

# Nikkei Hong Kong PMI®

## Business conditions broadly stagnate at start of 2017

### Key points:

- Despite faster declines in output and new orders weighing on headline PMI...
- ... firms take on more staff and raise purchasing activity
- Lack of pricing power amid rising costs and weak demand

Data collected January 12-25

Hong Kong's private sector economy broadly stagnated at the start of the year. Further contractions in output and new orders were recorded, while there was a slower accumulation in input stocks. Only a marginal rise in employment was recorded, while costs rose again as higher prices for raw materials were reported.

Highlighting an uncertain economic climate, business confidence amongst Hong Kong private sector companies remained in negative territory during January.

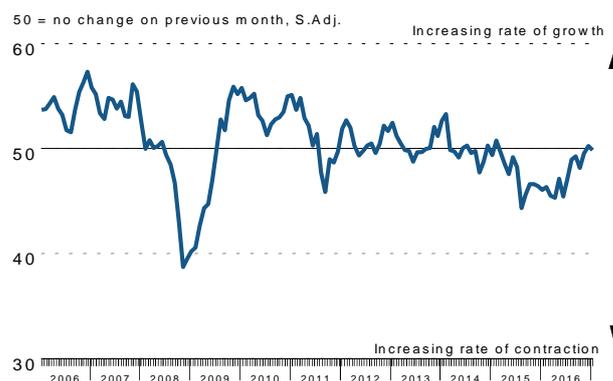
At 49.9 in January, down from 50.3 in December, the seasonally adjusted headline Nikkei Hong Kong Purchasing Manager's Index™ (PMI®) signalled that operating conditions in Hong Kong's private sector broadly stagnated.

Demand for Hong Kong's goods and services continued to fall. Not only have both new orders and output remained in decline since March 2015, January data indicated slightly faster rates of decrease. Dampening client demand was a challenging economic environment plus growing competition, according to panel members.

Demand weakness was not limited to the domestic market. New business from abroad continued to shrink as a stronger dollar eroded the competitiveness of Hong Kong's exports. Similarly, new work inflows from China were down for the thirtieth straight month.

Weak underlying demand led to a lack of pressure on operating capacity among Hong Kong's private sector firms. Latest data showed a decrease in the volume of incomplete business for the twenty-third month in succession.

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Sources: Nikkei, IHS Markit.

A number of firms added to staff numbers despite spare capacity and weak client demand, although the rate of overall employment growth was marginal. In some instances, more hiring was associated with staff replacements and organisational change.

Hong Kong's private sector businesses maintained expansionary inventory policies during January. Firms raised their input buying to the greatest extent in nearly three years.

Higher buying resulted in another increase in pre-production stocks. However, the rate of accumulation slowed from the previous month. Greater demand for inputs kept suppliers busy in January, although the rate at which average lead times lengthened was marginal. There was evidence that stock shortages were behind the deterioration in vendor performance.

Firms continued to face rising price pressures at the start of 2017. Total input costs rose for the seventh consecutive month, led by higher prices for raw materials and wage growth.

Meanwhile, companies remained pessimistic about output in the year ahead, as reflected by the Future Output Index posting below the 50.0 no-change for the twenty-third successive month.

## Comment:

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

*“Growth risks to Hong Kong’s private sector remained tilted to the downside, with the Nikkei Hong Kong PMI signalling a stagnation of operating conditions during January. Not only have both output and new orders now remained in decline for nearly two years, they fell at a faster pace from the previous month.*

*“Furthermore, there was no support from the external market. New orders from overseas decreased at the steepest rate in nine months, as a stronger dollar erodes the competitiveness of Hong Kong’s exports. China continued to import less from Hong Kong, partially owing to unfavourable exchange rates.*

*“Interestingly, companies increased inventory levels further, where buying activity grew at the fastest rate in almost three years, and boosted staffing numbers marginally in January. However, it is unlikely that firms will buy and hire more in the quarters ahead. Rising price pressures are prompting companies to be keener on cost management, especially when they have limited pricing power due to growing competition and weak economic conditions.*

*“Overall, Hong Kong businesses remained pessimistic about the 12-month outlook for output, as reflected in our new-launched Future Output Index. Unless planned budgetary measures help to boost growth, policymakers may need to consider more fiscal stimulus.”*

-Ends-

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**Notes to Editors:**

The Nikkei Hong Kong *PMI*<sup>®</sup> 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<sup>™</sup> (PMI<sup>®</sup>) 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](mailto:economics@ihsmarkit.com).

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