

Nikkei Hong Kong PMI[®]

Business conditions improve in December for first time since February 2015

Key points:

- Surge in pre-production stock levels and busier suppliers boost PMI
- Declines in output and new orders restrain overall growth
- Firms discount prices despite rising input costs

Data collected December 6-16

After a protracted period of deteriorating business conditions, there were signs that Hong Kong's private sector is pulling out of recession, with the December PMI recording above the neutral 50.0 level. However, the improvement was not driven by expansions in output and new orders. Instead, a surge in the pre-production stock levels, underpinned by a marked increase in purchasing activity, boosted the headline PMI. Longer suppliers' lead times also contributed positively. However, declines in output, new business and employment were reported.

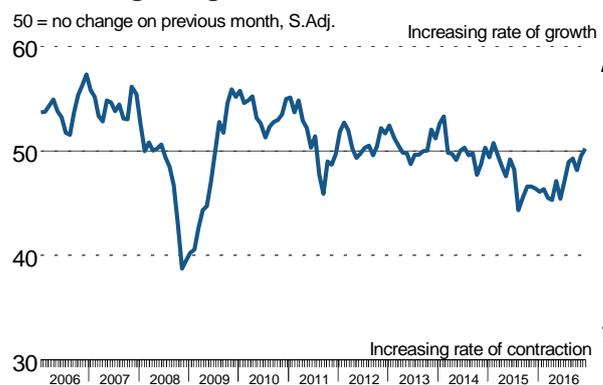
The seasonally adjusted headline Nikkei Hong Kong *Purchasing Manager's Index*[™] (PMI[®]) recorded 50.3 in December, up from 49.5 in November. While the pace of expansion was only marginal, it represented the first improvement in the health of Hong Kong's private sector since February 2015.

Volumes of new business placed at Hong Kong private sector firms nonetheless fell for the twenty-first month in December, reflecting weak client demand. This was accompanied by a further decrease in new orders from mainland China, though the pace of decline was the slowest in three months.

Fewer new work led to lower output activity among Hong Kong private sector enterprises. While the level of output continued to fall, the rate of contraction was the slowest in 18 months, and only slight overall. Some firms blamed a stronger US dollar for lower production.

Persistently weak business activity continued to enable companies to work through their outstanding business in December. Lower amounts of work-in-hand were reported for the twenty-second month in December.

Nikkei Hong Kong PMI[®]



Sources: Nikkei, IHS Markit.

Encouragingly, Hong Kong private sector business stepped up their purchasing activity during December in anticipation of greater demand in coming months. The increase in buying activity was the sharpest since February 2014, as some panellists pointed out stronger demand from new projects. Higher input buying activity resulted in a surge in accumulation of stocks of purchases. Notably, the rate at which pre-production inventories rose was the greatest since April 2000.

At the same time, suppliers were busier in December than in November, with vendor performance falling back into deterioration after improving in the first two months of the fourth quarter. However, anecdotal evidence suggested a lack of available suppliers was behind longer delivery times.

Meanwhile, companies were not optimistic enough to take on additional workers. Employment across the Hong Kong private sector was lower in December.

As in previous months, firms continued to face rising cost burdens in December, driven up by wage inflation and higher costs for raw materials. However, instead of raising selling prices, firms gave discounts to clear stocks and remain competitive.

Comment:

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

“Hong Kong’s private sector reported a return to growth in December, after a period of decline lasting 21 months. The improvement was primarily driven by a substantial increase in pre-production inventories as firms highlighted the need to build up stocks in anticipation of greater demand in the coming months.

“However, there were concerns that growth in other key variables such as output and new orders remained elusive. Furthermore, Hong Kong private sector firms resumed job cutting at the end of the year.

“Chinese demand for Hong Kong’s products and services continued to wane. Overall client appetite remained sluggish, as reflected by lower volumes of output and new business. That said, signs of improving external conditions, and steadying growth in mainland China’s manufacturing sector may see Hong Kong business conditions stabilise in 2017, although growth risks remain tilted to the downside.”

-Ends-

Nikkei Hong Kong PMI[®] is sponsored by **NIKKEI**

Nikkei is a media organization with newspaper publishing at its core. Our flagship daily newspaper, The Nikkei, has approximately three million subscribers. Nikkei's multi-platform media distribution also includes online, broadcast and magazines.

The Nikkei marks its 140th anniversary this year. Since our founding in 1876 as the Chugai Bukka Shimpo (Domestic and Foreign Prices News), we have consistently provided high-quality reporting while maintaining fairness and impartiality. The Nikkei brand has become synonymous with trustworthiness at home and abroad.

Nikkei Inc. offers a range of media platforms to satisfy the diverse needs of our readers. At the core of these services is The Nikkei which has a circulation of approximately three million. Adding further depth to our offerings are our premium content and strong digital technology. The number of paying subscribers to the Nikkei Online Edition, which was launched in 2010, has surpassed 400,000. Our fee-based online services have one of the largest readerships in the world among newspaper publishers. Five years after its creation, the online edition is set to evolve from a medium for providing news to readers into a tool that helps people advance their careers.

In 2013, we kicked off the Nikkei Asian Review, an English-language news service provided both online and as a weekly print magazine. The following year, we established an Editorial Headquarters for Asia in Bangkok to deepen our coverage of Asian economic news. In addition, we doubled the number of reporters stationed in Asia outside Japan. 2014 also saw the launch of Nikkei Group Asia Pte., a new company in Singapore tasked with spreading the Nikkei brand in the region. Our goal is to make Nikkei the leading media voice in Asia.

<http://www.nikkei.co.jp/nikkeiinfo/en/>

NIKKEI ASIAN REVIEW <http://asia.nikkei.com/>

INTRODUCING THE ONLY BUSINESS PUBLICATION THAT BRINGS YOU INSIGHTS ABOUT ASIA, FROM THE INSIDE OUT

With more reporters and contributors across the region than any other business publication, only Nikkei Asian Review can give you a view of business in Asia from the inside.

Stay abreast of the latest news, analysis and insights with a subscription to Nikkei Asian Review – available in print, online, and on your mobile and tablet device.



Asia300:

Providing extensive coverage of over 300 leading companies in 11 countries and regions in Asia. Nikkei Asian Review aims to build the largest hub for Asian corporate news through enhanced reporting backed by large database of business and financial information on companies in the region.



JAPAN UPDATE:

Keeping you up-to-date with business and news from Japan.



VIEWPOINTS:

Bringing views of leading minds on Asia from around the world, including our column "Tea Leaves" written by some of our best writers.



POLITICS & ECONOMY:

Looking at fiscal and monetary policy, international affairs and more



MARKETS:

Deep analysis if the markets, with detailed industry news to keep you abreast of some of the fastest growing sectors in the region.



Video:

Watch analysts explain our articles, catch interviews with top executives.



Print Edition:

Weekly delivery of the best content from Nikkei Asian Review to your home or office

For further information, please contact:

IHS Markit (About PMI and its comment)

Bernard Aw, Economist
Telephone +65 6922-4226
Email bernard.aw@ihsmarkit.com

Jerrine Chia, Marketing and Communications
Telephone +65 6922-4239
E-mail jerrine.chia@ihsmarkit.com

Nikkei inc.

Ken Chiba, Deputy General Manager, Public Relations Office
Atsushi Kubota, Manager, Public Relations Office
Telephone +81-3-6256-7115
Email koho@nex.nikkei.co.jp

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.

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.

About IHS Markit (www.ihsmarkit.com)

IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and expertise to forge solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 key business and government customers, including 85 percent of the Fortune Global 500 and the world's leading financial institutions. Headquartered in London, IHS Markit is committed to sustainable, profitable growth.

IHS Markit is a registered trademark of IHS Markit Ltd. All other company and product names may be trademarks of their respective owners © 2017 IHS Markit Ltd. All rights reserved.

About PMI

Purchasing Managers' Index[™] (PMI[®]) surveys are now available for over 30 countries and also for key regions including the eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/product/pmi.

The intellectual property rights to the Nikkei Hong Kong *PMI*[®] provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index[™] and PMI[®] are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. Nikkei uses the above marks under license. IHS Markit is a registered trademark of IHS Markit Ltd.

If you prefer not to receive news releases from IHS Markit, please email joanna.vickers@ihsmarkit.com. To read our privacy policy, [click here](#).