NIKKEI

PMI By IHS Markit

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Nikkei Hong Kong PMI™

PMI falls to near two-and-a-half-year low

Key points:

- Declines in output and new orders accelerate
- Exports to China fall sharply
- Trade war fears see business confidence at lowest since early 2016

Data collected November 12–27

The deterioration in Hong Kong's private sector conditions accelerated midway through the fourth quarter. Declines in both output and new orders weighed on the headline index. Notably, sales to China fell sharply.

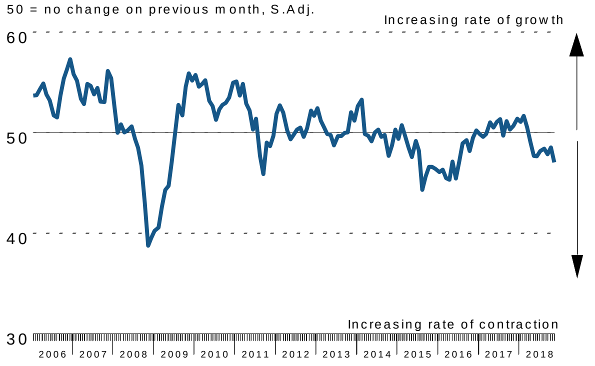
Weak demand conditions saw firms cut back further on hiring and input purchases. Business expectations remained pessimistic amid trade war concerns. Meanwhile, the survey continued to show a mixed inflation picture given diverging price indicators.

The headline PMI is a composite indicator designed to measure the performance of Hong Kong's private economy. The seasonally adjusted **headline Nikkei Hong Kong Purchasing Manager's Index™ (PMI™)** fell from 48.6 in October to 47.1 in November, indicating a solid deterioration of the health of the private sector. The latest figure was the lowest since June 2016.

The US-China trade dispute continued to be a key factor weighing on private sector activity in Hong Kong during November, according to the survey. Demand conditions remained soft, with inflows of new business declining for an eighth month running and at the steepest for nearly two-and-a-half years. Weak Chinese demand was primarily responsible for lower sales. Exports to China fell at the fastest pace in three years. Companies, in turn, reduced output further.

With lower workloads, as reflected in another decline in backlogs of work, firms scaled back their input purchases and headcounts in November. The reduction in purchasing activity was the steepest seen for over three years and sharp overall. This contributed to another decrease in the level of input stocks.

Nikkei Hong Kong PMI™



Sources: Nikkei, IHS Markit.

Lower demand for inputs failed to ease the pressure on supply chains. Vendor performances worsened further, with anecdotal evidence suggesting that stock shortages at distributors were a key reason. That said, the rate at which delivery times lengthened waned noticeably from October's record.

The survey also painted a mixed picture for price pressures. Higher overall input costs were not accompanied by greater output prices. Instead, firms lowered their selling prices for a fourth straight month in response to weak demand conditions and customer requests for discounts. That said, input prices rose only mildly, driven by a modest rise in wages.

Finally, business confidence deteriorated further in November, with the Future Output Index recording the lowest since March 2016. Trade wars remained a commonly mentioned reason for pessimism.

Comment:

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

"Private sector activity across Hong Kong continued to be adversely impacted by ongoing US-China trade frictions. Latest Nikkei PMI data indicated a further deterioration in the health of Hong Kong's business conditions midway through the fourth quarter.

"Demand conditions remained weak, with another decline in new business inflows, dragged down by lower export orders. Notably, sales to China fell by the greatest for three years. Escalating trade wars brought greater uncertainty to the business environment which disrupted firms' growth plans.

"Unsurprisingly, business sentiment remained negative. The Future Output Index came in at the lowest level since early 2016. Higher competition and a weaker renminbi were factors cited for pessimism. Forward-looking indicators suggest that further momentum could be lost in coming months."

-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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