Nikkei Hong Kong PMI®

Operating conditions deteriorate again in July

Key points:

- Output and total new work both decline at stronger rates
- Job shedding persists
- Purchasing activity falls sharply

Summary:

Hong Kong private sector companies signalled a further deterioration in overall operating conditions at the start of the third quarter. Output and new orders both declined at stronger rates, amid reports of deteriorating business conditions and an associated downturn in client demand. As a result, firms continued to cut their staff numbers and reduced their purchasing activity at a faster pace in July. Inflationary pressures meanwhile appeared relatively muted with overall input costs falling slightly, while output charges increased only fractionally.

The Nikkei Hong Kong *Purchasing Managers' Index™ (PMI®)* posted at 48.2 in July, down from 49.2 in June, and signalled a further deterioration in the health of the sector. Operating conditions have now worsened in each of the past five months. Though moderate, the latest rate of deterioration was the second-sharpest since October 2014.

Latest survey data signalled a further fall in total new business placed at Hong Kong private sector firms in July, with the rate of contraction the second-steepest seen in nine months. According to panellists, a general unwillingness to spend among clients and fewer tourists contributed to the latest reduction in new work. New business from Mainland China also fell in July, as has been the case throughout the past year, and at an accelerated rate.

Softer client demand contributed to a fourth successive monthly reduction in output during July. As was the case for new orders, the rate of contraction quickened since the previous month and was marked overall.

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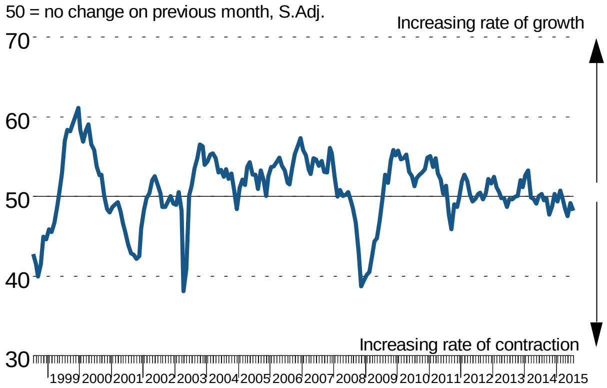

Sources: Nikkei, Markit.

Reduced new orders enabled companies to work through their unfinished business in July, with the rate of backlog depletion quickening since June. Meanwhile, companies continued to reduce their staff numbers in July. Anecdotal evidence generally linked lower workforce numbers to company downsizing policies and the non-replacement of voluntary leavers. That said, the pace of reduction was the slowest seen since September 2014.

Lower production requirements contributed to a further decline in purchasing activity in July. Moreover, the rate of decrease accelerated to the second-sharpest since October 2011. Firms also lowered their inventories of inputs in July, with the rate of stock depletion quickening to the steepest since December 2011.

Overall inputs costs fell in July, following a slight increase in the previous month. However, the rate of deflation was only marginal and much slower than the series average. Data suggested that lower purchasing costs helped to reduce overall cost burdens in July, as staffing costs continued to rise.

Average output charges set by Hong Kong private sector companies meanwhile increased for the first time in four months, though only fractionally.

Comment:

Commenting on the Hong Kong PMI survey data, **Annabel Fiddes,** Economist at Markit, which compiles the survey, said**:**

"The latest set of PMI data signalled an ongoing downturn in Hong Kong's private sector, as output and new orders continued to contract and at faster rates than in June. The latest PMI reading is consistent with an annual rate of economic growth of only 1.3%, down from an average pace of 1.5% signalled for the second quarter.

"Looking ahead, the PMI data suggest that Hong Kong's economy may struggle to get back into expansionary mode, as companies continued to cut staff numbers while reducing their inventories at the quickest rate since 2011. Moreover, firms suffered a further marked fall in new business from Mainland China which continues to weigh heavily on overall new orders."

-Ends-

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For further information, please contact:

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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 geographically 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@markit.com.

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