

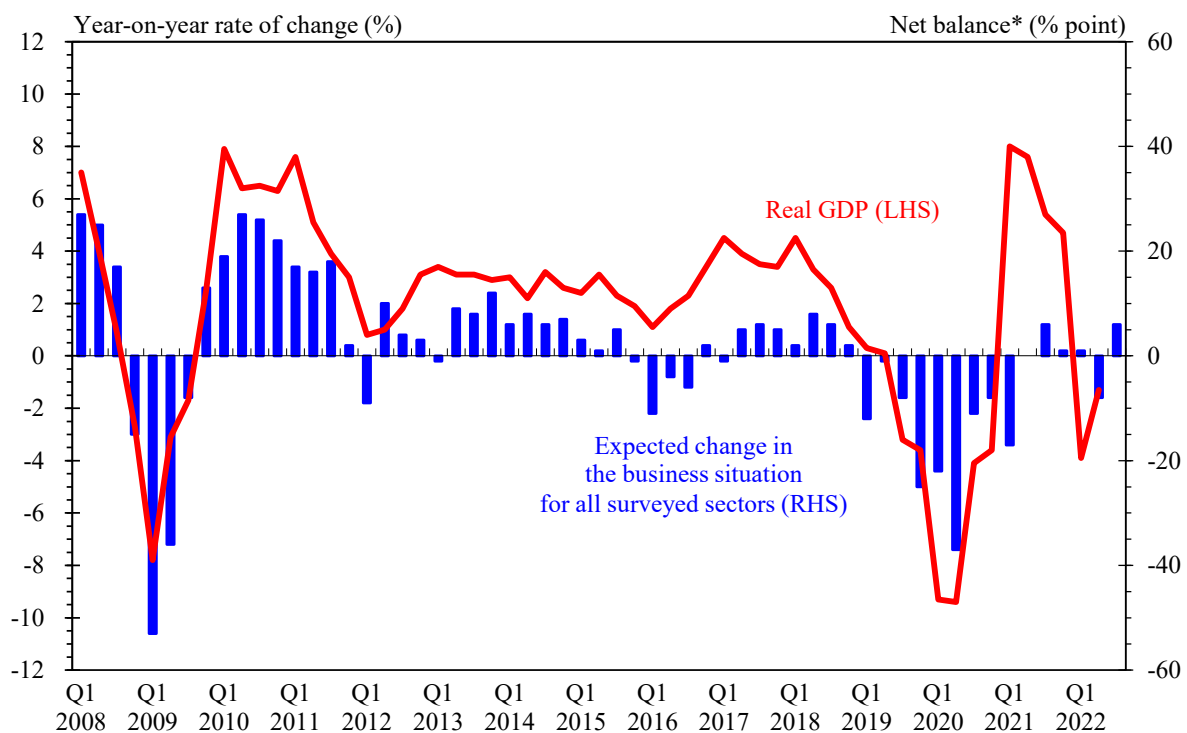
Box 1.1**Business sentiment in Hong Kong**

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 indicate that business sentiment improved visibly in the second quarter thanks to the generally moderated epidemic situation and gradual relaxation of social distancing measures, though some softening was seen of late amid the worsening external environment and the increase in COVID-19 infection cases.

According to the results of the Census and Statistics Department (C&SD)'s Quarterly Business Tendency Survey (QBTS)⁽¹⁾ conducted during 2 June 2022 to 6 July 2022, business sentiment among large enterprises in Hong Kong improved compared to three months ago (**Chart 1**). The proportion of large enterprises expecting their business situation to improve in the third quarter of 2022 over the second quarter was larger than the proportion of those expecting the situation to worsen by 6 percentage points (i.e. a net balance of +6), visibly higher than -8 in the previous round.

Large enterprises' business sentiment turned better across a majority of sectors (**Table 1**). The net balances for the "retail" and "accommodation and food services" sectors turned even more positive, while those for the "manufacturing", "import/export trade and wholesale", "financing and insurance" and "real estate" sectors rebounded into positive territory. Those for the "construction", "transportation, storage, and courier services" and "professional and business services" sectors improved within the negative territory. Yet, the net balance for the "information and communications" sector dipped from slightly positive to slightly negative. Large enterprises' appetite for hiring generally increased (**Table 2**).

Chart 1 : Large enterprises' business sentiment improved visibly thanks to the generally moderated epidemic situation and the gradual relaxation of social distancing measures



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 turned better across a majority of sectors

QBTS: Expected changes in business situation						
	Net balance* (% point)					
	2021			2022		
	Q2	Q3	Q4	Q1	Q2	Q3
Manufacturing	+14	+23	+14	-8	-19	+24
Construction	-13	-21	-6	-17	-32	-5
Import/export trade and wholesale	0	+8	0	+2	-7	+6
Retail	+5	+18	+9	-11	+11	+25
Accommodation and food services	+20	+33	+29	+2	+23	+49
Transportation, storage and courier services	-13	-18	-2	-7	-12	-2
Information and communications	+5	+5	+5	-2	+1	-3
Financing and insurance	0	+6	-2	+5	-4	+10
Real estate	+4	+14	+7	+8	-2	+10
Professional and business services	-7	+7	-1	+3	-19	-3
All sectors above	0	+6	+1	+1	-8	+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 : Large enterprises' appetite for hiring increased

QBTS: Expected changes in number of persons engaged						
	Net balance* (% point)					
	2021			2022		
	Q2	Q3	Q4	Q1	Q2	Q3
Manufacturing	+9	+10	+8	-4	-1	+7
Construction	-2	-11	+11	+8	+3	+9
Import/export trade and wholesale	-1	+2	-4	-2	0	+1
Retail	-13	-5	-12	-5	+4	+9
Accommodation and food services	+11	+19	+18	+8	-2	+36
Transportation, storage and courier services	-12	-2	-3	+3	+1	+8
Information and communications	+2	-3	+6	-7	+7	-1
Financing and insurance	+5	+10	+5	+9	+4	-4
Real estate	+9	+4	+5	+9	-9	+11
Professional and business services	-1	-2	-2	-5	-2	0
All sectors above	-1	+2	+1	0	+1	+7

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 the business situation versus the preceding month. The overall index on the current situation rose back sharply to 48.3 in April and 48.6 in May, before softening to 46.3 in June and 43.4 in July amid the deteriorating external environment and the increase in COVID-19 infection cases. The latest figure was nonetheless still visibly better than that in the first quarter (*Chart 2a*). The employment situation also improved, and credit conditions stayed largely accommodative. Separately, the Standard Chartered Hong Kong SME Leading Business Index⁽³⁾ for the third quarter, which was based on a survey conducted during June to July, bounced back notably.

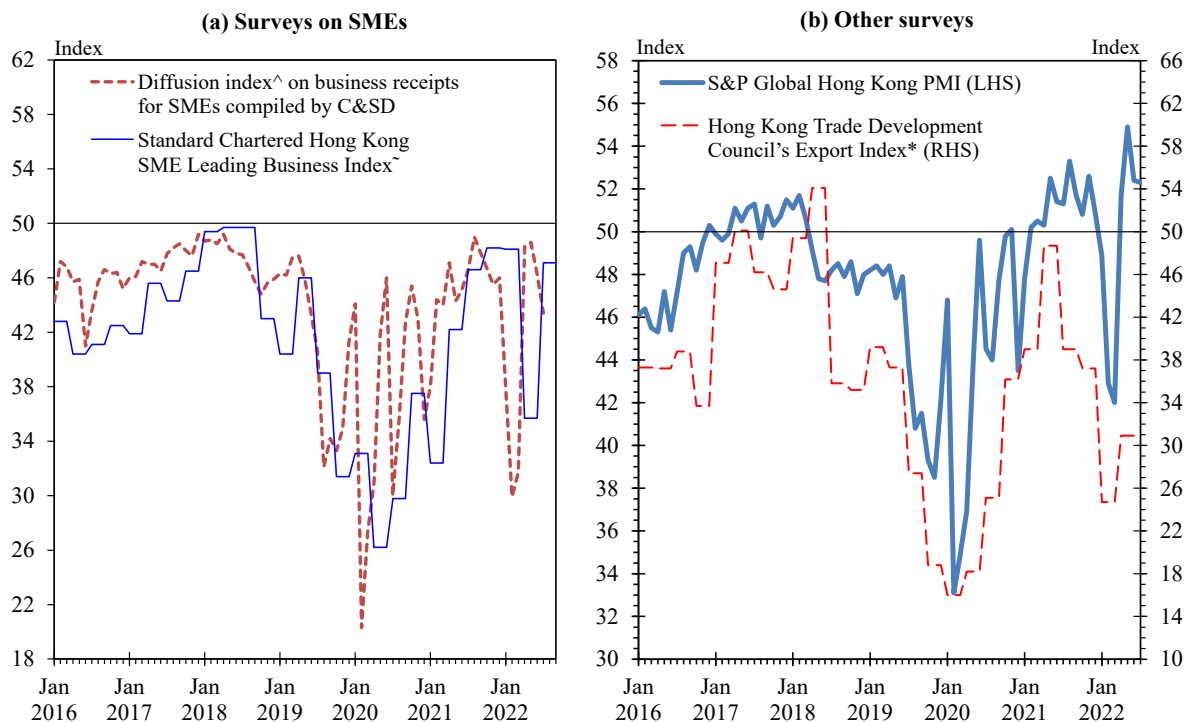
As for other surveys in the public domain, the S&P Global Purchasing Managers' Index (PMI) of Hong Kong⁽⁴⁾, which gauges the performance of the private sector's business activity, rose to 54.9 in May, before easing slightly to 52.4 in June and 52.3 in July. Separately, the Hong Kong Trade Development Council's Export Index⁽⁵⁾ rose from 24.7 in the first quarter to 30.9 in the second quarter against the backdrop of the receding pandemic (*Chart 2b*). Among the exporters surveyed, 35.8% indicated the persistence of the pandemic as the biggest threat to their businesses in the near term (down from 53.5% in the first quarter), followed by the slowdown of economic growth (14.8%) and continued border closures (12.0%).

(2) It refers to the results from the Monthly Survey on the Business Situation of SMEs that solicits feedback 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 “Recruitment Sentiment”, “Investment Sentiment”, “Business Condition”, “Profit Margin”, and “Global Economy” for the next quarter.

Box 1.1 (Cont'd)

Chart 2 : Business sentiment improved visibly in the second quarter, despite some softening more recently



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 asked 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 improved in the second quarter from the preceding quarter. The improvement was visible in April and May when the epidemic situation moderated and the various social distancing measures were relaxed, though some softening was seen more recently. Looking forward, the worsening global economic environment would weigh on business sentiment, especially in the externally-oriented sectors. Domestic economic activities are likely to revive further, but the extent would be dependent on the local epidemic situation and financial conditions. The various support measures rolled out by the Government should also help.

(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 managers in around 400 private sector 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, toys, jewellery, timepieces and machinery.