

# Nikkei Hong Kong PMI™

## Private sector growth loses momentum in March

### Key points:

- Slower rises in both output and new business, including sales to China
- Lower employment seen again
- Business confidence remains downbeat

Data collected March 12–26

Business conditions improved further in Hong Kong’s private sector at the end of the first quarter, but at a reduced rate. Slower rises in both output and new orders weighed on the headline PMI. Notably, growth in Chinese demand also softened. As a result, backlogs fell for the first time in the current quarter, which dampened hiring.

Firms continued to step up purchasing activity, but indicated a preference to tap into current input inventories. Inflationary pressures eased while business sentiment remained negative.

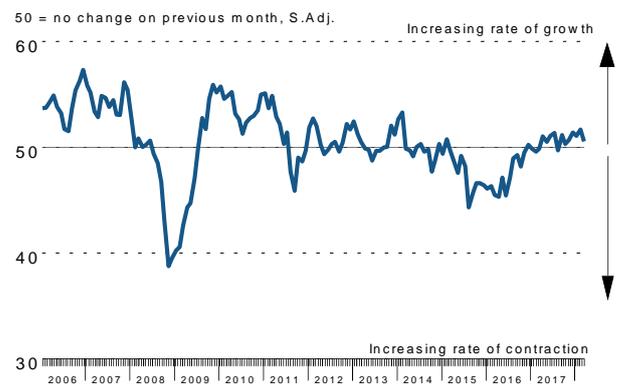
The seasonally adjusted headline **Nikkei Hong Kong Purchasing Manager’s Index™ (PMI™)** fell from 51.7 in February to 50.6 in March, signalling only a marginal improvement in the health of the sector. The latest reading was the weakest for five months.

Nevertheless, despite the fall in the headline index, the average PMI for the first quarter was the strongest in four years.

March data showed signs of softening client demand, in contrast to the first two months of 2018. Growth of new business eased from February’s peak, matched with a slower increase in export sales to China. Firms noted that the depreciation in the yuan weighed on Chinese demand for Hong Kong’s products and services. Consistent with slower sales, output growth decelerated to the weakest for four months.

Softer order book growth enabled firms to work through their backlogs. The level of unfinished business fell for the first time this year, albeit marginally. Emerging signs of spare capacity weighed on hiring. Lower employment was reported for a third straight month.

Nikkei Hong Kong PMI™<sup>will</sup>



Sources: Nikkei, IHS Markit.

Meanwhile, firms continued to raise purchasing activity, but at a slower rate, in line with softer demand conditions. The rate of growth in input buying was the weakest for 10 months.

A sustained rise in input demand placed further pressure on supply chains. Longer delivery times were reported for a twelfth consecutive month in March. Survey evidence indicated that a limited supply of input materials from China due to recent changes in environmental policies was a key reason for delivery delays. Input inventories fell further, stretching the current trend to three months.

While Hong Kong’s private sector firms faced a further rise in overall input costs, they reduced selling prices to boost sales, according to anecdotal evidence. Input cost inflation rose at a slower rate compared to February, although the increase in paid prices for purchases remained marked. Wage inflation was modest. In an effort to clear current stocks and improve sales, firms cut output prices for the first time in 11 months.

Finally, business expectations about the outlook over the next 12 months remained downbeat as firms highlighted concerns of high competition, the rise of e-commerce and shrinking customer budgets.

## Comment:

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

*“Hong Kong’s private sector is on course for its strongest quarterly performance since early 2014. However, softer demand and negative business sentiment lead to questions over whether the current growth momentum can be sustained in coming months.”*

*“While Hong Kong’s private sector started 2018 on a solid footing, March data revealed signs of slowing momentum in business activity. Both output and new orders increased at reduced rates. Export sales to China also grew slower than in the first two months of 2018. The rate of purchasing activity eased to the weakest in ten months, while inventories continued to be depleted. Business confidence about the outlook over the next 12 months remained negative.”*

*“Employment growth has not been seen in the first quarter so far, though that could be a result of a tight labour market: the unemployment rate was the lowest in 20 years during February, and firms mentioned difficulties in sourcing for suitable staff.”*

*“Inflationary pressures eased in March, which enabled Hong Kong’s private sector to cut selling prices as part of efforts to boost sales. However, survey data showed paid prices for purchases continued to rise at a steep rate as suppliers remained hard-pressed to meet delivery obligations, owing to China’s crackdown on pollution.”*

*“Overall, the PMI-implied GDP model shows the economy growing by 4% in the first quarter, but with the caveat of a loss of momentum moving into the second quarter.”*

-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.

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](mailto:economics@ihsmarkit.com).

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