

Nikkei Hong Kong PMI™

Business conditions improve further in July

Key points:

- Growth in new orders and output accelerates
- Buying activity up at fastest rate for over six years
- Slower cost inflation leads to a modest rise in charges

Data collected July 12-26

After expanding through the second quarter, Hong Kong's private sector started the third quarter on a positive note. Driving the upturn were expansions in output and new business in July, with the latter underpinned by greater demand from China. Purchasing levels increased at the highest rate for over six years, boosting input stock levels.

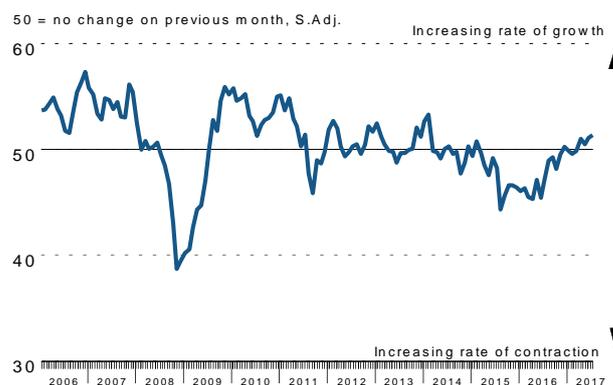
However, firms remained pessimistic about the business outlook despite recent improvements in demand. Meanwhile, mild cost inflation led to a slower rise in charges.

The seasonally adjusted headline **Nikkei Hong Kong Purchasing Manager's Index™ (PMI®)** came in at 51.3 in July, up slightly from 51.1 in June, and signalled the strongest improvement for nearly three-and-a-half years. The latest reading extended the current trend of expansion to four months.

Signs of increasing client demand were sustained into the third quarter. Growth in total new business picked up to the highest in nearly two-and-a-half years, matched by higher sales volumes to China. Survey data indicated that export orders from China increased to the greatest extent since February 2014. Firms attributed overseas expansion, greater tourist traffic and marketing activity to the stronger rise in total order book volumes.

Growth in output accelerated in line with the trend in sales. The rate of output expansion picked up to the strongest for two-and-a-half years, though remained moderate overall. Higher inflows of new sales placed pressure on firms' capacity, as reflected by increased backlogs. The rate of increase in unfinished work was the highest for 29 months.

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Sources: Nikkei, IHS Markit.

Greater operational demand also encouraged firms to take on more workers. Employment numbers rose for a third straight month, although growth was fractional. There were reports of increased part-time hiring and organisational changes. Meanwhile, companies reported higher purchasing activity in July, citing higher sales and the need to build stocks. The rate of buying was at the fastest for over six years. Increased purchasing boosted inventories. July data showed a further rise in stocks of purchases, with the rate of accumulation the best seen so far this year.

There were signs of an easing of inflationary pressures in July. Total cost inflation slowed from June despite a stronger rise in purchase prices for inputs. The rate of inflation was the weakest since a decline was recorded last June. Slower wage growth was partly responsible for the softer uptick in overall cost burdens.

Limited cost pressures encouraged firms to raise selling prices modestly. While firms highlighted a strong yuan, some commented on price discounting amid high competition.

Despite improving client demand, there was an increase in firms' pessimism about the business outlook. Anecdotal evidence suggested that the negativity was linked to a still-weak business climate, prospects of higher US interest rates, rising prices for raw materials and greater competition.

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 showed further signs of strength at the start of the third quarter, building on the expansion from the previous quarter.”

“The latest PMI reading was the best in nearly three-and-a-half years, reflecting stronger growth in both output and new orders. Especially encouraging was a further increase in export sales to China. A stronger yuan partly contributed to higher export growth.”

“Meanwhile increased client demand resulted in firms falling behind on fulfilling orders, as reflected by higher backlogs. That suggests they may boost operating capacity in the coming months, boding well for employment prospects, especially when wage growth has started to slow.”

“However, business sentiment became more negative despite improving demand. Companies remained concerned about a still weak economic climate, anticipation of higher US interest rates, rising prices for raw materials and greater competition. That may limit the sustainability of the current upturn.”

-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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