

## Nikkei Hong Kong PMI™

### PMI signals slower improvement in business conditions in October

#### Key points:

- Broadly stagnant output and renewed fall in new business weigh on PMI
- Chinese demand shrinks further
- Rising input costs push firms to hike charges

Data collected October 12–26

Growth in Hong Kong's private sector showed signs of easing in October, registering broadly stagnant output volumes and a renewed decline in new business. Notably, Chinese demand for Hong Kong's products fell again while business sentiment remained pessimistic.

Weak client demand and a lack of capacity pressure weighed on hiring. Meanwhile, supply shortages undermined vendor performance, and were associated with higher input prices. Firms defended profit margins by raising selling prices.

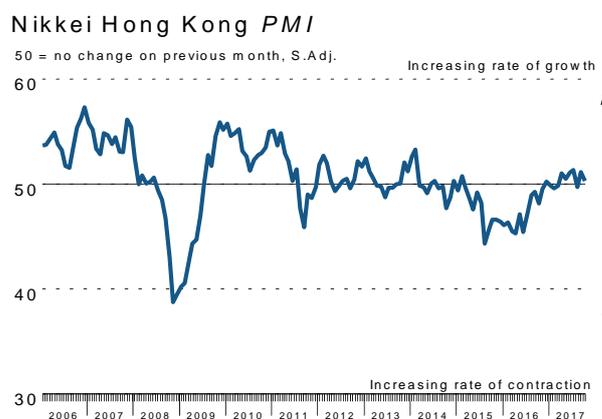
The seasonally adjusted headline **Nikkei Hong Kong Purchasing Manager's Index™ (PMI™)** slipped to 50.3 in October from 51.2 in September, signalling a slight improvement in the health of the sector. However, the latest reading was below the historical average.

Having expanded modestly at the end of the third quarter, output barely increased in October, as overall order book volumes fell. Survey evidence pointed to a weak economic climate, reduced construction activity and competitive pressure for sales. Notably, Chinese demand shrank further and steeper, with the rate of contraction the strongest since April.

Reduced demand allowed firms to work through their existing workloads. Backlogs of work fell for a second straight month and at the fastest pace for seven months. A lack of capacity pressure continued to weigh on hiring. Employment fell for a third month running, albeit only marginally.

Despite softer demand, firms scaled up their buying activity, citing input requirements for new products. Furthermore, the rate of increase was the strongest for over six-and-a-half years.

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Sources: Nikkei, IHS Markit.

Robust appetite for inputs placed further strain on supply chains, where vendor performance deteriorated for the seventh month in a row during October. There were also reports of supply shortages.

Greater purchasing activity helped to raise inventories, with pre-production stocks accumulated at a solid pace. Higher stockpiles were also sometimes linked to pre-emptive purchases in anticipation of worsening supply shortages.

On the price front, there were signs of rising cost pressures, with overall input price inflation reaching the highest level for over three-and-a-half years. A surge in paid prices for purchases was the key driver amid reports of higher costs for raw materials such as paper, chemicals and copper. Wage inflation was also a contributing factor.

In response to higher input costs, firms raised their selling prices again in October, in order to protect their margins. However, the rate of increase was the weakest in five months and well below cost inflation, reflecting ongoing profit margin pressure.

Business sentiment about the outlook in the year ahead remained negative in October.

Reasons for pessimism included intense competition, rising costs, environmental-related impacts on demand, reduced construction projects from government, and an unfavourable business outlook.

## Comment:

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

*“Signs of recovery in Hong Kong’s private sector economy in September were short-lived, as growth momentum eased at the start of the final quarter after demand took a hit. Output barely grew and new business fell, further fuelling the negative sentiments seen across the sector, as signalled by the Future Output Index remaining below the neutral 50.0 level.*

*“Meanwhile, pessimism and a lack of capacity pressure weighed on hiring. Lower employment was reported again in October. Not only did companies struggle with weakening demand, they also grappled with rising business costs, due largely to higher global commodity prices. Higher costs continued to put a squeeze on profit margins as corporates have limited room to raise selling prices amid lower sales.*

*“The survey data point to an annual GDP growth of slightly below 4% into the closing quarter of 2017.”*

-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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