Business conditions worsen further in August on stricter COVID-19 rules

Key findings

Output and new orders fall at faster rates
Supply chains remain under pressure
Business expectations negative

Increasingly stringent social distancing restrictions adversely impacted Hong Kong’s private sector, with business conditions deteriorating at a faster pace in August. The downturn was led by sharper declines in both output and new orders, while firms consequently scaled back purchasing activity and reduced inventories amid an uncertain economic outlook. Business sentiment remained severely pessimistic. Overall input costs were broadly stable while companies lowered their selling prices to boost sales.

The seasonally adjusted headline IHS Markit Hong Kong SAR Purchasing Manager’s Index™ (PMI™) fell from 44.5 in July to 44.0 in August, and registered another marked deterioration in the health of the private sector.

Further tightening of virus-fighting measures, including new limits on the size of public gatherings, dealt another blow to the private sector, with retail, entertainment and food establishments hit particularly hard. Business activity shrank substantially during August, dropping at the fastest pace since the peak impact of the initial lockdown measures from February to April.

Demand also weakened further, which weighed on business expectations. August data showed the steepest contraction in new business inflows since May, and one that was severe overall. The survey showed that demand in both domestic and external markets deteriorated. New sales from abroad, including mainland China, declined substantially.

Business confidence remained deeply negative, with firms highlighting concerns about the ongoing pandemic-related restrictions, US-China trade war tensions, cautious consumer behaviour, business closures and suspended projects. Optimistic outlooks typically came from freight operating firms

Comment

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

"More stringent social distancing rules hit Hong Kong’s private sector economy further in August, according to the latest PMI survey data, with businesses in retail, entertainment and food particularly affected.

"Business activity and new orders both fell at steeper rates, adding to concerns about the depth of the economic downturn during the third quarter.

"Confidence in the year-ahead outlook remained negative as firms expressed worries over not just tighter COVID-19 measures, but also a renewed US-China trade war dispute, increasingly cautious consumer behaviour, and business insolvency.

"With unused capacity persisting across the private sector, the labour market is set to remain subdued in the coming months."
or sectors related to online platforms.

In response to a weakening sales trend and deteriorating economic prospects, firms scaled back further on purchasing activity, opting instead to tap into existing stocks to meet orders. Consequently, input inventories were depleted substantially again.

Meanwhile, survey data indicated that limited freight capacity and border restrictions contributed to further delivery delays during August. Average lead times lengthened to the greatest extent for four months.

The level of backlogs fell further in August, indicating that spare capacity persisted in the private sector. However, employment levels remained broadly stable, down only marginally in August.

Finally, overall input prices were broadly unchanged midway through the third quarter as the rate of decline in purchase prices slowed sharply. Wage costs fell modestly again. Companies reduced their selling prices further as part of efforts to stimulate sales, though the pace of reduction was the softest for just over a year.

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.

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 2020 data were collected 12-25 August 2020.

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

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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. ihsmarkit.com/products/pmi.html.

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