

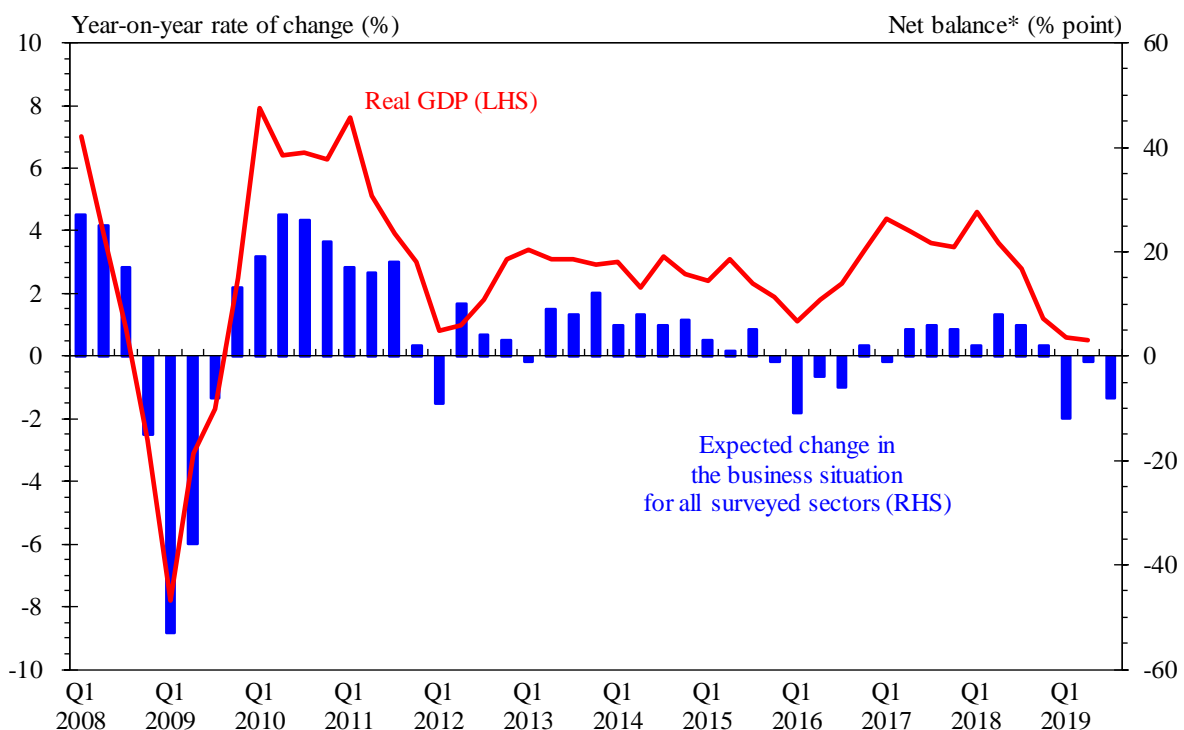
**Box 1.1****Business sentiment in Hong Kong**

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. Latest results of various surveys all pointed to a visible worsening of business sentiment in recent months.

According to the results from the Census and Statistics Department (C&SD)'s Quarterly Business Tendency Survey (QBTS)<sup>(1)</sup> conducted during early June to mid-July, business sentiment among large enterprises in Hong Kong turned more cautious as compared to the previous round (*Chart 1*). The proportion of large enterprises expecting a weaker business situation in the third quarter of 2019 outweighed the proportion of those expecting a better situation by 8 percentage points (i.e. a net balance of -8), worse than the negative net balance of -1 percentage point in the preceding quarter.

Business sentiment among large enterprises fell across most sectors amid a softening economic environment (*Table 1*). In specific, large enterprises in “retail” and “accommodation and food services” turned much more pessimistic, mirroring subdued consumer spending and more recently the marked slowdown in inbound tourism. Reflecting the effects of US-Mainland trade tensions, the net balance in “transportation, storage and courier services” went down visibly, while that in “import/export trade and wholesale” stayed in the negative zone. The net balances in other major sectors were all negative except for “information and communications”. Meanwhile, overall hiring sentiment of large enterprises stayed positive, with many sectors surveyed expecting employment to increase in the third quarter of 2019 (*Table 2*).

**Chart 1 : Business sentiment among large enterprises turned more 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 saw deterioration in most sectors surveyed**

QBTS: Expected changes in business situation						
	Net balance* (% point)					
	2018			2019		
	Q2	Q3	Q4	Q1	Q2	Q3
Manufacturing	-5	+23	-1	-3	-1	-8
Construction	-13	-10	-26	-23	-22	-7
Import/export trade and wholesale	+5	-1	-5	-23	-8	-8
Retail	+4	-1	+19	-6	-8	-24
Accommodation and food services	-7	-10	+17	-5	-9	-17
Transportation, storage and courier services	-8	+5	+8	-13	-1	-9
Information and communications	+20	+16	+16	-3	+13	+10
Financing and insurance	+28	+23	+13	-8	+9	-6
Real estate	+11	+1	-6	-5	+6	-10
Professional and business services	-2	+3	-2	-7	-4	-3

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 stayed generally positive**

QBTS: Expected changes in number of persons engaged						
	Net balance* (% point)					
	2018			2019		
	Q2	Q3	Q4	Q1	Q2	Q3
Manufacturing	+15	+3	+13	+12	-6	+8
Construction	-8	+18	-6	-3	-6	+10
Import/export trade and wholesale	+2	-7	-1	-6	-4	-5
Retail	+7	+11	+13	+4	+1	0
Accommodation and food services	+7	+13	+14	+9	+12	+19
Transportation, storage and courier services	+8	+10	+16	+11	+6	+6
Information and communications	+9	0	+15	-11	+11	-3
Financing and insurance	+26	+21	+12	+20	+12	+9
Real estate	+5	+4	+18	+7	+6	+7
Professional and business services	+2	-1	+3	-4	-8	+2

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<sup>(2)</sup> to gauge the general direction of change in their views on business situation versus the preceding month. The overall index on business receipts worsened in recent months and fell to 40.6 in July, the lowest since survey results were available in June 2011 (*Chart 2a*), reflecting the continued drag from US-Mainland trade tensions, sluggish economic conditions and concerns about the recent mass demonstrations. Nonetheless, employment situation stayed broadly stable and credit situation remained highly accommodative. Likewise, the Standard Chartered Hong Kong SME Leading Business Index<sup>(3)</sup> slipped visibly in the contractionary zone to the lowest in three years, after showing a relative improvement in the preceding quarter.

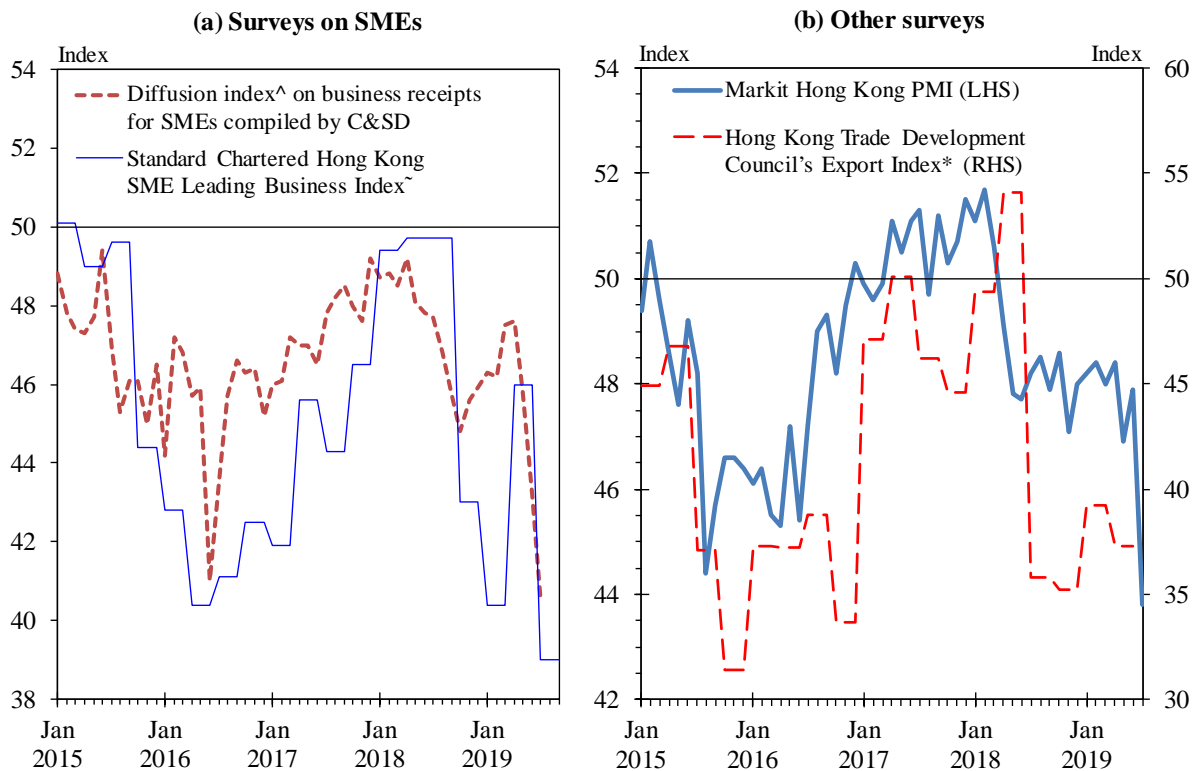
As for other surveys in the public domain, the Hong Kong Trade Development Council's Export Index<sup>(4)</sup> edged down to 37.3 in the second quarter of 2019 from 39.2 in the previous quarter (*Chart 2b*). Among the traders surveyed in this latest round, 54.7% of them believed that ongoing US-Mainland trade tensions would negatively affect their near-term export performance, up from the 51.7% in the preceding quarter. Separately, the monthly Markit Purchasing Managers' Index (PMI) of Hong Kong<sup>(5)</sup>, which gauges the performance of the private sector's business activity, fell noticeably in July 2019 to the lowest level in more than a decade and stayed below 50 for the sixteenth consecutive month.

(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 the "Recruitment Sentiment", "Investment Sentiment", "Business Condition", "Profit Margin", and "Global Economy" for the next quarter.

## Box 1.1 (Cont'd)

**Chart 2 : Most of the other survey indicators also pointed to much weaker 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 had turned pessimistic of late. The Government will stay vigilant and closely monitor the various external and domestic 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 by IHS Markit, the Markit Hong Kong PMI is compiled according to monthly replies to questionnaires sent to purchasing executives in around 400 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 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.