

# News Release

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## S&P Global Hong Kong SAR PMI<sup>®</sup>

### Private sector conditions continue to deteriorate

#### Key findings

New business, including from mainland China, declines again...

...limiting firms' willingness to pass on rising costs

Mild reduction in workforce capacity renews

Business conditions within the Hong Kong SAR private sector eased for a fourth successive month in October, according to the latest PMI<sup>®</sup> data from S&P Global. Output fell as new work inflows, including from Mainland China, declined. Purchasing activity and inventory levels likewise contracted amidst greater pessimism among private sector firms, while hiring activity also decreased. Meanwhile, input cost inflation climbed further above that of selling prices.

The headline seasonally adjusted S&P Global Hong Kong SAR Purchasing Manager's Index<sup>™</sup> (PMI<sup>®</sup>) - a composite single-figured indicator of performance - fell to 48.9 in October from 49.6 in September. Posting below the 50.0 no-change mark for a fourth straight month, the index signalled another deterioration in private sector conditions, albeit remaining mild overall.

Private sector business activity contracted for a fourth straight month at the start of the fourth quarter. The rate of contraction was the fastest in just over a year, despite remaining modest overall. Firms in the manufacturing sector experienced the sharpest downturn according to sub-sector data.

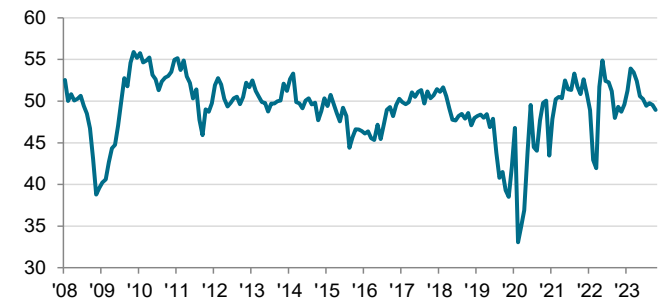
The decline in business activity was primarily attributed to a sustained fall in new business, with incoming new work from mainland China declining at a faster rate, though new export business stabilised more generally. Anecdotal evidence suggested that worsening domestic and external economic environments coupled with increased competition affected orders placed at Hong Kong SAR private sector firms.

As a result of the reduction in new orders and output, purchasing activity was pared back in October and at the quickest rate since April 2022. The solid decline in buying activity led to a renewed fall in inventory levels, altogether reflective of Hong Kong SAR firms' reluctance to hold additional stocks as demand weakened.

Amidst broadly stable capacity conditions, Hong Kong SAR

S&P Global Hong Kong PMI

sa, >50 = improvement since previous month



Source: S&P Global PMI.

Data were collected 12-26 October 2023.

#### Comment

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

*“Operating conditions within Hong Kong SAR’s private sector continued to deteriorate at the start of the fourth quarter, according to PMI data. Mixed signals were observed among forward-looking PMI sub-indices, with a shallower fall in new orders contrasting with heightened pessimism among private sector firms.*

*“More concerning was the squeeze of margins at private sector firms, with overall input cost inflation rising further above that of charge inflation going into the fourth quarter. This could result in a paring back of investments and employment, which will not bode well for growth performance into the year-end.*

*“It will be important to see improvements in demand conditions in the months ahead to drive a renewal of both output growth and business optimism.”*

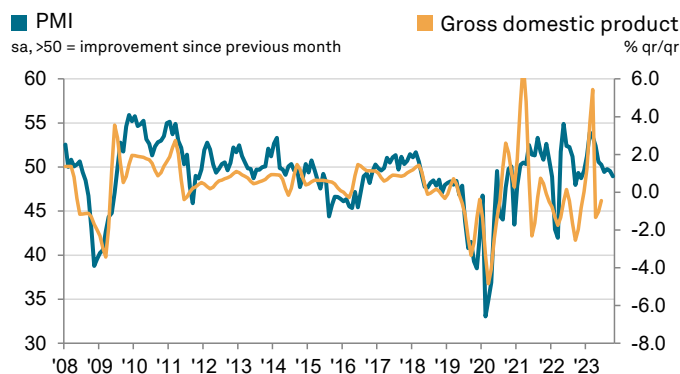
PMI<sup>®</sup>

by S&P Global

private sector firms opted for the non-replacement of work leavers, thus resulting in a slight fall in employment levels over October. Firms notably grew more pessimistic with regards to the outlook for business activity in the 12-months ahead, as concerns over economic uncertainties and the lack of business competitiveness mounted.

Meanwhile vendor performance improved for the first time since April, though this was largely driven by reduced pressures on the demand side. That said, overall input prices continued to increase. Higher raw material, transport and wage costs led overall input price inflation to climb further above the series average, reflecting elevated price pressures. Firms in the wholesale & retail sub-sector experienced the fastest rise in costs, followed by the service sector.

The increase in overall input cost inflation contrasted with the slowest rise in average selling prices in four months. Hong Kong SAR private sector firms reportedly limited the degree to which rising cost burdens were shared with clients in a bid to retain customers and drive sales.



Sources: S&P Global PMI, HKSAR Census and Statistics Department via S&P Global Market Intelligence.

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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@spglobal.com](mailto:economics@spglobal.com).

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