

Box 1.1

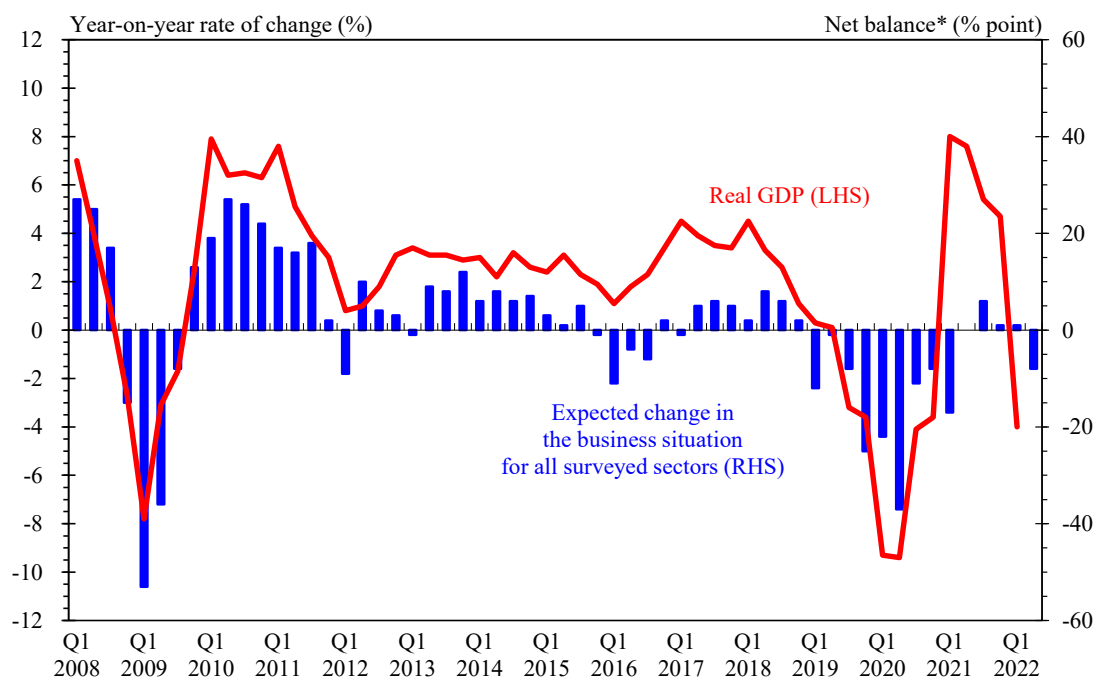
Business sentiment in Hong Kong

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 worsened amid the fifth wave of local epidemic, but has shown notable improvement more recently as the epidemic receded.

According to the results of the Census and Statistics Department (C&SD)'s Quarterly Business Tendency Survey (QBTS)⁽¹⁾ conducted during 2 March 2022 to 12 April 2022, business sentiment among large enterprises in Hong Kong turned more cautious compared to three months ago (*Chart 1*). The proportion of large enterprises expecting business situation to improve in the second quarter of 2022 over the first quarter was smaller than the proportion of those expecting the situation to worsen by 8 percentage points (i.e. a net balance of -8), lower than +1 in the previous round. However, it should be noted that the latest survey results have not fully reflected the gradual improvement in business following the recent moderation of local epidemic situation.

Deterioration of large enterprises' business sentiment was seen in many surveyed sectors (*Table 1*). The net balances for "import/export trade and wholesale", "financing and insurance", "real estate" and "professional and business services" sectors dived into the negative zone. Meanwhile, those for "manufacturing", "construction", and "transportation, storage, and courier services" sectors became more negative. On the other hand, the net balances for "retail" and "accommodation and food services" sectors were well above the boom-bust threshold, conceivably supported by the new round of Consumption Voucher Scheme. The net balance for "information and communications" sector edged up to the positive zone. Large enterprises' hiring sentiment remained largely stable (*Table 2*).

Chart 1 : Business sentiment among large enterprises turned more cautious amid the fifth wave of local epidemic



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 in many sectors weakened

QBTS: Expected changes in business situation						
	Net balance* (% point)					
	2021				2022	
	Q1	Q2	Q3	Q4	Q1	Q2
Manufacturing	-5	+14	+23	+14	-8	-19
Construction	-28	-13	-21	-6	-17	-32
Import/export trade and wholesale	-13	0	+8	0	+2	-7
Retail	-18	+5	+18	+9	-11	+11
Accommodation and food services	-44	+20	+33	+29	+2	+23
Transportation, storage and courier services	-39	-13	-18	-2	-7	-12
Information and communications	-18	+5	+5	+5	-2	+1
Financing and insurance	-10	0	+6	-2	+5	-4
Real estate	-16	+4	+14	+7	+8	-2
Professional and business services	-13	-7	+7	-1	+3	-19
All sectors above	-17	0	+6	+1	+1	-8

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 remained largely stable

QBTS: Expected changes in number of persons engaged						
	Net balance* (% point)					
	2021				2022	
	Q1	Q2	Q3	Q4	Q1	Q2
Manufacturing	-3	+9	+10	+8	-4	-1
Construction	-16	-2	-11	+11	+8	+3
Import/export trade and wholesale	-16	-1	+2	-4	-2	0
Retail	-20	-13	-5	-12	-5	+4
Accommodation and food services	-18	+11	+19	+18	+8	-2
Transportation, storage and courier services	-21	-12	-2	-3	+3	+1
Information and communications	-3	+2	-3	+6	-7	+7
Financing and insurance	+6	+5	+10	+5	+9	+4
Real estate	-13	+9	+4	+5	+9	-9
Professional and business services	-4	-1	-2	-2	-5	-2
All sectors above	-11	-1	+2	+1	0	+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 fell further from 37.8 in January to 29.9 in February and 31.7 in March amid the severe local epidemic situation, and then rose back sharply to 48.3 in April as the epidemic eased (**Chart 2a**). The employment situation remained soft, and credit conditions stayed largely accommodative. Separately, the Standard Chartered Hong Kong SME Leading Business Index⁽³⁾ for the second quarter, which was based on survey conducted in March, declined.

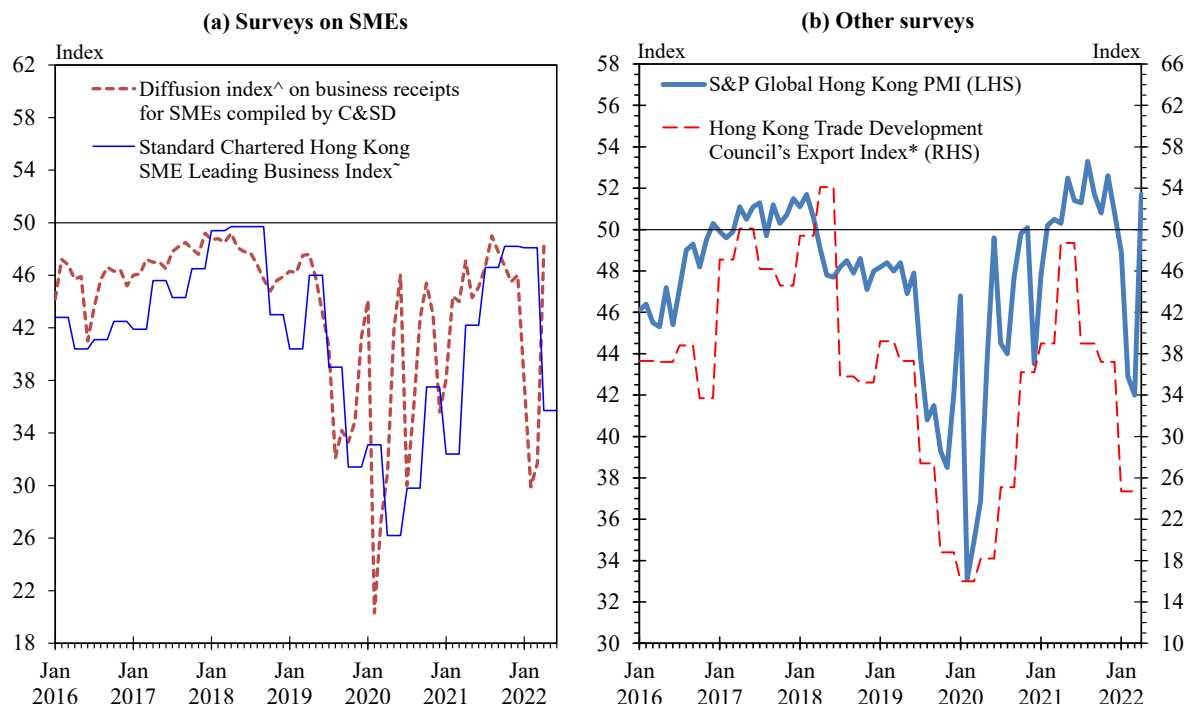
As for other surveys in the public domain, the S&P Global Purchasing Managers' Index (PMI) of Hong Kong⁽⁴⁾, which gauges the performance of the private sector's business activity, likewise bounced back visibly to 51.7 in April, having declined to 42.0 in March. Separately, the Hong Kong Trade Development Council's Export Index⁽⁵⁾ fell sharply from 37.2 in the fourth quarter of 2021 to 24.7 in the first quarter of 2022, as the evolving pandemic and supply chain disruptions weighed on exporters' confidence (**Chart 2b**). Among the traders surveyed, 53.5% indicated the persistence of the pandemic as the biggest threat to their businesses in the near term, followed by shuttering economic recovery (11.4%) and continued closure of borders (9.3%).

(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 : More recent surveys suggested that business sentiment improved visibly as the local epidemic receded



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 business sentiment worsened amid the fifth wave of local epidemic, but have shown visible improvement of late. Looking ahead, while the increased headwinds on the external front will cast a shadow on the business outlook, the easing local epidemic situation and resultant relaxation of social distancing measures, together with various support measures rolled out by the Government, should help support business sentiment in the near term. The Government will closely monitor external and local developments.

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- (4) According to the press release by S&P Global, the S&P Global 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.