**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 remained largely soft in October and November 2022 amid the deteriorating global economic outlook and tightened financial conditions, but saw some improvement at the turn of the year alongside the further relaxation of epidemic-related measures and expected resumption of quarantine-free travel between Hong Kong and the Mainland.

According to the results of the Census and Statistics Department (C&SD)’s Quarterly Business Tendency Survey (QBTS)(1) conducted during 2 December 2022 to 9 January 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 first quarter of 2023 over the fourth quarter of 2022 was larger than the proportion of those expecting the situation to worsen by 6 percentage points (i.e. a net balance of +6), slightly better than the +4 in the previous round.

Business sentiment of large enterprises in different sectors was mixed (***Table 1***). The net balances for the “financing and insurance” and “accommodation and food services” sectors improved within the positive zone. Meanwhile, that for the “manufacturing” sector rebounded sharply into the positive territory, while that for the “real estate” sector turned slightly positive. The net balance for the “information and communications” sector improved though remaining slightly negative. On the other hand, the net balance for the “retail” sector declined but remained positive. The net balances for the “import/export trade and wholesale”, “transportation, storage, and courier services” and “professional and business services” sectors turned negative, while that for the “construction” sector worsened slightly in the negative zone. Large enterprises’ appetite for hiring stayed largely positive (***Table 2***).

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| **Chart 1 : Business sentiment of large enterprises improved slightly in the first quarter of 2023** |
| 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 was mixed** | **Table 2 : Hiring sentiment of large enterprises stayed largely positive** |
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| **QBTS: Expected changes in business situation** |
|  | Net balance\* (% point) |
| 2021 | 2022 | 2023 |
| Q4 | Q1 | Q2 | Q3 | Q4 | Q1 |
| Manufacturing | +14 | -8 | -19 | +24 | -13 | +23 |
| Construction | -6 | -17 | -32 | -5 | -5 | -7 |
| Import/export trade and wholesale | 0 | +2 | -7 | +6 | +9 | -8 |
| Retail | +9 | -11 | +11 | +25 | +16 | +12 |
| Accommodation and food services | +29 | +2 | +23 | +49 | +37 | +39 |
| Transportation, storage and courier services | -2 | -7 | -12 | -2 | +8 | -5 |
| Information and communications | +5 | -2 | +1 | -3 | -4 | -1 |
| Financing and insurance | -2 | +5 | -4 | +10 | +4 | +25 |
| Real estate | +7 | +8 | -2 | +10 | -2 | +4 |
| Professional and business services | -1 | +3 | -19 | -3 | +2 | -3 |
| All sectors above | +1 | +1 | -8 | +6 | +4 | +6 |

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| **QBTS: Expected changes in number of persons engaged** |
|  | Net balance\* (% point) |
| 2021 | 2022 | 2023 |
| Q4 | Q1 | Q2 | Q3 | Q4 | Q1 |
| Manufacturing | +8 | -4 | -1 | +7 | +18 | +8 |
| Construction | +11 | +8 | +3 | +9 | +18 | +16 |
| Import/export trade and wholesale | -4 | -2 | 0 | +1 | 0 | -6 |
| Retail | -12 | -5 | +4 | +9 | +5 | +6 |
| Accommodation and food services | +18 | +8 | -2 | +36 | +22 | +24 |
| Transportation, storage and courier services | -3 | +3 | +1 | +8 | +13 | +9 |
| Information and communications | +6 | -7 | +7 | -1 | -8 | -6 |
| Financing and insurance | +5 | +9 | +4 | -4 | +5 | +9 |
| Real estate | +5 | +9 | -9 | +11 | 0 | 0 |
| Professional and business services | -2 | -5 | -2 | 0 | +2 | +5 |
| All sectors above | +1 | 0 | +1 | +7 | +7 | +6 |

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| 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. | 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, while remaining relatively cautious, has shown some improvement since late 2022. The overall index on the current situation, having softened to 44.0 in November 2022, rose back to 46.1 in December 2022 and 48.2 in January 2023 (***Chart 2a***). Employment sentiment among SMEs also saw improvement, and credit conditions remained accommodative. The Standard Chartered Hong Kong SME Leading Business Index(3) likewise improved in the first quarter of 2023, though it remained in the contractionary zone.

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, also improved from 48.7 in November to 49.6 in December 2022 and 51.2 in January 2023, the first expansionary reading since August 2022. Nonetheless, the Hong Kong Trade Development Council’s Export Index(5) eased to 29.7 in the fourth quarter of 2022 from 32.8 in the preceding quarter, as the weak global economic outlook weighed on exporters’ confidence (***Chart 2b***). Among the exporters surveyed, 36.2% indicated risks of an economic slowdown or recession in major markets as the biggest threat to their businesses in the near term, followed by difficulties in cross-border travel (21.1%) and the persistence of the COVID‑19 pandemic (18.3%).

1. 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.
2. 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 suggested that business sentiment generally improved
at the turn of the year**



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| 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 remained generally soft in October and November 2022, but subsequently showed some improvement as epidemic-related measures were further relaxed. Looking ahead, with most local social distancing measures already removed and following the full resumption of normal travel between Hong Kong and the Mainland, business sentiment should improve further, though tightened financial conditions and slower global economic growth will continue to bring uncertainties.

1. 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.
2. 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.