

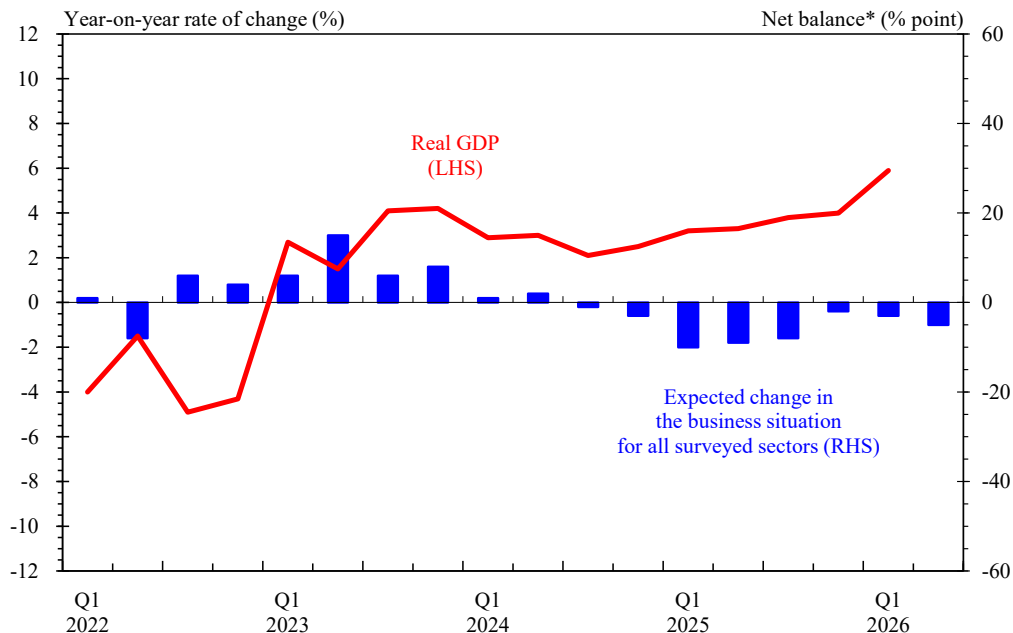
**Box 1.3**

**Business sentiment in Hong Kong has turned more cautious**

Survey results indicate that overall business sentiment for the second quarter of 2026 eased somewhat lately in view of the Middle East conflict since end-February.

**Business sentiment among large enterprises remained generally stable, albeit slightly cautious.** According to the results of the Census and Statistics Department (C&SD)'s Quarterly Business Tendency Survey (QBTS)<sup>(1)</sup>, conducted during 3 March to 13 April, the proportion of large enterprises expecting their business situation to improve in the second quarter of 2026 over the previous quarter was smaller than that of those expecting it to worsen by 5 percentage points, resulting in a net balance of -5 (*Chart 1*). Although this was somewhat lower than the net balance of -3 recorded in the preceding quarter, it was still above the levels seen for most of last year.

**Chart 1 : Business sentiment among large enterprises remained generally stable, albeit slightly cautious**



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 1.3 (Cont'd)**

Analysed by sector, business sentiment of large enterprises for the second quarter of 2026 showed divergent views on business outlook (*Table 1*). For some sectors that are plausibly more affected by the surge in fuel prices due to the Middle East conflict, such as “transportation, storage and courier services” and “import/export trade and wholesale”, a visibly larger share of enterprises expected their business situation to worsen. Some other sectors, including the “accommodation and food services” and “construction”, also saw higher proportion of enterprises expecting a weaker business situation. By contrast, the “real estate”, “professional and business services” and “manufacturing” sectors showed notable improvements compared to the previous round, while enterprises in the “financing and insurance” sector remained particularly optimistic about the business outlook. The latest overall situation for hiring appetite only eased slightly compared with the previous round, pointing to a largely steady labour demand (*Table 2*).

**Table 1 : Large enterprises showed divergent views on business outlook across sectors**

<b>QBTS: Expected changes in business situation</b>						
	Net balance* (% point)					
	2025				2026	
	Q1	Q2	Q3	Q4	Q1	Q2
Manufacturing	-22	-20	-2	-15	-15	0
Construction	-14	-16	-22	-24	-23	-21
Import/export trade and wholesale	-15	-19	-18	-11	-12	-9
Retail	-31	+4	-14	+14	-1	-3
Accommodation and food services	-36	-37	-16	+10	-22	-35
Transportation, storage and courier services	-27	-25	-31	-11	-13	-24
Information and communications	-11	-17	-9	-16	-8	-16
Financing and insurance	+10	+8	+11	+13	+21	+12
Real estate	-15	-11	+3	+7	-4	+9
Professional and business services	-8	-6	-14	-9	-12	+2
<b>All sectors above</b>	<b>-10</b>	<b>-9</b>	<b>-8</b>	<b>-2</b>	<b>-3</b>	<b>-5</b>

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 appetite of large enterprises pointed to a largely steady labour demand**

<b>QBTS: Expected changes in number of persons engaged</b>						
	Net balance* (% point)					
	2025				2026	
	Q1	Q2	Q3	Q4	Q1	Q2
Manufacturing	+4	-2	+4	+15	+10	+2
Construction	-12	-12	-6	-9	-26	-9
Import/export trade and wholesale	-4	+1	-6	0	+3	-2
Retail	0	+1	0	-12	-4	-10
Accommodation and food services	-5	-22	-7	+5	+6	-21
Transportation, storage and courier services	-2	+6	+9	+7	-19	-5
Information and communications	-7	-3	-13	-1	-4	-20
Financing and insurance	+9	+6	+4	+2	+7	+9
Real estate	-1	+15	+10	+11	+10	+15
Professional and business services	-5	-3	-6	-10	-13	-7
<b>All sectors above</b>	<b>-3</b>	<b>-2</b>	<b>-2</b>	<b>-1</b>	<b>-4</b>	<b>-5</b>

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.

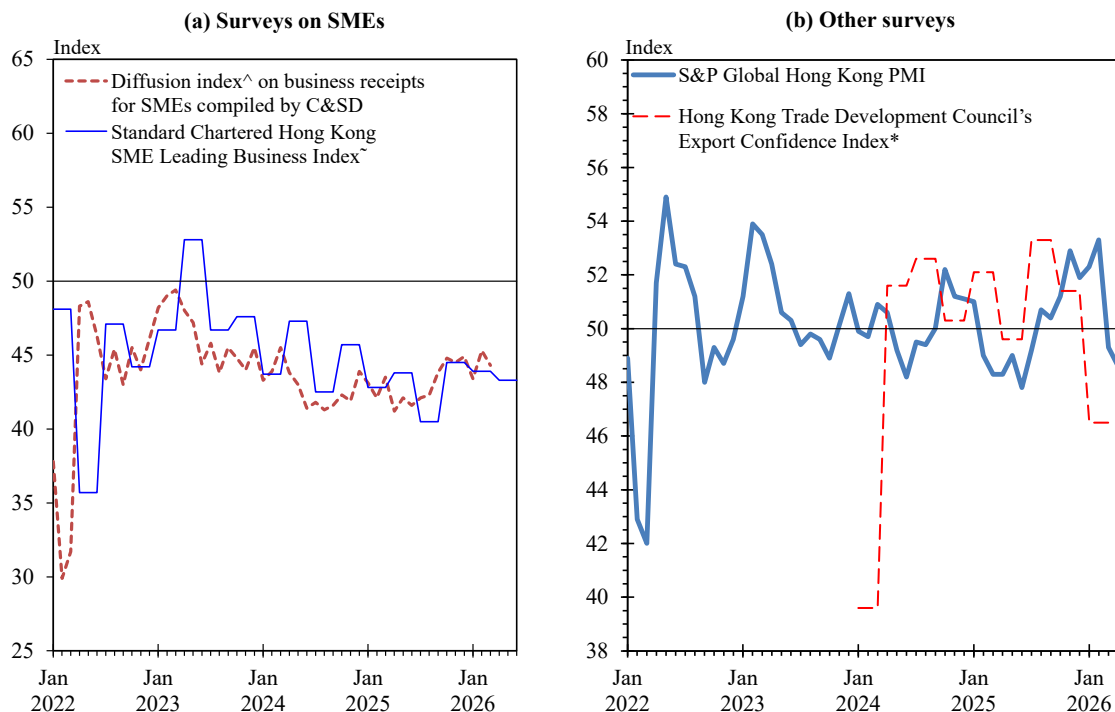
**Box 1.3 (Cont'd)**

**Business sentiment among small and medium-sized enterprises (SMEs) turned more cautious.** The C&SD compiles a set of monthly diffusion indices (DI)<sup>(2)</sup> to gauge SMEs' views on the business situation versus the preceding month. The **current** and **outlook DI on business receipts** for SMEs showed some declines from the near two-year highs in February (Chart 2a).

The **current DI on business receipts** rose to a near two-year high of 45.3 in February, before easing to 44.3 in March amid the Middle East conflict, mainly reflecting a more pronounced deterioration in the logistics sector, while most other sectors showed greater resilience. The **outlook DI on business receipts** eased to 46.9, from 47.6 in February, with sentiment varying across sectors. Sentiment in the logistics and retail sectors weakened notably, while most other sectors saw slight declines. By contrast, wholesale and real estate sectors saw improved outlook. Employment sentiment among SMEs stayed broadly stable during the same period with the **current DI on employment** steady at around 49.

For other surveys, the Standard Chartered Hong Kong SME Leading Business Index<sup>(3)</sup> edged down further in the second quarter, reflecting a more cautious stance among SMEs. 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, stayed above the boom-bust line for seven consecutive months before falling below the line since March (Chart 2b). The Hong Kong Trade Development Council (HKTDC) Export Confidence Index<sup>(5)</sup>, which is compiled based on the information collected earlier during January to February and not yet reflecting sentiment regarding the Middle East conflicts, indicated exporters' cautious stance amid the persisting global trade and economic uncertainties.

**Chart 2 : Other business sentiment indicators turned more cautious of late**



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.

(\*) 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.

**Box 1.3 (Cont'd)**

These surveys are essentially opinion-based, thereby subject to limitations (e.g. results are not directly comparable) and hence the findings should be interpreted with caution. Overall, findings indicate a slight softening in business sentiment in recent months, amid heightened geopolitical tensions due to the Middle East conflict since late February. While certain sectors have been more affected, business conditions and outlook remain resilient.

- 
- (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.
  - (4) 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 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.