

News Release

Embargoed until 0830 HKT (0030 UTC) 5 January 2023

S&P Global Hong Kong SAR PMI™

Private sector contraction eases at the end of 2022

Key findings

Business activity improves despite weak demand

Cost pressures persist for private sector firms

Optimism about the year ahead picks up in December

Hong Kong SAR's private sector contracted at a slower pace in the final month of 2022 with business activity rising for the first time in four months, supported by the further loosening of COVID-19 curbs. Demand, including foreign demand, remained weak, however, which led to the paring back of buying activity and inventory holdings. Overall price pressures were steep, though business confidence improved to end the year at an eight-month high.

The headline seasonally adjusted S&P Global Hong Kong SAR *Purchasing Manager's Index™ (PMI™)* - a composite single-figured indicator of performance - posted 49.6 in December, up from 48.7 in November. With the PMI printing below the 50.0 neutral threshold for a fourth consecutive month, this signalled a further contraction of the Hong Kong SAR private sector, albeit at a marginal rate.

Business activity in the Hong Kong SAR private sector improved in December, buoyed by the easing of COVID-19 restrictions which also enabled lead times to shorten. Although slight, the rise in activity marked the first expansion of private sector output since August.

Demand remained subdued, however, with overall new orders shrinking on the back of deteriorating economic conditions. New orders from Mainland China also fell as a result of COVID-19 disruptions while weaker global conditions weighed on foreign demand more broadly, according to panellists.

Consequently, private sector firms reduced their buying activity in December following a slight expansion in the month prior. This also resulted in lower input holdings, with businesses generally reluctant to keep additional stocks against the current economic backdrop.

Employment levels in the Hong Kong SAR private sector were little changed in December, however, rising mildly in line with output.

Meanwhile, the amalgamation of higher output and lower

S&P Global Hong Kong PMI

sa, >50 = improvement since previous month



Source: S&P Global.

Data were collected 6-20 December 2022.

Comment

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

“Indications from the latest S&P Global Hong Kong SAR PMI pointed to some signs of improvement on the back of the loosening of COVID-19 curbs. Private sector output expanded for the first time since August with better vendor performance reflected in December.

“That said, the external environment remains challenging for Hong Kong SAR private sector firms with foreign demand having declined at amongst the fastest pace seen in 2022. Orders from Mainland China likewise remained subdued, affected by COVID-19 disruptions even as restrictions were eased.

“Overall confidence in Hong Kong SAR nevertheless improved at the end of 2022 according to the PMI Future Output Index. It will be important to see demand pick up to bring about more positive changes to the Hong Kong SAR economy. S&P Global Market Intelligence forecasts Hong Kong SAR GDP to expand by 2.8% in 2023 following a 3.0% contraction this year.”

PMI™

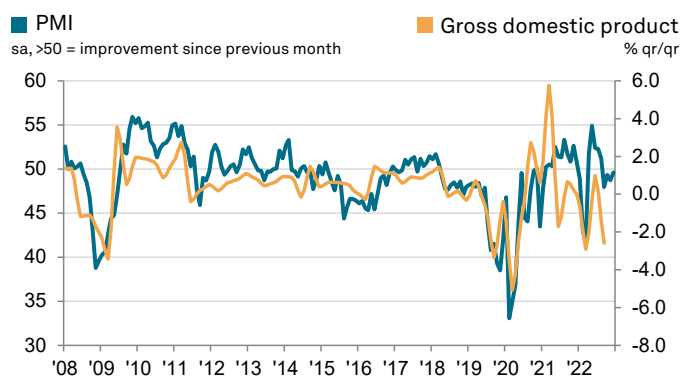
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new orders meant firms worked through some of their backlogged orders, leading to the fastest depletion of backlogged work since March.

Private sector firms also continued to face steep price pressures with overall input price inflation at its highest in nine months. Higher purchase costs, attributed to rising raw material and transportation costs, and wages led to overall input prices climbing at the end of 2022. As a result, firms shared these cost burdens with their customers, nudging selling price inflation higher in December.

Overall sentiment in the Hong Kong SAR private sector remained positive, even as weak demand and persistent price pressures were present. Firms were generally hopeful that economic conditions will improve following the relaxation of COVID-19 restrictions. The level of business confidence further rose from November to an eight-month high and was comfortably above the average since this series was added to the survey in April 2012.



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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