

Box 1.1

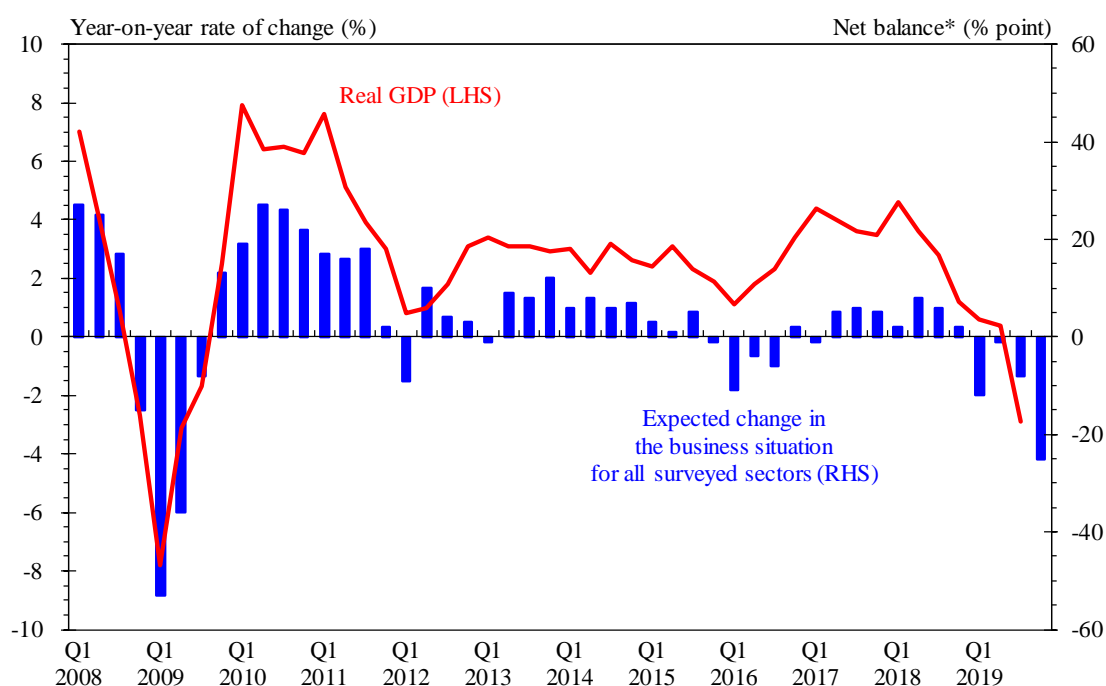
Business sentiment in Hong Kong

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 further worsening of business sentiment in recent months.

According to the results of the Census and Statistics Department (C&SD)'s Quarterly Business Tendency Survey (QBTS)⁽¹⁾ conducted during early September to mid-October, business sentiment among large enterprises in Hong Kong worsened markedly (*Chart 1*). The proportion of large enterprises expecting a weaker business situation in the fourth quarter of 2019 as compared to the third quarter outweighed the proportion of those expecting a better situation by 25 percentage points (i.e. a net balance of -25), representing a sharp deterioration from the net balance of -8 in the previous round and the worst reading since the second quarter of 2009.

Business sentiment among large enterprises worsened across all surveyed sectors amid the notable headwinds stemming from the local social incidents, a weakening global economy and US-Mainland trade tensions (*Table 1*). Large enterprises in “retail” and “accommodation and food services” were particularly pessimistic, as their businesses were hard hit by the serious disruptions arising from the local social incidents. On the other hand, US-Mainland trade tensions and unfavourable global economic conditions continued to cloud the outlook of the trade-related sectors, with the net balances in “import/export trade and wholesale”, “manufacturing”, “transportation, storage and courier services” falling deeper 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 also weakened visibly, with many surveyed sectors expecting fewer employment in the fourth quarter of 2019 (*Table 2*).

Chart 1 : Business sentiment among large enterprises worsened visibly



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 sharp deterioration in most sectors

QBTS: Expected changes in business situation						
	Net balance* (% point)					
	2018		2019			
	Q3	Q4	Q1	Q2	Q3	Q4
Manufacturing	+23	-1	-3	-1	-8	-24
Construction	-10	-26	-23	-22	-7	-45
Import/export trade and wholesale	-1	-5	-23	-8	-8	-23
Retail	-1	+19	-6	-8	-24	-61
Accommodation and food services	-10	+17	-5	-9	-17	-44
Transportation, storage and courier services	+5	+8	-13	-1	-9	-26
Information and communications	+16	+16	-3	+13	+10	+6
Financing and insurance	+23	+13	-8	+9	-6	-21
Real estate	+1	-6	-5	+6	-10	-12
Professional and business services	+3	-2	-7	-4	-3	-25
All sectors above	+6	+2	-12	-1	-8	-25

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 weakened visibly across many sectors

QBTS: Expected changes in number of persons engaged						
	Net balance* (% point)					
	2018		2019			
	Q3	Q4	Q1	Q2	Q3	Q4
Manufacturing	+3	+13	+12	-6	+8	+5
Construction	+18	-6	-3	-6	+10	-20
Import/export trade and wholesale	-7	-1	-6	-4	-5	-9
Retail	+11	+13	+4	+1	0	-21
Accommodation and food services	+13	+14	+9	+12	+19	-13
Transportation, storage and courier services	+10	+16	+11	+6	+6	0
Information and communications	0	+15	-11	+11	-3	-6
Financing and insurance	+21	+12	+20	+12	+9	+11
Real estate	+4	+18	+7	+6	+7	-6
Professional and business services	-1	+3	-4	-8	+2	-2
All sectors above	+6	+8	+3	+1	+4	-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), 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, at 33.3 in October, stayed sharply below the 50 divide albeit bouncing back somewhat from 32.1 in August, a record low since survey results were available in June 2011 (*Chart 2a*). Employment situation also saw some weakening, though credit situation remained highly accommodative. Likewise, the Standard Chartered Hong Kong SME Leading Business Index⁽³⁾ slipped further in the contractionary zone to a record low since the index was launched in 2012.

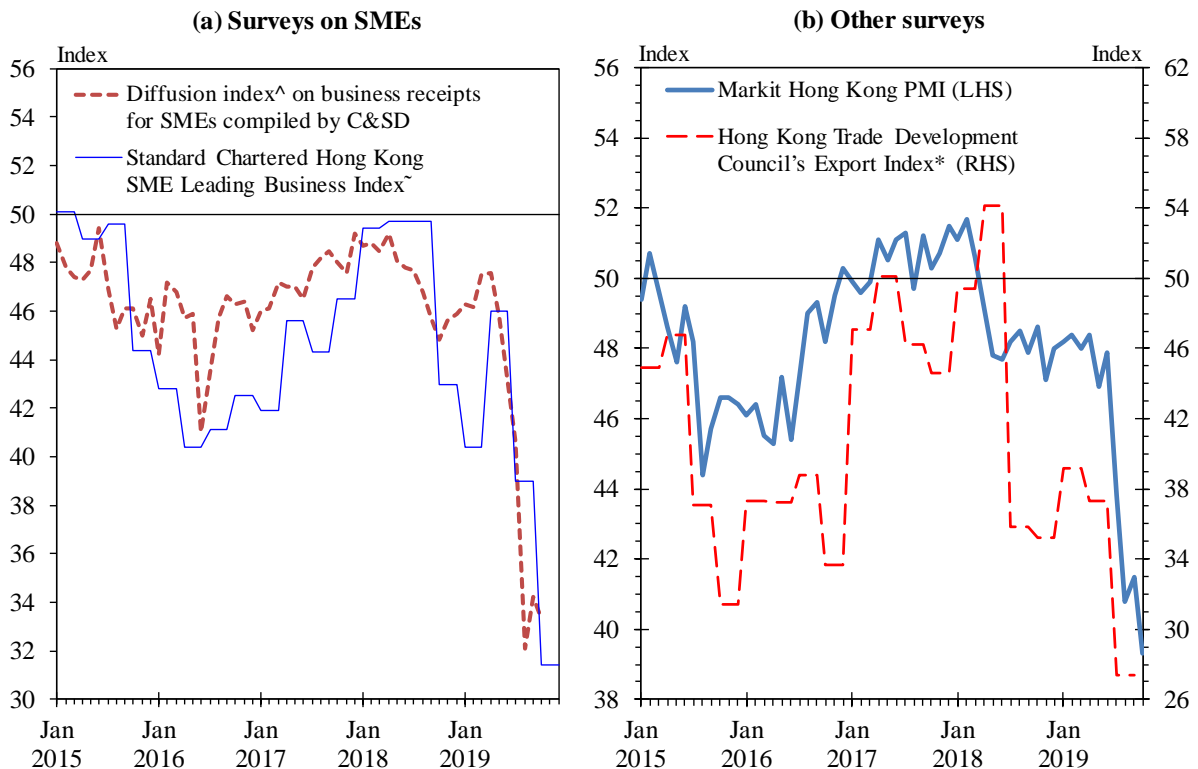
As for other surveys in the public domain, the Hong Kong Trade Development Council's Export Index⁽⁴⁾ plunged to 27.4 in the third quarter of 2019 from 37.3 in the previous quarter (*Chart 2b*), the lowest since the global financial crisis of 2008-2009. Among the traders surveyed in this latest round, 61.0% of them believed that US-Mainland trade tensions would negatively affect their near-term export performance, up from the 54.7% in the preceding quarter. Separately, the Markit Purchasing Managers' Index (PMI) of Hong Kong⁽⁵⁾, which gauges the performance of the private sector's business activity, fell in the contractionary zone to 39.3 in October 2019, the lowest level since November 2008.

(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 very pessimistic 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 an upward trend and an optimistic outlook, while a reading below 50 indicates a downward trend and a pessimistic outlook.

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 has turned very 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 situation.

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- (4) The Hong Kong Trade Development Council’s Export Index is designed to gauge the prospects of the near-term export performance of Hong Kong traders. The business confidence survey is conducted on a quarterly basis, with 500 participating Hong Kong traders from six major industry sectors interviewed, namely 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.