News Release

Embargoed until 0830 HKT (0030 UTC) 3 June 2020

IHS Markit Hong Kong SAR PMI™

PMI rises further in May as COVID-19 measures ease

Key findings

Output and new orders fall at slowest rates since January

Job shedding eases

Business sentiment remains historically weak

Data were collected 12-26 May 2020

The deterioration in Hong Kong's private sector conditions eased during May as parts of the economy reopened after some containment measures were relaxed. Output and new orders both fell at the weakest rate since January. Survey data also showed signs that employment was approaching stabilisation. However, business sentiment remained severely negative due to uncertainty over the longer-term impact of the coronavirus disease 2019 (COVID-19) pandemic.

The seasonally adjusted headline IHS Markit Hong Kong SAR *Purchasing Manager's Index™ (PMI™)* rose from 36.9 in April to 43.9 in May, its highest in four months. That said, by remaining below the no-change 50.0 level, the latest reading still registered a decline in the health of the private sector.

The COVID-19 pandemic continued to weigh on the private sector economy, but the easing of some social distancing measures helped to support business activity at some firms. Output fell further in May, but the rate of contraction was the softest since January. This was accompanied by a similar trend seen in sales, where new business inflows fell at the weakest pace for four months. Notably, the degree to which orders from mainland China fell was the smallest for a year, and considerably slower than seen in recent months.

Firms were slightly less pessimistic about the year-ahead outlook during May than in April, with confidence rising to a four-month high. That said, overall sentiment remained weak, with panellists highlighting concerns over the longer-term impact of COVID-19 on economic activity.

Facing lower sales and increased spare capacity, firms reduced their purchasing activity, inventories and staff numbers further in May. However, the rates of decline in all three cases were the slowest since January.

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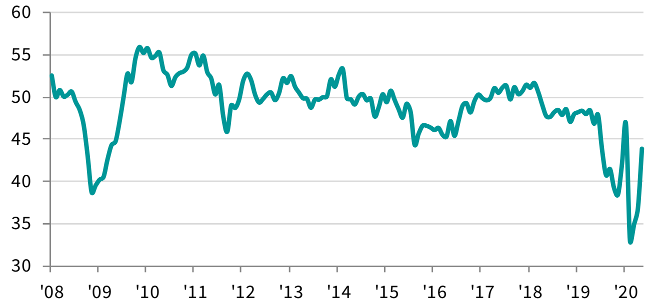
Hong Kong PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

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

"The Hong Kong SAR private economy remained mired in a downturn during May, though the PMI survey showed signs that the economic decline is bottoming out as parts of the economy reopened.

"The Hong Kong SAR PMI rose from 36.9 in April to 43.9 in May, its highest in four months, as the declines in output and sales eased. Notably, the reduction in sales to mainland China slowed to the weakest for a year.

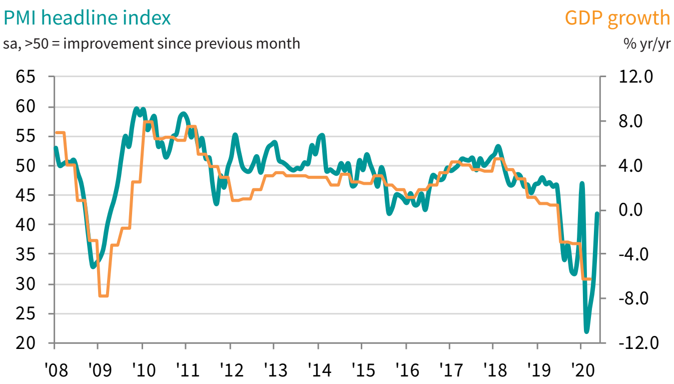
"While job losses persisted in May amid reports of further layoffs, the rate of job shedding weakened. There was evidence that government wage subsidies reduced employment costs and had helped with staff retention.

"That said, business sentiment remained weak as firms continued to worry about the longer-term impact of the COVID-19 pandemic on economic activity."

PMI™ By IHS Markit

Supply chains meanwhile remained under pressure. Delivery times lengthened for a fifth straight month, though at the weakest pace for four months. Anecdotal reasons pointed to shipping delays and manpower shortages linked to containment measures as reasons for longer lead times.

On the price front, input costs were broadly unchanged on the prior month during May as a fall in staff costs was offset by a rise in paid prices for inputs. Panellists generally commented on wage subsidies and the furloughing of workers for lower salary bills. Meanwhile, increased prices for freight services and input materials such as gold and electronic components contributed to higher purchase costs.



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.

May 2020 data were collected 12-26 May 2020.

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

About IHS Markit

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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.
ihsmarkit.com/products/pmi.html.