

**Box 1.1**

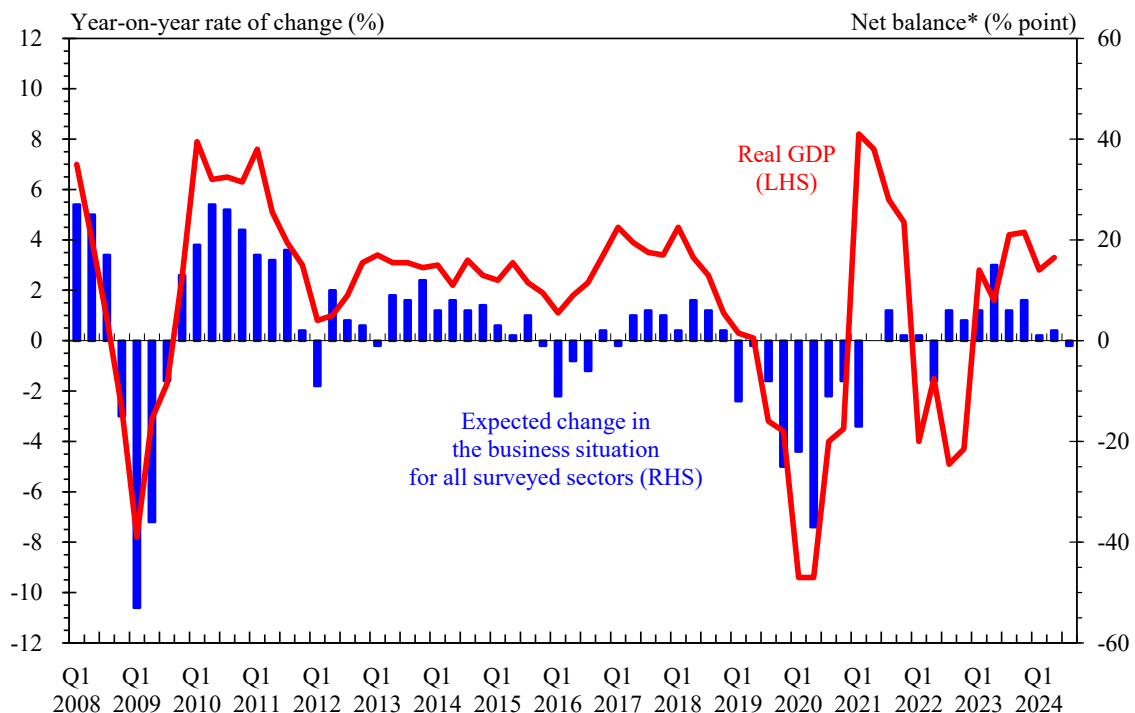
**Business sentiment in Hong Kong**

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 overall business sentiment in the past few months generally weakened.

According to the results of the Census and Statistics Department (C&SD)’s Quarterly Business Tendency Survey (QBTS)<sup>(1)</sup> conducted during 1 June 2024 to 8 July 2024, business sentiment among large enterprises in Hong Kong softened slightly in overall terms as compared to three months ago (*Chart 1*). The proportion of large enterprises expecting their business situation to improve in the third quarter of 2024 over the second quarter was less than the proportion of those expecting the situation to worsen by 1 percentage point (i.e. a net balance of -1), down from the net balance of +2 in the previous round.

Business sentiment of large enterprises eased in most sectors (*Table 1*). The net balances of the “accommodation and food services” and “financing and insurance” sectors declined in the positive zone, while that of “real estate” fell to zero. The net balances of “manufacturing”, “transportation, storage and courier services” and “information and communications” dipped into the negative zone, while those of “construction” and “retail” sectors stayed deeply negative. The net balances of “import/export trade and wholesale” and “professional and business services” showed relative improvement within the negative zone. Meanwhile, large enterprises’ appetite for hiring stayed largely positive (*Table 2*).

**Chart 1 : Business sentiment of large enterprises softened slightly in overall terms**



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 eased in most sectors**

QBTS: Expected changes in business situation						
	Net balance* (% point)					
	2023			2024		
	Q2	Q3	Q4	Q1	Q2	Q3
Manufacturing	+36	+20	-2	+2	+8	-2
Construction	+6	+10	+1	-9	-11	-16
Import/export trade and wholesale	+10	+7	+5	-9	-9	-1
Retail	+34	+18	+32	+3	-16	-16
Accommodation and food services	+64	+41	+33	+9	+7	+6
Transportation, storage and courier services	+13	+4	+11	+5	+4	-2
Information and communications	+6	+2	+9	-4	+1	-3
Financing and insurance	+25	+4	+10	+14	+19	+7
Real estate	+13	-2	+6	-6	+8	0
Professional and business services	-4	+5	+1	+1	-9	-3
All sectors above	+15	+6	+8	+1	+2	-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 largely positive**

QBTS: Expected changes in number of persons engaged						
	Net balance* (% point)					
	2023			2024		
	Q2	Q3	Q4	Q1	Q2	Q3
Manufacturing	+18	+26	+11	+13	+7	+13
Construction	+6	+6	+2	-8	+11	+3
Import/export trade and wholesale	-1	-2	+1	-1	+1	0
Retail	+20	+8	+14	+7	+6	+3
Accommodation and food services	+50	+31	+23	+21	+11	+4
Transportation, storage and courier services	0	+6	+8	+8	+9	+9
Information and communications	-6	-6	-2	-11	-15	-8
Financing and insurance	+13	+8	+10	+10	+12	+7
Real estate	+9	+8	+19	+10	+15	+9
Professional and business services	+7	+4	+6	+6	+5	-3
All sectors above	+11	+8	+9	+6	+7	+3

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.

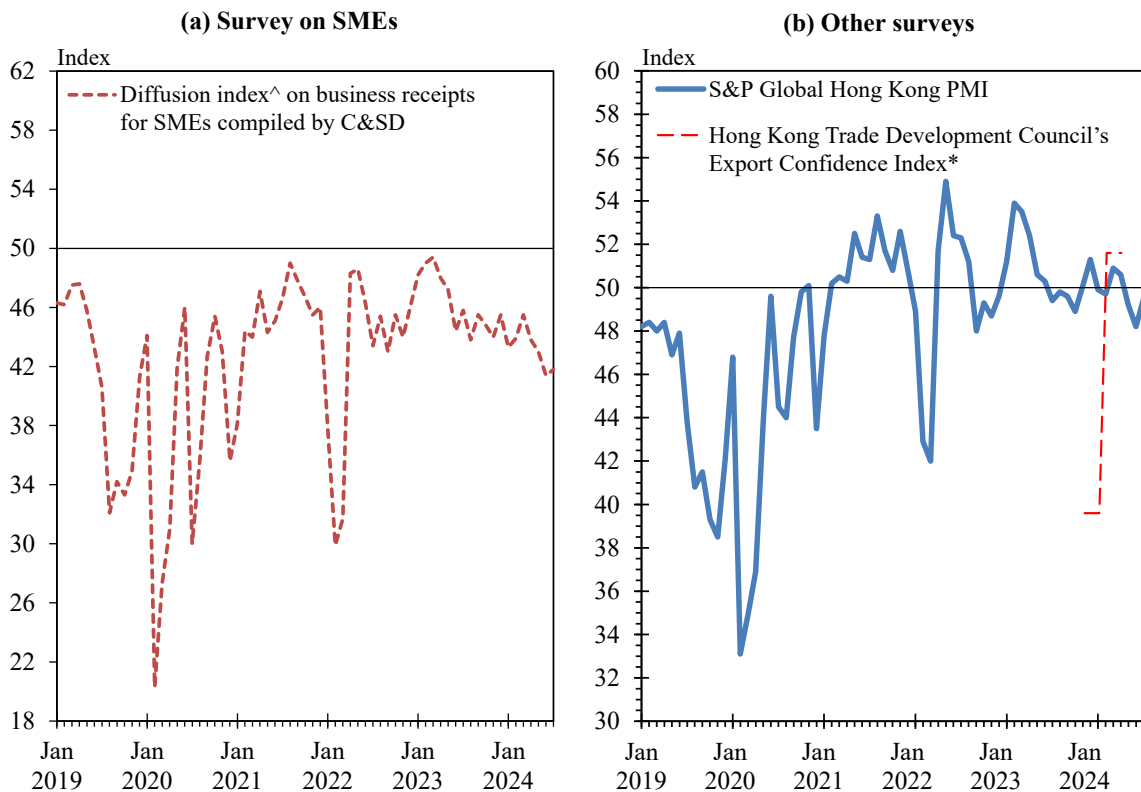
As for small and medium-sized enterprises (SMEs), C&SD compiles a set of diffusion indices on a monthly basis<sup>(2)</sup> to gauge the general direction of change in their views on the business situation versus the preceding month. The overall index on the current situation eased to 43.0 in May and 41.4 in June, before edging up to 41.8 in July (*Chart 2a*). Employment sentiment among SMEs was generally stable in May and June, but softened in July. Meanwhile, credit conditions stayed accommodative.

As for other surveys in the public domain, the S&P Global Purchasing Managers’ Index (PMI) of Hong Kong<sup>(3)</sup>, which gauges the performance of the private sector’s business activity, dipped into the contractionary zone in May and stayed below the boom-bust line in June and July. The Hong Kong Trade Development Council (HKTDC) Export Confidence Index<sup>(4)</sup> showed improvement in the current export environment, and stronger confidence among exporters in future export performance. Exporters showed general optimism in export performance in major export markets such as the Mainland, US, EU and the ASEAN. Among the exporters surveyed, the top three challenges to their businesses in the next twelve months were rising transport costs, high capital costs, and exchange-rate fluctuations, currency devaluations in target markets.

(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 indicators generally weakened in the past few months, though confidence among exporters improved**



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 since 2024 Q1. 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 overall business sentiment in the past few months generally weakened. Looking ahead, while uncertainties surrounding the global economy will affect business sentiment, the Central Government’s various measures that benefit Hong Kong and continued growth of the local economy should provide support.

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- (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 HKTDC Export Confidence Index aims to gauge the prospects of the near-term export performance of Hong Kong traders. It is a composite index based on five individual sub-indices with the following weight: Sales and New Orders (50.0%); Trade Value (12.5%); Cost (12.5%); Procurement (12.5%); and Inventory (12.5%), with the Cost index and Inventory index inverted so that they move in comparable direction. The business confidence survey is conducted on a quarterly basis, with more than 500 participating Hong Kong traders from six major industry sectors interviewed, namely electronics, clothing, toys, jewellery, timepieces and equipment/materials.