

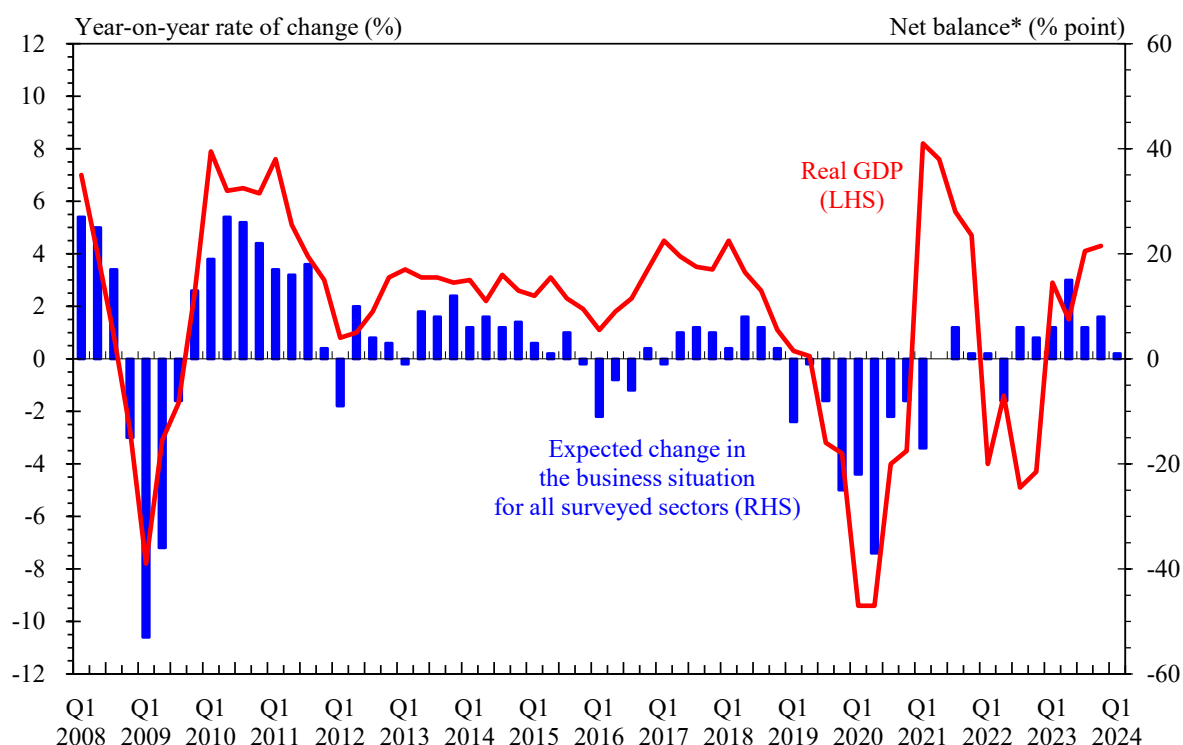
Box 1.1**Business sentiment in Hong Kong**

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 various business sentiment indicators were mixed in the past few months.

According to the results of the Census and Statistics Department (C&SD)'s Quarterly Business Tendency Survey (QBTS)⁽¹⁾ conducted during 1 December 2023 to 8 January 2024, business sentiment among large enterprises in Hong Kong remained positive in overall terms, though showed some softening as compared to three months ago (*Chart 1*). The proportion of large enterprises expecting their business situation to improve in the first quarter of 2024 over the fourth quarter of 2023 was larger than the proportion of those expecting the situation to worsen by 1 percentage point (i.e. a net balance of +1), though the net balance was lower than that in the previous round (+8).

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

Chart 1 : Business sentiment of large enterprises remained positive in overall terms, though showed some softening in the first 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 varied

QBTS: Expected changes in business situation						
	Net balance* (% point)					
	2022	2023				2024
	Q4	Q1	Q2	Q3	Q4	Q1
Manufacturing	-13	+23	+36	+20	-2	+2
Construction	-5	-7	+6	+10	+1	-9
Import/export trade and wholesale	+9	-8	+10	+7	+5	-9
Retail	+16	+12	+34	+18	+32	+3
Accommodation and food services	+37	+39	+64	+41	+33	+9
Transportation, storage and courier services	+8	-5	+13	+4	+11	+5
Information and communications	-4	-1	+6	+2	+9	-4
Financing and insurance	+4	+25	+25	+4	+10	+14
Real estate	-2	+4	+13	-2	+6	-6
Professional and business services	+2	-3	-4	+5	+1	+1
All sectors above	+4	+6	+15	+6	+8	+1

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				2024
	Q4	Q1	Q2	Q3	Q4	Q1
Manufacturing	+18	+8	+18	+26	+11	+13
Construction	+18	+16	+6	+6	+2	-8
Import/export trade and wholesale	0	-6	-1	-2	+1	-1
Retail	+5	+6	+20	+8	+14	+7
Accommodation and food services	+22	+24	+50	+31	+23	+21
Transportation, storage and courier services	+13	+9	0	+6	+8	+8
Information and communications	-8	-6	-6	-6	-2	-11
Financing and insurance	+5	+9	+13	+8	+10	+10
Real estate	0	0	+9	+8	+19	+10
Professional and business services	+2	+5	+7	+4	+6	+6
All sectors above	+7	+6	+11	+8	+9	+6

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 fluctuated at relatively low levels between 43.3 and 45.5 during October 2023 to January 2024 (**Chart 2a**). Employment sentiment among SMEs softened slightly of late, while credit conditions remained accommodative. Meanwhile, the Standard Chartered Hong Kong SME Leading Business Index⁽³⁾ rose in the fourth quarter of 2023 before falling in the first quarter of 2024.

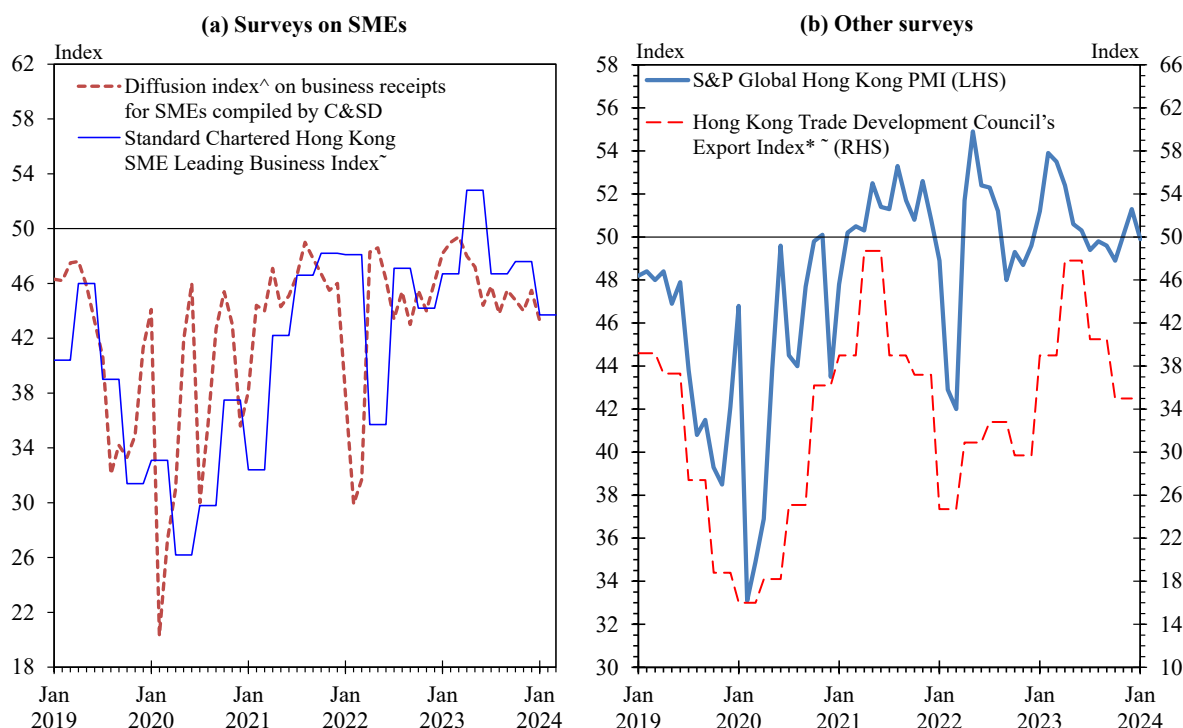
As for other surveys in the public domain, the S&P Global Purchasing Managers' Index (PMI) of Hong Kong⁽⁴⁾, which gauges the performance of the private sector's business activity, increased to 50.1 in November 2023 and further to 51.3 in December 2023, before easing to 49.9 in January 2024. The Hong Kong Trade Development Council's Export Index⁽⁵⁾ declined further to 35.0 in the fourth quarter of 2023 (**Chart 2b**), with confidence softening in most sectors. Among the exporters surveyed, 84.7% saw economic slowdown or recession risk in overseas markets as the major challenge to their businesses in 2024, followed by ongoing geopolitical tensions (62.5%) and rising transport costs, disruption to logistics and distribution obstructions (41.8%).

(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 indicators were mixed in the past few 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.

(~) 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. These survey findings taken together suggest that business sentiment indicators were mixed in the past few months. Looking ahead, the complicated external environment may continue to dampen business sentiment for the time being, but there should be some improvement over the course of the year if the advanced economies cut interest rates as expected. Continued economic growth and the Government’s various initiatives to foster consumption- and tourism-related activities should also provide 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.