

# HSBC Hong Kong PMI®

## PMI falls below 50.0 mark in September, signalling deteriorating business conditions

### Summary

September data pointed to a renewed contraction in Hong Kong's private sector, with both output and new orders having fallen from August. Although the rates of decrease were only marginal, they were the strongest in ten months. Private sector employment meanwhile continued to fall in September, with job losses now reported for five consecutive months, and the rate of input price inflation quickened to its fastest since April.

After adjusting for seasonal variation, the headline HSBC Hong Kong *Purchasing Managers' Index*™ (PMI®) fell below the 50.0 no-change mark in September, signalling a deterioration in operating conditions. At 49.6, down from 50.5 in August, the PMI was the lowest in four months and consistent with a marginal deterioration overall. The PMI is a composite index designed to provide timely indications of changes in prevailing business conditions in Hong Kong's private sector economy.

The volume of new orders received by private sector companies in Hong Kong fell in September, with firms citing weak client demand and worsening economic conditions. New work intakes from Mainland China also declined, as has been the case in five out of the past six months. Total new orders fell to the greatest extent since November 2011, although the rate of contraction was only marginal overall.

Output also contracted in September, while backlogs of work were broadly unchanged from August. Business activity fell at the strongest rate for ten months, with approximately 12% of panellists reporting a decline over the month.

Reflective of lower new order volumes, the quantity of inputs bought by monitored companies fell further during the latest survey period. Input inventories meanwhile rose, albeit the rate of stock accumulation was slightly weaker than the 17-month high registered previously. Suppliers' delivery times lengthened again in September, with the latest increase in lead times modest, but to a lesser extent than in August.

Employment in Hong Kong's private sector fell for the fifth successive month in September. Approximately 6% of companies reduced their workforces over the month, with the latest round of job losses moderate overall.

Input costs faced by private sector firms working in Hong Kong increased in September, with both purchases prices and salary bills rising at faster rates than in August. Overall, the rate of input price inflation was moderate and the strongest in five months. In

contrast, average selling prices fell for the third month running, albeit only marginally. Anecdotal evidence linked the reduction in output charges to stronger competitive pressures and attempts to boost new order volumes.

### Comment

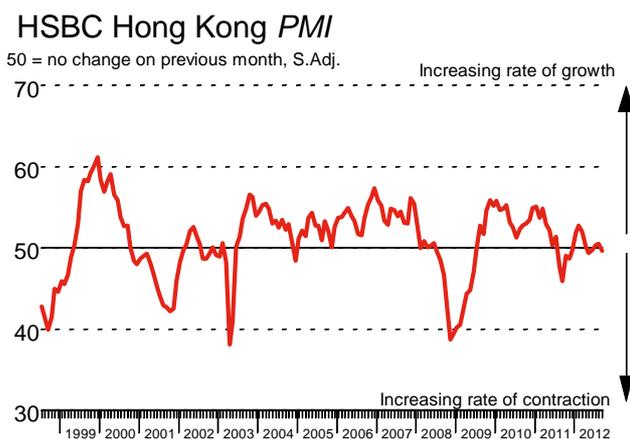
Commenting on the Hong Kong PMI® survey, Donna Kwok, Economist, Greater China Economic Research, HSBC, said:

*"New orders slackened slightly in September, taking Hong Kong's private sector back into contraction (albeit marginal) mode. Wage growth however picked up at the strongest pace in four months, driven not only by inflation but also genuine business demand. This suggests that job market capacity remains tight, helping to underpin private consumption's role as a key growth driver for the economy."*

### Key points

- PMI falls to a four-month low in September
- Output and new orders both decline at fastest rates since November 2011
- Input price inflation quickens to moderate pace

### Historical Overview



Sources: Markit, HSBC.

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### Notes to Editors:

The HSBC 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 geographically 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](mailto:economics@markit.com).

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