News Release

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Nikkei Hong Kong PMI®

Business conditions broadly stagnate in March

Key points:

- Output expands for first time in nearly two years...
- ...but new orders remain in decline
- Firms cut prices despite ongoing cost inflation

Data collected March 13-28

The latest survey showed that business conditions in Hong Kong's private sector were broadly stagnant at the end of the first quarter. Although total new orders remained in decline, output grew for the first time in nearly two years, albeit marginally. Weak client demand led to a lack of operational pressure which was highlighted in a further fall in outstanding work and another drop in employment.

Average delivery times were also improved. However, cost inflation persisted but firms were unable to raise their selling prices to offset some of those higher operating expenses. Business confidence remained downbeat.

At 49.9, the seasonally adjusted headline Nikkei *Hong Kong Purchasing Manager's Index™ (PMI®)* was up from 49.6 in February, but signalled broadly stagnant operating conditions in Hong Kong's private sector. The average PMI reading in Q1 remained below the no-change 50.0 mark though it was slightly higher than the Q4 2016 average.

Output growth was reported for the first time since March 2015, though the rate of increase was marginal. Furthermore, total new business fell further in March, marking two years of falling new orders. Weak economic conditions and greater competition were cited for the latest decline, while the strong US dollar reportedly dampened consumption.

Despite an expansion in output, there was a lack of capacity pressure in Hong Kong's private sector. This was highlighted by another decrease in the amount of outstanding work even though there was a further modest fall in staff numbers. Decreased client demand also placed less pressure on suppliers. Shorter average delivery times were reported for the first time in four months.

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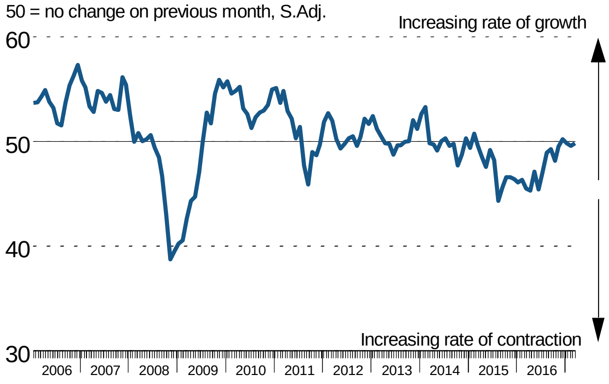

Sources: Nikkei, IHS Markit.

Meanwhile, stronger growth rates in purchasing activity and the level of pre-production stocks were observed. Some firms noted that higher costs for paper had led them to purchase this good in advance to avoid expected cost increases.

Hong Kong's private sector business faced another increase in total input costs during March. The rise in input costs was primarily driven by higher salary bills as prices for inputs fell for the first time since October 2016. Despite higher costs, firms reduced their selling prices for the second month running, although the rate of decrease was modest overall. Greater competition, a weaker yuan and the need to clear current stocks led to discounted prices.

Expectations about the level of output over the next 12 months remained subdued. Causes for the pessimism included the economic downturn, an uncertain political situation, plus greater competition and high rental costs.

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 that output has ended the first quarter in expansionary territory, showing growth for the first time in nearly two years. However, the rate of increase was only marginal. Furthermore, new orders continued to decline, reflecting weak client demand and casting suspicions on the sustainability of future output growth.

"Tellingly, business confidence about future output remained downbeat, as companies remained concerned about slowing economic growth, high rental costs and uncertainty in the domestic political situation. Pessimism about the business outlook saw continued job shedding in the private sector. Given the presence of excess capacity, jobs growth is unlikely to occur in the months ahead.

"Hong Kong private sector firms also faced ongoing cost increases during March, but they were unable to raise selling prices amid weak demand. On the contrary, greater competition and the need to clear existing stocks led them to cut prices again."

-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.

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.

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