

Box 1.1

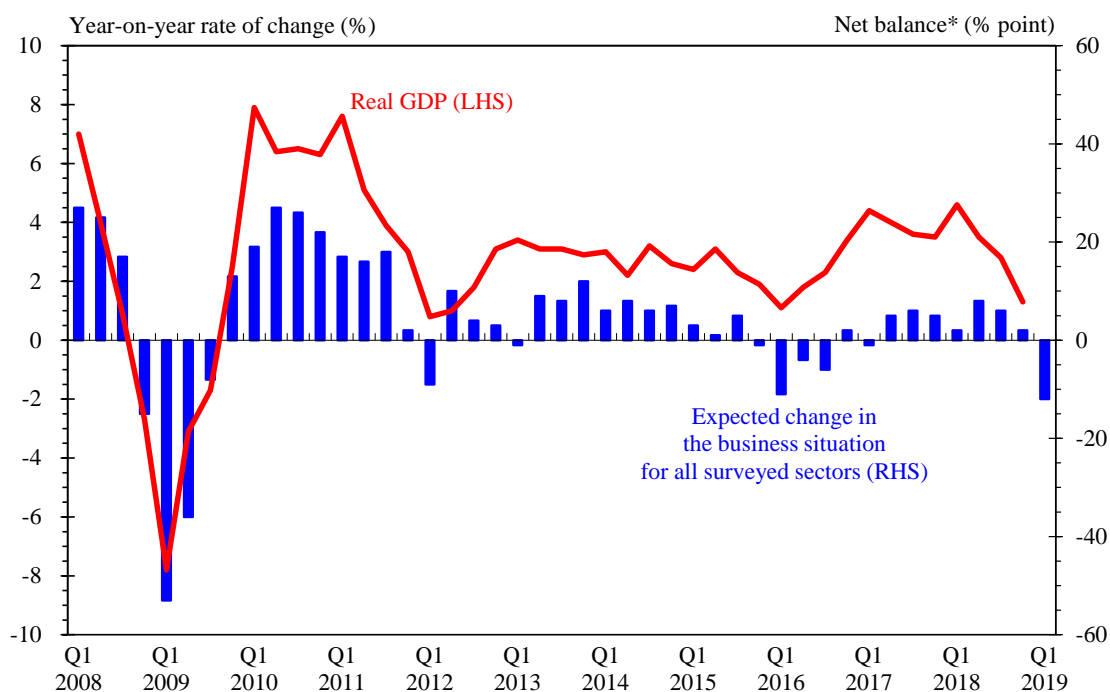
Business sentiment in Hong Kong

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.

According to the results from the Census and Statistics Department (C&SD)'s Quarterly Business Tendency Survey (QBTS)⁽¹⁾ conducted during early December 2018 to mid-January 2019, business sentiment among large enterprises in Hong Kong turned very cautious in the face of various external uncertainties (*Chart 1*). The proportion of large enterprises expecting a weaker business situation in the first quarter of 2019 outweighed the proportion of those expecting a better situation by 12 percentage points (i.e. a net balance of -12), worsening markedly from the positive net balance of 2 percentage points in the preceding quarter. This high degree of cautiousness was uncommon, similar to that revealed in the first quarter of 2016 when economic growth slowed to 1.1%.

All ten sectors surveyed reported negative net balances (*Table 1*). Specifically, the net balance in “import/export trade and wholesale” fell sharply in the negative zone, conceivably reflecting the concerns over the moderation in global economic growth and the US-Mainland trade tensions. The net balance in “real estate” stayed negative as the property market continued to consolidate. The net balances of “retail”, “accommodation and food services”, “transportation, storage and courier services”, “information and communications” and “financing and insurance” fell markedly and dipped into the negative region, while that of “construction” remained deep in the negative zone. Large enterprises in “professional and business services” and “manufacturing” also became more cautious. Nonetheless, overall hiring sentiment of large enterprises was still broadly positive, with many sectors surveyed continuing to expect employment to increase in the first quarter of 2019 (*Table 2*).

Chart 1 : Large enterprises turned very cautious



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 cautious in all sectors surveyed

QBTS: Expected changes in business situation						
	Net balance* (% point)					
	2017	2018				2019
	Q4	Q1	Q2	Q3	Q4	Q1
Manufacturing	-1	-10	-5	+23	-1	-3
Construction	-16	-16	-13	-10	-26	-23
Import/export trade and wholesale	+1	-4	+5	-1	-5	-23
Retail	+24	+20	+4	-1	+19	-6
Accommodation and food services	+13	-3	-7	-10	+17	-5
Transportation, storage and courier services	-7	-5	-8	+5	+8	-13
Information and communications	+16	-2	+20	+16	+16	-3
Financing and insurance	+13	+21	+28	+23	+13	-8
Real estate	+6	0	+11	+1	-6	-5
Professional and business services	+7	+2	-2	+3	-2	-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 was still positive in general

QBTS: Expected changes in number of persons engaged						
	Net balance* (% point)					
	2017	2018				2019
	Q4	Q1	Q2	Q3	Q4	Q1
Manufacturing	+13	-10	+15	+3	+13	+12
Construction	-9	-7	-8	+18	-6	-3
Import/export trade and wholesale	+1	-2	+2	-7	-1	-6
Retail	+3	-1	+7	+11	+13	+4
Accommodation and food services	+5	+5	+7	+13	+14	+9
Transportation, storage and courier services	+2	+9	+8	+10	+16	+11
Information and communications	+10	-8	+9	0	+15	-11
Financing and insurance	+13	+24	+26	+21	+12	+20
Real estate	+18	+5	+5	+4	+18	+7
Professional and business services	+5	+4	+2	-1	+3	-4

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), the C&SD compiles a set of diffusion indices on a monthly basis⁽²⁾ to gauge the general direction of change in their views on business situation versus the preceding month. The overall index on business receipts stayed visibly below the boom-bust line of 50 in recent months (*Chart 2a*). Nonetheless, employment situation stayed broadly stable and credit situation remained highly accommodative. Separately, the Standard Chartered Hong Kong SME Leading Business Index⁽³⁾ fell further in the contractionary zone in the first quarter of 2019 to the lowest level in about three years.

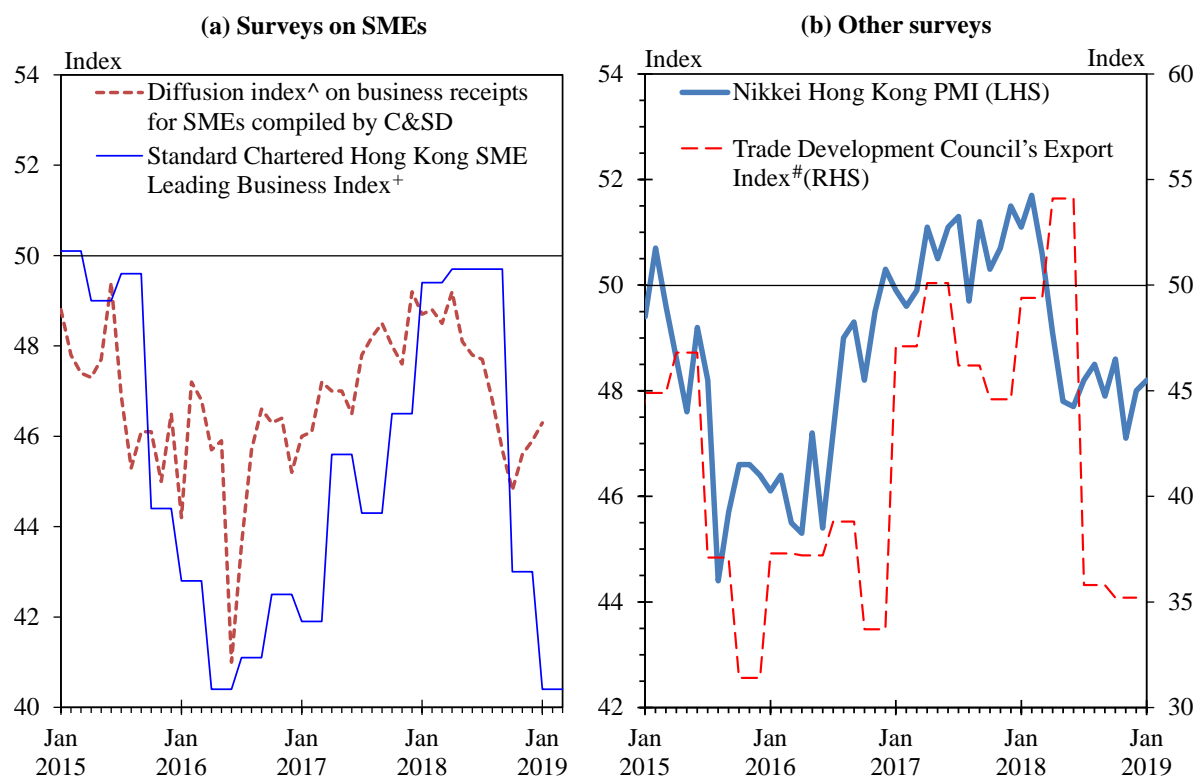
As for other surveys in the public domain, the Hong Kong Trade Development Council (HKTDC)'s Export Index⁽⁴⁾ fell slightly to 35.2 in the fourth quarter of 2018, having plunged to 35.8 in the third quarter (*Chart 2b*), suggesting that traders surveyed remained very cautious about the near-term outlook. Moreover, more than half (54.4%) of traders surveyed in this latest round believed that the ongoing trade tensions between the US and the Mainland would bring negative effects on their export performance, and almost one-half reported that their export performance had already been negatively affected. Separately, the monthly Nikkei Purchasing Managers' Index (PMI) of Hong Kong⁽⁵⁾, which gauges the performance of the private sector's business activity, stayed below 50 for the tenth consecutive month in January 2019.

(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.

(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 their "Sales amount", "Profit margin", "Investments", "Staff number", and "Global economic growth" for the next quarter.

Box 1.1 (Cont'd)

Chart 2 : Other survey indicators also revealed cautious business sentiment



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.

(+) Launched in Q3 2012 and quarterly data.

(#) 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 worth pointing 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 taken together suggest that business sentiment in Hong Kong has weakened further in recent months in the face of the challenging external environment. The Government will stay vigilant and closely monitor the various external developments, for their possible ramifications on Hong Kong's business and employment situations.

- (4) The HKTDC Export Index is compiled based on a quarterly survey to collect views from 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.
- (5) 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.