

**Supplementary information in relation to the meeting of the
Legislative Council Panel on Financial Affairs
held on 4 May 2020**

**Agenda Item IV –
Briefing on the work of Hong Kong Monetary Authority**

The Hong Kong Monetary Authority sets out below supplementary information as requested by the Legislative Council (LegCo) Panel on Financial Affairs —

**The underlying parameters and assumptions
adopted by Consensus Forecasts**

The global economic growth forecasts on page 4 of the briefing paper submitted by the HKMA to LegCo Panel on Financial Affairs on 24 April 2020 (“briefing paper”) were taken from a survey report called “Consensus Forecasts”. Please note that they are not the growth forecasts by the HKMA.

“Consensus Forecasts” is a comprehensive economic monthly survey conducted by Consensus Economics Inc. It polls economists from different institutions (e.g. investment banks and think tanks) to obtain their latest forecasts of principal economic indicators, and calculates the average of forecasts by individual institutions. Individual institutions may adopt different parameters and assumptions for their forecasts according to their own model setting, but the report does not provide these details.

Some research results suggest that the average of forecasts have a better track record in prediction compared to individual forecasts. As such, the mean forecasts provided by “Consensus Forecasts” is one of the indicators

commonly used by market participants and the HKMA when analysing the global and domestic economic outlook.

**The implications of changes in Hong Kong's
Purchasing Managers' Index (PMI) on the economy**

Hong Kong's PMI shown on page 32 of the briefing paper is compiled from responses to questionnaires sent to purchasing managers in a panel of around 400 private-sector companies from different economic sectors based on contributions to the Gross Domestic Product (GDP). It is a weighted average of five business indicators: new orders, output, employment, suppliers' delivery times, and stocks of purchases. The PMI varies between 0 and 100, with a reading above 50 indicating an increase in overall business activities compared to the previous month, and below 50 a decrease.

Hong Kong's PMI has stayed below 50 since early 2018 amid the US-China trade tensions. It went down further in mid-2019 partly reflecting the stronger headwinds stemming from a weakening global economy and the local social incidents. The index hit a historic low of 33.1 in February 2020 due to the outbreak of the novel coronavirus. The changes in the PMI indicate that overall business activities have been contracting in Hong Kong, and companies in general had a pessimistic near-term outlook.

Historical data suggest that Hong Kong's PMI is positively correlated with the real GDP growth. In other words, a fall in PMI may imply a decline in the year-on-year real GDP growth. Hence, it is one of the indicators market participants and the HKMA commonly refer to when assessing Hong Kong's economic situation.