News Release

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# Nikkei Hong Kong PMI®

## Solid deterioration in operating conditions in June

### Key points:

- Sharpest declines in output and new orders since August 2015
- Input buying contracts at faster pace
- Employment falls at slowest rate in 2016 to date

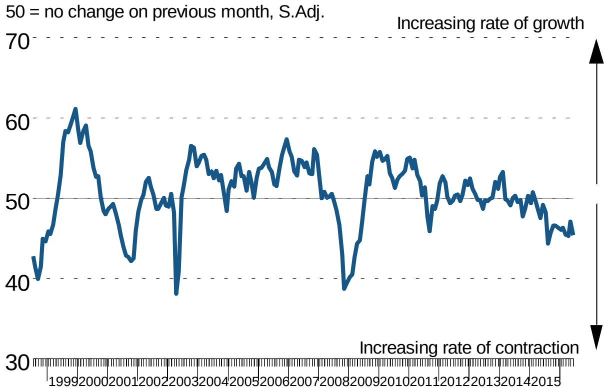
### Summary:


Hong Kong private sector companies signalled a sharper deterioration in overall operating conditions in June, with output and total new orders both declining at the fastest rates since August 2015. As a result, firms reduced their purchasing activity sharply, which in turn contributed to a marked fall in stocks of inputs. A further drop in new work also led to a solid reduction in the level of backlogs. Meanwhile, employment fell at a marginal pace that was the weakest seen in 2016 so far. Prices data pointed to a fractional reduction in overall cost burdens, while output charges declined modestly.


Adjusted for seasonal factors, the headline Nikkei Hong Kong *Purchasing Managers' Index™ (PMI®)* registered 45.4 in June, down from 47.2 in May, to signal a deterioration in the health of Hong Kong's private sector for the sixteenth successive month. Furthermore, the rate of deterioration was the second-strongest since August 2015.

The weaker headline reading partly reflected a faster decline in total new orders placed at Hong Kong private sector companies. New work has now declined in each of the past 15 months, with the latest reduction the quickest since August 2015. A number of panellists commented that weak economic conditions, both at home and abroad, had made clients more unwilling to commit to spending. Furthermore, new work from mainland China continued to contract, and at a steeper pace than recorded in May. As a result, companies reduced their output again in June, with the rate of reduction the sharpest seen in ten months.

**Nikkei Hong Kong PMI®**




*Sources: Nikkei, Markit.*

Despite sharper declines in both output and new orders, firms lowered their workforce numbers only slightly in June. Meanwhile, lower intakes of new work enabled companies to work through any unfinished business at the end of the second quarter, and at a solid pace.

Reflective of lower output requirements, Hong Kong private sector businesses continued to cut their input buying in June. Furthermore, the rate of reduction accelerated sharply since May. Consequently, stocks of pre-production goods also fell at the end of the second quarter, and at the steepest rate in three months.

Although companies reduced their purchasing activity, lead times for inputs lengthened for the second month in a row in June, albeit marginally. Some companies attributed longer delivery times to stock shortages at vendors.

A fractional reduction in overall input costs was seen during June. Data indicated that deflationary pressures predominantly centred around purchasing costs, which fell markedly, as staffing costs rose modestly over the month.

Efforts to attract new business contributed to a further fall in output charges, though the rate of discounting slowed to a modest pace.

**Comment:**

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

*“After it looked like Hong Kong’s private sector was slowly moving closer to stabilisation in May, June PMI data signalled that the current downturn intensified at the end of Q2.*

*“Key variables such as output, new orders and purchasing activity all contracted at sharper rates amid reports of weak global economic conditions and muted spending among clients.*

*“Unless there is a marked improvement in customer demand, it seems unlikely that Hong Kong’s private sector will be able to lift itself out of the current downturn. However, given that global economic conditions continued to be dogged by uncertainty, including the recent announcement of Brexit, it’s likely that confidence and activity will fall further in the second half of 2016.”*

-Ends-

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## For further information, please contact:


**Markit (About PMI and its comment)**

Annabel Fiddes, Economist
Telephone 44-1491-461-010
Email annabel.fiddes@markit.com

Joanna Vickers, Corporate Communications
Telephone 44-207-260-2234
E-mail joanna.vickers@markit.com

**Nikkei inc.**

Ken Chiba, Deputy General Manager, Public Relations Office
Atsushi Kubota, Manager, Public Relations Office
Telephone 81-3-6256-7115
Email koho@nex.nikkei.co.jp


## 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.

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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