

Nikkei Hong Kong PMI®

Business conditions improve further in May

Key points:

- Output growth supports the sector ...
- ... but renewed fall in new orders and slower inventory build weigh on PMI
- Cost inflation accelerates to near three-year high

Data collected May 12-25

Hong Kong's private sector expanded further in May but at a slower rate. Higher output and a rise in export sales to China for the first time in nearly three years supported the sector.

However, a renewed fall in new orders and slower growth in employment and inventories dampened the headline PMI. Business sentiment remained downbeat. Meanwhile, cost inflation intensified, which led to higher charges.

The seasonally adjusted headline **Nikkei Hong Kong Purchasing Manager's Index™ (PMI®)** slid from 51.1 in April to 50.5 in May, signalling a weaker improvement in the health of the private sector. Nevertheless, the latest reading marked a second consecutive month of growth.

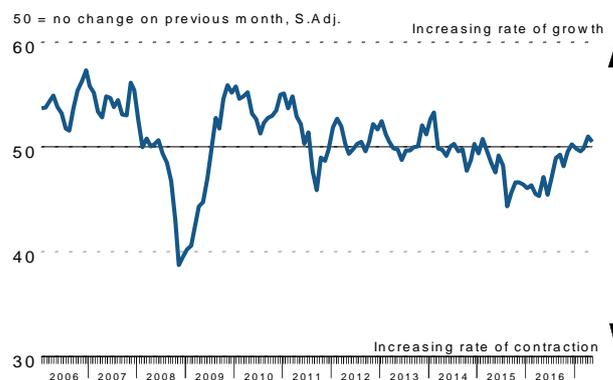
While data suggested that domestic market conditions remained challenging, an upturn in Chinese demand for Hong Kong's goods and services was registered for the first time since July 2014. New orders from mainland China showed a return to growth after 33 months of decline. In contrast, total new business decreased at a marginal rate in May.

Despite falling new sales, output across the sector increased at a similarly modest pace compared to April, marking the third straight month of expansion.

Greater output however did not strain operational capacity. On the contrary, backlogs declined for the twenty-seventh month in a row, albeit only marginally.

This could be partially linked to a slight growth in employment levels, where survey respondents highlighted greater operational requirements and staff replacements as reasons for more hiring.

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Sources: Nikkei, IHS Markit.

In line with greater input usage, companies reported higher purchasing activity for the sixth successive month during May. This in turn added to pressures on supply chains. Vendor performance worsened further, with the rate of deterioration at the steepest in eight months. In some cases of delivery delays, some respondents pointed to supply shortages connected to environmental-related regulations in China.

At the same time, increased purchasing activity led to further stock-building. However, the rise in pre-production inventories was the weakest since a decline was registered last October.

On the price front, Hong Kong's private sector businesses faced greater cost pressures in May. Cost inflation accelerated to the greatest in almost three years, driven up by persistent increases in input costs and salaries.

Notably, wages increased at a solid pace. There was evidence that a rise in the minimum wage alongside pay review and annual adjustments contributed to higher salary bills.

After three months of reduction, intensified cost inflation prompted firms to raise prices to protect their margins, albeit only fractionally. In some cases, companies offered discounts to maintain competitiveness and to clear existing stocks.

Meanwhile, business confidence in Hong Kong remained negative. Soft prospects for growth, a

strong USD, higher competition and inflation were highlighted as factors for the subdued outlook.

Comment:

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

“Following a firm start to the second quarter, Hong Kong’s private sector showed a slowdown in growth during May. While output growth was sustained, a renewed fall in new orders and slower inventory build raised doubts whether recent improvements in the sector will continue.

“Employment growth was seen but at a negligible rate. Prospects for the labour market were not optimistic, as the ongoing presence of spare resources in the sector may restrain future hiring, especially with signs of weakening demand.

“A bright spot however was the resurgence of Chinese demand for Hong Kong’s products and services. Growth was modest, but nonetheless the first expansion recorded in almost three years.

“However, Hong Kong’s private sector economy continued to face difficulties. A persistent squeeze on profit margins and weak business sentiment will add to the sector’s struggle to sustain expansion.”

-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.

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