

Box 1.1

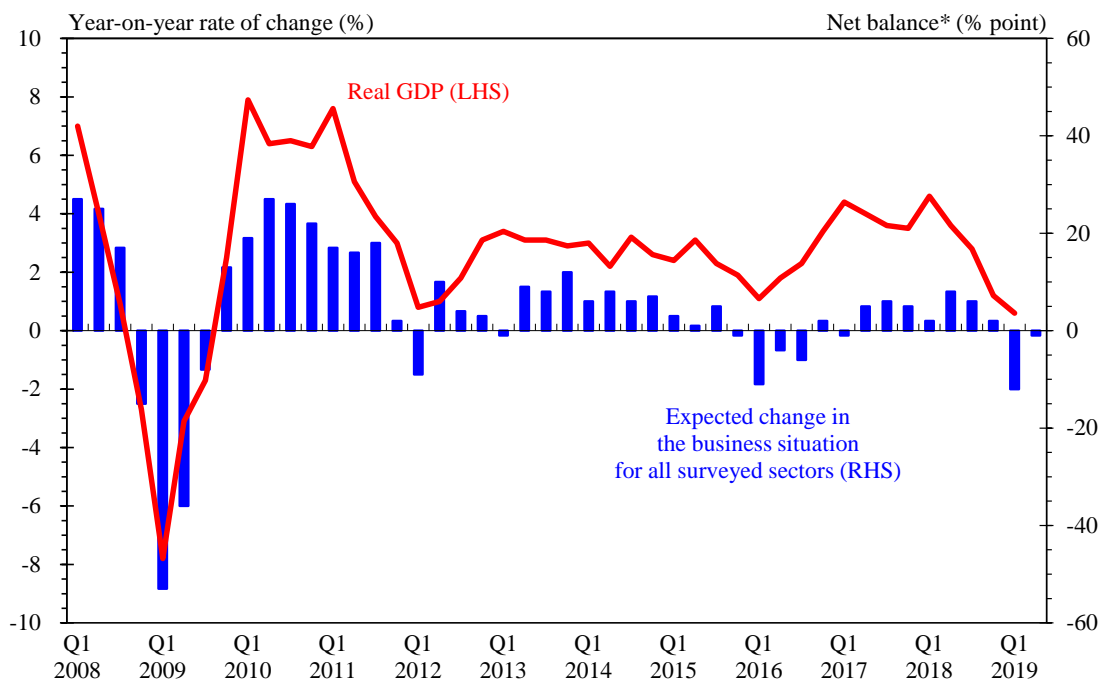
Business sentiment in Hong Kong

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 March to mid-April, business sentiment among large enterprises in Hong Kong, while still cautious amid the uncertain external environment, improved notably in relative terms (*Chart 1*). The proportion of large enterprises expecting a weaker business situation in the second quarter of 2019 outweighed the proportion of those expecting a better situation by just 1 percentage point (i.e. a net balance of -1), much better than the negative net balance of -12 percentage points in the prior quarter.

Large enterprises in many sectors saw relative improvement in business sentiment (*Table 1*). Specifically, the negative net balances in “import/export trade and wholesale” and “transportation, storage and courier services” narrowed significantly, conceivably due to the reported progress in the US-Mainland trade talks during the survey period. Large enterprises in “professional and business services” and “manufacturing” likewise turned somewhat less pessimistic about business outlook. The net balances in “information and communications” and “financing and insurance” turned positive, and so did that in “real estate” as the property market rebounded. On the other hand, the net balance of “construction” stayed deep in the negative zone. Large enterprises in “retail” and “accommodation and food services” became slightly more cautious. Meanwhile, overall hiring sentiment of large enterprises remained largely positive, with many sectors surveyed continuing to expect employment to increase in the second quarter of 2019 (*Table 2*).

Chart 1 : Business sentiment among large enterprises improved visibly in relative 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 saw relative improvement of varying extents in many sectors surveyed

QBTS: Expected changes in business situation						
	Net balance* (% point)					
	2018				2019	
	Q1	Q2	Q3	Q4	Q1	Q2
Manufacturing	-10	-5	+23	-1	-3	-1
Construction	-16	-13	-10	-26	-23	-22
Import/export trade and wholesale	-4	+5	-1	-5	-23	-8
Retail	+20	+4	-1	+19	-6	-8
Accommodation and food services	-3	-7	-10	+17	-5	-9
Transportation, storage and courier services	-5	-8	+5	+8	-13	-1
Information and communications	-2	+20	+16	+16	-3	+13
Financing and insurance	+21	+28	+23	+13	-8	+9
Real estate	0	+11	+1	-6	-5	+6
Professional and business services	+2	-2	+3	-2	-7	-4

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 positive

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

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 climbed up somewhat in recent months, though still in the contractionary zone (*Chart 2a*), suggesting that sentiment among SMEs improved in relative terms as compared to the fourth quarter of 2018. Employment situation stayed broadly stable and credit situation remained highly accommodative. Separately, the Standard Chartered Hong Kong SME Leading Business Index⁽³⁾ rebounded sharply in the second quarter of 2019, albeit still in the contractionary zone.

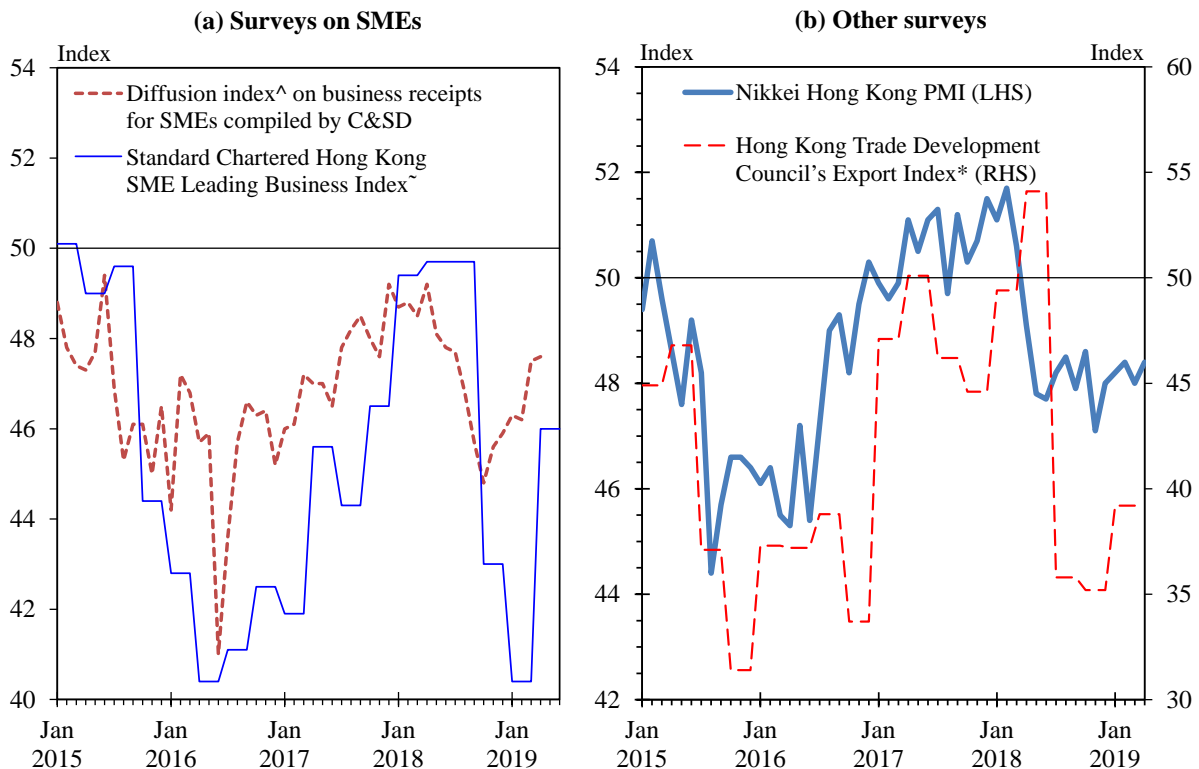
As for other surveys in the public domain, while the Hong Kong Trade Development Council’s Export Index⁽⁴⁾ stayed deep below the 50 threshold at 39.2 in the first quarter of 2019 (*Chart 2b*), it was somewhat higher than the 35.2 in the fourth quarter of 2018. This suggested that traders’ confidence slightly improved in relative terms in mid-February when the survey was conducted, along with the reported progress in the US-Mainland trade talks. While there were still more than half (51.7%) of surveyed traders in this latest round believed that the ongoing US-Mainland trade tensions would bring negative effects on their near-term export performance, the share was somewhat lower than the 54.4% in the preceding quarter. Separately, the monthly Nikkei Purchasing Managers’ Index (PMI) of Hong Kong⁽⁵⁾, which gauges the performance of the private sector’s business activity, held below 50 for the thirteenth consecutive month in April 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 : Most of the other survey indicators also pointed to some relative improvement in 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, these survey findings taken together suggest that business sentiment in Hong Kong, albeit still cautious, displayed some relative improvement between February and April when these surveys were conducted. 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 Hong Kong Trade Development Council’s 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.