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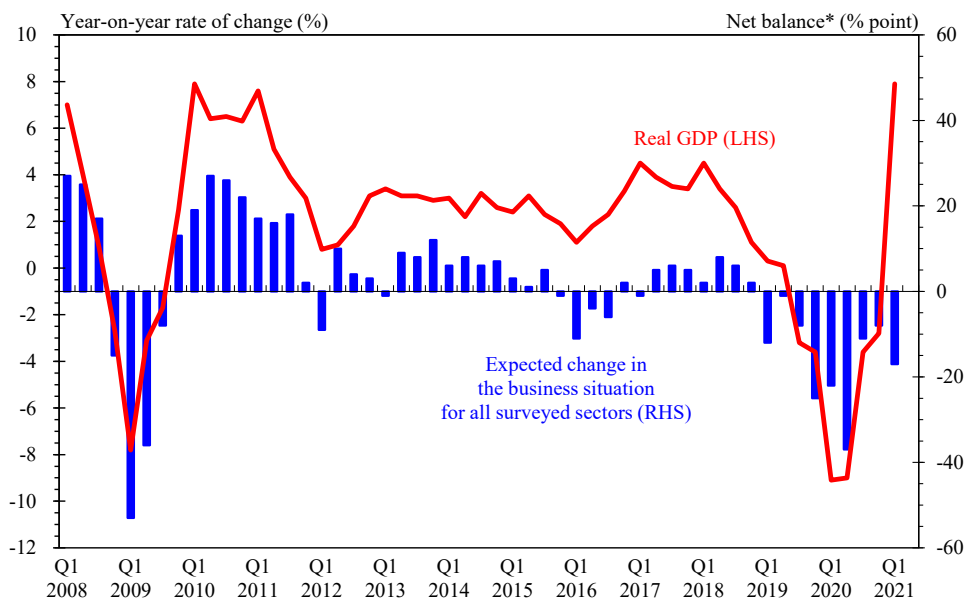
Business sentiment in Hong Kong

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 improved of late alongside the receding local epidemic situation and the continued global economic recovery.

According to the results of the Census and Statistics Department (C&SD)’s Quarterly Business Tendency Survey (QBTS)⁽¹⁾ conducted during 2 March to 13 April 2021, business sentiment among large enterprises in Hong Kong improved notably compared to three months ago (*Chart 1*). The proportion of large enterprises expecting business situation to improve in the second quarter of 2021 over the first quarter increased and was on par with the proportion of those expecting the situation to worsen (i.e. a net balance of 0), much better than the net balance of -17 in the previous round. This also marked the end of nine consecutive quarters of negative readings.

Business sentiment among large enterprises recorded improvement across all surveyed sectors (*Table 1*). In particular, the net balance for “accommodation and food services” sector jumped significantly and returned to the positive territory thanks to the less stringent social distancing measures since mid-February. That for the “retail”, “manufacturing”, “information and communications” and “real estate” sectors also turned positive, while that for the “import/export trade and wholesale” and “financing and insurance” sectors became neutral (i.e. zero net balances). Yet, despite showing improvement over the preceding quarter, business sentiment of the “construction”, “transportation, storage and courier services” and “professional and business services” sectors remained negative. Hiring sentiment among large enterprises in most sectors showed signs of stabilisation in tandem (*Table 2*).

Chart 1 : Business sentiment among large enterprises improved notably



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 : Large enterprises in all sectors reported improved business sentiment in Q2

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

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 in most sectors

QBTS: Expected changes in number of persons engaged						
	Net balance* (% point)					
	2020				2021	
	Q1	Q2	Q3	Q4	Q1	Q2
Manufacturing	+3	-18	+10	-11	-3	+9
Construction	-25	-22	-10	-10	-16	-2
Import/export trade and wholesale	-10	-13	-3	-2	-16	-1
Retail	-19	-25	-4	-10	-20	-13
Accommodation and food services	-9	-35	+7	-2	-18	+11
Transportation, storage and courier services	+1	-17	-2	-8	-21	-12
Information and communications	0	-2	-2	+8	-3	+2
Financing and insurance	+4	-9	+7	0	+6	+5
Real estate	-13	-5	+4	+5	-13	+9
Professional and business services	-8	-12	-4	-5	-4	-1
All sectors above	-8	-17	-1	-4	-11	-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. The overall index on current situation rose from 38.1 in January to a two-year high of 47.1 in April, though still below the boom-bust threshold (*Chart 2a*). Employment situation of the SMEs surveyed remained under pressure but showed relative improvement in April, while credit conditions stayed largely accommodative. Separately, the Standard Chartered Hong Kong SME Leading Business Index⁽³⁾ jumped to a two-year high in the second quarter, though still remaining in the contractionary zone.

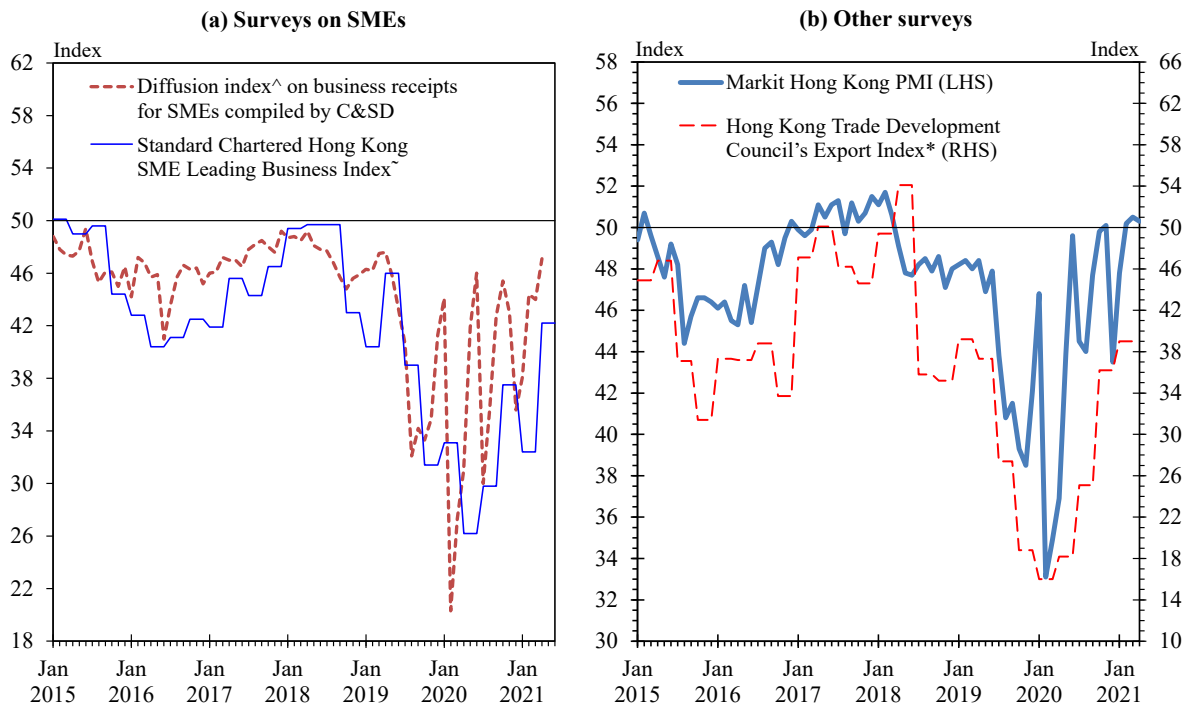
As for other surveys in the public domain, the Markit Purchasing Managers' Index (PMI) of Hong Kong⁽⁴⁾, which gauges the performance of the private sector's business activity, went up to 50.3 in April from 47.8 in January. Separately, the Hong Kong Trade Development Council's Export Index⁽⁵⁾ rose for the fourth consecutive quarter to 39.0 in the first quarter, suggesting further recovery in exporters' sentiment alongside the continued revival in global economic activity (*Chart 2b*). The pandemic remained the top concern with 46.0% of the traders surveyed identifying it as the biggest threat to their businesses, followed by softening global demand (28.4%) and US-Mainland trade tensions (10.3%).

(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 : Recent surveys pointed to improved business sentiment amid the abating local epidemic and continued global economic recovery



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 generally improved recently. The counter-cyclical measures totalling over \$120 billion unveiled in the 2021-22 Budget should help alleviate the economic pressure faced by enterprises. If the local epidemic remains well-contained and cross-border people flows can gradually resume, business sentiment will likely see a broader based improvement down the road. It is thus essential for the community as a whole to spare no effort to keep the epidemic under control. 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.

(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.