

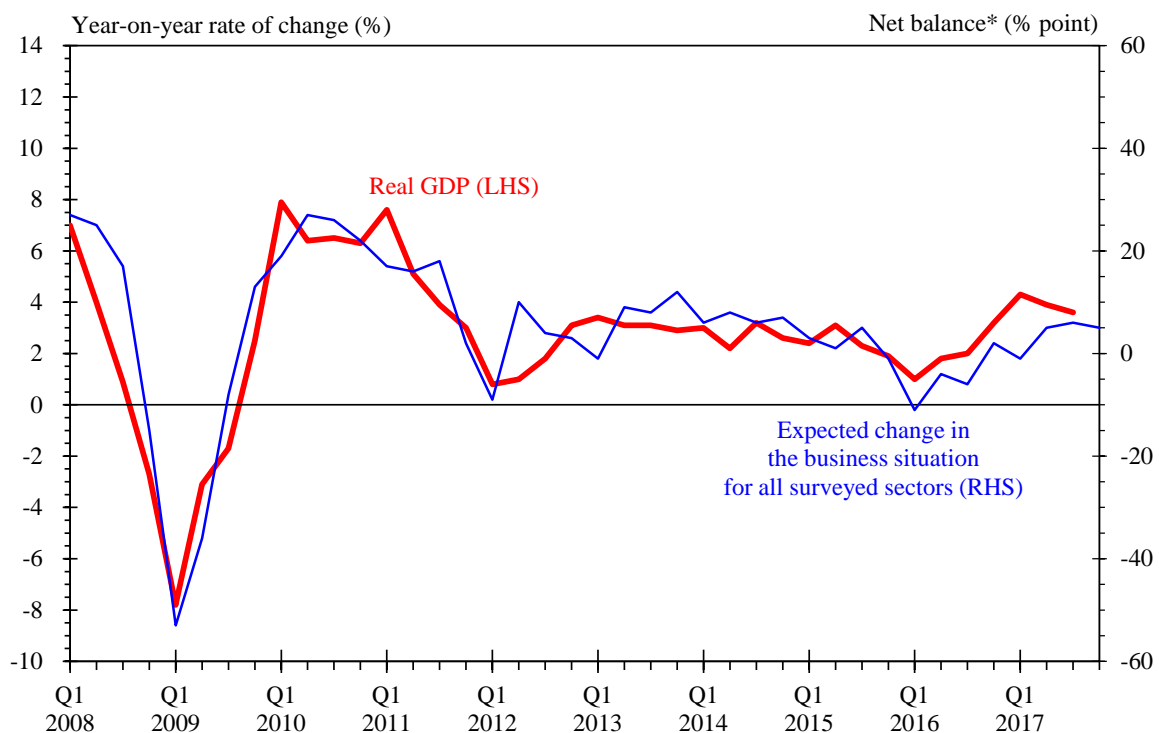
Box 1.1

Business sentiment in Hong Kong

This box article intends to give a general overview of 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)⁽¹⁾, large enterprises in Hong Kong have remained sanguine about their near-term business prospects as the economy sustained above-trend growth in the third quarter of 2017 (*Chart 1*). In particular, the proportion of large enterprises surveyed in early September till mid-October 2017 expecting their business situation to be better in the fourth quarter of 2017 outweighed that of those expecting a weaker business performance by 5 percentage points (i.e. a net balance of +5), broadly similar to the net balances in the preceding two quarters. Among the various sectors, business prospects for large enterprises in “retail” and “accommodation and food services” improved notably and reverted to strong positive net balances (*Table 1*), buttressed by the optimistic local consumer sentiment amid a full-employment situation and the recovery in inbound tourism. Meanwhile, large enterprises in “professional and business services” and “import/export trade and wholesale” turned somewhat more upbeat regarding the near-term outlook, and those in “information and communications”, “financing and insurance” and “real estate” remained optimistic. On the other hand, business sentiment of large enterprises in “manufacturing”, “construction”, “transportation, storage and courier services” weakened somewhat from a quarter earlier. Hiring sentiment of large enterprises in most sectors remained positive (*Table 2*), broadly in line with the prevailing robust growth in employment.

Chart 1 : Large enterprises in Hong Kong 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 560 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 for large enterprises in consumption- and tourism-related segment improved visibly

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

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 remained largely favourable

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

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⁽²⁾ 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. The overall index on business receipts since July 2017, despite still below the 50.0 mark, was generally higher than its levels in late-2016 and the first half of 2017 (**Table 3**). Also, the feedbacks from those SMEs consulted continued to suggest a broadly stable employment situation and highly accommodative credit situation in recent months.

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

	2016			2017										
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	
Diffusion indices [^] for all selected sectors*														
Business receipts	46.3	46.4	45.2	46.0	46.1	47.2	47.0	47.0	46.5	47.8	48.2	48.5	48.0	
Employment	49.3	49.8	49.2	49.7	49.5	49.6	49.7	50.0	49.2	49.0	49.0	49.4	49.8	
Percentage of SMEs in all selected sectors*														
with current credit need	9.2	9.4	9.8	8.4	8.5	7.8	8.0	8.1	7.9	7.1	7.2	7.1	7.5	
reported tight access to credit ^{&}	0.7	0.6	0.5	0.2	0.1	0.7	0.5	0.1	0.2	0.6	0.1	0.6	0.9	

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.

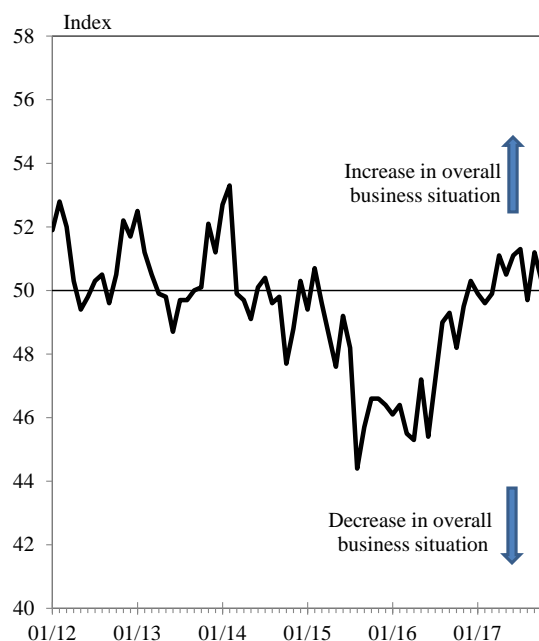
(*) Weighted average using total number of SMEs in individual sectors as weights.

(&) 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 1.1 (Cont'd)

As for other surveys in the public domain, the Nikkei Purchasing Managers' Index (PMI) of Hong Kong⁽³⁾, which gauges the performance of the private sector's business activity, has stayed above the 50.0 divide in most of the months since the second quarter of 2017 (*Chart 2*), signalling that the overall business situation generally saw further improvement amid the generally sanguine global economy. Separately, the Hong Kong Trade Development Council (HKTDC)'s Export Index⁽⁴⁾, though easing somewhat in the third quarter from its four-year high in the preceding quarter, was still notably higher than the readings reported in 2016 (*Table 4*).

Chart 2 : Nikkei Hong Kong PMI pointed to stabilised business sentiment

Sources: 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

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
	Q3	46.2

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. Still, the latest survey findings seem to suggest that business sentiment in Hong Kong has remained positive of late, as the global economy is generally expected to expand moderately further in the near term. That said, with the lingering uncertainties in the external environment, the Government will stay vigilant to the global economic developments 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 around 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.