

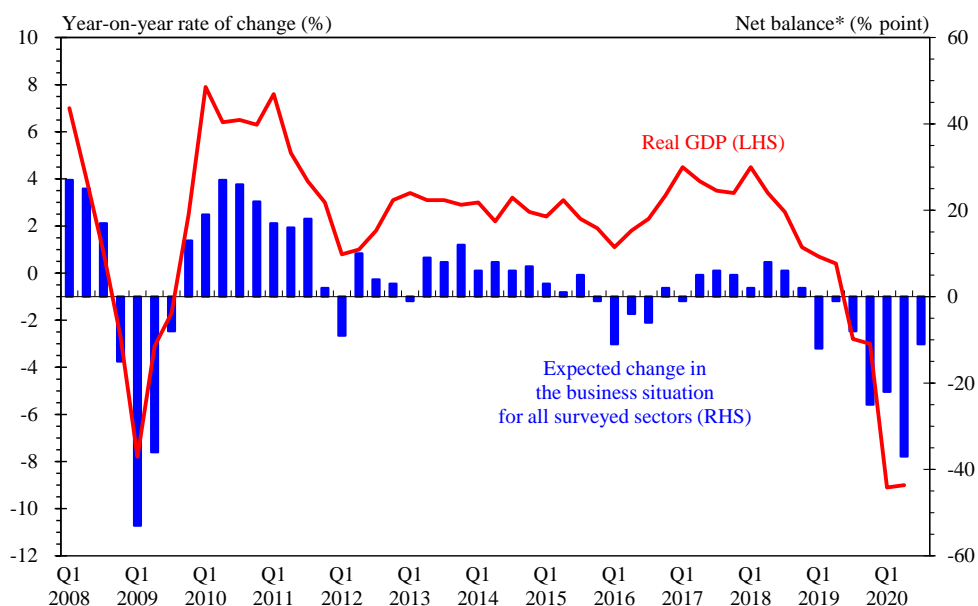
Box 1.1**Business sentiment in Hong Kong**

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. Survey results covering responses up to early July generally pointed to improved business sentiment. Yet reflecting the spike in locally-infected cases since the second week of July and the resultant tightening of social distancing measures, more recent surveys showed that business sentiment deteriorated again.

According to the results of the Census and Statistics Department (C&SD)'s Quarterly Business Tendency Survey (QBTS)⁽¹⁾ conducted during 1 June to 9 July, business sentiment among large enterprises in Hong Kong remained negative on entering the third quarter, but has shown visible improvement compared to the preceding quarter as the local epidemic situation was largely under control in May and June (*Chart 1*). The proportion of large enterprises expecting business situation to worsen in the third quarter of 2020 over the second quarter exceeded the proportion of those expecting improvement by 11 percentage points (i.e. a net balance of -11), notably better than the net balance of -37 in the previous round.

Business sentiment among large enterprises in many sectors showed improvement of varying degrees (*Table 1*). Large enterprises in the “accommodation and food services” and “retail” sectors generally expected their business situation to get out of the trough, in view of the stabilisation of the local epidemic situation and relaxation of social distancing measures in May and June. Those in “manufacturing” also became sanguine about their outlook. Thanks to the gradual recuperation of regional supply chains following the containment of the pandemic in the Mainland, large enterprises in “import/export trade and wholesale” and “transportation, storage and courier services” turned less pessimistic. The net balances in “financing and insurance”, “real estate” and “professional and business services”, though staying negative, also showed improvement. Overall hiring sentiment of large enterprises showed signs of stabilisation, with many surveyed sectors expecting employment to remain broadly stable in the third quarter of 2020 (*Table 2*).

Chart 1 : Business sentiment among large enterprises was less pessimistic on entering the third quarter



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 in many sectors saw relative improvement

QBTS: Expected changes in business situation						
	Net balance* (% point)					
	2019			2020		
	Q2	Q3	Q4	Q1	Q2	Q3
Manufacturing	-1	-8	-24	-27	-23	+9
Construction	-22	-7	-45	-28	-20	-21
Import/export trade and wholesale	-8	-8	-23	-23	-42	-8
Retail	-8	-24	-61	-39	-42	+21
Accommodation and food services	-9	-17	-44	-42	-63	+25
Transportation, storage and courier services	-1	-9	-26	-33	-47	-22
Information and communications	+13	+10	+6	-2	-15	-21
Financing and insurance	+9	-6	-21	-16	-32	-14
Real estate	+6	-10	-12	-18	-29	-26
Professional and business services	-4	-3	-25	-13	-37	-18
All sectors above	-1	-8	-25	-22	-37	-11

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 showed signs of stabilisation

QBTS: Expected changes in number of persons engaged						
	Net balance* (% point)					
	2019			2020		
	Q2	Q3	Q4	Q1	Q2	Q3
Manufacturing	-6	+8	+5	+3	-18	+10
Construction	-6	+10	-20	-25	-22	-10
Import/export trade and wholesale	-4	-5	-9	-10	-13	-3
Retail	+1	0	-21	-19	-25	-4
Accommodation and food services	+12	+19	-13	-9	-35	+7
Transportation, storage and courier services	+6	+6	0	+1	-17	-2
Information and communications	+11	-3	-6	0	-2	-2
Financing and insurance	+12	+9	+11	+4	-9	+7
Real estate	+6	+7	-6	-13	-5	+4
Professional and business services	-8	+2	-2	-8	-12	-4
All sectors above	+1	+4	-7	-8	-17	-1

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.

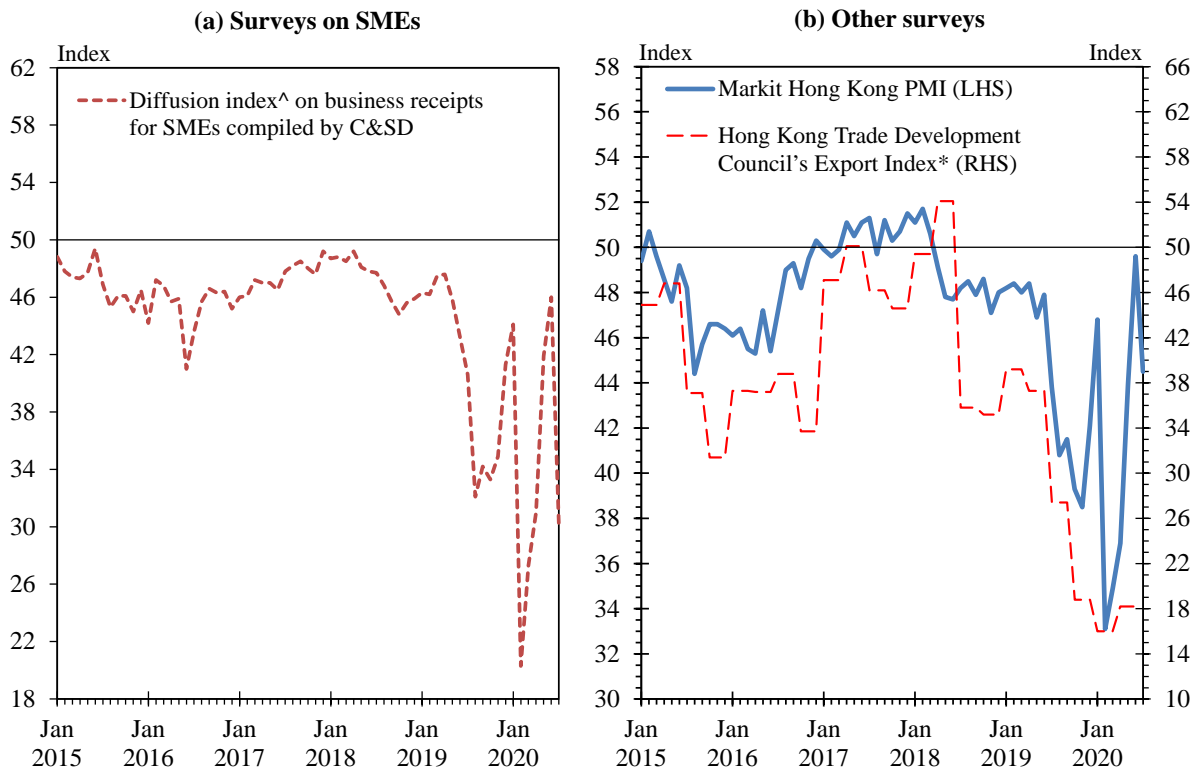
As for small and medium-sized enterprises (SMEs), C&SD compiles a set of diffusion indices on a monthly basis⁽²⁾ to gauge the general direction of change in their views on business situation versus the preceding month. Reflecting the recent surge in locally-infected cases, the overall index on business receipts fell sharply again in the contractionary zone to 30.0 in July (*Chart 2a*), and employment situation of the SMEs surveyed showed renewed signs of weakening. Credit conditions, though still largely accommodative, tightened somewhat.

As for other surveys in the public domain, the Hong Kong Trade Development Council's Export Index⁽³⁾ remained deep at the contractionary zone at 18.2 in the second quarter, only slightly above its record low of 16.0 in the preceding quarter (*Chart 2b*). In this round of survey conducted in mid-May 2020, 64.6% of the traders identified the pandemic as the biggest threat to their businesses, followed by softening global demand (19.5%) and US-Mainland trade tensions (10.8%). Separately, the Markit Purchasing Managers' Index (PMI) of Hong Kong⁽⁴⁾, which gauges the performance of the private sector's business activity, fell again in July to 44.5 after four consecutive months of increase, as the local epidemic situation worsened again more recently.

- (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) 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.
- (4) 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.

Box 1.1 (Cont'd)

Chart 2 : More recent surveys pointed to worsened business sentiment after some improvement in the second quarter



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.

(*) 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 noting 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 hinged heavily on the development of the local epidemic situation. The threat of COVID-19 would linger until effective vaccines or treatments for the disease are developed. The Government has rolled out massive relief measures including the Employment Support Scheme and Cash Payout Scheme, which have helped preserve the vitality of the economy and should facilitate a swift recovery once the epidemic is under control and the external economic environment improves. The Government will stay vigilant and closely monitor various external and local developments, for their possible repercussions on Hong Kong’s business and employment situation.