News Release

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IHS Markit Hong Kong PMI™

Private sector business conditions deteriorate further in June

Key findings

Business activity continues to shrink
Decline in export orders from mainland China accelerates
Business expectations remain downbeat amid global trade war

Hong Kong private sector firms signalled a further deterioration in business conditions midway through the year amid concerns over rising US-China trade tensions and local protests. Total new work fell, dragged down by deeper declines in orders from mainland China and overseas markets.

In response to worsening demand conditions and falling backlogs, firms scaled down business activity while reducing hiring and purchasing in the latest survey period. Business sentiment remained negative while inflationary pressures were subdued.

The seasonally adjusted headline IHS Markit Hong Kong Purchasing Manager’s Index™ (PMI™) rose from 46.9 in May to 47.9 in June, signalling another solid deterioration in private sector conditions. The latest reading extended the current sequence of deterioration to 15 months.

The headline PMI is a composite single-figure indicator of economic performance derived from indicators for new orders, output, employment, suppliers’ delivery times and stocks of purchases. Any figure greater than 50.0 indicates overall improvement of the economy.

Survey data suggested that demand conditions continued to weaken in June amid reports of orders being held back due to concerns over the ongoing US-China trade war and recent local protests. Inflows of new business fell in June, extending the current trend of contractions that first started in April last year. Falling Chinese demand partially weighed on overall new sales. Orders from mainland China shrank at the fastest rate for just over three-and-a-half years.

Lower sales and falling backlogs led firms to cut back further on output. Business activity declined for a fifteenth consecutive month. In addition, staff numbers were reduced, while firms

Comment

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

“The outlook for Hong Kong’s private sector continued to darken midway through the year, according to the latest IHS Markit Hong Kong PMI data. Deepening trade war tensions and recent large-scale protests held back demand, according to anecdotal evidence that accompanies the survey results.

“The headline PMI signalled a further deterioration in business conditions in June, led by declines in business activity and total new orders.

“The survey is now broadly indicative of the economy expanding at an annual rate close to 1.0%.

“Steepening decreases in orders from mainland China and overseas markets were a major concern, hinting at increasing external headwinds facing Hong Kong’s economy amid a worsening global trade environment.”
also cut down purchasing activity, preferring to tap into existing inventories to meet demand. Consequently, holdings of input materials fell.

The ongoing deterioration in the private sector environment, as evident in various PMI sub-indices, continued to dampen business sentiment. The Future Output Index remained below the no-change level of 50.0, indicating that the number of pessimists still outnumbered the optimists.

The most common reason cited for pessimism was US-China trade frictions, while recent large-scale demonstrations as well as intense competition also weighed on confidence towards the year-ahead outlook.

Meanwhile, inflationary pressures remained mild. While input costs rose at a faster rate than in May, the pace remained below its historical average. As a result, output charges were only raised marginally. Higher costs for materials and wage increases were typically connected to inflation.

Methodology
The IHS Markit Hong Kong 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.

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.

June 2019 data were collected 12-25 June 2019.

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