

News Release

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S&P Global Hong Kong SAR PMI™

Private sector contraction deepens as demand falls

Key findings

Weak demand underpins job shedding and fall in input stocks

Easing of COVID-19 curbs boosts purchases and confidence

Cost pressures intensify

Hong Kong SAR's private sector shrank at a sharper pace in November despite the easing of COVID-19 curbs. Weaker demand conditions amid a deteriorating economic backdrop led to lower business activity and employment while firms were also cautious about holding excess inventories. That said, the change in virus restrictions did enthruse firms to expand purchasing activity and led to a positive outlook for the next 12 months. Inflationary pressures meanwhile intensified for firms.

The headline seasonally adjusted S&P Global Hong Kong SAR *Purchasing Manager's Index™ (PMI™)* - a composite single-figured indicator of performance - posted 48.7 in November, down from 49.3 in October. With the PMI printing below the 50.0 neutral threshold for a third straight month, this signalled a persistent contraction of the Hong Kong SAR private sector in November.

The two biggest PMI components, output and new orders, recorded steeper contractions in the month of November, thereby weighing on the headline PMI. New orders, which shrank at the faster pace between the two, was affected by rising COVID-19 infections in November and a worsening economic backdrop. This led to a reduction in overall business activity.

Lower incoming new business from abroad was also recorded in November owing to weak underlying demand and COVID-19 disruptions. That said, the pace at which international new orders declined was the softest in six months, thanks to a further loosening of COVID-19 travel curbs.

Amid the business activity decline, Hong Kong SAR firms also reduced their operating capacity, shrinking their workforce levels through redundancies and the non-replacement of leavers. Lower levels of backlogged work also necessitated lesser manpower in November, particularly as the level of work outstanding slipped at the fastest pace in eight months due to the drop in demand and work cancellations.

S&P Global Hong Kong PMI

sa, >50 = improvement since previous month



Source: S&P Global.

Data were collected 11-25 November 2022.

Comment

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

"Hong Kong SAR fell deeper into contraction in November according to the latest PMI data, with weak demand conditions at the core of the current downturn. Even though COVID-19 travel restrictions further loosened, firms were caught between the slow ignition of demand and detriments from rising infections."

"Moreover, the fall in demand for Hong Kong SAR goods and services reduced firms' pricing power, causing businesses to be squeezed by the rapidly rising prices and reduced capacity to pass on these costs to customers."

"That said, early signs of improvements including a renewed growth of input acquisition and optimism were tracked by the PMI data to suggest the potential for better domestic activities ahead. It will be crucial to see overall demand show a turnaround for economic conditions to improve."

PMI™

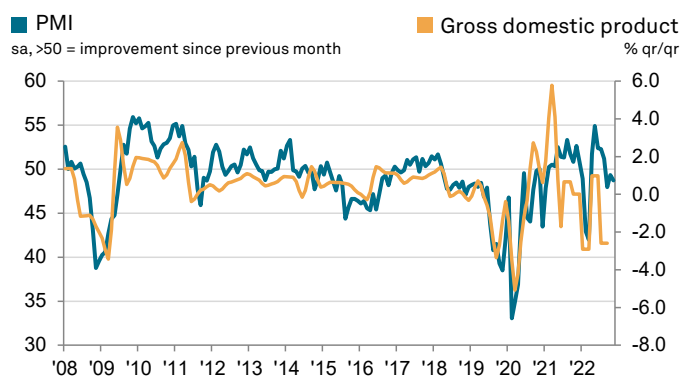
by S&P Global

Meanwhile, an improvement in vendor performance was signalled in November, with lead times shortening for the first time since April 2021.

The same improvements were not recorded with regards to price pressures, however, as overall input costs rose at the sharpest pace in eight months. This was underpinned by higher purchase price and wage inflation. Increased raw material and transportation costs were reported to have sent overall input costs higher in November. Simultaneously, private sector firms also adjusted salaries to retain and acquire skilled staff.

As a result, selling prices continued to climb as survey respondents reported sharing higher cost burdens with their clients. On the back of weakening demand, however, pricing power was muted and firms were only able to raise output prices at a slower rate than in October.

On a more positive note, the further easing of COVID-19 travel curbs in Hong Kong SAR enabled some improvements within the private sector in November. Firms turned optimistic for the first time in four months with regards to output over the coming year. Hopes for improved sales also drove a renewed rise in purchasing activity, albeit at a modest pace.



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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