

Box 1.1

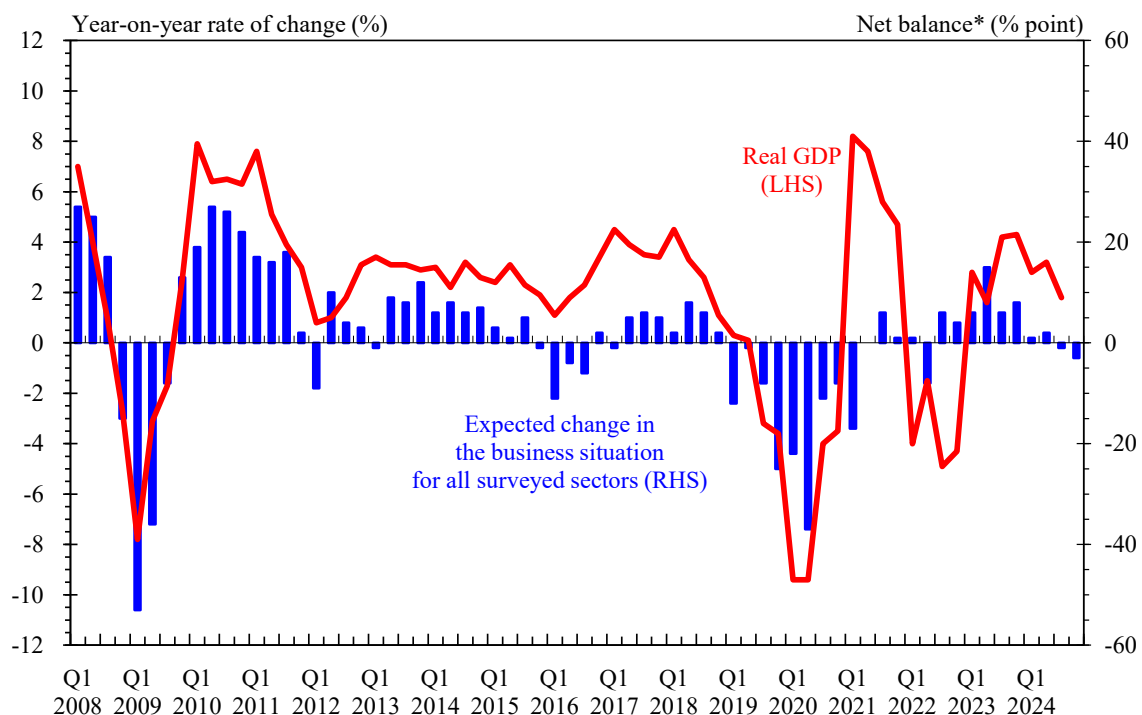
Business sentiment in Hong Kong

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 stayed generally subdued in the past few months, but some indicators have shown signs of improvement most recently.

According to the results of the Census and Statistics Department (C&SD)’s Quarterly Business Tendency Survey (QBTS)⁽¹⁾ conducted during 3 September 2024 to 15 October 2024, business sentiment among large enterprises in Hong Kong for the fourth quarter remained soft in overall terms (**Chart 1**). The proportion of large enterprises expecting their business situation to improve in the fourth quarter of 2024 over the third quarter was less than the proportion of those expecting the situation to worsen by 3 percentage points (i.e. a net balance of -3), following the net balance of -1 in the previous round.

Business sentiment of large enterprises varied across sectors (**Table 1**). The net balance for “financing and insurance” sector remained in the positive zone, and those for the “real estate” and “professional and business services” sectors turned positive. Those for “transportation, storage and courier services” and “construction” sectors showed relative improvement within the negative zone. Meanwhile, the net balance for “accommodation and food services” sector fell into the negative zone. Those for “information and communications”, “import/export trade and wholesale”, “manufacturing”, and “retail” sectors fell by varying degrees within the negative zone. Large enterprises’ appetite for hiring stayed largely steady in overall terms (**Table 2**).

Chart 1 : Business sentiment of large enterprises remained soft 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 varied across sectors

| QBTS: Expected changes in business situation | | | | | | |
|--|------------------------|-----|------|-----|-----|-----|
| | Net balance* (% point) | | | | | |
| | 2023 | | 2024 | | | |
| | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Manufacturing | +20 | -2 | +2 | +8 | -2 | -19 |
| Construction | +10 | +1 | -9 | -11 | -16 | -12 |
| Import/export trade and wholesale | +7 | +5 | -9 | -9 | -1 | -8 |
| Retail | +18 | +32 | +3 | -16 | -16 | -19 |
| Accommodation and food services | +41 | +33 | +9 | +7 | +6 | -3 |
| Transportation, storage and courier services | +4 | +11 | +5 | +4 | -2 | -1 |
| Information and communications | +2 | +9 | -4 | +1 | -3 | -5 |
| Financing and insurance | +4 | +10 | +14 | +19 | +7 | +2 |
| Real estate | -2 | +6 | -6 | +8 | 0 | +6 |
| Professional and business services | +5 | +1 | +1 | -9 | -3 | +3 |
| All sectors above | +6 | +8 | +1 | +2 | -1 | -3 |

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 steady in overall terms

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

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 hovered at a relatively low level between 41.3 and 42.3 during August to October (*Chart 2a*). Employment sentiment among SMEs showed some improvement over the same period, and credit conditions stayed accommodative. Meanwhile, the Standard Chartered Hong Kong SME Leading Business Index⁽³⁾ declined in the third quarter, but rose back in the fourth quarter.

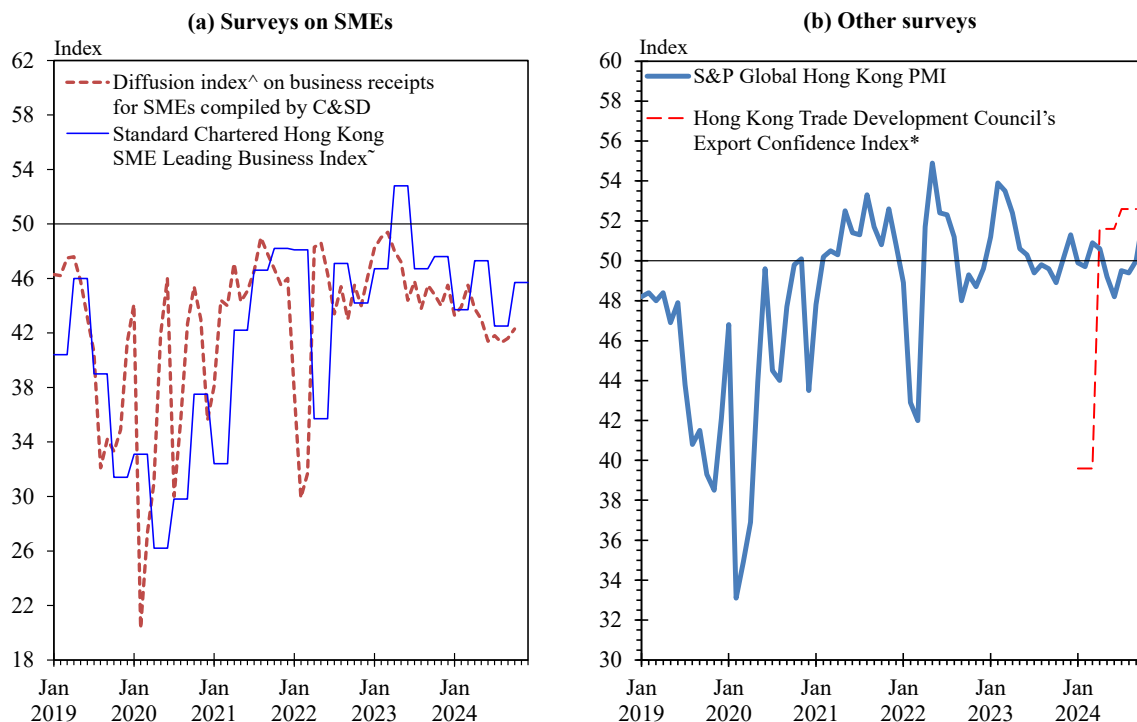
As for other surveys in the public domain, the S&P Global Purchasing Managers’ Index (PMI) of Hong Kong⁽⁴⁾, which gauges the performance of the private sector’s business activity, stayed in the contractionary zone in August, but rose to the boom-bust line in September and further to 52.2 in October. The Hong Kong Trade Development Council (HKTDC) Export Confidence Index⁽⁵⁾ indicated optimism among exporters, with expectation of moderate and sustained export growth. Exporters remained upbeat about the ASEAN and Mainland markets. Among the exporters surveyed, the top three challenges to their businesses in the next twelve months were rising transport costs, rising labour and production costs, as well as high capital costs.

(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 : Other business sentiment indicators stayed generally subdued in the past few months, but some indicators have shown signs of improvement most recently



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.

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 stayed generally subdued in the past few months, but some indicators have shown signs of improvement most recently. Looking ahead, the gradually easing financial conditions, the Central Government’s latest policy measures for supporting the Mainland economy as well as its various measures benefitting Hong Kong should bode well for business sentiment, though global economic uncertainties and trade conflicts may pose some negative impacts.

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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 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.