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Nikkei Hong Kong PMI®

Operating conditions deteriorate further in February

Key points:

- Output and new orders both decline at softest rates in seven months
- Staffing levels cut for second month running
- Stocks of inputs reduced at quickest rate since May 2003

Summary:

February data pointed to a further marked deterioration in operating conditions faced by Hong Kong private sector businesses. Output and total new business continued to decline, albeit at the slowest rates since last July, while firms cut their workforce numbers modestly. Reduced client demand prompted firms to lower their purchasing activity sharply, which in turn contributed to the steepest fall in stocks of inputs since May 2003. Prices data meanwhile signalled the first rise in overall input costs for four months, but companies continued to discount their output charges.

At 46.4 in February, the Nikkei Hong Kong *Purchasing Managers' Index™ (PMI®)* posted up from 46.1 at the start of 2016, but remained well below the neutral 50.0 value. Operating conditions have now deteriorated in each month for the past year and, despite easing slightly since January, the pace of deterioration remained marked overall.

Hong Kong private sector firms signalled a reduced amount of new orders for the eleventh successive month in February. Though solid, the rate of decline was the slowest since July. Companies that saw lower new orders generally commented on weak market conditions and fewer tourists. Moreover, new business received from mainland China continued to fall markedly. As a result, firms cut their output again in February. In line with the trend for new business, the pace of contraction was the slowest in seven months.

Private sector employment in Hong Kong declined for the second month in a row in February. The rate of job shedding was little-changed from January and modest overall.

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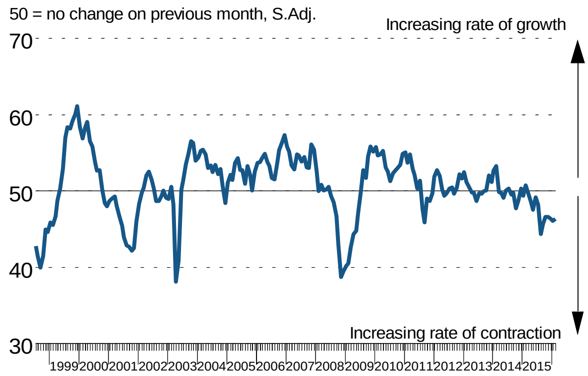

Sources: Nikkei, Markit.

Despite lower staff numbers, companies were able to work through unfinished business for a twelfth successive month. Furthermore, the rate of backlog depletion was largely unchanged from January's sharp pace. Panellists widely commented that fewer new orders had supported a further reduction in the level of work-in-hand.

Reflective of lower production schedules, businesses cut their purchasing activity at a similarly sharp pace to that seen in January. Reduced input buying, alongside efforts to streamline stock levels, led companies to lower their inventories of pre-production goods again in February. Furthermore, the pace of stock depletion was the steepest since May 2003.

Latest data signalled a renewed squeeze on Hong Kong private sector operating margins, with total input costs rising while firms continued to discount their prices charged. Though only slight, it was the first time that overall cost burdens had increased since last October. Data indicated that inflationary pressures stemmed from higher staffing costs, as purchasing costs continued to fall. Meanwhile, companies discounted their selling prices in a bid to boost new business. That said, the pace of reduction eased since January to a modest rate.

Comment:

Commenting on the Hong Kong PMI survey data, **Annabel Fiddes,** Economist at Markit, which compiles the survey, said**:**

"Hong Kong's private sector saw further marked falls in new business and output in February, as companies reported weak global economic conditions and lower tourist numbers. Another sharp reduction in purchasing activity contributed to the steepest fall in stocks of inputs since May 2003, which suggests that companies do not expect conditions or output to improve in the near future.

"A murky global economic outlook may hinder any chance of recovery in the near-term. However, it will be interesting to see if the recently-announced stimulus measures aimed at boosting domestic consumption will aid the performance of the sector in the next few months."

-Ends-

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Notes to Editors:

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.

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 Markit. Please contact economics@markit.com.

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