

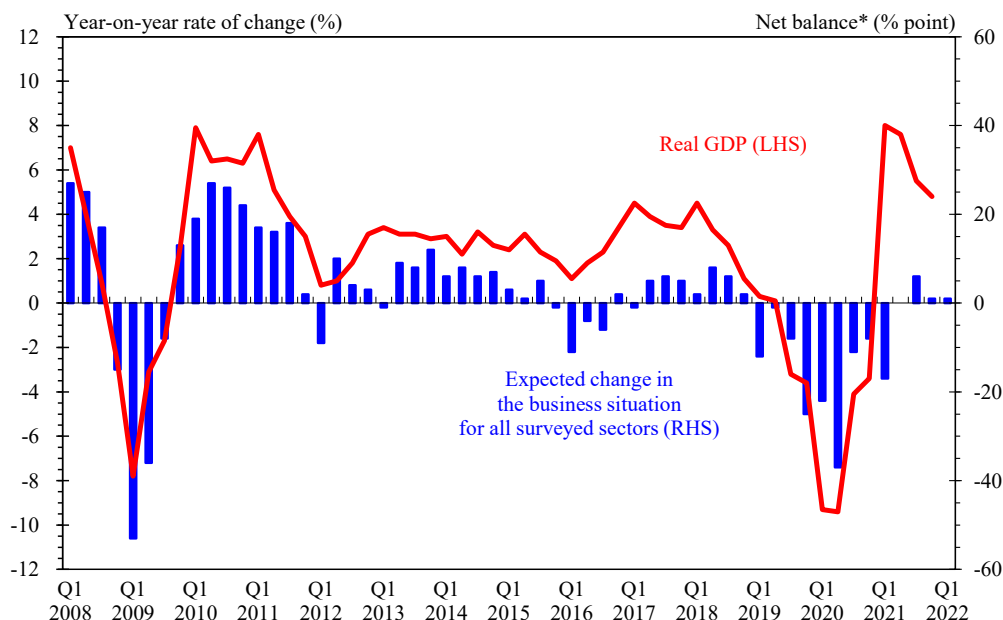
Box 1.1**Business sentiment in Hong Kong**

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 remained largely stable before the latest wave of epidemic, but weakened more recently as the worsened epidemic situation and tightened anti-epidemic measures in response have posed renewed pressures on economic activities.

According to the results of the Census and Statistics Department (C&SD)'s Quarterly Business Tendency Survey (QBTS)⁽¹⁾ conducted during 2 December 2021 to 11 January 2022, business sentiment among large enterprises in Hong Kong remained positive overall (*Chart 1*). The proportion of large enterprises expecting business situation to improve in the first quarter of 2022 over the fourth quarter of 2021 exceeded the proportion of those expecting the situation to worsen by 1 percentage point (i.e. a net balance of +1), same as the net balance in the previous round. However, it should be noted that the latest survey results largely reflected the situation in December 2021, and have not fully reflected the impact of the latest wave of local epidemic which intensified upon entering 2022.

Sentiment of large enterprises in different surveyed sectors was mixed (*Table 1*). The net balances for the “accommodation and food services” sector eased markedly albeit staying positive. Those for the “manufacturing”, “retail” and “information and communications” sectors turned negative, while those for “construction” and “transportation, storage and courier services” sectors worsened in the negative zone. Meanwhile, more respondents in the “import/export trade and wholesale”, “financing and insurance”, “real estate” and “professional and business services” sectors expected business situation to improve, and the corresponding net balances increased by varying degrees. Hiring sentiment among large enterprises held steady in overall terms (*Table 2*).

Chart 1 : Business sentiment among large enterprises stayed positive overall, though the impact of the latest wave of local epidemic has yet to be fully reflected



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 : Expectations on business outlook of large enterprises in different sectors were mixed

QBTS: Expected changes in business situation						
	Net balance* (% point)					
	2020	2021				2022
	Q4	Q1	Q2	Q3	Q4	Q1
Manufacturing	-8	-5	+14	+23	+14	-8
Construction	-19	-28	-13	-21	-6	-17
Import/export trade and wholesale	-7	-13	0	+8	0	+2
Retail	-5	-18	+5	+18	+9	-11
Accommodation and food services	+19	-44	+20	+33	+29	+2
Transportation, storage and courier services	-13	-39	-13	-18	-2	-7
Information and communications	0	-18	+5	+5	+5	-2
Financing and insurance	-13	-10	0	+6	-2	+5
Real estate	-12	-16	+4	+14	+7	+8
Professional and business services	+4	-13	-7	+7	-1	+3
All sectors above	-8	-17	0	+6	+1	+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				2022
	Q4	Q1	Q2	Q3	Q4	Q1
Manufacturing	-11	-3	+9	+10	+8	-4
Construction	-10	-16	-2	-11	+11	+8
Import/export trade and wholesale	-2	-16	-1	+2	-4	-2
Retail	-10	-20	-13	-5	-12	-5
Accommodation and food services	-2	-18	+11	+19	+18	+8
Transportation, storage and courier services	-8	-21	-12	-2	-3	+3
Information and communications	+8	-3	+2	-3	+6	-7
Financing and insurance	0	+6	+5	+10	+5	+9
Real estate	+5	-13	+9	+4	+5	+9
Professional and business services	-5	-4	-1	-2	-2	-5
All sectors above	-4	-11	-1	+2	+1	0

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 fell sharply from 46.0 in December 2021 to 37.8 in January 2022 in tandem with the deteriorating local epidemic situation (*Chart 2a*), while the employment situation softened somewhat. Nonetheless, credit conditions remained largely accommodative. Separately, the Standard Chartered Hong Kong SME Leading Business Index⁽³⁾ was largely flat within the contractionary zone.

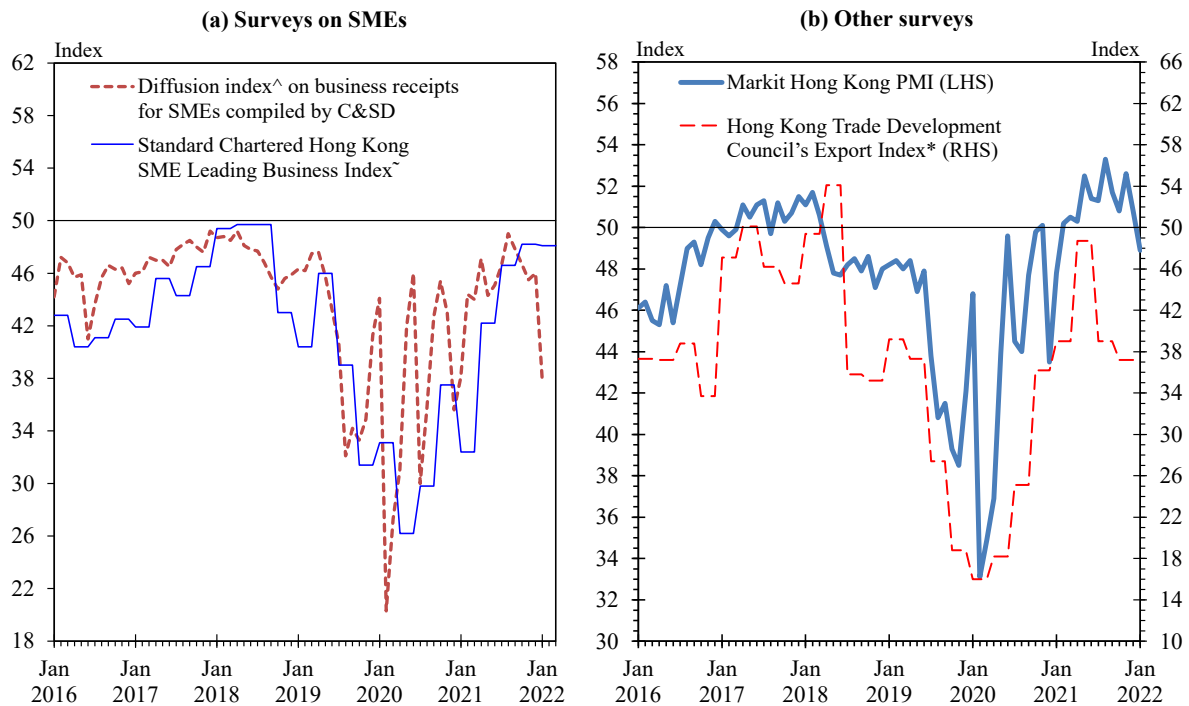
As for other surveys in the public domain, the Markit Purchasing Managers' Index (PMI) of Hong Kong⁽⁴⁾, which gauges the performance of the private sector's business activity, dipped to 48.9 in January 2022 after staying in the expansionary territory for eleven consecutive months, reflecting the impact of the latest wave of local epidemic. Separately, the Hong Kong Trade Development Council's Export Index⁽⁵⁾ went further down from 39.0 in the third quarter of 2021 to 37.2 in the fourth quarter, signalling weaker exporters' confidence due to uncertainties caused by the COVID-19 variants (*Chart 2b*). 32.5% of the traders surveyed identified the pandemic as the biggest threat to their businesses in the near term. Shuttering economic recovery (15.7%) and continued closure of borders (11.6%) are the second and third most identified concerns.

(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 : More recent surveys pointed to weakened business sentiment amid the latest wave of local epidemic



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 suggested that the latest wave of local epidemic and tightened anti-epidemic measures in response have weighed on business sentiment in Hong Kong. Looking ahead, the evolving pandemic still holds the key for business sentiment in the near term, though the latest measures under the Anti-epidemic Fund should provide some relief to the affected sectors. It remains crucial for the community to work together with the Government to contain the epidemic as soon as possible and abide by the anti-epidemic measures. 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.