

Box 1.1

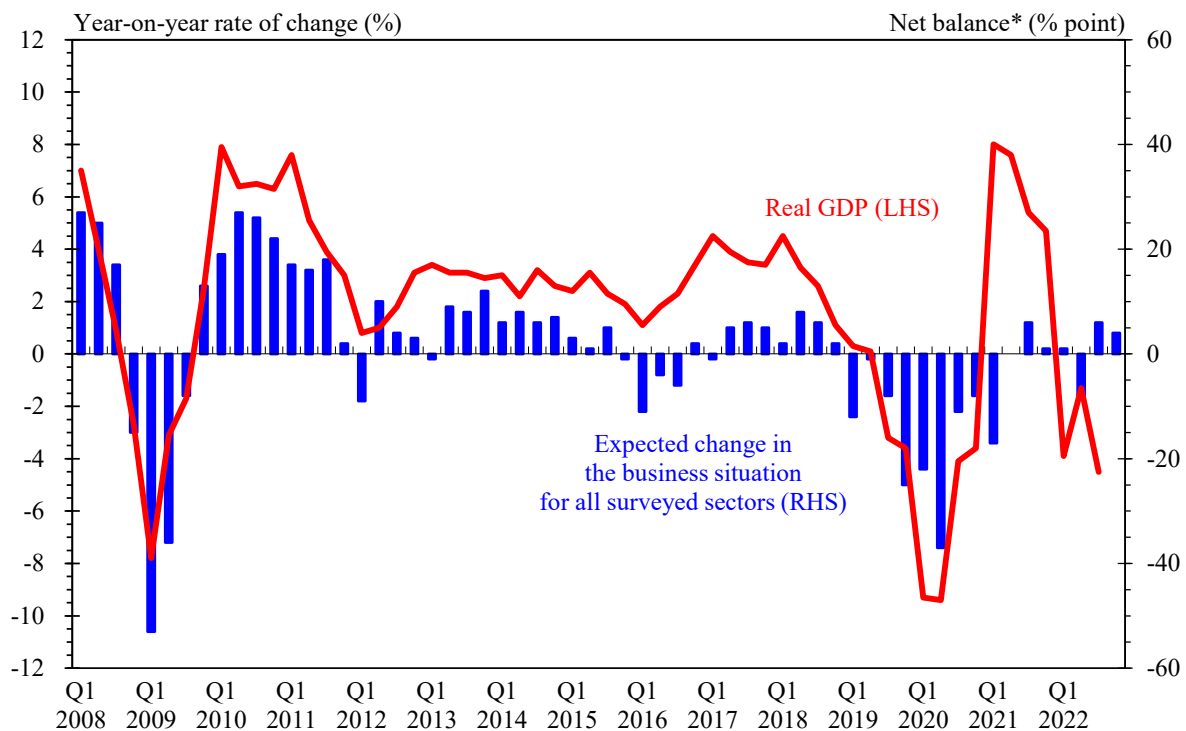
Business sentiment in Hong Kong

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 generally eased in the third quarter amid worsening global economic prospects and tightening financial conditions.

According to the results of the Census and Statistics Department (C&SD)'s Quarterly Business Tendency Survey (QBTS)⁽¹⁾ conducted during 2 September 2022 to 12 October 2022, business sentiment among large enterprises in Hong Kong remained largely stable as compared to three months ago (*Chart 1*). The proportion of large enterprises expecting their business situation to improve in the fourth quarter of 2022 over the third quarter was larger than the proportion of those expecting the situation to worsen by 4 percentage points (i.e. a net balance of +4), slightly lower than +6 in the previous round.

Large enterprises' business sentiment varied across different sectors (*Table 1*). The net balances for the "manufacturing" and "real estate" sectors turned negative. Those of the "information and communications" and "construction" sectors held steady in the negative territory. Meanwhile, the net balances for the "accommodation and food services" and "retail" sectors receded from very high levels and that for the "financing and insurance" sector decreased in the positive zone. On the other hand, the net balances for the "transportation, storage, and courier services" and "professional and business services" sectors rebounded into positive territory, while that for the "import/export trade and wholesale" sector increased in the positive zone. Large enterprises' appetite for hiring remained largely positive (*Table 2*).

Chart 1 : Business sentiment of large enterprises remained largely stable



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' business sentiment varied across different sectors**

QBTS: Expected changes in business situation						
	Net balance* (% point)					
	2021		2022			
	Q3	Q4	Q1	Q2	Q3	Q4
Manufacturing	+23	+14	-8	-19	+24	-13
Construction	-21	-6	-17	-32	-5	-5
Import/export trade and wholesale	+8	0	+2	-7	+6	+9
Retail	+18	+9	-11	+11	+25	+16
Accommodation and food services	+33	+29	+2	+23	+49	+37
Transportation, storage and courier services	-18	-2	-7	-12	-2	+8
Information and communications	+5	+5	-2	+1	-3	-4
Financing and insurance	+6	-2	+5	-4	+10	+4
Real estate	+14	+7	+8	-2	+10	-2
Professional and business services	+7	-1	+3	-19	-3	+2
All sectors above	+6	+1	+1	-8	+6	+4

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 positive

QBTS: Expected changes in number of persons engaged						
	Net balance* (% point)					
	2021		2022			
	Q3	Q4	Q1	Q2	Q3	Q4
Manufacturing	+10	+8	-4	-1	+7	+18
Construction	-11	+11	+8	+3	+9	+18
Import/export trade and wholesale	+2	-4	-2	0	+1	0
Retail	-5	-12	-5	+4	+9	+5
Accommodation and food services	+19	+18	+8	-2	+36	+22
Transportation, storage and courier services	-2	-3	+3	+1	+8	+13
Information and communications	-3	+6	-7	+7	-1	-8
Financing and insurance	+10	+5	+9	+4	-4	+5
Real estate	+4	+5	+9	-9	+11	0
Professional and business services	-2	-2	-5	-2	0	+2
All sectors above	+2	+1	0	+1	+7	+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 moved in a range of 43.0 to 45.5 during July – October, lower than the levels in the second quarter. (*Chart 2a*). Yet, employment sentiment among SMEs remained generally stable, and credit conditions were largely accommodative. Separately, the Standard Chartered Hong Kong SME Leading Business Index⁽³⁾ for the fourth quarter, which was based on a survey conducted in September, dropped.

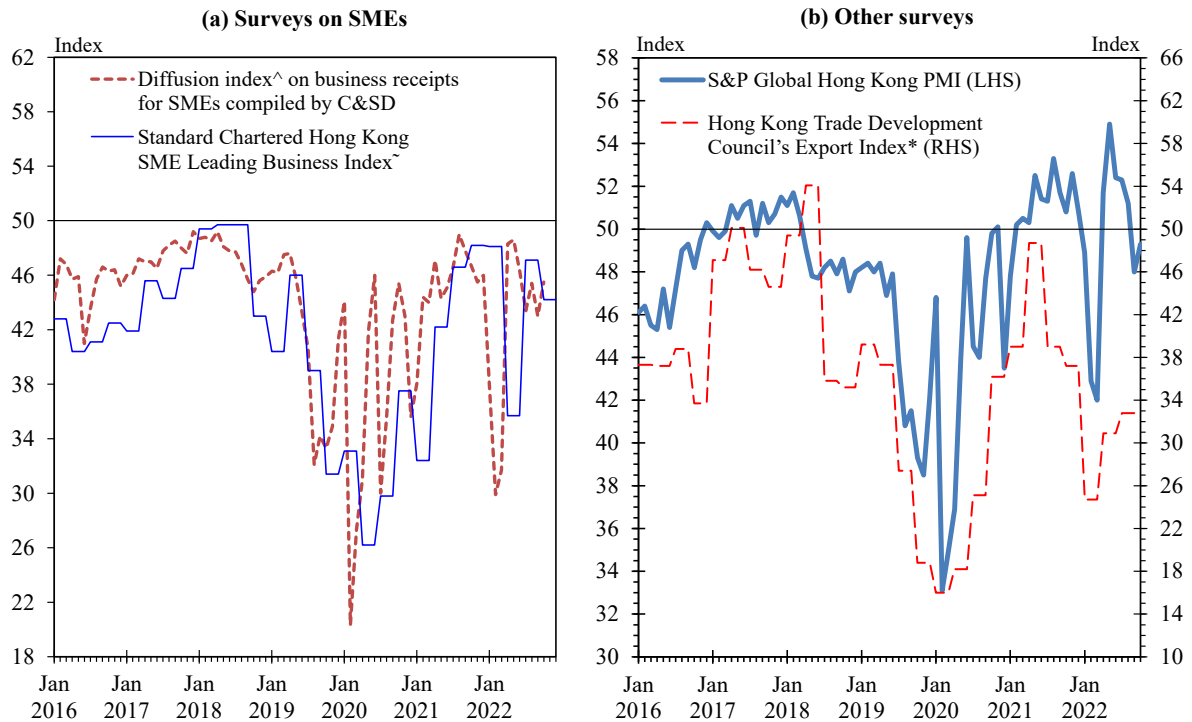
As for other surveys in the public domain, the S&P Global Purchasing Managers' Index (PMI) of Hong Kong⁽⁴⁾, which gauges the performance of the private sector's business activity, declined to 48.0 in September, and stayed in the contractionary zone in October (49.3). Separately, the Hong Kong Trade Development Council's Export Index⁽⁵⁾ posted a mild increase from 30.9 in the second quarter to 32.8 in the third quarter (*Chart 2b*). Among the exporters surveyed, 40.2% indicated the persistence of the pandemic as the biggest threat to their businesses in the near term, followed by the continued border closures (22.6%) and China-US trade tensions (15.7%).

(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 : Recent surveys pointed to generally easing business sentiment of late



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 generally eased in the third quarter from the preceding quarter, amid worsening global economic prospects as many major central banks raised interest rates sharply in response to elevated inflation. Looking ahead, the deteriorating economic environment and tightening financial conditions would continue to weigh on business sentiment, though the generally stable local epidemic situation and the Consumption Voucher Scheme should provide support.

- (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.