

Nikkei Hong Kong PMI®

Business conditions improve for the first time this year

Key points:

- Rises in new orders and output boost headline PMI
- Employment remains broadly stagnant due to spare capacity
- Firms cut prices despite rising cost inflation

Data collected April 11-25

For the first time this year, Hong Kong's private sector economy expanded during April, supported by growth in output and new business. Increased pre-production inventories and busier suppliers also contributed to the higher PMI reading, which was the best in just over three years. Despite greater client demand, spare capacity prevented firms from adding to staff headcounts.

Meanwhile, inflationary pressures intensified, putting a squeeze on margins as firms continued to lower prices. Business expectations remained downbeat.

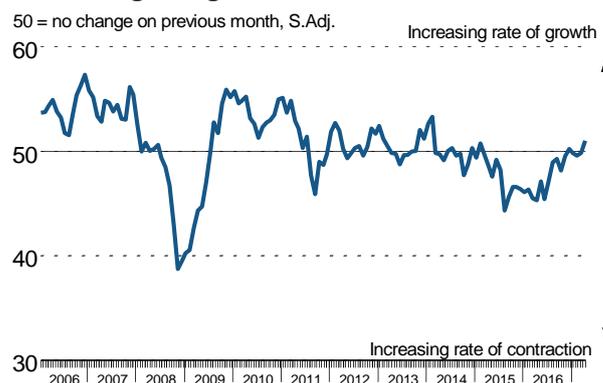
The seasonally adjusted headline **Nikkei Hong Kong Purchasing Manager's Index™ (PMI®)** rose from 49.9 in March to 51.1 in April, signalling the first improvement in the health of Hong Kong's private sector in 2017. Moreover, the latest PMI reading was the highest in 38 months.

Driving the upturn was a return to growth for new orders. Higher volumes of new business were recorded for the first time in just over two years. Anecdotal data suggested that an improved global economic environment and new product launches contributed to increased sales. However, Chinese demand for Hong Kong products and services continued to wane, although the rate of decline was the slowest since September 2016.

Growth in new business pipeline helped output to increase by the greatest extent since February 2015. Firms highlighted better US economic conditions and discounts to selling prices as key reasons.

Despite greater operational requirements, hiring remained broadly stagnant, in part due to spare capacity in the private sector. Panellists commented on staff attrition and organisational changes for the dip in employment numbers.

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Sources: Nikkei, IHS Markit.

While the level of backlogs fell again in April, the rate of decline was the weakest in nearly two years. Firms reported higher buying levels for the fifth successive month in April, in line with greater production usage. At the same time, inventories of pre-production inputs rose at the highest rate in four months. In both cases, panellists mentioned the need to build-up stocks in anticipation of greater operational usage. Higher demand for inputs led to longer delivery times. After a mild improvement in March, supplier performance deteriorated in April, albeit only marginally.

Hong Kong's private sector business continued to see a squeeze on their margins. Overall cost inflation accelerated to the joint-highest in almost three years, driven up by a noticeable rebound in purchase prices and a faster rise in wage inflation. However, heavy competition and the need to clear stocks led firms to cut prices for a third straight month, although the rate of decrease was slight.

Meanwhile, business confidence in Hong Kong's private sector was again subdued, as reflected in the Future Output Index remaining below 50.0. However, the latest reading was the highest since June 2015. Economic uncertainty, greater competition and a strong US dollar remained key factors for the pessimism.

Comment:

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

“Hong Kong’s private sector started the second quarter in expansionary territory, which was a marked improvement compared to the recent trend. Growth was modest, but nonetheless the strongest in just over three years, driven by expansions in output and new orders.”

“Notably, a revival in new business inflows was reported after more than two years of decline. Firms also stepped up buying levels and built more stocks.”

“However, employment levels remained broadly stagnant as firms tapped on existing spare capacity to meet increased client demand. That said, PMI data suggests excess resources in the sector are starting to dwindle, with backlogs falling to the least extent in nearly two years. This implies that jobs growth could materialise in the months ahead, if the positive trend holds.”

“And it seems a little premature to conclude that the upturn has legs. Chinese demand for Hong Kong products and services continued to wane, while business confidence remained downbeat. Moreover, cost inflation accelerated at a time when firms are discounting prices to cope with greater competition.”

-Ends-

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For further information, please contact:

IHS Markit (About PMI and its comment)

Bernard Aw, Economist
Telephone +65 6922-4226
Email bernard.aw@ihsmarkit.com

Jerrine Chia, Marketing and Communications
Telephone +65 6922-4239
E-mail jerrine.chia@ihsmarkit.com

Nikkei inc.

Ken Chiba, Deputy General Manager, Public Relations Office
Atsushi Kubota, Manager, Public Relations Office
Telephone +81-3-6256-7115
Email koho@nex.nikkei.co.jp

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@ihsmarkit.com.

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