

Nikkei Hong Kong PMI™

Hong Kong PMI near three-year low in May

Key points:

- Declines in both output and new orders gather momentum
- Sharper decline in orders from mainland China
- Business sentiment remains negative

Data collected May 12–25

Private sector conditions across Hong Kong continued to worsen midway through the second quarter, as demand softened further. The headline PMI sunk to its lowest for nearly three years. New business inflows fell at a faster rate, led by a decline in sales to mainland China. Consequently, business activity shrank which, in turn, saw firms cutting back on purchasing activity and stock holdings.

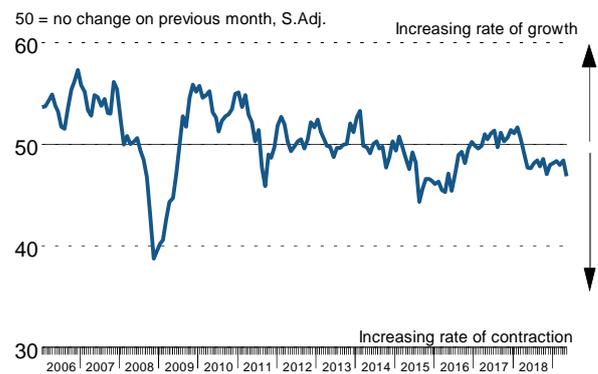
Employment remained broadly stagnant, while inflationary pressures were subdued. Survey data showed trade war concerns continued to weigh on business sentiment.

The seasonally adjusted headline **Nikkei Hong Kong Purchasing Manager's Index™ (PMI™)** fell from 48.4 in April to 46.9 in May, signalling its lowest level since June 2016. The headline PMI is a composite indicator designed to measure the performance of the private sector. The latest reading indicated a marked deterioration in the health of the private sector amid reports of US-China trade frictions dampening client demand.

Instead, demand conditions weakened further in May, with overall new order inflows contracting at a sharper rate than April. The fall in new business was the largest for nearly three years, led by shrinking orders from mainland China. New business from China decreased for a thirteenth straight month during May. Anecdotal evidence pointed to the ongoing US-China trade war as a key factor behind reduced sales.

Lower client demand saw business activity contracting further, although backlogs of work continued to fall, reflecting spare capacity in the private sector. Reduced workloads, in turn, prompted firms to scale back on input purchases and cut inventories.

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Sources: Nikkei, IHS Markit.

Decreased appetite for inputs enabled distributors to improve on their delivery performance. Average lead times shortened for a third successive month in May.

With various PMI sub-indices reflecting a deteriorating business environment, Hong Kong's private sector firms remained negative about the business outlook. The Future Output Index fell to its lowest level in six months, with concerns over the impact of the US-China trade tensions and greater competition highlighted as the main reasons for pessimism.

Meanwhile, inflationary pressures remained subdued. Input costs rose in May, driven by wage inflation, but the rate of increase was marginal. Purchase prices for inputs fell for a second month running. Marginal cost increases saw firms raising output charges only slightly.

Comment:

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

“The latest Nikkei PMI survey signalled an increasingly gloomy outlook for Hong Kong’s private sector businesses in the middle of the second quarter. The headline PMI sunk to its lowest for nearly three years in May, signalling a marked deterioration in business conditions. Most concerning was a sharper contraction in new orders, led by a lower demand from mainland China.”

“The re-escalation of US-China trade tensions boded ill for the Hong Kong economy as China is by far the territory’s largest export destination, accounting for over half of Hong Kong’s total exports. Indeed, anecdotal evidence in the PMI survey commonly mentioned that the ongoing trade war has depressed demand for Hong Kong’s products and services. Consequently, business expectations for output in the year ahead remained pessimistic.”

“The survey is now broadly indicative of the economy expanding at an annual rate of below 1.5%.”

-Ends-

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Notes to Editors:

The early June releases of May data from the Asia PMI series will be the final releases to carry Nikkei branding.

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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