

News Release

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S&P Global Hong Kong SAR PMI™

Private sector growth slows in August as COVID-19 cases rise

Key findings

Output and new order growth soften in August...

...amid spike in COVID-19 cases

Business sentiment turns negative

The Hong Kong SAR private sector remained in expansion territory midway through the third quarter of the year, though the rate of growth in August was the slowest in the current positive sequence. Weaker sector growth was primarily driven by a softening in demand amid reports of recent spikes in COVID-19 cases. As such, August data recorded slower expansions in output and new orders, while employment decreased, and renewed pessimism was signalled with regards to the year-ahead outlook.

Turning to prices, input cost inflation continued into August and selling price inflation re-accelerated from July as companies passed higher costs on to their customers.

The headline seasonally adjusted S&P Global Hong Kong SAR Purchasing Managers' Index™ (PMI™) posted 51.2 in August, down from 52.3 in July. The latest reading remained above the 50.0 no-change mark for a fifth successive month to signal a further strengthening in overall operating conditions. That said, the rate of sector improvement was the slowest in the current positive sequence.

New orders increased in August but at the weakest rate in the current positive sequence. Anecdotal evidence suggested that the recent spike in COVID-19 cases impacted overall demand in some industries. At the same time, other firms reported that the relative lack of pandemic related restrictions in place at the time when the latest survey was conducted helped in lifting volumes of new work. In line with the aforementioned, output levels rose for a fifth consecutive month but at the softest rate since April. Some firms continued to raise output in line with higher new orders, but others had begun to be impacted by the rise in COVID-19 cases.

August data highlighted sustained contractions in foreign demand and new business from Mainland China. That said, the rates of decline were the softest in three and ten months, respectively.

S&P Global Hong Kong PMI
sa, >50 = improvement since previous month



Source: S&P Global.
Data were collected 12-25 August 2022.

Comment

Laura Denman, Economist at S&P Global Market Intelligence, said:

"The recent spike in COVID-19 cases certainly presents downside risks to Hong Kong SAR's private sector economy. Demand levels have already been impacted, as highlighted by softer growth in new orders in August. However, with pandemic related restrictions not having been introduced at the time when the survey was conducted, firms were on balance still able to secure increases in new business.

"Clearly, firms face a risk that case numbers will continue to rise, with any implementation of new restrictions having the possibility of weakening demand still further. Since current demand is currently being upheld by domestic orders, as signalled by contractions in both new export orders and new business from Mainland China, this is a worry going forward. In fact, sentiment regarding the outlook for activity already turned negative in August, in part at least due to concerns around the pandemic situation."

PMI™

by S&P Global

The overall expansion in demand nevertheless boosted buying activity across Hong Kong SAR's private sector. In turn, inventories rose at the quickest pace in 11 months.

Meanwhile, employment levels declined for a second consecutive month in August and at a rate that was the joint-sharpest since December 2020. Panel members listed cost-saving efforts as the primary driver of the reduction in workforce numbers. August data also signalled a renewed contraction in backlogged work.

In terms of prices, the current sequence of overall input cost inflation stretched to just short of two years in August. That said, due to softer increase in both staff and purchase costs, the rate of total input price inflation eased slightly. Anecdotal evidence suggested that firms continued to partly share increasing input cost burdens with clients, as highlighted by a further rise in output prices. Moreover, the rate of charge inflation reaccelerated in August.

August data also displayed signs of easing in supply chain disruptions. Despite a sixteenth consecutive month of deterioration in vendor performance, the extent to which average lead times lengthened was the weakest since last December.

Finally, pessimism among Hong Kong SAR's private sector returned in August. Firms frequently cited concerns surrounding the resurgence of COVID-19 and the worsening of global economic conditions.



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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