest deterioration in the health of the private sector since February 2009. At 42.0, the average PMI for the third quarter is the lowest since the first quarter of 2009.

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 continued to deteriorate sharply in September, albeit to a lesser degree than in August. Survey data showed inflows of new work fell at the second-steepest rate since February 2009, dragged down by another sharp decline in orders from mainland China.

The ongoing deterioration in new sales led to a further reduction in business activity at the end of the third quarter. Although slower than in August, the fall in output during September was the second-fastest since early-2009.

Employment decreased for the second month in a row. The pace of job cuts was marginal, but quickened from that seen in August.

Hong Kong 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:

*"September saw Hong Kong's private sector economy remain stuck in a deep downturn, according to the latest IHS Markit PMI data.*

*"Business activity continued to be impacted by protracted political protests, with tourism and retail sectors particularly affected. The ongoing US-China trade tensions were also reportedly behind the economic downturn.*

*"At 42.0, the average PMI for the third quarter is the lowest seen since the depths of the Global Financial Crisis in early-2009, and broadly indicative of the Hong Kong SAR economy contracting at an annual rate of just over 3% in the third quarter.*

*"Other survey indicators suggest that the economic malaise is unlikely to subside any time soon, as pessimism spread to more firms. Business expectations about the year-ahead outlook sank to their lowest for seven-and-a-half years."*

*continued...*

The continued worsening of private sector conditions across Hong Kong dented business confidence further in September. A greater proportion of firms expressed pessimism about the year-ahead business outlook. This was reflected by the Future Output Index falling to a new record low since data for this variable were first collected in April 2012. Anecdotal evidence suggested that firms remained concerned about the impact of US-China trade tensions and domestic protests on economic activity.

In a further sign of business pessimism, companies cut back further on purchasing activity. Input buying was reduced at the second-steepest rate since the survey started just over 21 years ago. Lower buying levels partially contributed to a record depletion in stocks of purchases. Firms highlighted lower sales and a pessimistic business outlook as the primary factors behind the sharp fall in input inventories.

Meanwhile, the time taken for vendors to distribute inputs to firms was unchanged from August, with panel members commenting on a lack of pressure on distribution capacity due to lower demand.

On the price front, the deflationary trend extended into September. Overall cost burdens fell further and at the fastest rate since January 2016. Firms in turn cut their selling prices further, reflecting efforts to boost sales and clear stocks.



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. 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.

September 2019 data were collected 12-25 September 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).