

## IHS Markit Hong Kong SAR PMI™

### Private sector conditions improve with growth in orders

#### Key findings

New orders rise with foreign demand returning to growth

Output charges up in tandem with overall input costs

Optimism improves amid easing COVID-19 restrictions

Data were collected 12-25 May 2021.

The expansion of the Hong Kong SAR private sector picked up pace in May as more easing of COVID-19 restrictions fuelled better economic conditions and business confidence. Output grew more steadily as new orders rose, including export orders that returned to growth after a 25-month period of decline. While higher workloads did not translate to an increase in employment in May, purchasing activity saw a marked improvement, though this was joined by both input cost and output charge inflation.

The headline seasonally adjusted IHS Markit Hong Kong SAR Purchasing Manager's Index™ (PMI™) posted 52.5 in May following a reading of 50.3 in April. This represented the fourth successive month in which the Hong Kong SAR private sector registered stronger business conditions, with the latest improvement the greatest since February 2014.

Business activity recorded a solid improvement in May, supported by the further easing of COVID-19 restrictions at the end of April. Although some firms continued to be affected by lingering COVID-19 implications, the improvement in output at the fastest pace since February 2018 was a positive sign.

Driving the rise in activity was an improvement in order book volumes. Specifically, new business from abroad rose for the first time since March 2019 and this included new business from Mainland China which saw growth after declining for three years for a row. The stabilisation of COVID-19 conditions was widely cited as a reason contributing to the inflow of new business.

The translation to better hiring conditions was absent in May with firms reporting lower staffing levels on average for the first time in four months. Meanwhile, alongside the increase in demand, private sector firms saw their accumulation of backlogged work accelerate in May to the fastest pace since February 2014.

Hong Kong SAR PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

#### Comment

Commenting on the latest survey results, Jingyi Pan, Economics Associate Director at IHS Markit, said:

*“Further relaxation of the COVID-19 restrictions at the end of April had a visibly positive effect on Hong Kong SAR’s private sector performance in May. The improvement in economic conditions and business confidence enabled further expansion of economic activities.*

*“Notably, inflows of overseas orders improved in May including new business from Mainland China after a three-year hiatus, which were positive signs.*

*“That said, higher cost inflation arrived hand-in-hand with the expansion of economic activities. Firms, however, were not too inundated by the higher prices though we have yet to see a steady trend with workforce expansion. Following positive Q1 GDP growth, IHS Markit forecasts GDP to grow 6.8% in 2021.”*

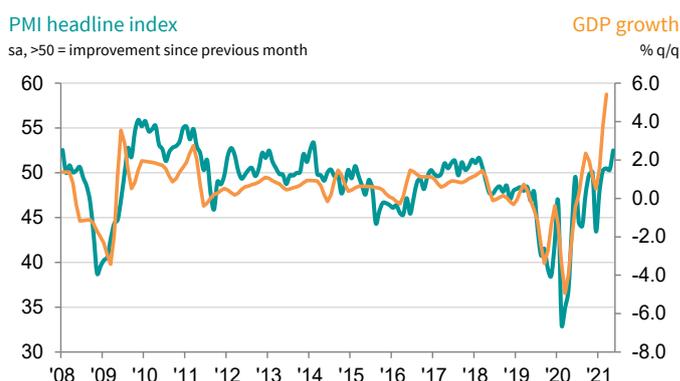
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The improved demand situation did however encourage firms to procure more inputs in May. Purchasing activity rose substantially on average in May after a brief decline in April. Around 30% of firms surveyed reported an increase in quantity purchased. In turn, the stock of purchases also returned to growth in May, rising at the fastest pace since December 2016.

Meanwhile, lead times worsened in May after an improvement in April. Shortages of input materials and shipping delays were reported by firms to have caused the lengthening of delivery times.

Supply constraints also affected overall input costs. While both staff and purchase costs rose, purchasing cost inflation accelerated to the fastest pace since June 2018 and was much faster than that seen for labour expenses. The resultant impact on output charges was the first instance of inflation seen since June 2019 as cost burdens were shared with customers by private sector firms.

Despite price pressures, firms generally grew more optimistic in May with the Future Output Index rising to the highest since February 2014's record. This was on account of predictions of further economic recovery with better management of the COVID-19 pandemic and continued inoculation of the population.



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 2021 data were collected 12-25 May 2021.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

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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.

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