

**Box 1.1**

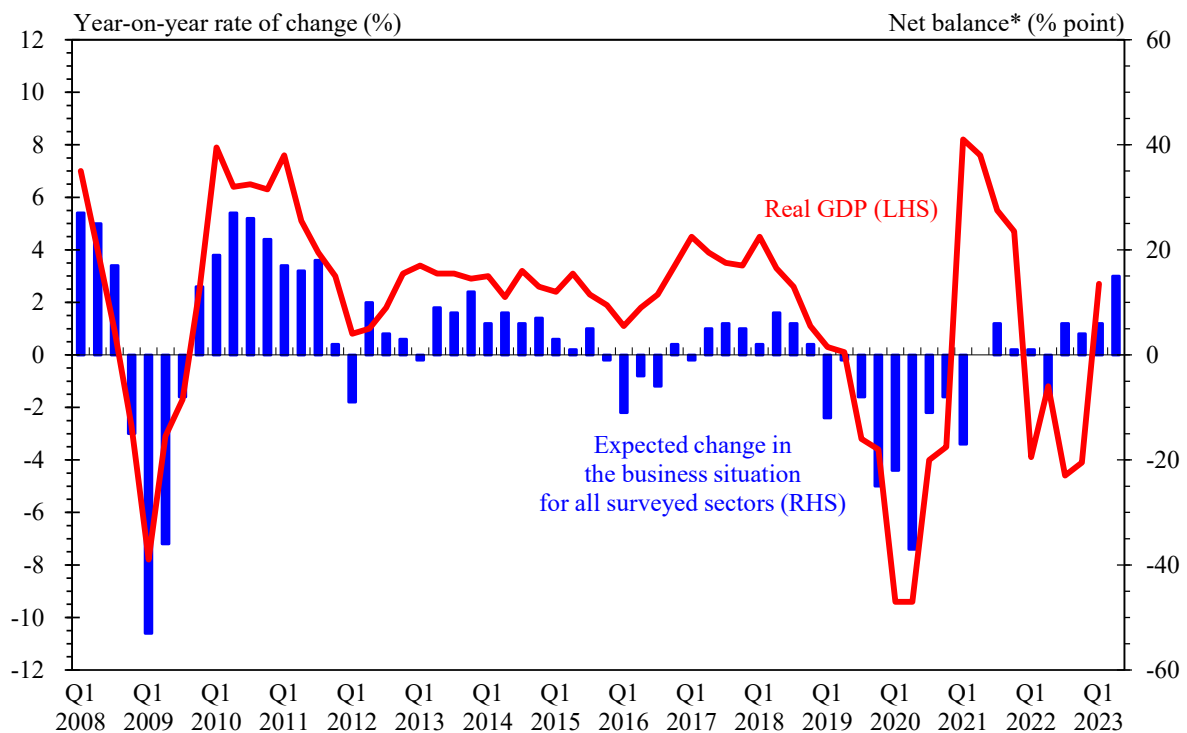
**Business sentiment in Hong Kong**

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 further in the past few months thanks to the revival of local economic activities and a visible rebound in visitor arrivals.

According to the results of the Census and Statistics Department (C&SD)’s Quarterly Business Tendency Survey (QBTS)<sup>(1)</sup> conducted during 2 March 2023 to 6 April 2023, business sentiment among large enterprises in Hong Kong improved notably as compared to three months ago (*Chart 1*). The proportion of large enterprises expecting their business situation to improve in the second quarter of 2023 over the first quarter was larger than the proportion of those expecting the situation to worsen by 15 percentage points (i.e. a net balance of +15), visibly better than the net balance of +6 in the previous round.

Large enterprises’ business sentiment improved across a majority of surveyed sectors (*Table 1*). The net balances for the “accommodation and food services”, “retail”, “manufacturing” and “real estate” sectors improved visibly within the positive zone. Meanwhile, those for the “import/export trade and wholesale”, “transportation, storage and courier services”, “construction” and “information and communications” sectors rebounded sharply and turned positive, while that for the “financing and insurance” sector held steady in the positive territory. Yet, the net balance for the “professional and business services” sector worsened slightly in the negative zone. Meanwhile, large enterprises’ appetite for hiring improved (*Table 2*).

**Chart 1 : Business sentiment of large enterprises improved further**



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 improved across a majority of sectors

QBTS: Expected changes in business situation						
	Net balance* (% point)					
	2022				2023	
	Q1	Q2	Q3	Q4	Q1	Q2
Manufacturing	-8	-19	+24	-13	+23	+36
Construction	-17	-32	-5	-5	-7	+6
Import/export trade and wholesale	+2	-7	+6	+9	-8	+10
Retail	-11	+11	+25	+16	+12	+34
Accommodation and food services	+2	+23	+49	+37	+39	+64
Transportation, storage and courier services	-7	-12	-2	+8	-5	+13
Information and communications	-2	+1	-3	-4	-1	+6
Financing and insurance	+5	-4	+10	+4	+25	+25
Real estate	+8	-2	+10	-2	+4	+13
Professional and business services	+3	-19	-3	+2	-3	-4
All sectors above	+1	-8	+6	+4	+6	+15

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 also improved

QBTS: Expected changes in number of persons engaged						
	Net balance* (% point)					
	2022				2023	
	Q1	Q2	Q3	Q4	Q1	Q2
Manufacturing	-4	-1	+7	+18	+8	+18
Construction	+8	+3	+9	+18	+16	+6
Import/export trade and wholesale	-2	0	+1	0	-6	-1
Retail	-5	+4	+9	+5	+6	+20
Accommodation and food services	+8	-2	+36	+22	+24	+50
Transportation, storage and courier services	+3	+1	+8	+13	+9	0
Information and communications	-7	+7	-1	-8	-6	-6
Financing and insurance	+9	+4	-4	+5	+9	+13
Real estate	+9	-9	+11	0	0	+9
Professional and business services	-5	-2	0	+2	+5	+7
All sectors above	0	+1	+7	+7	+6	+11

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.

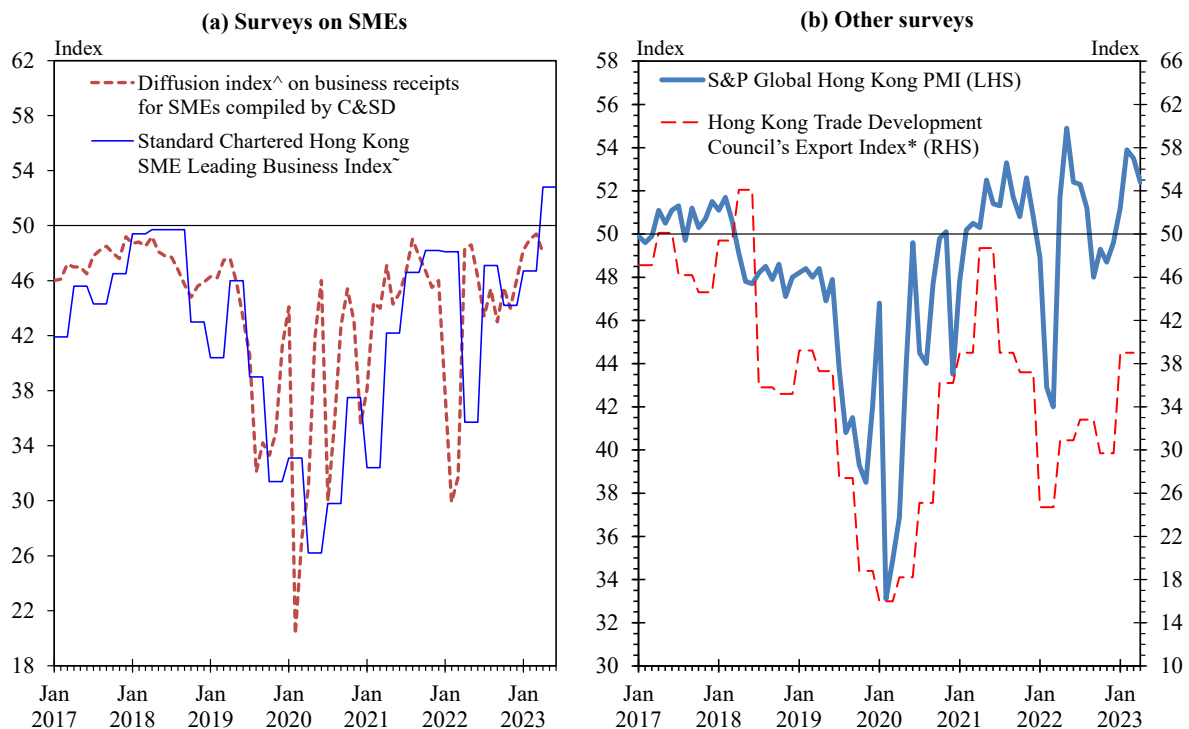
As for small and medium-sized enterprises (SMEs), C&SD compiles a set of diffusion indices on a monthly basis<sup>(2)</sup> to gauge the general direction of change in their views on the business situation versus the preceding month. Business sentiment among SMEs has steadily improved in the first quarter, with the overall index on the current situation rising from 48.2 in January to 49.4 in March, though it eased somewhat to 48.0 in April (*Chart 2a*). Employment sentiment among SMEs remained broadly stable, and credit conditions stayed accommodative. The Standard Chartered Hong Kong SME Leading Business Index<sup>(3)</sup> also rose notably in the second quarter of 2023 to its highest level since 2014.

As for other surveys in the public domain, the S&P Global Purchasing Managers' Index (PMI) of Hong Kong<sup>(4)</sup>, which gauges the performance of the private sector's business activity, saw further improvement in the expansionary zone from 51.2 in January to 52.4 in April. Separately, the Hong Kong Trade Development Council's Export Index<sup>(5)</sup> rose sharply to 39.0 in the first quarter of 2023 from 29.7 in the preceding quarter, reflecting a significant improvement in exporters' confidence on the trade outlook (*Chart 2b*). Among the exporters surveyed, an overwhelming majority (98.0%) said that the resumption of normal travel between Hong Kong and the Mainland had had a positive impact on their businesses.

- (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 generally pointed to further improvement of business sentiment as local economic activities revived and visitor arrivals rebounded visibly**



- 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.
- (~) 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 showed further improvement in recent months as local economic activities revived and visitor arrivals rebounded visibly. Looking ahead, business sentiment should continue to benefit from the local economic recovery. However, the tightened financial conditions and the moderation of growth in the advanced economies may bring uncertainties.

- (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.