

## Nikkei Hong Kong PMI™

### Business conditions improve in September

#### Key points:

- Renewed growth in new orders and output lift the PMI...
- ... but firms remain pessimistic about business outlook
- Supply shortages drive up input costs

Data collected September 11–26

Hong Kong's private sector ended the third quarter on a positive note, returning to growth in September. Renewed expansions in both output and new orders supported the upturn, although Chinese sales faltered. Greater demand had an impact on supply chains, where resultant shortages were a key driver of higher prices.

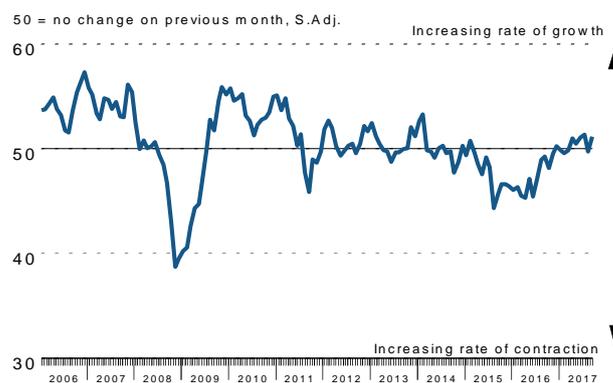
However, a lack of pressure on capacity led to lower employment for a second straight month. Despite an improvement in operating conditions, firms remained pessimistic about the business outlook.

The seasonally adjusted headline **Nikkei Hong Kong Purchasing Manager's Index™ (PMI™)** rose to 51.2 in September, up from 49.7 in August, signalling a renewed improvement in the health of the sector. While modest, the latest reading was above the historical average.

Latest data showed concurrent returns to growth in both output and new orders that supported the improved headline figure. However, while demand for Hong Kong's products and services were reported to have strengthened, there was evidence that Chinese orders had faltered. Survey data indicated that sales to mainland China fell for the first time in five months. Anecdotal evidence suggested that yuan depreciation and policy restrictions had dampened Chinese demand.

Meanwhile, increased sales failed to add pressure on capacity, as backlogs of work were reduced during September, with companies able to comfortably deal with incoming orders. A lack of pressure on operating capacity, in turn, weighed on hiring. Employment fell for a second straight month and at the steepest rate since March, albeit marginally. There was evidence of voluntary leavers and layoffs.

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Sources: Nikkei, IHS Markit.

On the price front, business costs increased for a fifteenth straight month. Input price inflation picked up to the highest in just over three-and-a-half years, amid reports of a rise in raw material prices, particularly in steel and paper. A stronger exchange rate and wage inflation were also mentioned.

There was also a further deterioration in delivery times, where stock shortages at vendors were blamed for delays.

Purchasing activity rose for a tenth month in a row, according to the latest survey data, with the rate of increase the highest in six-and-a-half years. Strong buying levels helped to boost pre-production inventories, which increased for an eleventh month running. Firms built stocks in anticipation of higher sales.

Although renewed order book growth led to a rise in output, firms remained downbeat about the business outlook in the year ahead. In September, the Future Output Index remained below the neutral 50.0 level, which has been the case in each month since March 2015. Respondents highlighted concerns ranging from strong competition, especially e-commerce, to unfavourable exchange rates, as the main reasons behind their pessimism.

## 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 signs of recovery at the end of the third quarter but business sentiment remained downbeat. The latest PMI survey signalled renewed growth in output and order books although the labour market continued to struggle.”*

*“Nonetheless, the survey data point to an almost 4% annual growth in GDP for the third quarter, which would be a notable improvement from the same quarter a year ago.”*

*“However, the stronger Hong Kong dollar could dampen future growth. It already had an impact on exports to mainland China and contributed to higher business costs, according to the latest survey data. Meanwhile, fresh signs of spare capacity in the private sector will weigh on employment prospects, which based on current data look weak.”*

-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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