

**Box 1.1**

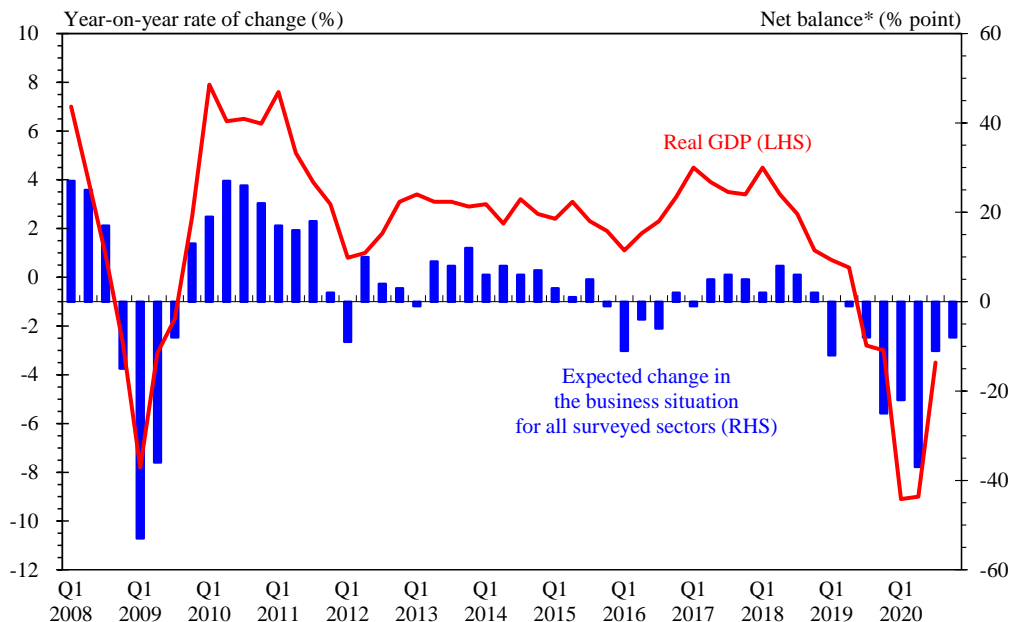
**Business sentiment in Hong Kong**

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 generally signalled that business sentiment took a big hit amid the third wave of local COVID-19 infections in July and August, but revived somewhat afterwards as the epidemic abated.

According to the results of the Census and Statistics Department (C&SD)’s Quarterly Business Tendency Survey (QBTS)<sup>(1)</sup> conducted during 2 September to 15 October, business sentiment among large enterprises in Hong Kong turned less gloomy compared to three months ago (*Chart 1*). The proportion of large enterprises expecting business situation to worsen in the fourth quarter of 2020 over the third quarter exceeded the proportion of those expecting improvement by 8 percentage points (i.e. a net balance of -8), representing a modest pick-up from the net balance of -11 in the previous round.

Large enterprises in the “accommodation and food services” sector were particularly sanguine about their business outlook for the fourth quarter (*Table 1*), thanks to the gradual relaxation of social distancing measures along with the abated epidemic situation since September. Sentiment in the “professional and business services” improved visibly and returned to the positive zone. Sentiment in most other sectors, including “import/export trade and wholesale”, “transportation, storage and courier services”, “information and communications”, “financing and insurance” and “real estate” displayed improvement of varying degrees, though still have not reached the positive zone. Yet, large enterprises in the “retail” sector held a more cautious view, as inbound tourism was unlikely to see a swift recovery with widespread travel restrictions in place. Overall hiring sentiment of large enterprises stayed weak, with many surveyed sectors expecting employment to decrease in the fourth quarter of 2020 (*Table 2*).

**Chart 1 : Business sentiment among large enterprises turned less gloomy**



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 in Q4 2020**

QBTS: Expected changes in business situation						
	Net balance* (% point)					
	2019		2020			
	Q3	Q4	Q1	Q2	Q3	Q4
Manufacturing	-8	-24	-27	-23	+9	-8
Construction	-7	-45	-28	-20	-21	-19
Import/export trade and wholesale	-8	-23	-23	-42	-8	-7
Retail	-24	-61	-39	-42	+21	-5
Accommodation and food services	-17	-44	-42	-63	+25	+19
Transportation, storage and courier services	-9	-26	-33	-47	-22	-13
Information and communications	+10	+6	-2	-15	-21	0
Financing and insurance	-6	-21	-16	-32	-14	-13
Real estate	-10	-12	-18	-29	-26	-12
Professional and business services	-3	-25	-13	-37	-18	+4
All sectors above	-8	-25	-22	-37	-11	-8

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 in many sectors stayed weak**

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

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<sup>(2)</sup> to gauge the general direction of change in their views on business situation versus the preceding month. The overall index on current situation rose further to 45.4 in October from a recent trough of 30.0 in July (*Chart 2a*), as the local epidemic situation remained contained. The employment situation of the SMEs surveyed also showed signs of stabilising. Credit conditions remained largely accommodative. The Standard Chartered Hong Kong SME Leading Business Index<sup>(3)</sup> also improved slightly in the third quarter, albeit still in the contractionary zone.

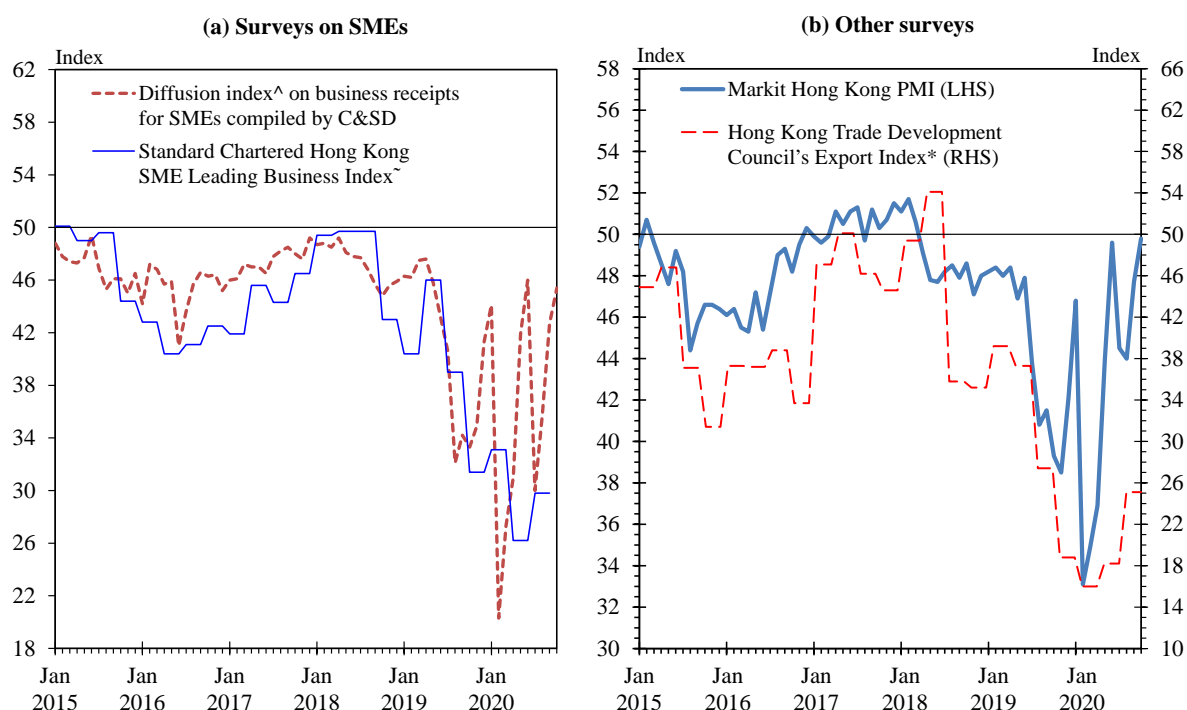
As for other surveys in the public domain, the Markit Purchasing Managers’ Index (PMI) of Hong Kong<sup>(4)</sup>, which gauges the performance of the private sector’s business activity, also improved to 49.8 in October from 44.5 in July, though still marginally lower than the boom-bust line. Separately, the Hong Kong Trade Development Council’s Export Index<sup>(5)</sup> increased for the second consecutive quarter to 25.1 in the third quarter, though remaining deep in the contractionary zone (*Chart 2b*). The survey was conducted in mid-August 2020, and at that time 51.5% of the traders identified the pandemic as the biggest threat to their businesses, followed by softening global demand (21.5%) and US-Mainland trade tensions (15.0%).

(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 some revival of economic sentiment after the third wave of the local epidemic stabilised in the latter part of the third 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.

(~) 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 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 has revived somewhat since the latter part of the third quarter as the third wave of the local epidemic abated and social distancing measures were subsequently relaxed. Barring any sharp resurgence of local COVID-19 infections and abrupt changes in the external environment, business sentiment and domestic demand should continue to recover in the rest of the year. 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.

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- (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.
- (5) 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.