

Box 1.2

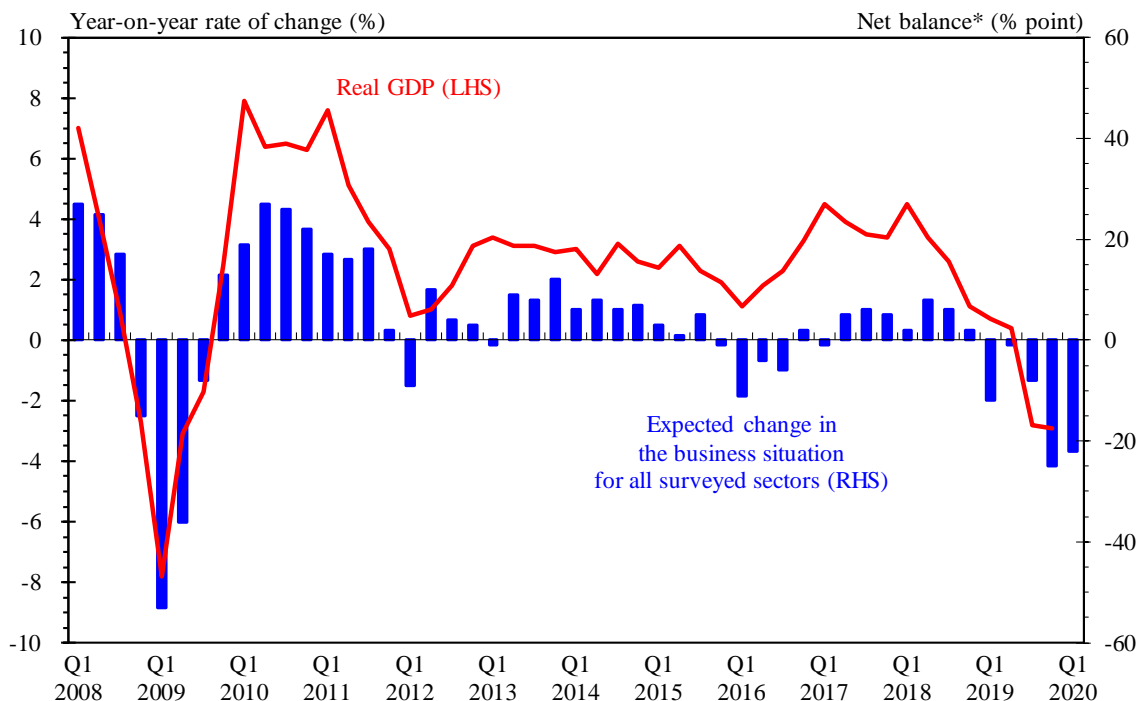
Business sentiment in Hong Kong

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 continued weakness in 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 December 2019 to mid-January 2020, business sentiment among large enterprises in Hong Kong remained very pessimistic (*Chart 1*). The proportion of large enterprises expecting a weaker business situation in the first quarter of 2020 as compared to the fourth quarter of 2019 outweighed the proportion of those expecting a better situation by 22 percentage points (i.e. a net balance of -22), broadly similar to the net balance of -25 in the previous quarter.

Business sentiment among large enterprises across all surveyed sectors were pessimistic amid lingering concerns on the local social incidents involving violence and US-Mainland trade tensions (*Table 1*). Large enterprises in “accommodation and food services” and “retail” were particularly gloomy about their business situation, as they were hard hit by the local social incidents that caused severe disruptions to consumption- and tourism-related activities. Meanwhile, trade-related sectors continued to cite US-Mainland trade tensions as a key factor leading to worsening business situation, with the net balances in “import/export trade and wholesale”, “manufacturing”, “transportation, storage and courier services” all staying deep in the negative zone. Overall hiring sentiment of large enterprises also remained weak, with many surveyed sectors expecting employment to decline in the first quarter of 2020 (*Table 2*).

Chart 1 : Business sentiment among large enterprises remained very pessimistic



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 1.2 (Cont'd)

Table 1 : Large enterprises in all sectors expected business situation to worsen in Q1 2020

QBTS: Expected changes in business situation						
	Net balance* (% point)					
	2018	2019				2020
	Q4	Q1	Q2	Q3	Q4	Q1
Manufacturing	-1	-3	-1	-8	-24	-27
Construction	-26	-23	-22	-7	-45	-28
Import/export trade and wholesale	-5	-23	-8	-8	-23	-23
Retail	+19	-6	-8	-24	-61	-39
Accommodation and food services	+17	-5	-9	-17	-44	-42
Transportation, storage and courier services	+8	-13	-1	-9	-26	-33
Information and communications	+16	-3	+13	+10	+6	-2
Financing and insurance	+13	-8	+9	-6	-21	-16
Real estate	-6	-5	+6	-10	-12	-18
Professional and business services	-2	-7	-4	-3	-25	-13
All sectors above	+2	-12	-1	-8	-25	-22

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 remained weak across many sectors

QBTS: Expected changes in number of persons engaged						
	Net balance* (% point)					
	2018	2019				2020
	Q4	Q1	Q2	Q3	Q4	Q1
Manufacturing	+13	+12	-6	+8	+5	+3
Construction	-6	-3	-6	+10	-20	-25
Import/export trade and wholesale	-1	-6	-4	-5	-9	-10
Retail	+13	+4	+1	0	-21	-19
Accommodation and food services	+14	+9	+12	+19	-13	-9
Transportation, storage and courier services	+16	+11	+6	+6	0	+1
Information and communications	+15	-11	+11	-3	-6	0
Financing and insurance	+12	+20	+12	+9	+11	+4
Real estate	+18	+7	+6	+7	-6	-13
Professional and business services	+3	-4	-8	+2	-2	-8
All sectors above	+8	+3	+1	+4	-7	-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, at 44.1 in January 2020, stayed deep below the 50 divide, though gradually revived from the record low of 32.1 in August 2019 (*Chart 2a*). Nevertheless, the employment situation of the SMEs surveyed held relatively stable as a number of employers appeared to avoid laying off staff, while credit conditions remained highly accommodative. Likewise, the Standard Chartered Hong Kong SME Leading Business Index⁽³⁾ stayed in the contractionary zone, but revived somewhat from the record low in the previous round.

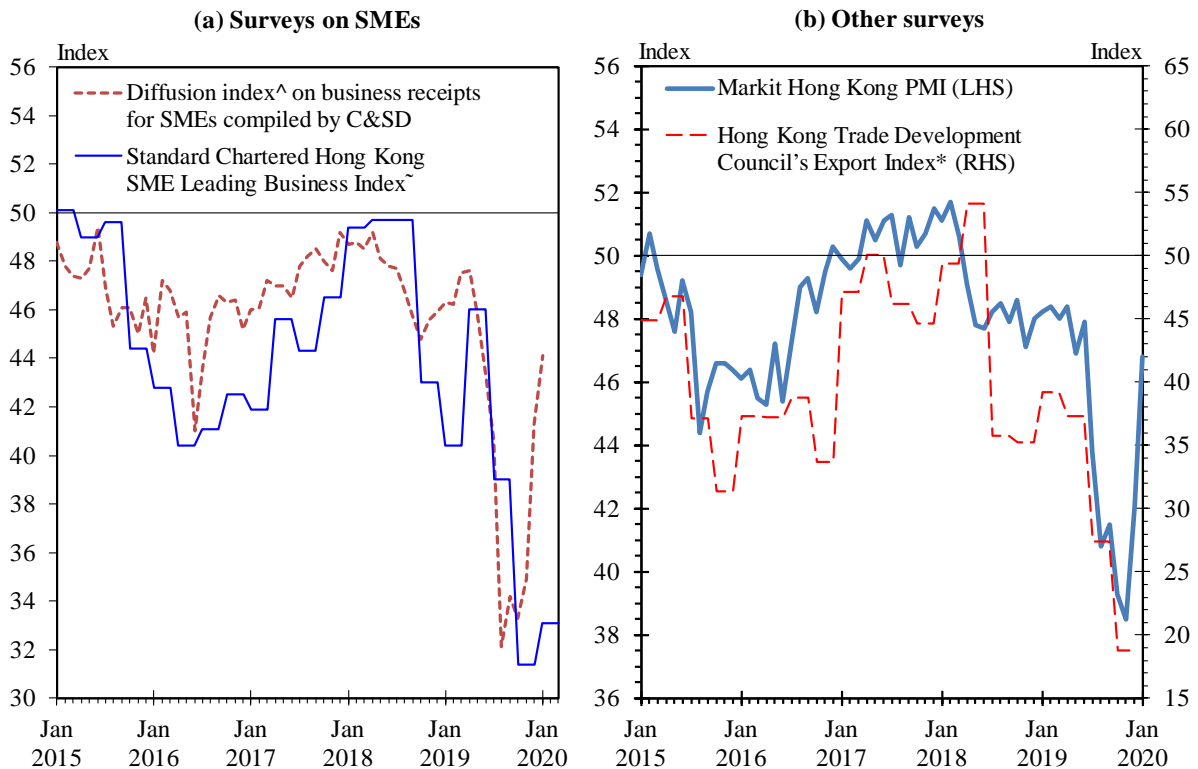
As for other surveys in the public domain, the Hong Kong Trade Development Council's Export Index⁽⁴⁾ plunged from 27.4 in the third quarter to 18.8 in the fourth quarter of 2019 (*Chart 2b*), a fresh record low since the index was compiled in 2006. Among the traders surveyed in this latest round which was conducted in mid-November 2019, 58.5% of them believed that US-Mainland trade tensions would negatively affect their near-term export performance, little changed from the 61.0% 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, stayed below the 50 boom-bust threshold at 46.8 in January 2020, though rising back somewhat from the recent low in late 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 the “Recruitment Sentiment”, “Investment Sentiment”, “Business Condition”, “Profit Margin”, and “Global Economy” for the next quarter.

Box 1.2 (Cont'd)

Chart 2 : Most of the other survey indicators also pointed to generally 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 remained generally pessimistic on entering 2020. Meanwhile, it should particularly be noted that the above results have yet to reflect the adverse impact of the novel coronavirus infection. Given the recent developments, the threat of the infection should have notable impact on economic sentiment in the near term. 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.

- (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 Suppliers' 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.