Nikkei Hong Kong PMI®

PMI falls to lowest level since April 2009

Key points:

- Output and new business both contract at steepest rates in over six years
- Staff numbers shed at fastest pace since April 2003
- Purchasing activity declines at sharpest rate since February 2009

Summary:

The downturn in Hong Kong's private sector economy intensified in August, with the PMI falling to its lowest reading since early-2009. Latest data pointed to the sharpest contractions of output and new orders for over six years, which led companies to reduce their workforce numbers at the quickest rate since April 2003. Weaker client demand also contributed to a sharper decline in purchasing activity while destocking activities persisted. On the prices front, total input prices fell for the second month in a row and output charges declined at the quickest rate since April.

At 44.4 in August, the Nikkei Hong Kong *Purchasing Managers' Index™ (PMI®)* posted down from 48.2 in July, and signalled a sixth successive monthly deterioration in overall operating conditions. Furthermore, the degree to which the health of the sector deteriorated was the sharpest since April 2009.

A further drop in total new business placed at Hong Kong private sector companies was seen in August. Moreover, the rate of contraction quickened to the steepest recorded in 75 months. According to anecdotal evidence, weaker economic conditions had weighed on client demand in the latest survey period, while some firms also commented that fewer tourists had reduced new orders. New business from Mainland China also fell markedly on the month, with the latest reduction the sharpest since December 2008.

Reflective of deteriorating client demand, private sector companies in Hong Kong cut their output for the fifth straight month in August, with the rate of contraction accelerating to a 77-month record.

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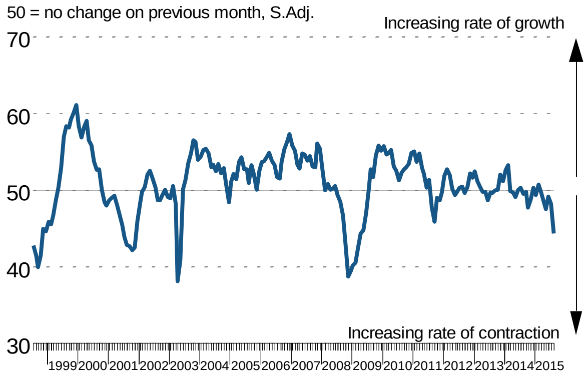

Sources: Nikkei, Markit.

Payroll numbers declined again in Hong Kong's private sector in August. The rate of job shedding intensified since July to the sharpest recorded since April 2003. Where job cuts were reported, these were generally linked to cost-cutting initiatives. Meanwhile, lower volumes of new business enabled firms to work through the level of work-in-hand (but not yet completed) in August. Furthermore, the rate of backlog depletion was the fastest since November 2008.

Hong Kong private sector firms continued to reduce their input buying in August amid reports of lower production requirements. Moreover, the rate of contraction was the steepest seen in 78 months. Companies also reduced their holdings of purchased items for the seventh month in a row, and at a solid rate.

Latest survey data pointed to a second successive monthly decline in overall input costs in August. Prices data indicated that lower purchasing costs were a key factor driving down cost burdens, as average staff costs continued to increase. After a fractional increase in July, prices charged by private sector firms in Hong Kong declined modestly in August. According to panel reports, some firms offered discounts as part of attempts to stimulate client demand.

Comment:

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

"Hong Kong's private sector saw the quickest deterioration in overall operating conditions since the global financial crisis in August, driven in part by steep contractions in both output and new orders. Another worrying development was the sharper rate of job cuts in August, with the latest fall in employment the fastest since April 2003.

"The data continue to point to weaker demand conditions amid an uncertain global economic outlook, as fears continue to mount over China's growth prospects. The latest set of PMI data signalled that new business from Mainland China placed at Hong Kong's private sector firms dropped at the sharpest rate since late-2008, and remains a key factor weighing on overall new work. It seems unlikely that the performance of the sector will improve unless demand conditions pick up, as further cuts to output, staff numbers and purchasing activity suggest that the sector will remain in contractionary territory at least in the near-term."

-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 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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