

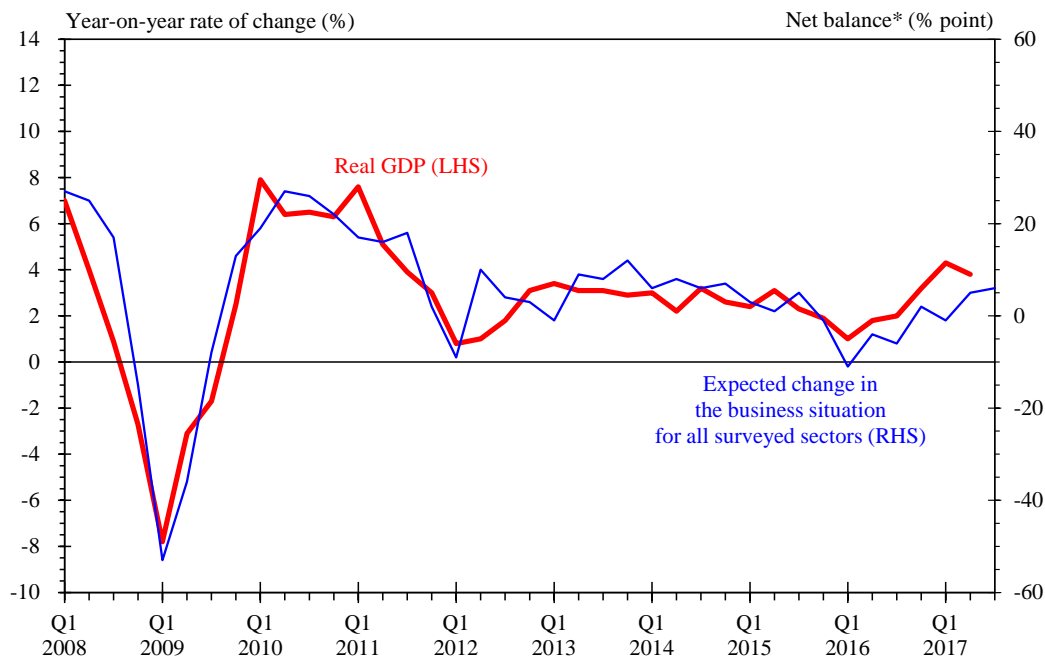
## Box 1.2

## Business sentiment in Hong Kong

This box article intends to give a general overview on the prevailing business sentiment in Hong Kong, based on results from various surveys that are available in the public domain.

According to the latest results from the Census and Statistics Department (C&SD)'s Quarterly Business Tendency Survey (QBTS)<sup>(1)</sup>, large enterprises in Hong Kong have turned somewhat more sanguine about their near-term business prospects alongside the above-trend growth of the Hong Kong economy in the first half of 2017 (*Chart 1*). In particular, the proportion of large enterprises surveyed in early June till mid-July 2017 expecting their business situation to be better in the third quarter of 2017 outweighed that of those expecting a weaker business performance by 6 percentage points (i.e. a net balance of +6), up from a net balance of +5 in the preceding quarter. Among the various sectors, large enterprises in “financing and insurance”, “information and communications”, and “manufacturing” remained highly optimistic. “Real estate” and “transportation, storage and courier services” returned to a positive net balance, while some other sectors such as “construction”, “import/export trade and wholesale” and “accommodation and food services” also saw some relative improvements (*Table 1*). Hiring sentiment of large enterprises in most sectors remained positive, broadly in line with the prevailing sturdy growth in employment (*Table 2*).

**Chart 1 : Large enterprises in Hong Kong generally remained positive about their near-term business prospects**



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) The Quarterly Business Tendency Survey collected views from around 500 large establishments on their near-term business outlook. Respondents were asked to exclude seasonal influences in their responses.

## Box 1.2 (Cont'd)

**Table 1 : Large enterprises in general turned more sanguine about the near-term business outlook**

QBTS: Expected changes in business situation						
	Net balance* (% point)					
	2016			2017		
	Q2	Q3	Q4	Q1	Q2	Q3
Manufacturing	+12	-2	+2	+18	+14	+18
Construction	-7	-12	-11	-18	-14	-9
Import/export trade and wholesale	-8	-14	-14	-6	-2	0
Retail	-40	-38	-2	-15	-4	-4
Accommodation and food services	-17	-11	+13	-14	-13	-2
Transportation, storage and courier services	+8	+5	+12	+7	-2	+2
Information and communications	0	+12	+15	0	+19	+17
Financing and insurance	+9	+6	+12	+12	+24	+19
Real estate	-6	-3	+4	-2	0	+6
Professional and business services	-11	-14	+9	-8	0	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		
	Q2	Q3	Q4	Q1	Q2	Q3
Manufacturing	+12	+12	+17	+10	-7	+21
Construction	+1	+11	+4	-8	0	+2
Import/export trade and wholesale	-3	-6	-5	0	+2	-1
Retail	-2	-4	+4	+1	+4	-3
Accommodation and food services	+12	+15	+16	+5	+9	+20
Transportation, storage and courier services	+11	+18	+20	+17	+9	+7
Information and communications	+12	+21	+13	+14	+24	+9
Financing and insurance	+7	+10	+10	+15	+16	+16
Real estate	+14	+6	+27	+28	+18	+14
Professional and business services	-4	-7	+15	0	+6	-3

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.

Separately, the C&SD also compiled a set of diffusion indices on a monthly basis<sup>(2)</sup> to gauge the general directions of change in the views of small and medium-sized enterprises (SMEs) on their business situation versus the preceding month. While the overall index on business receipts was still below the divide of 50.0, the readings since March 2017 were somewhat higher than those in the second half of 2016 and early 2017. Also, the feedbacks from SMEs surveyed continued to point to a broadly stable employment situation and highly accommodative credit situation in recent months (*Table 3*).

**Table 3 : Selected results from C&SD's Report on Monthly Survey on the Business Situation of SMEs**

	2016						2017						
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Diffusion indices <sup>^</sup> for all selected sectors*													
Business receipts	43.6	45.7	46.6	46.3	46.4	45.2	46.0	46.1	47.2	47.0	47.0	46.5	47.8
Employment	48.4	49.5	48.8	49.3	49.8	49.2	49.7	49.5	49.6	49.7	50.0	49.2	49.0
Percentage of SMEs in all selected sectors*													
with current credit need	8.9	8.4	9.3	9.2	9.4	9.8	8.4	8.5	7.8	8.0	8.1	7.9	7.1
reported tight access to credit <sup>&amp;</sup>	0.8	0.3	0.9	0.7	0.6	0.5	0.2	0.1	0.7	0.5	0.1	0.2	0.6

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 / 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.

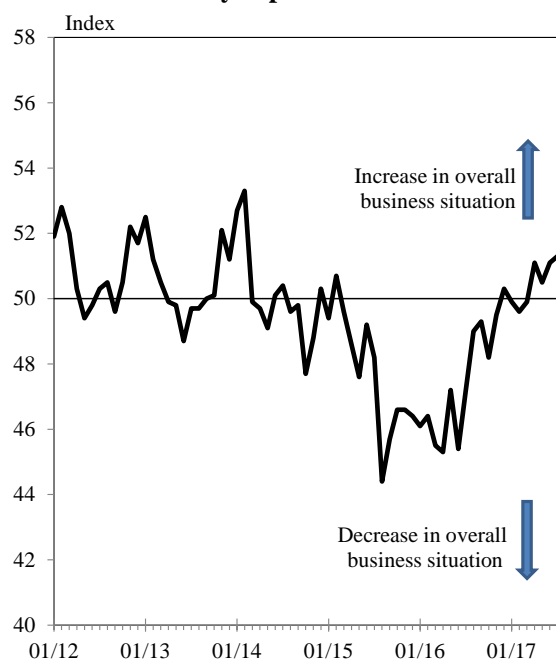
(&) It should be noted that the assessment of credit access situation might display great fluctuations from month to month given the small number of SMEs involved, as a great majority of SMEs reported "no credit need". Thus the results should be interpreted with caution.

(2) It refers to the results from the Monthly Survey on the Business Situation of SMEs that solicits feedbacks from a panel sample of around 600 SMEs each month.

**Box 1.2 (Cont'd)**

There are also other surveys in the public domain that help shed some light on the prevailing business sentiment. The Nikkei Purchasing Managers' Index (PMI) of Hong Kong<sup>(3)</sup>, which gauges the performance of the private sector's business activity, showed a general trend of improvement since mid-2016 as the Hong Kong economy regained growth momentum over the course of 2016. It rose above the 50.0 divide in April 2017 and pointed to continued activity expansion in the subsequent three months, largely in line with the more sanguine economic environment in 2017 so far (*Chart 2*). Separately, business sentiment of Hong Kong's exporters, as measured by the Hong Kong Trade Development Council (HKTDC)'s Export Index<sup>(4)</sup>, rose visibly to a 16-quarter high of 50.1 in the second quarter of 2017, from 47.1 in the first quarter, broadly in line with the sustained improvement in external demand and reviving regional trade flows during the quarter (*Table 4*).

**Chart 2 : Nikkei Hong Kong PMI pointed to continued activity expansion in recent months**



Source: Nikkei; IHS Markit.

Note: A reading above 50 indicates an increase in the overall business situation, whereas a reading below 50 indicates a decrease in the overall business situation. The index has been adjusted for seasonality.

**Table 4 : HKTDC's Export Index improved visibly in the second quarter of 2017**

2015	Q1	44.9
	Q2	46.8
	Q3	37.1
	Q4	31.4
2016	Q1	37.3
	Q2	37.2
	Q3	38.8
	Q4	33.7
2017	Q1	47.1
	Q2	50.1

Source: HKTDC.

Note: A reading above 50 indicates that more than half of the surveyed traders incline towards the upside, which can be interpreted as an upward trend and an increase in confidence, and vice versa for a reading below 50.

It is worthwhile to point out that these surveys are essentially opinion-based, thereby unavoidably subject to various limitations (e.g. results are not directly comparable) and hence the results should be interpreted with care. Nonetheless, the latest survey findings seem to suggest that business sentiment in Hong Kong has generally remained positive of late, as the global economy sustained its growth momentum. While downside risks in the global macroeconomic environment have receded thus far this year, the Government will stay vigilant to various developments on the external front and their possible repercussions on the Hong Kong economy.

- (3) According to the press release jointly released by Nikkei and IHS Markit, the Nikkei Hong Kong PMI is compiled according to monthly replies to questionnaires sent to purchasing executives in over 300 companies. It is a composite index based on five individual indices with the following weights: New Orders (0.3); Output (0.25); Employment (0.2); Suppliers' Delivery Times (0.15); and Stock of Items Purchased (0.1), with the Delivery Times index inverted so that it moves in a comparable direction. Survey responses reflect the change, if any, in the prevailing month compared to the previous month.
- (4) The HKTDC Export Index is compiled based on a quarterly survey to collect views from 500 traders concerning their export performances in the prevailing quarter as well as their outlook for the subsequent quarter and covers six major industries – electronics, clothing, jewellery, timepieces, toys and machinery.