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IHS Markit Hong Kong SAR PMI™

PMI rises to highest since early 2018, signals stabilisation

Key findings

New business falls at slower rate

Input inventories up for first time in nearly two years

Business sentiment still negative

Data were collected 12-25 November 2020

Latest PMI data indicated a broad stabilisation in Hong Kong's private sector conditions midway through the fourth quarter. Business activity contracted modestly, while new sales fell at a slower rate. Purchasing activity was broadly stable, which saw input inventories accumulated for the first time in nearly two years. Job shedding persisted, but at a marginal rate. Business confidence remained negative, however.

The headline seasonally adjusted IHS Markit Hong Kong SAR *Purchasing Manager's Index™ (PMI™)* rose from 49.8 in October to 50.1 in November. The latest reading was the highest since March 2018. By coming in fractionally above the 50.0 no-change level, the PMI indicated broadly unchanged business conditions in the private sector.

The re-tightening of social distancing measures in mid-November had so far seen little impact on business activity in the middle of the fourth quarter. Private sector output fell modestly and at the same rate as in October, with respondents highlighting subdued demand and job cancellations as reasons for lower activity.

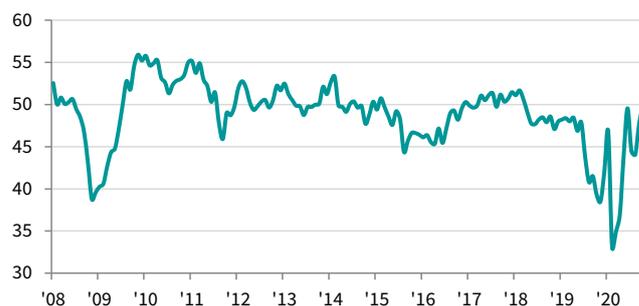
The survey also showed demand moving closer to stabilisation. Inflows of new business dropped marginally, with the pace of contraction the weakest in the current 32-month sequence of decline. New orders from mainland China and overseas fell further but at rates far softer than seen during the height of the pandemic earlier in the year. Consequently, backlogs of work also declined marginally.

Employment shrank for a second straight month in November, but the pace of decrease was only marginal. Firms generally commented on voluntary leavers and retirements. Firms reduced their purchasing activity further, but the rate of decrease was noticeably slower than October and the weakest

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:

"Business conditions across Hong Kong's private sector stabilised in November, according to the latest PMI data. However, a new wave of COVID-19 infections had dampened business confidence, with a renewed tightening of containment measures threatening to undermine the economic recovery."

"Activity and sales both fell further, with the latter dropping at a slower rate. Employment shrank for a second straight month, but only at a marginal rate, with anecdotal evidence of voluntary leavers and retirements."

"The average PMI reading of 49.9 for the fourth quarter so far is the highest for nearly three years and consistent with annual GDP growth. That said, a global resurgence of COVID-19 cases and measures to contain fresh waves of infections locally pose as downside risks to the recovery."

for five months. Despite lower input buying, there was a rise in pre-production stocks, representing the first accumulation since the start of 2019. Anecdotal evidence pointed to efforts to build-up buffer stocks.

Supply chains remained under pressure. Delivery times lengthened for an eleventh straight month during November. Reduced freight capacity and manpower shortages at distributors were cited as reasons for delivery delays.

Price trends diverged further in November, with overall input prices rising for a second consecutive month, lifted by greater paid prices for inputs and a renewed increase in wage costs. On the other hand, output charges fell further, though at the slowest rate in the current 17-month sequence of deflation. Firms often mentioned price discounting to boost sales.

Finally, business sentiment towards the year-ahead outlook for output remained negative. The Future Output Index fell from October and continued to indicate a notable degree of pessimism. Negative sentiment was linked to concerns over the negative impact of a new wave of infections and the associated uncertainty.



Sources: IHS Markit, HKSAR 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.

November 2020 data were collected 12-25 November 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.

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