

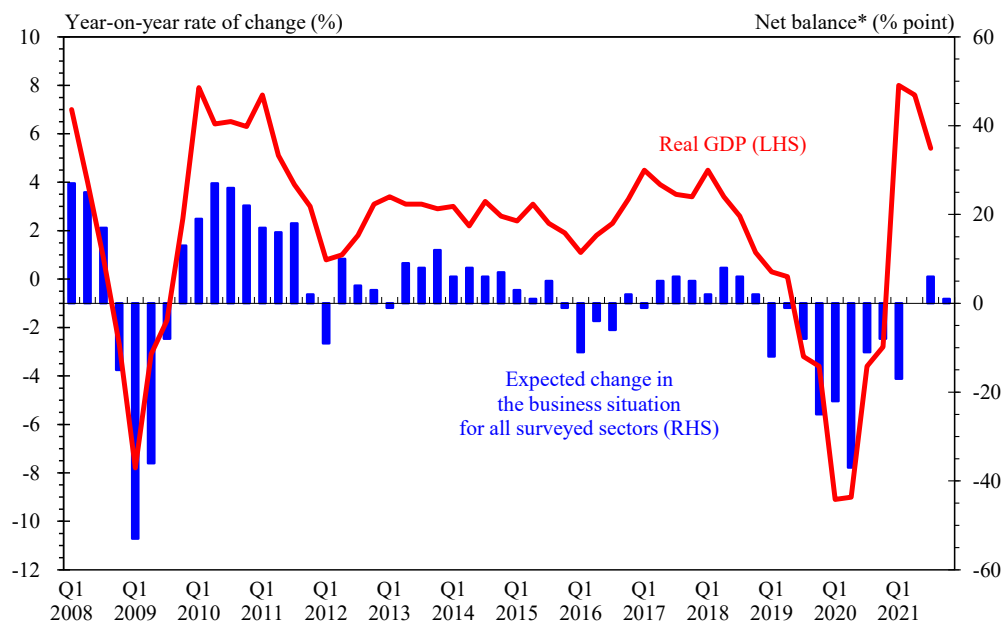
**Box 1.1****Business sentiment in Hong Kong**

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 largely remained positive in recent months, though the pandemic development and supply bottlenecks continued to cast uncertainties over the global economic outlook.

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 12 October 2021, business sentiment among large enterprises in Hong Kong stayed positive overall, though turning more cautious as compared to three months ago (*Chart 1*). The proportion of large enterprises expecting business situation to improve in the fourth quarter of 2021 over the third quarter exceeded the proportion of those expecting the situation to worsen by 1 percentage point (i.e. a net balance of +1), though smaller than the net balance of +6 in the previous round.

Views of large enterprises in different surveyed sectors were mixed, depending on their specific environment (*Table 1*). The net balances for the “retail” and “accommodation and food services” sectors remained positive despite some easing, on the back of the stable local epidemic situation, improving employment and income conditions and the Consumption Voucher Scheme. Those for the “manufacturing”, “real estate” and “information and communications” sectors also stayed positive, but the “import/export trade and wholesale” sector only recorded a zero net balance. Meanwhile, the net balances for the “transportation, storage and courier services” and “construction” sectors improved in the negative territory. More respondents in the “financing and insurance” and “professional and business services” sectors expected business situation to worsen, and the corresponding net balances turned slightly negative. Hiring sentiment among large enterprises held steady in overall terms (*Table 2*).

**Chart 1 : Business sentiment among large enterprises stayed positive overall**



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 different sectors had mixed views on business outlook

QBTS: Expected changes in business situation						
	Net balance* (% point)					
	2020		2021			
	Q3	Q4	Q1	Q2	Q3	Q4
Manufacturing	+9	-8	-5	+14	+23	+14
Construction	-21	-19	-28	-13	-21	-6
Import/export trade and wholesale	-8	-7	-13	0	+8	0
Retail	+21	-5	-18	+5	+18	+9
Accommodation and food services	+25	+19	-44	+20	+33	+29
Transportation, storage and courier services	-22	-13	-39	-13	-18	-2
Information and communications	-21	0	-18	+5	+5	+5
Financing and insurance	-14	-13	-10	0	+6	-2
Real estate	-26	-12	-16	+4	+14	+7
Professional and business services	-18	+4	-13	-7	+7	-1
All sectors above	-11	-8	-17	0	+6	+1

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 held steady in overall terms

QBTS: Expected changes in number of persons engaged						
	Net balance* (% point)					
	2020		2021			
	Q3	Q4	Q1	Q2	Q3	Q4
Manufacturing	+10	-11	-3	+9	+10	+8
Construction	-10	-10	-16	-2	-11	+11
Import/export trade and wholesale	-3	-2	-16	-1	+2	-4
Retail	-4	-10	-20	-13	-5	-12
Accommodation and food services	+7	-2	-18	+11	+19	+18
Transportation, storage and courier services	-2	-8	-21	-12	-2	-3
Information and communications	-2	+8	-3	+2	-3	+6
Financing and insurance	+7	0	+6	+5	+10	+5
Real estate	+4	+5	-13	+9	+4	+5
Professional and business services	-4	-5	-4	-1	-2	-2
All sectors above	-1	-4	-11	-1	+2	+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<sup>(2)</sup> to gauge the general direction of change in their views on business situation versus the preceding month. Business sentiment among SMEs improved visibly in August, but softened somewhat more recently amid increased uncertainties over the global economic outlook. The overall index on current situation was 46.7 in October, slightly higher than 46.6 in July (*Chart 2a*). Employment situation of the SMEs surveyed was likewise broadly steady, while credit conditions stayed largely accommodative. Separately, the Standard Chartered Hong Kong SME Leading Business Index<sup>(3)</sup> further extended its upward trend in the fourth quarter within the contractionary zone.

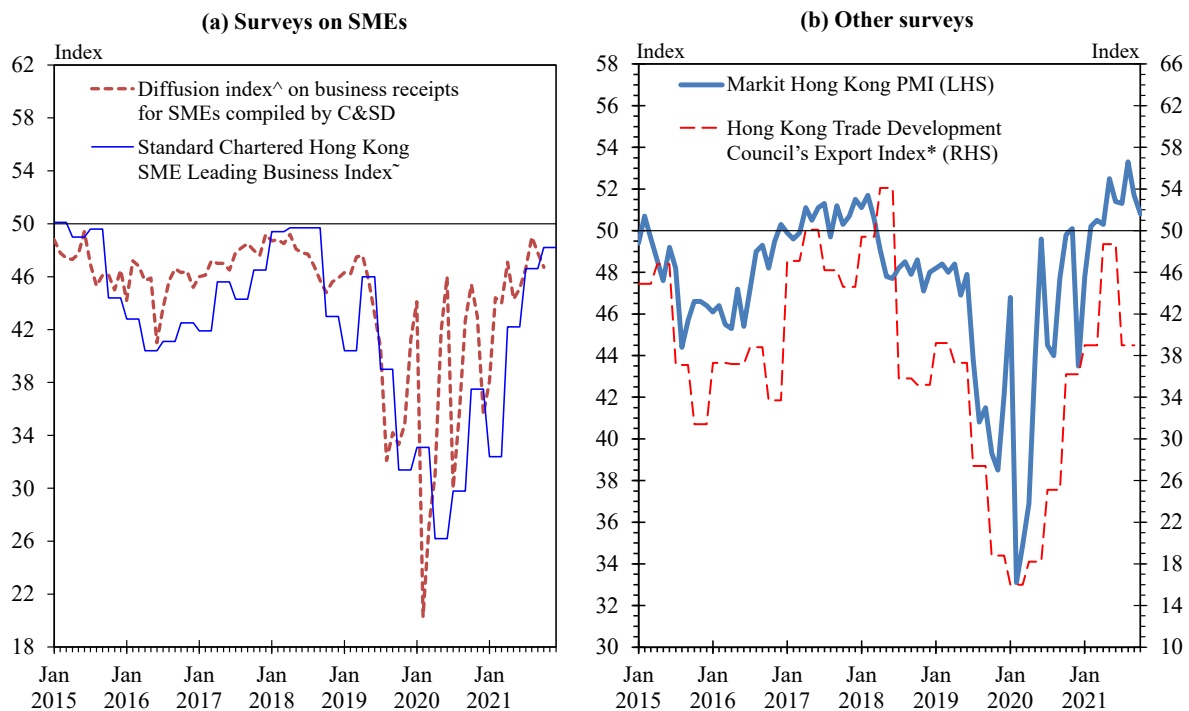
As for other surveys in the public domain, the Markit Purchasing Managers' Index (PMI) of Hong Kong<sup>(4)</sup>, which gauges the performance of the private sector's business activity, fell slightly from 51.3 in July to 50.8 in October but still pointed to activity expansion for the ninth consecutive month. Separately, the Hong Kong Trade Development Council's Export Index<sup>(5)</sup> eased to 39.0 in the third quarter from 48.7 in the previous quarter, reflecting exporters' growing concern on market uncertainties brought by the COVID-19 variants and supply bottlenecks (*Chart 2b*). The pandemic remained the top concern, identified by 45.5% of the traders surveyed as the biggest threat to their businesses, followed by softening global demand (20.3%) and continued closure of borders (10.4%).

(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 : Other recent surveys painted a mixed picture on local business sentiment



Notes: (<sup>^</sup>) 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.

(<sup>~</sup>) 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 suggested that business sentiment in Hong Kong was still largely positive despite the increased external headwinds of late. Going forward, the pandemic especially the threat of the more infectious Delta variant and supply bottlenecks in many economies may continue to pose a drag on global growth and in turn affect the performance of Hong Kong’s merchandise exports. Nonetheless, the recent improvement in local employment conditions together with the Consumption Voucher Scheme should remain supportive to consumption-related activity. Meanwhile, the community’s concerted effort to keep the local epidemic under control remains crucial. 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.