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Nikkei Hong Kong PMI™

Business conditions improve further in June

Key points:

- Renewed rise in new orders and further output growth drive the PMI
- Export sales to China expand at fastest rate for over three years
- Cost inflation slows

Data collected June 12-27

Hong Kong's private sector expanded for a third straight month in June, bringing the second quarter to a positive end. Growth in output and new orders drove the upturn, with another rise in export sales to China supporting the sector. Increased employment and inventories also contributed.

Stronger client demand saw intensifying inflationary pressures. Meanwhile, business confidence remained in negative territory despite recent improvements to business conditions.

The seasonally adjusted headline **Nikkei Hong Kong Purchasing Manager's Index™ (PMI®)** came in at 51.1 in June, up from 50.5 in May, signalling a further improvement in the health of the private sector. The latest reading was identical to April's recent high.

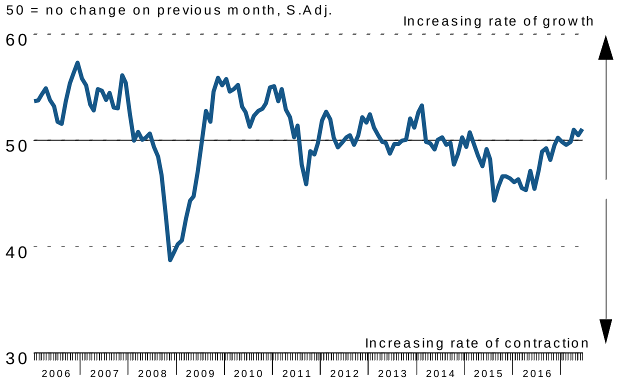
June data suggested that rising foreign demand supported the sector while the domestic market remained challenging. Total new orders resumed growth at the end of the second quarter but the rate of expansion was marginal. This was despite demand from Chinese clients strengthening in June, as shown by new export sales to China rising at the quickest pace for nearly three-and-a-half years.

Higher sales meant that output rose at a modest pace similar to the previous two months, marking the fourth successive month of expansion.

Sustained output growth placed pressure on operating capacity, with backlogs increasing for the first time since February 2015, albeit only marginally. This could be partially linked to slight growth in employment levels.

Companies stepped up purchasing activity again in June, consistent with a greater use of inputs.

Nikkei Hong Kong PMI™



Sources: Nikkei, IHS Markit.

That further strained supply chains, where longer delivery times were reported for a third straight month, although the rate of deterioration was marginal only. There was evidence that manpower shortages affected vendor performance. Higher buying levels led to a further rise in pre-production inventories. Moreover, the rate of accumulation picked up noticeably from the previous month.

Survey data indicated that inflationary pressures persisted in June. Increases in input prices and wages pushed up total costs. Overall cost inflation remained solid despite slowing from May.

Notably, input price inflation rose slightly in June, reflecting higher costs for raw materials and hikes in vendor' prices. Firms generally attributed higher costs to a lack of supply. Meanwhile, wage inflation was reported for a tenth straight month, driven up by salary adjustments and new hires. However, the latest increase was the weakest in the second quarter.

Despite the current upturn, confidence among Hong Kong's private sector companies remained downbeat. Firms' pessimism was connected to a host of factors, including a weak economic environment, new political leadership, higher costs, a stronger USD, forecasts of higher US interest rates, and greater competition.

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 concluded the second quarter on a positive note, showing the first quarterly expansion in three years.

"June data indicated that the recent upturn continued to be driven by output growth, while a renewed increase in new orders, especially stronger export sales to China, contributed to the overall expansion. There was even a rise in backlogs for the first time in almost two-and-a-years despite another increase in hiring, as firms faced greater demand on capacity.

"Companies also stepped up purchasing activity and building of their inventories to meet rising demand. However, business sentiment remained negative, with companies blaming a still weak economic environment, a strong currency, high competition and rising costs, for the pessimism.

"That suggested the current upturn may not gain stronger momentum in the coming months."

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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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