

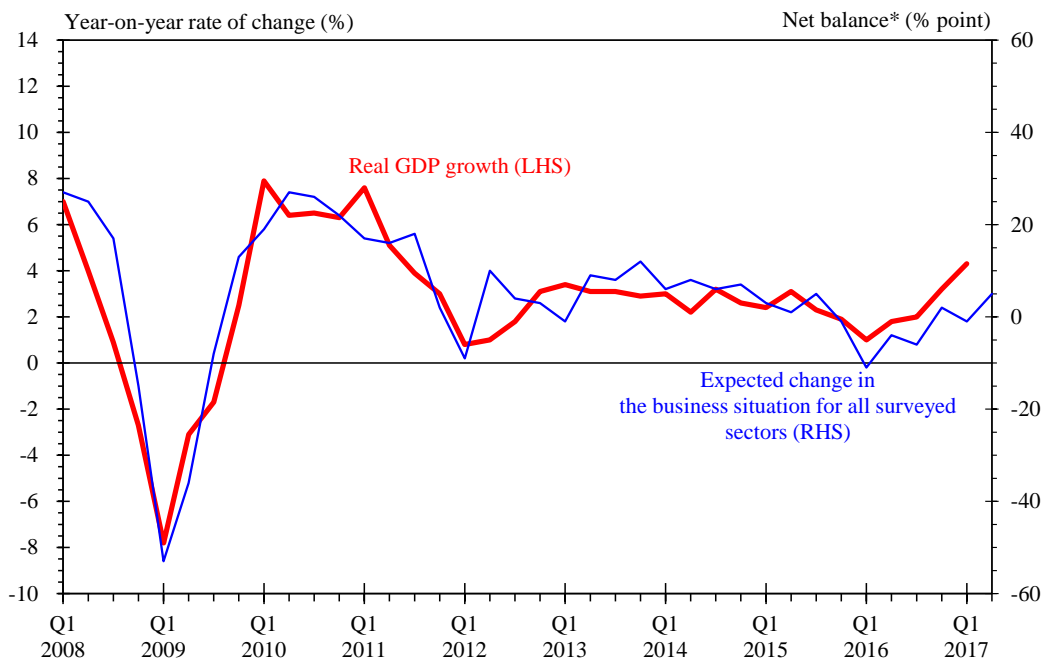
Box 1.2

Business sentiment in Hong Kong

To gain a better understanding of the prevailing business situation and expectations in Hong Kong, the Census and Statistics Department (C&SD) conducts the Quarterly Business Tendency Survey (QBTS) to collect views from over 500 large establishments and the Monthly Survey on the Business Situation of Small and Medium-sized Enterprises (SMEs) to solicit feedbacks from over 500 SMEs⁽¹⁾.

According to recent QBTS results, the overall business sentiment of large enterprises in Hong Kong, though still somewhat cautious in some sectors, was generally on an improving trend in the past several quarters. This was largely in line with the re-acceleration of Hong Kong’s economic growth since the second quarter of 2016, after a notable slackening in the first quarter of 2016 (*Chart 1*). Based on the latest survey results, in which respondents were asked to exclude seasonal influences in their responses, the proportion of respondents expecting their businesses to fare better in the second quarter of 2017 was slightly higher than that of those expecting a weaker business performance, with large enterprises in such sectors as “information and communications” and “financing and insurance” particularly optimistic about the near-term business outlook. Many other sectors such as “professional and business services”, “retail”, “import/export trade and wholesale” and “construction” also showed varying degrees of relative improvement (*Table 1*). Meanwhile, hiring sentiment of large enterprises in most sectors remained positive, amid a tight labour market (*Table 2*).

Chart 1 : Sentiments among large enterprises were generally on an improving trend in the past several quarters



Note : (*) Net balance indicates the direction of expected change in the business situation versus the preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing “better” over that choosing “worse”. A positive sign indicates a likely upward trend while a negative sign, a likely downward trend.

(1) SMEs in the sectors covered refer to establishments with fewer than 50 persons engaged.

Box 1.2 (Cont'd)

Table 1 : Large enterprises in some sectors turned more optimistic about the near-term business outlook

QBTS: Expected changes in business situation						
	Net balance* (% point)					
	2016				2017	
	Q1	Q2	Q3	Q4	Q1	Q2
Manufacturing	-10	+12	-2	+2	+18	+14
Construction	-11	-7	-12	-11	-18	-14
Import/export trade and wholesale	-30	-8	-14	-14	-6	-2
Retail	-47	-40	-38	-2	-15	-4
Accommodation and food services	-15	-17	-11	+13	-14	-13
Transportation, storage and courier services	+1	+8	+5	+12	+7	-2
Information and communications	+13	0	+12	+15	0	+19
Financing and insurance	+7	+9	+6	+12	+12	+24
Real estate	-7	-6	-3	+4	-2	0
Professional and business services	0	-11	-14	+9	-8	0

Note: (*) Net balance indicates the direction of expected change in the business situation versus the preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing "better" over that choosing "worse". A positive sign indicates a likely upward trend while a negative sign, a likely downward trend.

Table 2 : Hiring sentiment among large enterprises was mostly positive

QBTS: Expected changes in number of persons engaged						
	Net balance* (% point)					
	2016				2017	
	Q1	Q2	Q3	Q4	Q1	Q2
Manufacturing	-3	+12	+12	+17	+10	-7
Construction	+13	+1	+11	+4	-8	0
Import/export trade and wholesale	-3	-3	-6	-5	0	+2
Retail	+9	-2	-4	+4	+1	+4
Accommodation and food services	+7	+12	+15	+16	+5	+9
Transportation, storage and courier services	+10	+11	+18	+20	+17	+9
Information and communications	+13	+12	+21	+13	+14	+24
Financing and insurance	+7	+7	+10	+10	+15	+16
Real estate	+14	+14	+6	+27	+28	+18
Professional and business services	+5	-4	-7	+15	0	+6

Note: (*) Net balance indicates the direction of expected change in the number of persons engaged versus the preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing "up" over that choosing "down". A positive sign indicates a likely upward trend while a negative sign, a likely downward trend.

As for the SMEs, a set of diffusion indices is compiled by the C&SD based on the monthly survey, to gauge the general directions of change in the respondents' views on business receipts, employment and new orders versus the preceding month. The diffusion indices on business receipts suggested that the overall business situation of the SMEs showed some relative improvement in recent months. The overall index picked up successively from 45.2 in December 2016 to 47.2 in March 2017 and stayed steady at 47.0 in April, albeit still below the boom-bust threshold of 50.0 (*Table 3*). Performances of individual sectors were mixed in terms of business receipts. While the SMEs in the business services sector fared better in April, the readings for those in wholesale trade, real estate, restaurants, and logistics were well below the boom-bust threshold of 50.0. Nevertheless, the SMEs surveyed in general suggested a broadly stable employment situation in recent months (*Table 4*).

For the import/export trade sector in particular, SMEs' views on new orders were sought separately to help gauge the likely export performance in the near term. The diffusion index on new orders hovered below the 50.0 boom-bust threshold in recent months, plausibly reflecting some concerns about lingering external uncertainties (*Table 5*).

The monthly survey on SMEs also indicated that the overall credit situation remained highly accommodative in recent months. In April 2017, 8.0% of SMEs reported current need for credit. Thanks to the generally accommodative monetary conditions and the Government's continued efforts to support SMEs through various loan guarantee and funding schemes, only 0.5% reported tight access to credit (*Table 6*).

While these two surveys have their limitations and the results should be interpreted with care, the latest survey findings seem to suggest that business sentiment in general turned slightly more positive since entering 2017, though some cautiousness lingered on among certain businesses. Although the global economy has been improving gradually since the second quarter of last year, the Government will remain vigilant to various risk factors in the external environment and their possible repercussions on the Hong Kong economy.

Box 1.2 (Cont'd)

Table 3 : Diffusion indices[^] on SMEs' business receipts

	2016									2017			
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
<i>Local segments</i>													
Restaurants	44.0	41.4	40.2	49.2	45.0	47.5	44.1	41.9	42.4	45.1	44.4	43.0	43.7
Real estate	46.6	53.4	43.8	50.0	47.4	55.3	42.1	33.3	40.4	45.2	48.0	50.0	42.5
Retail trade	38.8	44.2	37.2	39.7	43.3	45.3	47.9	47.1	43.2	45.2	44.0	43.1	47.6
Wholesale trade	32.4	35.3	38.9	41.7	50.0	47.2	41.7	48.1	41.1	46.4	44.6	40.0	40.0
Business services	50.0	51.8	48.5	45.6	48.5	47.1	47.2	51.2	51.1	51.1	49.0	51.0	54.2
<i>External segments</i>													
Import/export trade	50.9	46.3	41.4	44.0	45.2	45.2	46.9	47.2	47.2	45.2	46.7	50.0	47.0
Logistics	46.7	46.4	37.5	39.5	47.4	50.0	47.1	45.7	38.3	43.5	45.3	44.1	44.1
All the above sectors*	45.7	45.9	41.0	43.6	45.7	46.6	46.3	46.4	45.2	46.0	46.1	47.2	47.0

Notes : (^) The diffusion index is computed by adding the percentage of SMEs reporting "up" to one half of the percentage of SMEs reporting "same". A diffusion index reading above 50 indicates that the business condition is generally favourable, whereas an index below 50 indicates otherwise. Respondents were requested to exclude seasonal effects in reporting their views.

(*) Weighted average using total number of SMEs in individual sectors as weights.

Table 4 : Diffusion indices[^] on SMEs' employment situation

	2016									2017			
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
<i>Local segments</i>													
Restaurants	50.9	48.3	45.9	50.0	51.7	48.3	51.7	46.3	48.2	50.0	47.5	48.7	46.8
Real estate	50.0	50.0	50.0	46.1	50.0	51.3	51.3	44.8	47.1	47.1	48.0	51.0	50.0
Retail trade	47.4	49.5	48.7	48.3	49.6	49.6	49.6	50.0	49.1	49.4	49.7	49.7	50.0
Wholesale trade	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	48.2	50.0	48.3
Business services	50.0	50.0	48.5	48.5	48.5	48.6	50.0	50.0	50.0	50.0	50.0	51.0	51.0
<i>External segments</i>													
Import/export trade	50.5	49.5	48.8	48.7	49.1	48.2	48.2	50.7	49.1	50.0	50.0	49.1	49.7
Logistics	43.3	50.0	50.0	44.7	50.0	44.4	47.1	52.2	51.7	51.6	50.0	48.5	50.0
All the above sectors*	49.4	49.6	48.8	48.4	49.5	48.8	49.3	49.8	49.2	49.7	49.5	49.6	49.7

Notes : (^) The diffusion index is computed by adding the percentage of SMEs reporting "up" to one half of the percentage of SMEs reporting "same". A diffusion index reading above 50 indicates that the employment situation is generally favourable, whereas an index below 50 indicates otherwise. Respondents were requested to exclude seasonal effects in reporting their views.

(*) Weighted average using total number of SMEs in individual sectors as weights.

Table 5 : Diffusion index[^] on SMEs' current new orders

	2016									2017			
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Import/export trade	48.6	47.7	41.4	44.9	46.9	46.5	47.4	48.6	48.1	47.3	46.4	49.1	47.9

Note : (^) The diffusion index is computed by adding the percentage of SMEs reporting "up" to one half of the percentage of SMEs reporting "same". A diffusion index reading above 50 indicates that the new orders condition is generally favourable, whereas an index below 50 indicates otherwise. Respondents were requested to exclude seasonal effects in reporting their views.

Table 6 : Percentage of SMEs with current credit need and reporting tight credit access[&]

	2016							2017				
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	
All selected sectors*												
With current credit need	13.0	8.9	8.4	9.3	9.2	9.4	9.8	8.4	8.5	7.8	8.0	
Reported tight access to credit	1.2	0.8	0.3	0.9	0.7	0.6	0.5	0.2	0.1	0.7	0.5	

Notes : (&) From the June 2016 round onwards, the questions on access to credit have been enhanced for better understanding of the current credit need and credit access situation of SMEs. It should be noted that the assessment of credit access situation might display great fluctuations from month to month given the small number of SMEs involved, as a great majority of SMEs reported "no credit need". Thus the results should be interpreted with caution.

(*) Weighted average using total number of SMEs in individual sectors as weights.