

# Nikkei Hong Kong PMI™

## Business conditions improve in December

### Key points:

- Stronger rise in output and renewed order book growth lifts PMI to near four-year high
- Employment rises for first time in five months
- Inflationary pressures remain firm

Data collected December 5–18

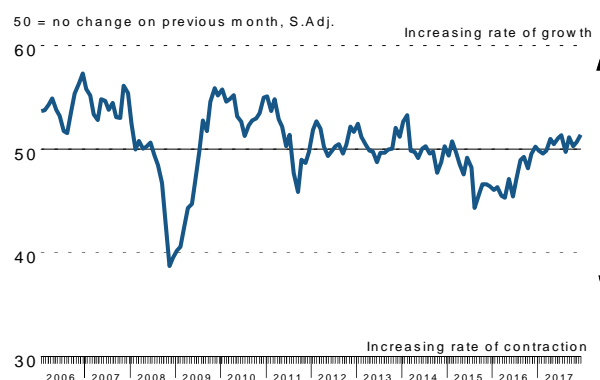
Hong Kong’s private sector economy rounded off the year on a positive note. December data showed that a stronger increase in output and renewed growth in new order volumes were key factors driving the headline index to a near four-year high. Exports to China increased further while employment rose despite a lack of capacity pressure. Business sentiment turned positive for the first time since early 2015. The upturn prompted companies to continue buying and stocking up inputs. On the price front, inflationary pressures remained firm.

The seasonally adjusted headline **Nikkei Hong Kong Purchasing Manager’s Index™ (PMI™)** rose from 50.7 in November to 51.5 in December, marking a further improvement in the health of the sector. The latest PMI was also the highest seen since February 2014. The average reading for Q4 signalled a similar improvement in business conditions as the three months to September.

Overall client demand strengthened as new business returned to growth in December, supported by a further increase in Chinese sales. Promotional activity, higher client referrals and new brands were cited as reasons for increased sales. The renewed expansion in new orders coincided with a stronger increase in output. Notably, business activity expanded at the fastest pace for nearly three years.

Increased client demand led Hong Kong’s private sector firms to continue expanding their purchasing activity. The pace of input buying remained solid despite easing from a near 11-year record seen in November. This, in turn, lifted inventory levels. Stocks of purchases rose again, although the pace of accumulation was the slowest in four months.

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Sources: Nikkei, IHS Markit.

A higher appetite for inputs placed further strain on supply chains. Vendor performance deteriorated again, and at one of the steepest rates seen this year. Anecdotal evidence revealed supply shortages as the primary reason for delivery delays.

Backlogs of work returned to contraction territory in December, though the rate of decline was marginal. Survey data suggested that signs of spare capacity had restricted employment. Firms reported jobs growth for the first time since July, but the rate of increase was slight.

Meanwhile, survey data showed a mixed trend on inflation at the end of the year. Overall input cost inflation softened further, led by a slower price rise for input purchases. Wages rose at a modest pace. In contrast, charge inflation accelerated to reach a six-month high.

Finally, business expectations about the outlook in the year ahead turned positive for the first time in almost three years. Firms pointed to an improved economic climate in Europe, increased promotional activity, plus planned new products and services, as reasons for optimism.

## Comment:

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

*“December PMI data signalled a positive end to 2017 for Hong Kong’s private sector economy. Especially encouraging were survey indicators suggesting that the private sector may see a firm start to 2018.*

*“Chinese demand rose further, contributing to a renewed growth in total new business inflows in December. Higher sales suggest that further output growth can be expected in January. Firms continued to raise purchasing activity and inventories in anticipation of higher sales. Employment also rose for the first time in five months. Notably, business confidence turned positive after nearly three years of downbeat sentiment.*

*“The new-found optimism saw firms raise selling prices at a faster rate even as cost inflation eased further as they sought to alleviate the ongoing squeeze on profit margins.”*

-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](mailto:economics@ihsmarkit.com).

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