

IHS Markit Hong Kong SAR PMI™

Private sector activity contracts as COVID-19 infections rise

Key findings

New orders and output renew declines...

...as price pressures ease

Business sentiment turns negative in Hong Kong SAR

Data were collected 12-26 January 2022.

Hong Kong SAR's private sector shrank at the start of 2022, according to the latest IHS Markit PMI™ data, amid the worsening of COVID-19 conditions. Both new orders and output declined, which led to lower buying activity while vendor performance deteriorated. Employment levels nevertheless increased while price pressures eased. Overall sentiment within Hong Kong SAR turned negative, however, due to concerns around the COVID-19 Omicron wave.

The headline seasonally adjusted IHS Markit Hong Kong SAR Purchasing Manager's Index™ (PMI™) posted below the 50.0 neutral threshold at 48.9 in January, down from 50.8 in December, to signal a contraction of the private sector. This followed 11 consecutive months of expansion.

Both demand and output were affected by the renewed rise of COVID-19 infections, including the spread of the Omicron variant, concluding their respective growth streaks at the start of 2022. This marked the first declines for new orders and output since March 2021 when Hong Kong SAR was previously affected by elevated COVID-19 cases.

Foreign demand, including from Mainland China, was likewise dampened, declining sharply in January.

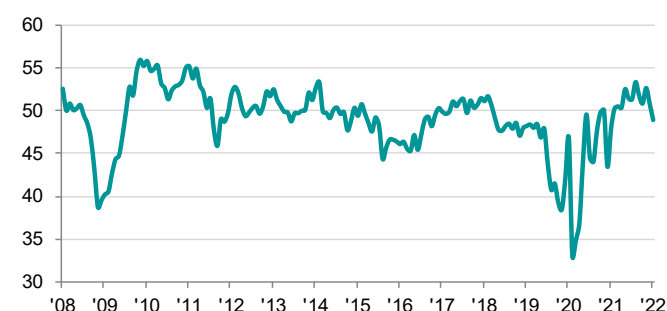
As a result of the falls in demand and activity, Hong Kong SAR private sector firms reduced their quantity of purchases. The decline in buying activity and the reluctance to accumulate stocks of purchases resulted in lower inventory levels in January. Employment levels bucked the trend, however, increasing marginally as Hong Kong SAR firms hired staff at the start of 2022.

Amid the COVID-19 disruptions, supply issues persisted with suppliers' delivery times lengthening at a sharper rate in January. Anecdotal evidence suggested that shipping delays,

continued...

Hong Kong SAR PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Jingyi Pan, Economics Associate Director at IHS Markit, said:

“The deterioration of COVID-19 conditions led to an immediate contraction of Hong Kong SAR’s private sector according to the IHS Markit Hong Kong SAR PMI. Demand and output conditions both declined to a state comparable to early 2021 when the region previously saw elevated COVID-19 cases.

“Amid the entrance of the Omicron variant, business confidence and buying activity both declined at the start of 2022, although employment levels managed to hold up. Price pressures meanwhile eased, which had been a positive sign, though they remain at risk of worsening with supply constraints persisting.

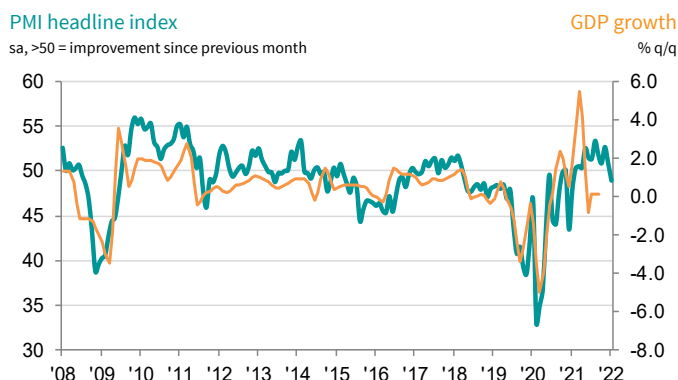
“It will be important to see the latest COVID-19 wave coming under control in Hong Kong SAR for the situation to see a turnaround. IHS Markit forecast Hong Kong SAR GDP to expand by 3.0% in 2022.”

affected by related COVID-19 restrictions in Hong Kong SAR, and reduced flight connectivity caused vendor performance to deteriorate.

Despite the lengthening of lead times, the level of outstanding business eased in January, weighed primarily by the fall in demand. Panellists reported that cancellations of pre-existing orders amid the worsening of COVID-19 conditions also contributed to the decline in backlogged work.

On prices, overall input prices continued to increase in January but at a slower rate when compared to the prior month. Both purchase price and wage inflation eased though the former remained steep by historical standards. As a result, Hong Kong SAR private sector firms were seen passing on these cost increases at a slower rate in January.

Overall sentiment meanwhile turned negative at the start of 2022. Business confidence slipped to the lowest in one year as firms contemplated the uncertain outlook amid the heightening of COVID-19 disruptions.



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Methodology

The IHS Markit Hong Kong SAR PMI™ is compiled by IHS Markit 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. Hong Kong is a Special Administrative Region of China.

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.

January 2022 data were collected 12-26 January 2022.

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

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Purchasing Managers' Index™ (PMI™) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

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