

Nikkei Hong Kong PMI™

Business conditions deteriorate in August

Key points:

- Renewed falls in new orders, output and employment weigh on PMI
- Export orders growth to China slows
- Future Output Index at highest for over two years

Data collected August 10-25

Hong Kong’s private sector lost momentum midway through the third quarter, with August data showing a worsening in business conditions for the first time in five months. Weighing on the headline index were declines in output, new orders and employment, which in turn led to a slowdown in growth of purchasing activity. Firms remained downbeat but the degree of pessimism was the lowest since March 2015. Meanwhile, cost inflation intensified.

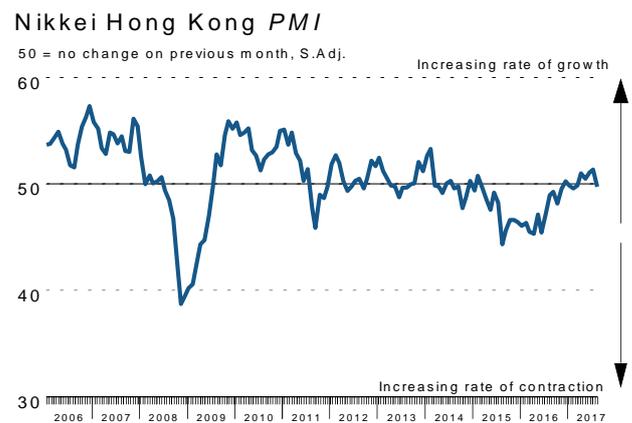
At 49.7, the seasonally adjusted headline **Nikkei Hong Kong Purchasing Manager’s Index™ (PMI™)** signalled a renewed deterioration in the health of the sector during August. The latest reading was down from 51.3 in July and marked the end of a four-month period of improvements.

After rising at the fastest rate for nearly two-and-a-half years in July, growth in total new business cooled considerably, registering a decline for the first time since May. Moreover, the rate of contraction was also the deepest for seven months. While a weakening in domestic demand was the main factor, slowing growth in Chinese demand also contributed to the downturn.

Softer demand had a negative impact on output: business activity fell in August, in contrast to the trend of expansion seen in the previous five months. However, the pace of decline was marginal overall. Amid lower output, firms were reluctant to take on more workers, and chose not to replace voluntary leavers; this resulted in the first drop in employment for four months.

Reduced headcounts saw another rise in backlogs but the rate of increase was marginal amid decreased volumes of new work. Some firms suggested that higher backlogs were partially due

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Sources: Nikkei, IHS Markit.

to limits placed on output to comply with Chinese environmental-related laws.

While firms raised purchasing activity for a ninth straight month in August, the pace of increase was noticeably slower than July, in response to lower output and demand. The slower rise in buying levels led to a smaller build in stocks of purchases — and the weakest accumulation for three months. However, suppliers remained under pressure, showing a deterioration in performance for a fifth month in a row. According to anecdotal evidence, shortages of materials, such as paper boards, affected delivery times.

On the price front, input cost inflation picked up in August, ending the recent easing trend. Driving costs higher were increased prices for materials and wage inflation. Firms passed on some of their higher costs by raising selling prices, although the rate of increase remained modest.

Meanwhile, firms remained pessimistic about the business outlook over the next 12 months. However, the future output index was the highest seen in two-and-a-half years, with the proportion of panellists expecting lower output one of the smallest since data collection started over five years ago.

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 lost some momentum in August amid a slowing in Chinese demand for its goods and services.

“After showing improvements since the start of the second quarter, the Nikkei Hong Kong PMI indicated a deterioration in business conditions midway through the third quarter. That raises concerns regarding economic growth over the next few months, with forward-looking indices providing a negative prognosis: new business volumes fell and firms remained downbeat about business activity in the year ahead.

“Furthermore, inflationary pressures intensified, reversing the recent easing trend, with reports of material shortages. Anecdotal evidence suggested that limited output linked to China’s environmental protection laws may have affected supply chains.”

-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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