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 past few months after improving in earlier quarters.

According to the results of the Census and Statistics Department (C&SD)'s Quarterly Business Tendency Survey (QBTS)[1] conducted during 2 June 2023 to 6 July 2023, business sentiment among large enterprises in Hong Kong softened as compared to three months ago, though remaining generally optimistic (***Chart 1***). The proportion of large enterprises expecting their business situation to improve in the third quarter of 2023 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), but was smaller than the net balance of +15 in the previous round.

Large enterprises' business sentiment softened though remaining positive in a majority of surveyed sectors (***Table 1***). The net balances for the "accommodation and food services", "financing and insurance", "manufacturing", "retail", "transportation, storage and courier services", "information and communications" and "import/export trade and wholesale" sectors declined by varying degrees within the positive zone. Meanwhile, the net balance for the "construction" sector increased further in the positive zone, and that for the "professional and business services" sector turned positive. Yet, the net balance for the "real estate" sector fell and became slightly negative. Large enterprises' appetite for hiring stayed positive (***Table 2***).

Chart 1 : Business sentiment of large enterprises softened though remaining generally optimistic
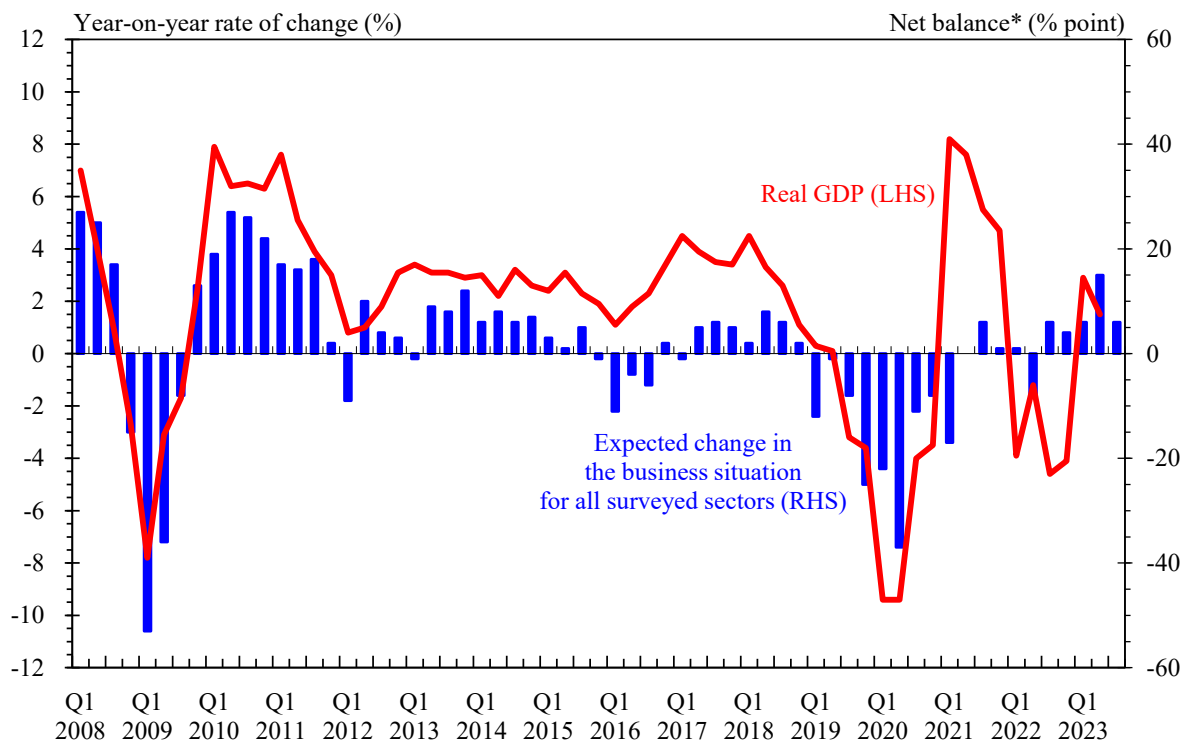
Note : (*) Net balance indicates the direction of expected change in the business situation versus the preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing "better" over that choosing "worse". A positive sign indicates a likely upward trend while a negative sign, a likely downward trend.

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(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 softened though remaining generally optimistic

QBTS: Expected changes in business situation						
	Net balance* (% point)					
	2022			2023		
	Q2	Q3	Q4	Q1	Q2	Q3
Manufacturing	-19	+24	-13	+23	+36	+20
Construction	-32	-5	-5	-7	+6	+10
Import/export trade and wholesale	-7	+6	+9	-8	+10	+7
Retail	+11	+25	+16	+12	+34	+18
Accommodation and food services	+23	+49	+37	+39	+64	+41
Transportation, storage and courier services	-12	-2	+8	-5	+13	+4
Information and communications	+1	-3	-4	-1	+6	+2
Financing and insurance	-4	+10	+4	+25	+25	+4
Real estate	-2	+10	-2	+4	+13	-2
Professional and business services	-19	-3	+2	-3	-4	+5
All sectors above	-8	+6	+4	+6	+15	+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 : Hiring sentiment of large enterprises stayed positive

QBTS: Expected changes in number of persons engaged						
	Net balance* (% point)					
	2022			2023		
	Q2	Q3	Q4	Q1	Q2	Q3
Manufacturing	-1	+7	+18	+8	+18	+26
Construction	+3	+9	+18	+16	+6	+6
Import/export trade and wholesale	0	+1	0	-6	-1	-2
Retail	+4	+9	+5	+6	+20	+8
Accommodation and food services	-2	+36	+22	+24	+50	+31
Transportation, storage and courier services	+1	+8	+13	+9	0	+6
Information and communications	+7	-1	-8	-6	-6	-6
Financing and insurance	+4	-4	+5	+9	+13	+8
Real estate	-9	+11	0	0	+9	+8
Professional and business services	-2	0	+2	+5	+7	+4
All sectors above	+1	+7	+7	+6	+11	+8

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. Business sentiment among SMEs eased in recent months, with the overall index on the current situation falling from 48.0 in April to 45.8 in July (***Chart 2a***). Nonetheless, employment sentiment among SMEs showed some improvement, and credit conditions remained accommodative. The Standard Chartered Hong Kong SME Leading Business Index[3] also eased in the third quarter of 2023.

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 from 52.4 in April to 49.4 in July. Separately, reflecting the earlier situation, the Hong Kong Trade Development Council's Export Index[5] rose notably further from 39.0 in the preceding quarter to 47.8 in the second quarter of 2023, the highest level since the second quarter of 2021 (***Chart 2b***). However, a majority of the exporters surveyed (66.1%) identified economic slowdown or recession risk in overseas markets as the biggest challenge to their businesses in the coming three months, followed by the smaller-than-expected boost from the Mainland's economic recovery (10.9%) and US-Mainland trade tensions (10.7%).

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(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 indicated that business sentiment generally eased of late

(a) Surveys on SMEs

(b) Other surveys
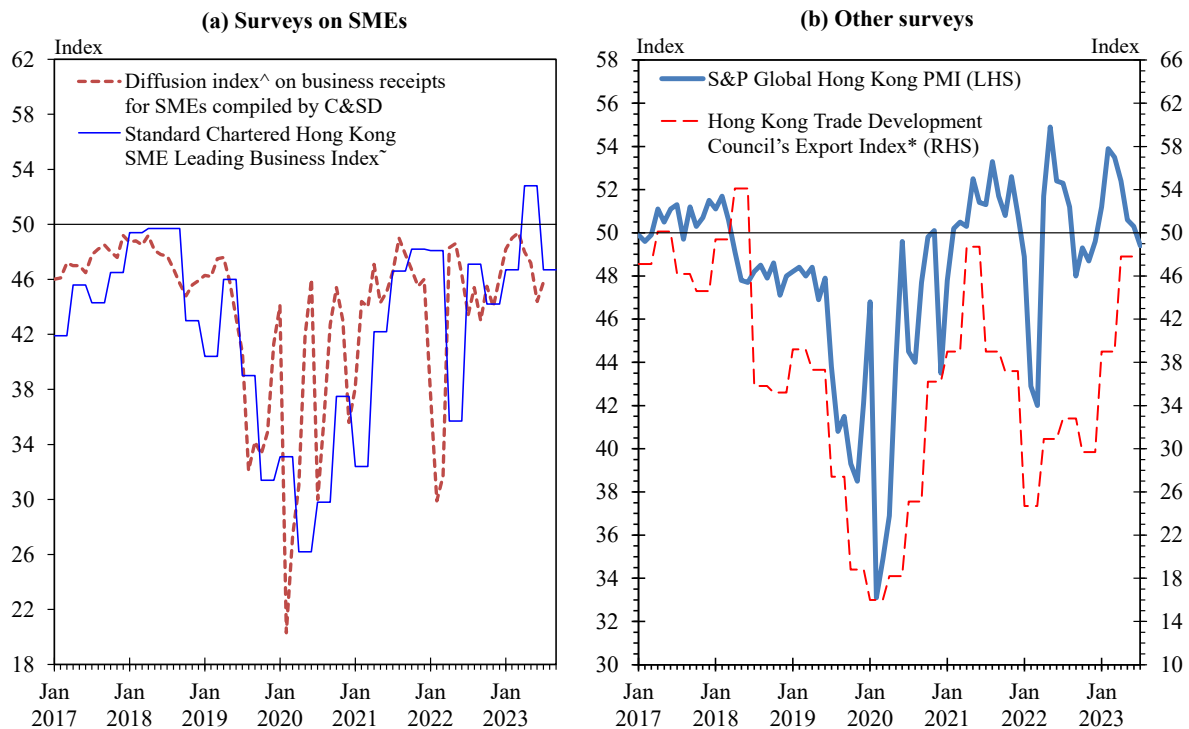
Notes: (^) The diffusion index is computed by adding the percentage of SMEs reporting "up" to one half of the percentage of SMEs reporting "same". A diffusion index reading above 50 indicates that the business condition is generally favourable, whereas an index below 50 indicates otherwise. Respondents 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 generally eased in recent months. Looking ahead, business sentiment will continue to be affected by the difficult external environment and tight financial conditions, but the local economic recovery, together with the various measures introduced by the Government to boost the recovery momentum, should render support.

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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 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.