

Box 1.1

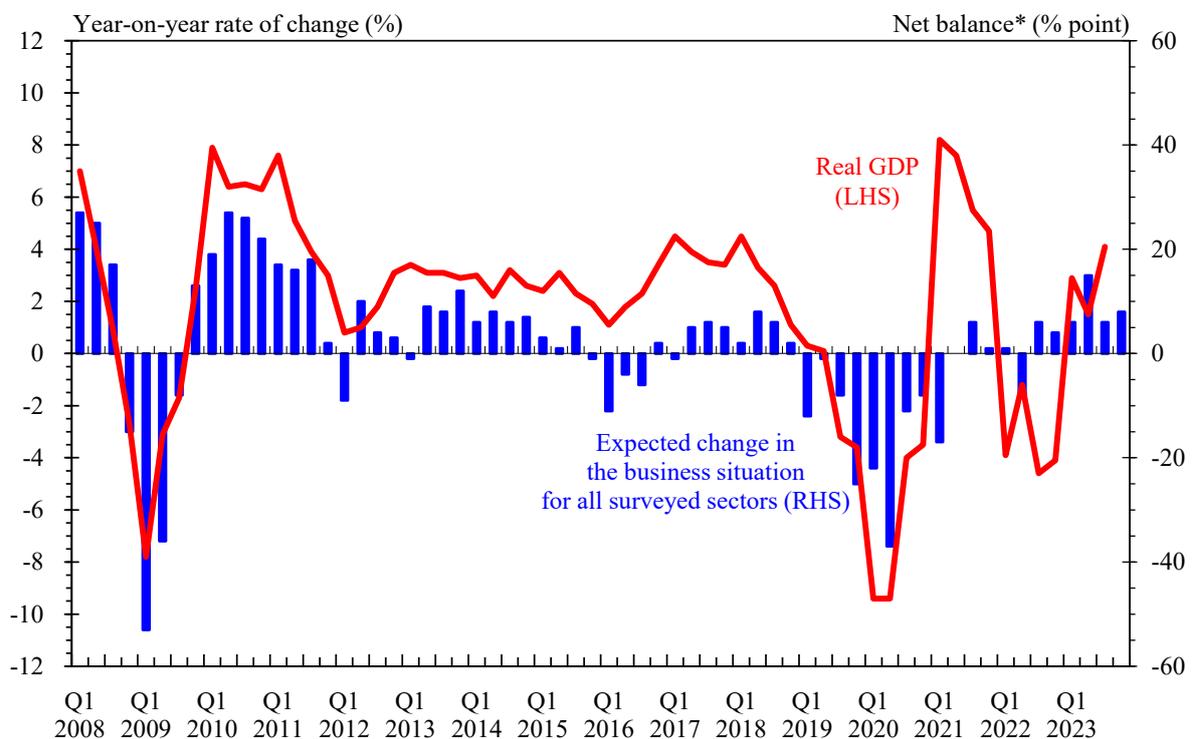
Business sentiment in Hong Kong

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 the difficult external environment, before showing initial signs of stabilisation most recently.

According to the results of the Census and Statistics Department (C&SD)'s Quarterly Business Tendency Survey (QBTS)⁽¹⁾ conducted during 2 September 2023 to 10 October 2023, business sentiment among large enterprises in Hong Kong improved slightly as compared to three months ago (*Chart 1*). The proportion of large enterprises expecting their business situation to improve in the fourth quarter of 2023 over the third quarter was larger than the proportion of those expecting the situation to worsen by 8 percentage points (i.e. a net balance of +8), better than the net balance of +6 in the previous round.

Business sentiment of large enterprises in different sectors stayed positive in general (*Table 1*). The net balances for the “retail”, “information and communications”, “transportation, storage and courier services”, and “financing and insurance” sectors improved within the positive zone, and that for the “real estate” sector turned positive. Meanwhile, the net balances for the “construction”, “accommodation and food services”, “professional and business services”, and “import/export trade and wholesale” sectors declined but remained positive. Yet, the net balance for the “manufacturing” sector fell and became slightly negative. Large enterprises’ appetite for hiring was also positive (*Table 2*).

Chart 1 : Large enterprises expected their business situation to improve in the fourth quarter



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 different sectors stayed positive in general

QBTS: Expected changes in business situation						
	Net balance* (% point)					
	2022		2023			
	Q3	Q4	Q1	Q2	Q3	Q4
Manufacturing	+24	-13	+23	+36	+20	-2
Construction	-5	-5	-7	+6	+10	+1
Import/export trade and wholesale	+6	+9	-8	+10	+7	+5
Retail	+25	+16	+12	+34	+18	+32
Accommodation and food services	+49	+37	+39	+64	+41	+33
Transportation, storage and courier services	-2	+8	-5	+13	+4	+11
Information and communications	-3	-4	-1	+6	+2	+9
Financing and insurance	+10	+4	+25	+25	+4	+10
Real estate	+10	-2	+4	+13	-2	+6
Professional and business services	-3	+2	-3	-4	+5	+1
All sectors above	+6	+4	+6	+15	+6	+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 was positive

QBTS: Expected changes in number of persons engaged						
	Net balance* (% point)					
	2022		2023			
	Q3	Q4	Q1	Q2	Q3	Q4
Manufacturing	+7	+18	+8	+18	+26	+11
Construction	+9	+18	+16	+6	+6	+2
Import/export trade and wholesale	+1	0	-6	-1	-2	+1
Retail	+9	+5	+6	+20	+8	+14
Accommodation and food services	+36	+22	+24	+50	+31	+23
Transportation, storage and courier services	+8	+13	+9	0	+6	+8
Information and communications	-1	-8	-6	-6	-6	-2
Financing and insurance	-4	+5	+9	+13	+8	+10
Real estate	+11	0	0	+9	+8	+19
Professional and business services	0	+2	+5	+7	+4	+6
All sectors above	+7	+7	+6	+11	+8	+9

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.

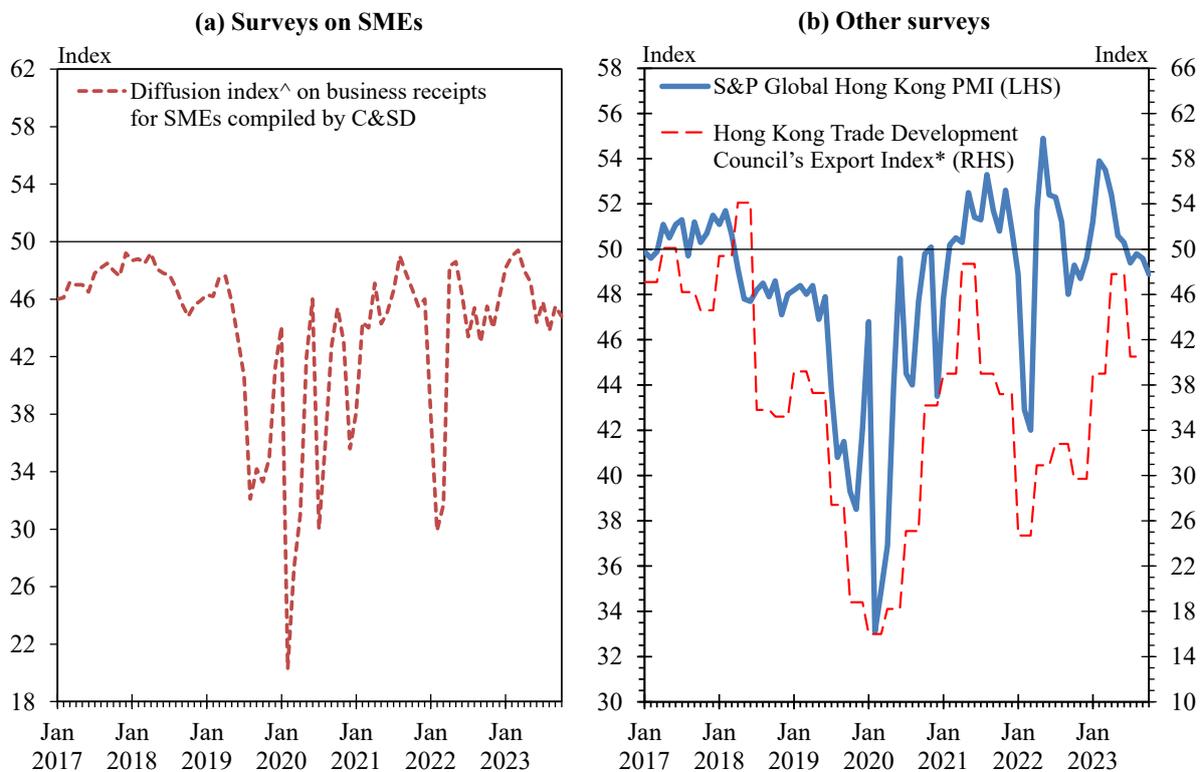
As for SMEs, C&SD compiles a set of diffusion indices on a monthly basis⁽²⁾ to gauge the general direction of change in their views on the business situation versus the preceding month. Business sentiment among SMEs was generally weak in the past few months, before showing initial signs of stabilisation most recently. The overall index on the current situation, having softened to 43.8 in August, rose back to 45.5 and 44.8 in September and October respectively (*Chart 2a*). Employment sentiment among SMEs stayed broadly stable, and credit conditions remained accommodative.

As for other surveys in the public domain, the S&P Global Purchasing Managers' Index (PMI) of Hong Kong⁽³⁾, which gauges the performance of the private sector's business activity, remained in the contractionary zone in the third quarter. Separately, the Hong Kong Trade Development Council's Export Index⁽⁴⁾ went down to 40.5 in the third quarter of 2023 from 47.8 in the preceding quarter (*Chart 2b*). Export confidence softened across all sectors from the relatively high levels in the preceding quarter. Among the exporters surveyed, 48.6% indicated that the economic slowdown or recession risk in overseas markets as the biggest challenge to their businesses in the coming three months, followed by ongoing geopolitical tensions (17.9%) and a smaller-than-expected boost from the Mainland's economic recovery (16.5%).

(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.

Box 1.1 (Cont'd)

Chart 2 : Business sentiment showed initial signs of stabilisation most recently after some easing in earlier months



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.

(*) 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 amid the difficult external environment, before showing initial signs of stabilisation most recently. Looking ahead, while the continued growth of consumption- and tourism-related activities and the Government’s measures to boost the momentum of the recovery should provide some support, business sentiment will continue to be dampened by the challenging external economic environment and tight financial conditions.

- (3) 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.
- (4) 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.