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

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.

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.”

Source: 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. Panelists 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.