

Box 1.1

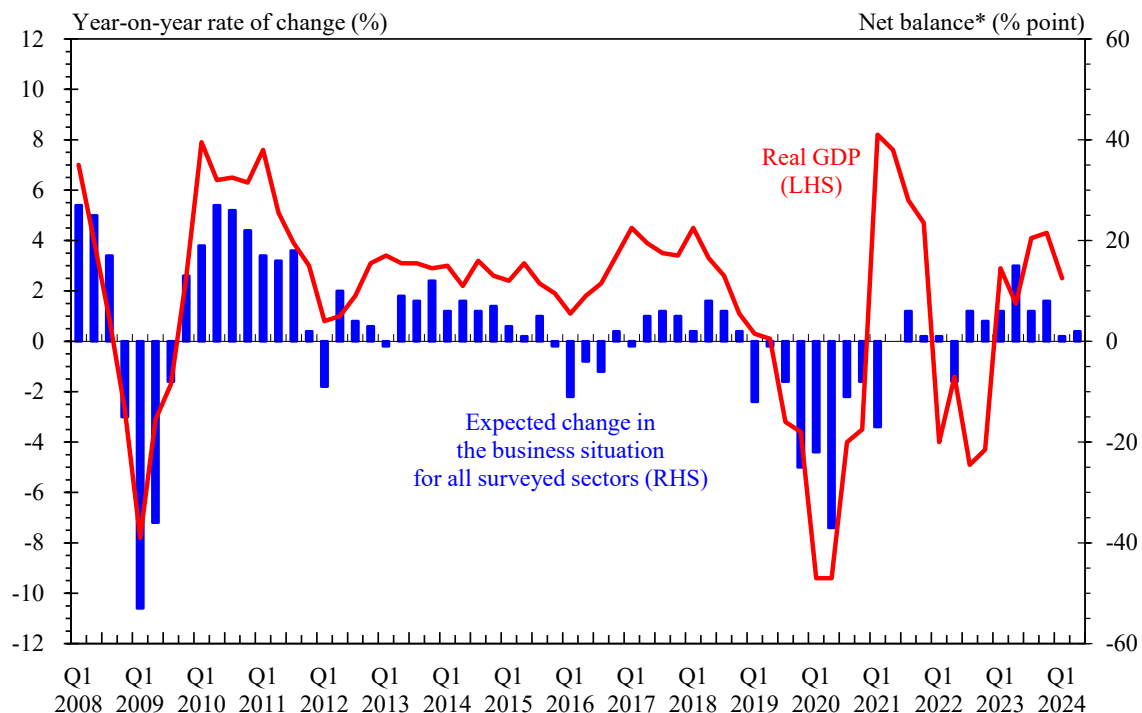
Business sentiment in Hong Kong

This box article gives a general overview of the prevailing business sentiment in Hong Kong, based on results from various surveys that are available in the public domain. Survey results indicate that overall business sentiment in the past few months was generally stable with some positive signs.

According to the results of the Census and Statistics Department (C&SD)’s Quarterly Business Tendency Survey (QBTS)⁽¹⁾ conducted during 2 March 2024 to 11 April 2024, business sentiment among large enterprises in Hong Kong was largely stable in overall terms as compared to three months ago (*Chart 1*). The proportion of large enterprises expecting their business situation to improve in the second quarter of 2024 over the first quarter was larger than the proportion of those expecting the situation to worsen by 2 percentage points (i.e. a net balance of +2), somewhat higher than the net balance of +1 in the previous round.

Business sentiment of large enterprises was positive in a majority of sectors (*Table 1*). The net balance for the “financing and insurance” and “manufacturing” sectors improved within the positive zone, while those for “real estate” and “information and communications” sectors reverted to positive. The net balances for the “accommodation and food services” and “transportation, storage and courier services” sectors remained positive notwithstanding mild moderations. Meanwhile, the net balances for “retail” and “professional and business services” sectors turned negative, while those of “construction” and “import/export trade and wholesale” sectors remained in the negative zone. Large enterprises’ appetite for hiring was also stable (*Table 2*).

Chart 1 : Business sentiment of large enterprises was largely stable in overall terms



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 500-600 large establishments on their near-term business outlook. Respondents were asked to exclude seasonal influences in their responses.

Box 1.1 (Cont'd)

Table 1 : Business sentiment of large enterprises was positive in a majority of sectors

QBTS: Expected changes in business situation						
	Net balance* (% point)					
	2023				2024	
	Q1	Q2	Q3	Q4	Q1	Q2
Manufacturing	+23	+36	+20	-2	+2	+8
Construction	-7	+6	+10	+1	-9	-11
Import/export trade and wholesale	-8	+10	+7	+5	-9	-9
Retail	+12	+34	+18	+32	+3	-16
Accommodation and food services	+39	+64	+41	+33	+9	+7
Transportation, storage and courier services	-5	+13	+4	+11	+5	+4
Information and communications	-1	+6	+2	+9	-4	+1
Financing and insurance	+25	+25	+4	+10	+14	+19
Real estate	+4	+13	-2	+6	-6	+8
Professional and business services	-3	-4	+5	+1	+1	-9
All sectors above	+6	+15	+6	+8	+1	+2

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 of large enterprises was stable

QBTS: Expected changes in number of persons engaged						
	Net balance* (% point)					
	2023				2024	
	Q1	Q2	Q3	Q4	Q1	Q2
Manufacturing	+8	+18	+26	+11	+13	+7
Construction	+16	+6	+6	+2	-8	+11
Import/export trade and wholesale	-6	-1	-2	+1	-1	+1
Retail	+6	+20	+8	+14	+7	+6
Accommodation and food services	+24	+50	+31	+23	+21	+11
Transportation, storage and courier services	+9	0	+6	+8	+8	+9
Information and communications	-6	-6	-6	-2	-11	-15
Financing and insurance	+9	+13	+8	+10	+10	+12
Real estate	0	+9	+8	+19	+10	+15
Professional and business services	+5	+7	+4	+6	+6	+5
All sectors above	+6	+11	+8	+9	+6	+7

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 small and medium-sized enterprises (SMEs), C&SD compiles a set of diffusion indices on a monthly basis⁽²⁾ to gauge the general direction of change in their views on the business situation versus the preceding month. The overall index on the current situation rose from 43.3 in January to 45.5 in March, before easing back to 43.8 in April (*Chart 2a*). Employment sentiment among SMEs also showed some improvement over the same period while credit conditions stayed accommodative. Meanwhile, the Standard Chartered Hong Kong SME Leading Business Index⁽³⁾ rose back in the second quarter.

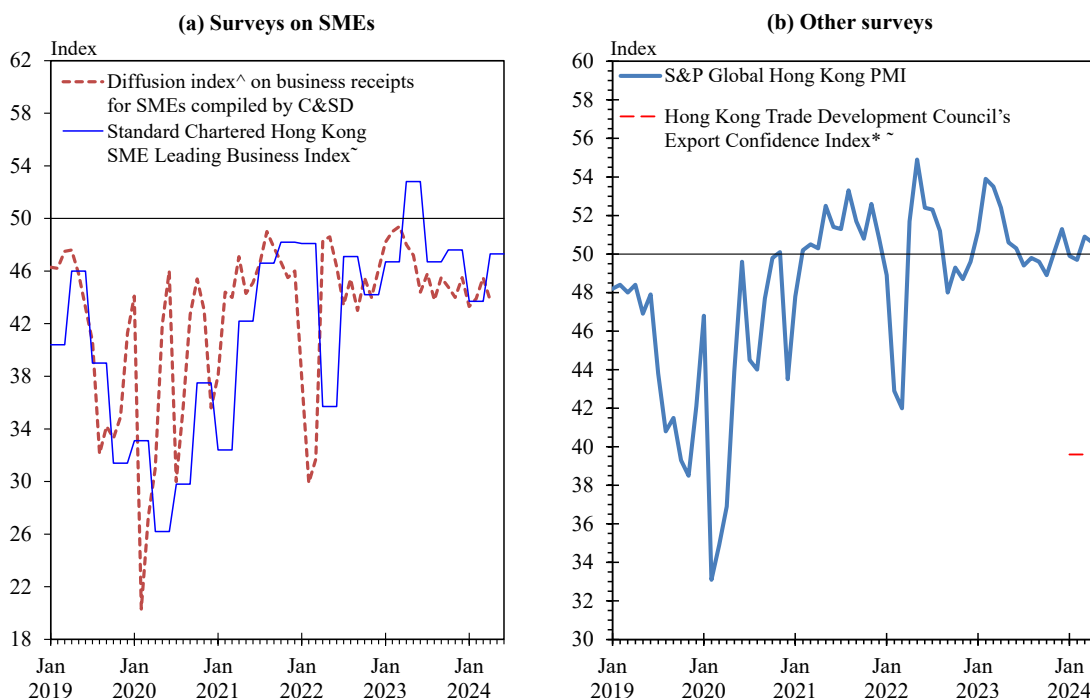
As for other surveys in the public domain, the S&P Global Purchasing Managers' Index (PMI) of Hong Kong⁽⁴⁾, which gauges the performance of the private sector's business activity, returned to the expansionary zone in March and April, with readings of 50.9 and 50.6 respectively. The Hong Kong Trade Development Council (HKTDC) Export Confidence Index⁽⁵⁾ suggested a subdued export environment for the time being, but exporters generally had stronger confidence in future performance. Among the exporters surveyed, 83.3% saw economic slowdown or recession risk in overseas markets as the major challenge to their businesses in the next twelve months, followed by rising transport costs (63.2%) and geopolitical impact on supply chains and production and/or sourcing (58.8%).

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

(3) Conducted independently by Hong Kong Productivity Council, the quarterly survey enables the public and SMEs to gain insights into the forthcoming business climate for better forward planning. The Overall Index comprises five areas, including local SMEs' outlook on “Recruitment Sentiment”, “Investment Sentiment”, “Business Condition”, “Profit Margin”, and “Global Economy” for the next quarter.

Box 1.1 (Cont'd)

Chart 2 : Business sentiment indicators in the past few months were generally stable



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 asked to exclude seasonal effects in reporting their views.

(~) Quarterly data.

(*) A reading above 50 indicates an upward trend and an optimistic outlook, while a reading below 50 indicates a downward trend and a pessimistic outlook.

It is worth noting 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. These survey findings taken together suggest that overall business sentiment in the past few months was generally stable, with some positive signs seen in various surveys. Looking ahead, while the complicated external environment will still affect business sentiment in the near term, continued growth of the economy should provide support.

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- (4) According to the press release by S&P Global, the S&P Global Hong Kong PMI is compiled according to monthly replies to questionnaires sent to purchasing managers in around 400 private sector companies. It is a composite index based on five individual indices with the following weights: New Orders (30%); Output (25%); Employment (20%); Suppliers’ Delivery Times (15%); and Stocks of Purchases (10%), with the Suppliers’ 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.
 - (5) The HKTDC Export Confidence Index, revamped from the previously HKTDC’s Export Index, aims to gauge the prospects of the near-term export performance of Hong Kong traders. It is a composite index based on five individual sub-indices with the following weight: Sales and New Orders (50.0%); Trade Value (12.5%); Cost (12.5%); Procurement (12.5%); and Inventory (12.5%), with the Cost index and Inventory index inverted so that they move in comparable direction. The business confidence survey is conducted on a quarterly basis, with more than 500 participating Hong Kong traders from six major industry sectors interviewed, namely electronics, clothing, toys, jewellery, timepieces and equipment/materials.