

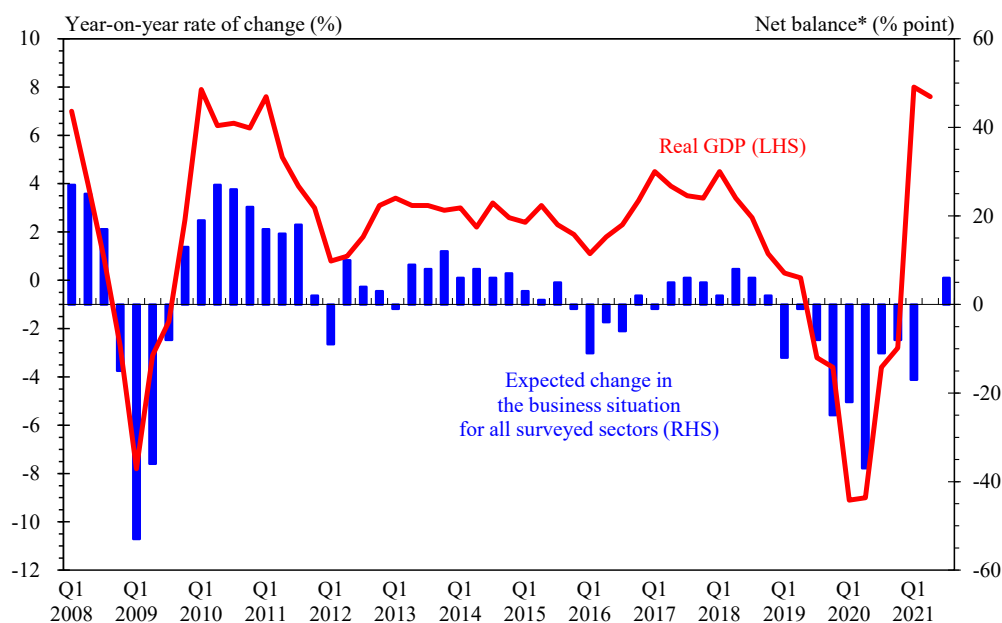
Box 1.1**Business sentiment in Hong Kong**

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 indicated that business sentiment improved further as the local economy was on the path to recovery amid vibrant external demand and stabilised local epidemic situation.

According to the results of the Census and Statistics Department (C&SD)'s Quarterly Business Tendency Survey (QBTS)⁽¹⁾ conducted during 2 June to 9 July 2021, business sentiment among large enterprises in Hong Kong improved further compared to three months ago (*Chart 1*). The proportion of large enterprises expecting business situation to improve in the third quarter of 2021 over the second quarter rose and exceeded the proportion of those expecting the situation to worsen by 6 percentage points (i.e. a net balance of +6), better than the net balance of 0 in the previous round. This was the first positive net balance since the fourth quarter of 2018.

Business sentiment among large enterprises recorded improvement across most surveyed sectors (*Table 1*). There were significantly more respondents in the “professional and business services” sector expecting business situation to improve, lifting the corresponding net balance back into the positive territory. The net balances for “accommodation and food services” and “retail” sectors rose strongly, partly boosted by the launch of the Consumption Voucher Scheme. Those for “real estate” and “manufacturing” sectors likewise improved further within the expansionary zone. As for the “import/export trade and wholesale” and “financing and insurance” sectors, sentiment showed further improvement after recording a zero net balance in the preceding quarter, while that for the “information and communications” sector held up in the positive territory. However, the net balances for “construction” and “transportation, storage and courier services” sectors fell within the contractionary zone. Hiring sentiment among large enterprises revived slightly in overall terms (*Table 2*).

Chart 1 : Business sentiment among large enterprises improved further



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 improved in most sectors over Q2

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

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 revived slightly in overall terms

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

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. Business sentiment among SMEs, though remaining relatively cautious, showed some improvement in recent months. The overall index on current situation, having eased to 44.3 in May, rose back to 46.6 in July (*Chart 2a*). Employment situation of the SMEs surveyed likewise showed improvement of late, while credit conditions stayed largely accommodative. Separately, the Standard Chartered Hong Kong SME Leading Business Index⁽³⁾ extended its upward trend in the third quarter, though remained in the contractionary zone.

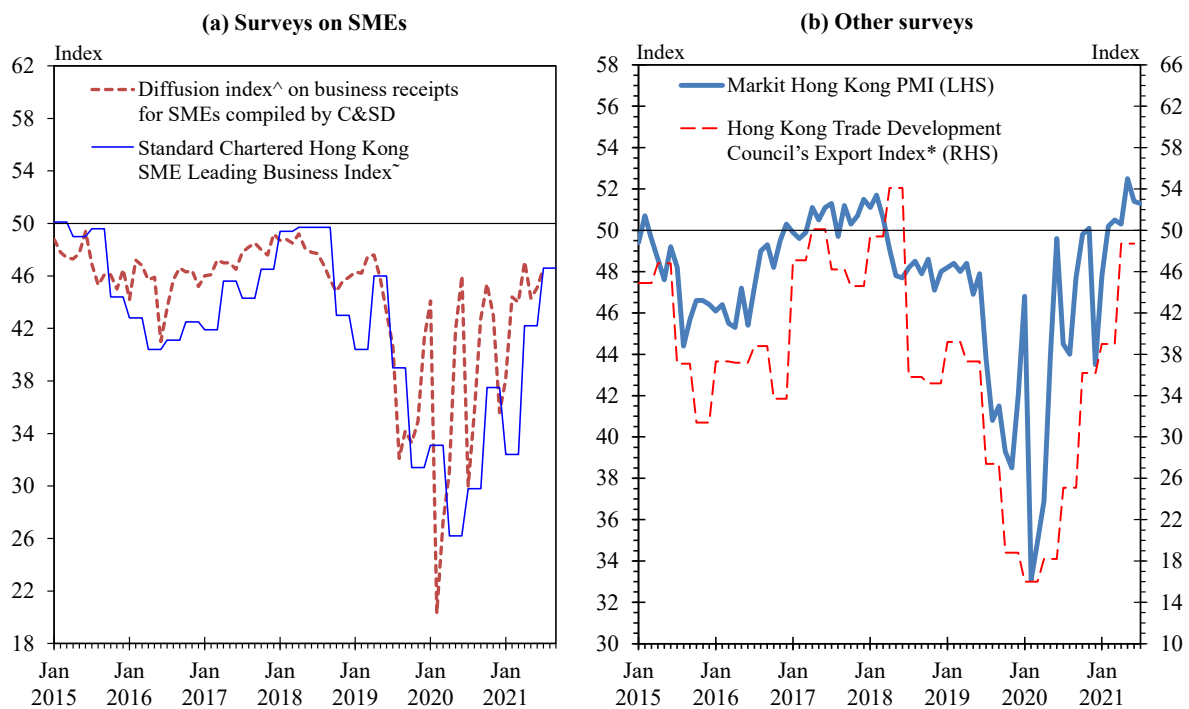
As for other surveys in the public domain, the Markit Purchasing Managers’ Index (PMI) of Hong Kong⁽⁴⁾, which gauges the performance of the private sector’s business activity, went up from 50.3 in April to 51.3 in July and remained in the expansionary zone for six consecutive months. Separately, the Hong Kong Trade Development Council’s Export Index⁽⁵⁾ rose for five quarters in a row, to 48.7 in the second quarter, reflecting exporters’ improving confidence in the global economy (*Chart 2b*). The pandemic remained the top concern, identified by 41.5% of the traders surveyed as the biggest threat to their businesses, followed by softening global demand (16.7%) and US-Mainland trade tensions (13.0%).

(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 : Recent surveys pointed to continued revival of business sentiment alongside vibrant external demand and stabilised local epidemic situation



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 continued to revive in the past few months. Going forward, although the global pandemic development will remain a source of uncertainty, the improving economic situation should bode well for business sentiment. Meanwhile, the Consumption Voucher Scheme will help stimulate local consumer sentiment and lend support to consumption-related sectors. This, together with the community’s increased participation in the COVID-19 Vaccination Programme, should help create favourable conditions for a broader based economic recovery. The Government will closely monitor external and local developments.

(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.