

Box 1.2

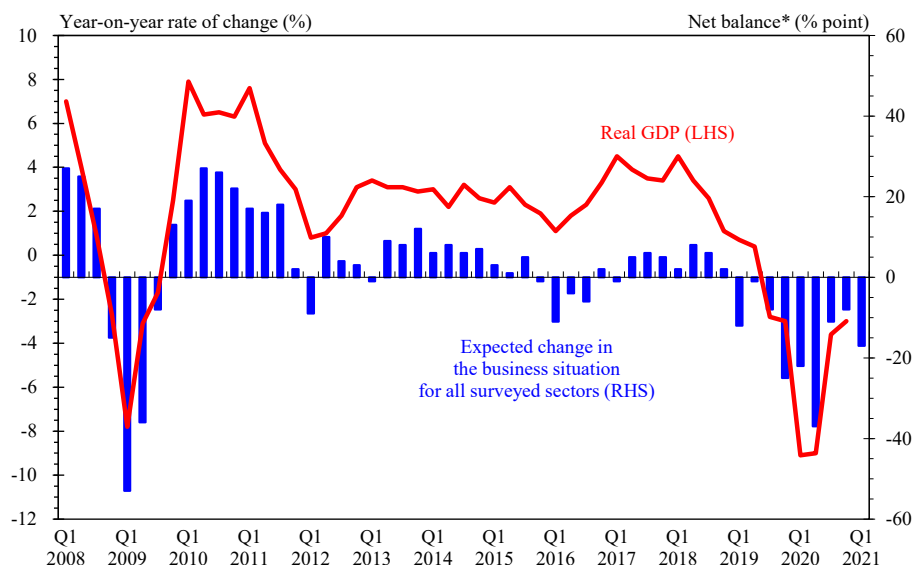
Business sentiment in Hong Kong

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. Survey results generally indicated that business sentiment once improved entering the fourth quarter of 2020, but worsened again amid the fourth wave of the local COVID-19 infections which started in the latter part of November 2020.

According to the results of the Census and Statistics Department (C&SD)'s Quarterly Business Tendency Survey (QBTS)⁽¹⁾ conducted during 2 December 2020 to 15 January 2021, business sentiment among large enterprises in Hong Kong turned more negative compared to three months ago (*Chart 1*). The proportion of large enterprises expecting business situation to worsen in the first quarter of 2021 over the fourth quarter of 2020 exceeded the proportion of those expecting improvement by 17 percentage points (i.e. a net balance of -17), down from the net balance of -8 in the previous round.

Business sentiment among large enterprises across all surveyed sectors were negative, reflecting the renewed pressures on economic activities posed by the fourth wave of local epidemic and also concerns about the resurgence of cases in overseas markets. Large enterprises in the “accommodation and food services” sector were deeply concerned about their business outlook for the first quarter of 2021 (*Table 1*), as they were directly affected by the re-tightening of social distancing measures. Sentiment in “retail” also worsened as the revival of inbound tourism would likely take longer time given the global and local epidemic situation. In view of the challenging economic outlook, the net balances for “transportation, storage and courier services”, “construction”, “real estate” and “import/export trade and wholesale” slipped in the contractionary zone by varying degrees, while those for “information and communications and “professional and business services” dipped below the boom-bust line. Business sentiment in “manufacturing” and “financing and insurance” showed relative improvement, but still had not reached the positive zone. Hiring sentiment weakened across many sectors, indicating that the labour market would remain under immense pressure in the near term (*Table 2*).

Chart 1 : Business sentiment among large enterprises turned more negative again



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 2021

QBTS: Expected changes in business situation						
	Net balance* (% point)					
	2019	2020				2021
	Q4	Q1	Q2	Q3	Q4	Q1
Manufacturing	-24	-27	-23	+9	-8	-5
Construction	-45	-28	-20	-21	-19	-28
Import/export trade and wholesale	-23	-23	-42	-8	-7	-13
Retail	-61	-39	-42	+21	-5	-18
Accommodation and food services	-44	-42	-63	+25	+19	-44
Transportation, storage and courier services	-26	-33	-47	-22	-13	-39
Information and communications	+6	-2	-15	-21	0	-18
Financing and insurance	-21	-16	-32	-14	-13	-10
Real estate	-12	-18	-29	-26	-12	-16
Professional and business services	-25	-13	-37	-18	+4	-13
All sectors above	-25	-22	-37	-11	-8	-17

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 in many sectors

QBTS: Expected changes in number of persons engaged						
	Net balance* (% point)					
	2019	2020				2021
	Q4	Q1	Q2	Q3	Q4	Q1
Manufacturing	+5	+3	-18	+10	-11	-3
Construction	-20	-25	-22	-10	-10	-16
Import/export trade and wholesale	-9	-10	-13	-3	-2	-16
Retail	-21	-19	-25	-4	-10	-20
Accommodation and food services	-13	-9	-35	+7	-2	-18
Transportation, storage and courier services	0	+1	-17	-2	-8	-21
Information and communications	-6	0	-2	-2	+8	-3
Financing and insurance	+11	+4	-9	+7	0	+6
Real estate	-6	-13	-5	+4	+5	-13
Professional and business services	-2	-8	-12	-4	-5	-4
All sectors above	-7	-8	-17	-1	-4	-11

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. The overall index on current situation stayed low at 38.1 in January 2021 despite some relative improvement (*Chart 2a*), as the local epidemic situation remained severe. The employment situation of the SMEs surveyed showed renewed signs of weakening since December 2020. Nonetheless, credit conditions were still largely accommodative. Separately, the Standard Chartered Hong Kong SME Leading Business Index⁽³⁾ for the first quarter of 2021 showed deterioration in business sentiment, reflecting the impact of the fourth wave of local epidemic when the survey was conducted in December.

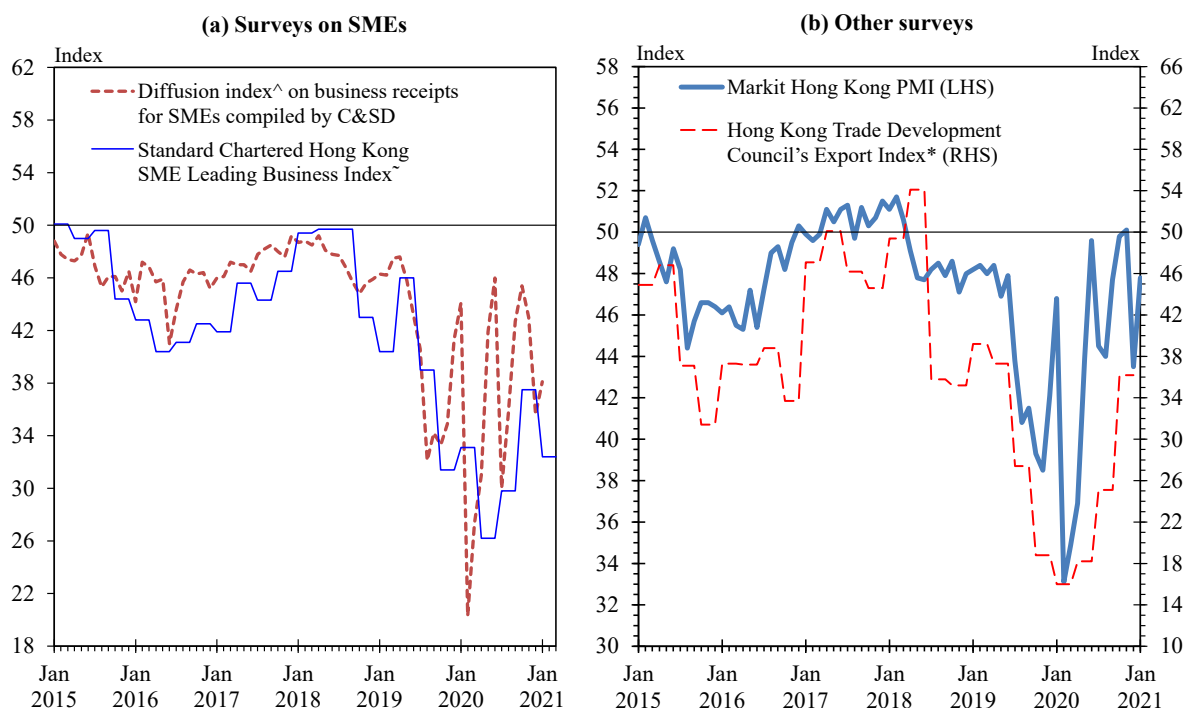
As for other surveys in the public domain, the Markit Purchasing Managers' Index (PMI) of Hong Kong⁽⁴⁾, which gauges the performance of the private sector's business activity, dropped to 47.8 in January 2021 from the recent peak of 50.1 in November 2020. Separately, the Hong Kong Trade Development Council's Export Index⁽⁵⁾ rose for the third consecutive quarter to 36.2 in the fourth quarter of 2020, suggesting that exporters were less gloomy about the near-term export performance (*Chart 2b*). The pandemic was identified by 54.9% of the traders surveyed as the biggest threat to their businesses, followed by softening global demand (23.8%) and US-Mainland trade tensions (9.6%).

(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 : Recent surveys pointed to worsened business sentiment after the fourth wave of the local epidemic started in the latter part of November 2020



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 worsened again more recently amid the fourth wave of the local epidemic. Concerns about the pandemic situation around the world will likely continue to weigh on business sentiment in the near term. Nevertheless, if mass vaccinations can be carried out progressively and yield the intended results in most economies including Hong Kong, the pandemic may abate gradually over the course of 2021. 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. Meanwhile, the whole community should also make concerted effort to put the epidemic under control at the soonest possible.

- (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.