

News Release

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S&P Global Hong Kong SAR PMI™

Hong Kong SAR's private sector contraction extends into October

Key findings

Demand and output contractions persist at slower rates

Inflationary pressures intensify

Business sentiment remains negative

Hong Kong SAR's private sector continued to contract at the start of the fourth quarter amidst lingering COVID-19 impacts and a softening of economic conditions. As a result, purchasing and hiring activities shrank, which led to a decline in inventory levels. Constraints including the lengthening of lead times and intensifying of price pressures were further observed in the Hong Kong SAR private sector in October. Overall sentiment also remained in negative territory for a third straight month.

The headline seasonally adjusted S&P Global Hong Kong SAR Purchasing Manager's Index™ (PMI™) - a composite single-figured indicator of performance – posted 49.3 in October, up from 48.0 in September. With the PMI printing below the 50.0 neutral threshold for a second straight month, this signalled the continued contraction of the Hong Kong SAR private sector in October.

Lower private sector output was recorded for a second month running in October, underpinned by weaker demand for Hong Kong SAR goods and services. An amalgamation of deteriorating economic conditions and lingering COVID-19 effects led to a poorer demand picture according to panellists. That said, the rates of decline eased from September.

Incoming new orders from abroad likewise fell but at a slower rate compared to the prior month. That was not the case for demand from Mainland China, however, as incoming new business from Mainland China fell at a faster pace in October.

Amid lower demand and activity, job shedding continued in the Hong Kong SAR private sector and at the sharpest pace since December 2020. Survey respondents reflected that both redundancies and resignations accounted for the fall.

Similarly, purchasing activity contracted at a faster rate according to the latest survey. Firms were also reluctant to hold onto excessive stocks of inputs given the current

S&P Global Hong Kong PMI

sa, >50 = improvement since previous month



Source: S&P Global.

Data were collected 12-26 October 2022.

Comment

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

“The latest S&P Global Hong Kong SAR PMI reflected continued contraction of the private sector economy at the start of the fourth quarter. As observed through comments from firms, weaker economic conditions and lingering virus impacts continued to weigh on the performance of Hong Kong SAR firms despite recent easing of COVID-19 border restrictions.

“Further to the weak demand conditions, constraints including supply issues and intensifying price pressures also added pressure to firms in October, altogether leading to persistent pessimism in the private sector.

“That said, the level of business confidence picked up slightly from September while the rate of private sector contraction also slowed visibly. Should further stabilisation of local COVID-19 conditions materialise in the near-term, improvement in domestic activity may be anticipated.”

PMI™

by S&P Global

backdrop, leading to the first decline in stocks of purchases in six months. Concurrently, lower demand also led to reduced levels of outstanding work in Hong Kong SAR.

Meanwhile supply constraints persisted for Hong Kong SAR private sector firms. Vendor performance deteriorated once again in October and at a slightly faster rate. COVID-19 related shipping delays were blamed by panellists for the lengthening of lead times.

Price pressures also further intensified at the start of the fourth quarter. Overall input price inflation rose to the highest in six months, attributed to higher prices across both purchases and wages. Higher raw material costs led to the sustained increase in purchase costs while private sector firms continued to adjust salaries in October to retain current staff. As firms opted to share these cost burdens with clients, output prices also inched up further in October and at a faster rate compared to the prior month.

Overall pessimism persisted in the Hong Kong SAR private sector as firms held a negative outlook on future output for the third straight month. Businesses were generally concerned that lingering COVID-19 impacts and further economic downturns will affect sales.



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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