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# Nikkei Hong Kong PMI™

## Private sector growth falters at start of second quarter

### Key points:

- Falls in output, new business and employment
- Purchasing activity down, resulting in sharp decline of inventories
- Business confidence remains negative

Data collected April 11–25

Business conditions in Hong Kong's private sector deteriorated at the start of the second quarter. Output, new orders and employment all fell in April. Soft client demand prompted firms to cut back on purchasing activity which, in turn, weighed on inventories. Companies also reduced selling prices to boost sales, despite rising costs. Business expectations remained pessimistic. Meanwhile, supply chains continued to be stretched.

The seasonally adjusted headline **Nikkei Hong Kong Purchasing Manager's Index™ (PMI™)** fell from 50.6 in March to 49.1 in April. The latest reading indicated the first deterioration in the health of the sector since August 2017.

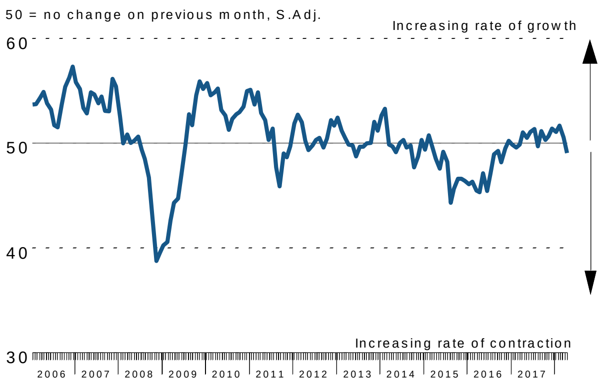
Following a softer end to the first quarter, April data indicated a further weakening in underlying demand. Inflows of new business declined after four months of growth. Overseas sales to China rose at the weakest rate in six months.

Lower sales were matched by a noticeable drop in output volumes, the first time in eight months that a fall has been recorded. The pace of decline was also the steepest for nearly one-and-a-half years.

Meanwhile, backlogs of work showed the largest fall for over a year, even as lower employment continued to be reported. Hong Kong's private sector registered a fourth consecutive month of reduced staff numbers in April, with the degree of decrease the most marked since February last year. However, anecdotal evidence suggested that shrinking workforce numbers were linked to voluntary leavers.

In line with reduced demand, firms scaled back on purchasing activity for the first time in almost one-and-a-half years, indicating a preference to tap on current inventories to meet demand.

**Nikkei Hong Kong PMI™i will**




*Sources: Nikkei, IHS Markit.*

Lower quantities of input acquisitions were reported in April, which, in turn, weighed on inventory levels.

Stocks of purchases fell further, with the rate of depletion the fastest for just over two years. Despite lower input demand, supply chains remained over-stretched. There was evidence that supply shortages in raw materials, such as paper and electronic components, as well as late shipments led to delivery delays.

Global commodity shortages lifted input prices for raw materials, with April data showing another strong rise in paid prices for purchases, adding to overall cost burdens for Hong Kong's private sector. Overall input prices rose again in April, but at the weakest rate since July 2017. Facing high competition, firms reduced selling prices for a second month in a row to boost revenue.

Expectations about growth remained negative at the start of the second quarter, with pessimism connected to increased competition, US-China trade tensions, a weaker exchange rate and higher business costs.

## Comment:

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

*"Hong Kong's private sector economy weakened at the start of the second quarter. The Nikkei PMI surveys signalled a worsening of business conditions in April, which ended the seven-month period of growth.*

*"With a fall in new orders and business sentiment remaining negative, the economy seems set to slow further in the coming months. Indeed, after a positive start to the year, the second quarter could prove challenging. The April data are running at a level broadly consistent with Hong Kong GDP growth at around 2.5%.*

*"The decline in the PMI is perhaps not surprising, not least because of overstretched supply chains and a very tight labour market. With persistent delivery delays and growing skill shortages, output is clearly being restricted.*

*"Nevertheless, it's clear that both domestic and foreign demand have weakened, in part due to high competition and subdued business sentiment."*

-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.

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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