

News Release

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S&P Global Hong Kong SAR PMI™

Private sector expansion slows in May

Key findings

New order growth eases, but driven by new business from Mainland China

Inventory levels decline across Hong Kong SAR

Renewed fall in employment in May

Signs that the recent boost to growth, stemming from the full resumption of travel between Hong Kong SAR and Mainland China, was beginning to wane gathered momentum in May, according to the latest PMI™ data from S&P Global. Despite being driven by a surge in new business to Mainland China, new order growth slowed to the weakest since January. Lower new sales led to a softer rise in business activity and a reduction in inventory holdings. At the same time, staffing levels fell for the first time since November 2022. That said, overall input cost inflation quickened as supplier performance deteriorated for the first time in seven months, thereby adding pressure to firms' margins. Less robust demand conditions also weighed on business confidence.

The headline seasonally adjusted S&P Global Hong Kong SAR Purchasing Manager's Index™ (PMI™) - a composite single-figured indicator of performance - remained above the 50.0 no-change mark in May, signalling an improvement in business conditions in the Hong Kong SAR private sector. Operating conditions have strengthened in each month through 2023 so far. Although, sliding from 52.4 in April to 50.6 in May, the latest index reading indicated a further loss of growth momentum, as the pace of expansion softened to the slowest in the aforementioned sequence of growth.

A boost to spending from the Consumption Voucher Scheme and greater tourism activity, which some continued to attribute to the easing of COVID-19 restrictions, led to a further rise in new business in May. The pace of growth in total sales and new export orders both slowed in May, however. The only exception was new orders from Mainland China, which increased at the fastest pace in just over 13 years, supported by some additional impact of the resumption of full travel between Hong Kong SAR and Mainland China and smoother customs clearances.

In turn, business activity continued to rise in May. Mirroring the trend for new orders, output growth also slowed. Sub-sector data indicated that activity rose the fastest in the

S&P Global Hong Kong PMI

sa, >50 = improvement since previous month



Source: S&P Global.
Data were collected 12-25 May 2023.

Comment

Jingyi Pan, Economics Associate Director at S&P Global Market Intelligence, said:

“Hong Kong SAR private sector growth lost momentum midway through the second quarter. This was primarily due to the waning impact of the reopening boost to new orders, though demand from Mainland China remained strong, and rose rapidly.

“The effect of the latest slowdown in new orders growth on employment appears concerning, as companies adjusted workforce numbers downward amid softer demand conditions. Moreover, firms were also hesitant to build additional stock amid broader concerns regarding future output growth at a time of challenging global economic conditions, according to anecdotal evidence. Although continuing to expect greater activity in the coming year, the degree of optimism slipped to a six-month low as wider concerns surrounding the sustainability of demand conditions weighed on business confidence.”

PMI™

by S&P Global

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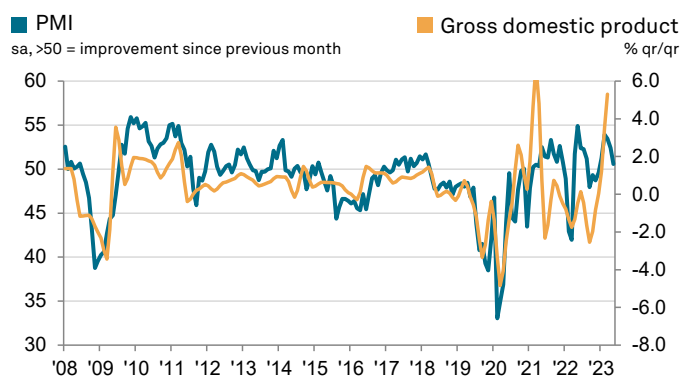
consumer services sector while total output was weighed down by a solid contraction in the manufacturing sector.

A further rise in production requirements led firms to expand their input buying again in May. However, firms were reluctant to hold stocks of purchases amid waning demand conditions, resulting in the first decline in pre-production inventories this year.

Concurrently, employment levels dipped for the first time in six months as job shedding was linked to resignations and redundancies in May. Firms also highlighted a reduced need for additional workforce capacity midway into the second quarter, as backlogs of work were broadly unchanged following a four-month sequence of growth.

Despite softer demand conditions, supply constraints re-emerged in May, with lead times lengthening after six consecutive months of improvement in vendor performance. At the same time, overall input cost inflation quickened with higher raw material and staff costs contributing to heightened cost pressures for Hong Kong SAR private sector firms. As a result, firms continued to share these cost burdens with their clients. Although the pace of inflation eased, selling prices increased at a solid pace in May.

Business sentiment within the Hong Kong SAR private sector remained positive as increased cross-border activity with Mainland China fuelled hopes of higher output in the next 12 months. That said, the level of business confidence receded further from February's survey record amid lingering concerns over the global economic environment.



Sources: S&P Global, HKSAR Census and Statistics Department.

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Survey methodology

The S&P Global Hong Kong SAR PMI™ is compiled by S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 400 private sector companies. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. The sectors covered by the survey include manufacturing, construction, wholesale, retail and services. Data were first collected July 1998.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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