

Focus on: Hong Kong

International Business Report 2011 – Economy focus series

The recovery

The economy rebounded strongly in 2010, posting growth of 6.8 per cent as recovering global demand boosted exports. Prospects for the year look are tempered by continuing weak demand from the United States for exports and a high rate of inflation which is being driven by higher food and housing rental costs.

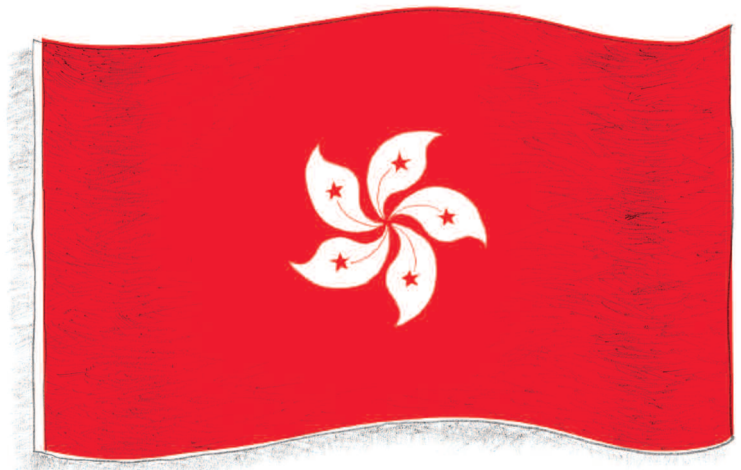
The key indicators¹ are highlighted below:

- the Hong Kong economy posted GDP growth of 2.8 per cent in the first quarter of 2011 – a 7.2 per cent year-on-year increase – but weakening external demand may drag the second quarter figure down
- merchandise exports grew by 9.2 per cent year-on-year in June, down from 10.1 per cent in May, as robust demand from Asia was offset by a decline in sales to the US
- the CPI measure of inflation has crept up from 3.0 per cent at the start of the year 5.6 per in June; food prices and housing rentals were both up more than 7 per cent from 12 months previously
- the unemployment rate stayed steady in the second quarter at 3.5 per cent.

Impact on privately held businesses

The Grant Thornton International Business Report (IBR) 2011 surveyed the views of over 11,000 privately held businesses (PHBs) in 39 economies around the world. This report focuses on the attitudes and experiences of privately held businesses in Hong Kong, and their expectations for the next 12 months, as illustrated in figure 1.

The IBR survey tells us that PHBs in Hong Kong are more optimistic as regards the outlook for the economy than businesses globally and across Asia-Pacific as a whole. Revenue and profitability expectations are higher than last year, but the availability of a skilled workforce remains a major constraint on potential expansion.



¹ source: International Monetary Fund, The Economist and Experian.

Looking ahead

The economy is expected to expand by 5.4 per cent in 2011, before slowing to grow at 4.3 per cent p.a. in the period 2012-16 as the territory's capacity to accommodate Mainland tourists and demand for its financial and professional service exports to other cities in mainland China become more restricted.

Export growth is expected to match that of imports over the short to medium term at around 8 per cent p.a. leaving the current account in surplus. The inflation rate is expected to average 4.8 per cent in 2011 before falling back to 3.3 per cent in 2012 as food price inflation slows. The upside risk is that prices continue to rise in mainland China which supplies the territory with most of its food. With the US Federal Reserve indicating that loose monetary policy will continue into 2013, the value of the Hong Kong dollar, which is pegged to the US\$, is likely to be eroded further.

As Chinese companies continue to emerge onto the world stage, IPO-related activities will further boost growth in the economy's high-value services sector, especially professional, financial and insurance services. Hong Kong will strengthen its status as a regional financial centre as FDI-targeting mainland Chinese companies generate healthy income flows from fees and commissions paid in the city.

Talk to us to find out how we can help you deal with the challenges your business is facing today.



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Figure 1: Key indicators for businesses

Hong Kong compared with the Asia-Pacific average	2009 HK	2010 HK	2011 HK	2011 Asia- Pacific
Outlook for the economy over the next 12 months				
Balance of optimists over pessimists	-49%	+64%	+57%	+11%
Change in employment levels				
Balance of PHBs expecting an increase over those expecting a reduction	-35%	+41%	+45%	+36%
Constraints on expansion				
Shortage of orders/reduced demand	47%	30%	27%	45%
Availability of skilled workforce	22%	27%	38%	38%

Source: Grant Thornton IBR 2011



International Business Report results

The Grant Thornton IBR 2011 reveals that privately held businesses in almost all countries are more optimistic about economic prospects for the year ahead. Businesses in Hong Kong are marginally less optimistic about prospects for 2011; their optimism/pessimism balance² +57 per cent compared to +64 per cent in 2010.

Businesses in India and Chile are once again the most optimistic globally, topping the league table of optimism with +91 per cent. They are followed by the Philippines (+85 per cent), Sweden (+81 per cent) and the United Arab Emirates (+80 per cent). Japan is the least optimistic country once more with a balance of -66 per cent, followed by Spain (-48 per cent) and Greece (-45 per cent).

Overall optimism amongst businesses globally has risen: this year on balance, +28 per cent of PHBs across all countries are positive about their country's economy, compared with +24 per cent in 2010.

Optimism/pessimism

- businesses in Hong Kong are marginally less optimistic about their economy this year (+57 per cent) compared with 2010 (+64 per cent)
- this is well above the Asia-Pacific³ average of +11 per cent
- optimism amongst businesses globally has risen from +24 per cent in 2010 to +28 per cent.

Figure 2: Outlook for the economy over the next 12 months: 2003-2011

Percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2011

² the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

³ for the purposes of IBR, the term 'Asia-Pacific' refers to those Asia-Pacific economies covered by our survey – Australia, mainland China, Hong Kong, India, Japan, Malaysia, New Zealand, Philippines, Singapore, Taiwan, Thailand and Vietnam.

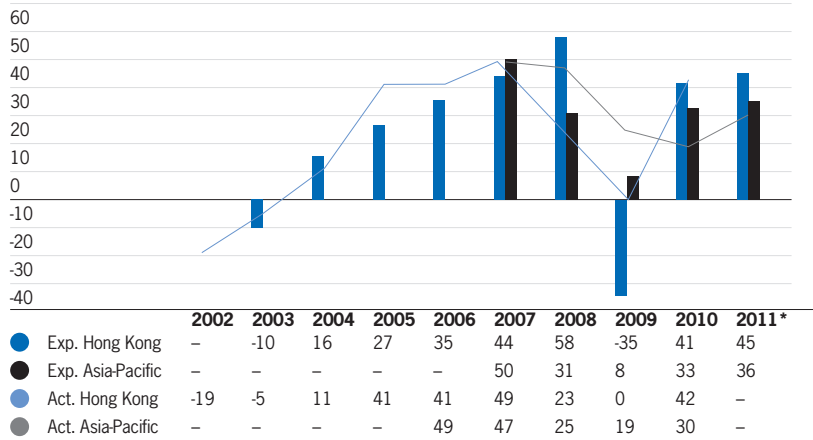


Employment

- a balance of +45 per cent of businesses in Hong Kong expect employment to grow in 2011, compared to +41 per cent in 2010
- the Asia-Pacific average has risen by 3 percentage points, from +33 per cent in 2010 to +36 per cent
- +42 per cent of businesses in Hong Kong reported increasing staff levels in the last 12 months, in line with expectations.

Figure 3: Employment history: 2002-2011

Percentage balance of businesses indicating an increase against those indicating a decrease



*actual 2011 data will be documented in IBR 2012

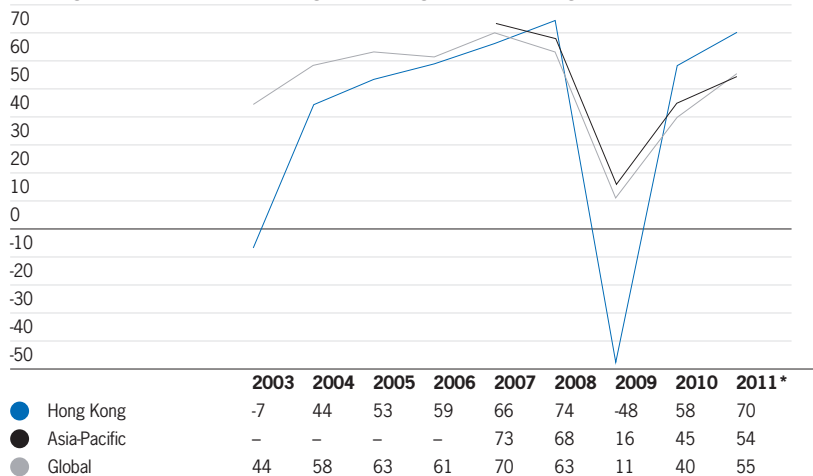
Source: Grant Thornton IBR 2011

Revenue expectations

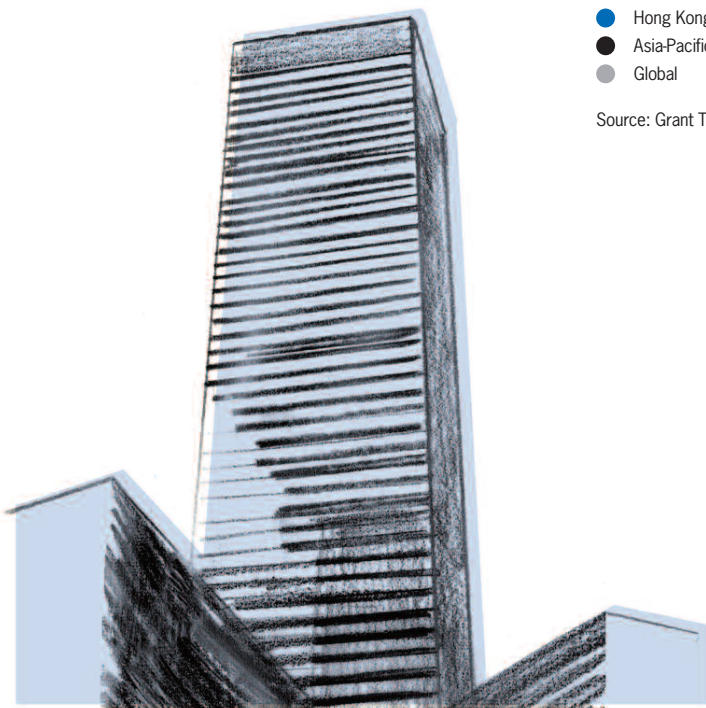
- revenue expectations have risen by 12 percentage points from 2010, up to +70 per cent this year
- this is above the Asia-Pacific average of 54 per cent
- globally, expectations have risen by 15 percentage points from +40 per cent in 2010 to +55 per cent.

Figure 4: Revenue expectations: 2003-2011

Percentage balance of businesses indicating an increase against those indicating a decrease



Source: Grant Thornton IBR 2011

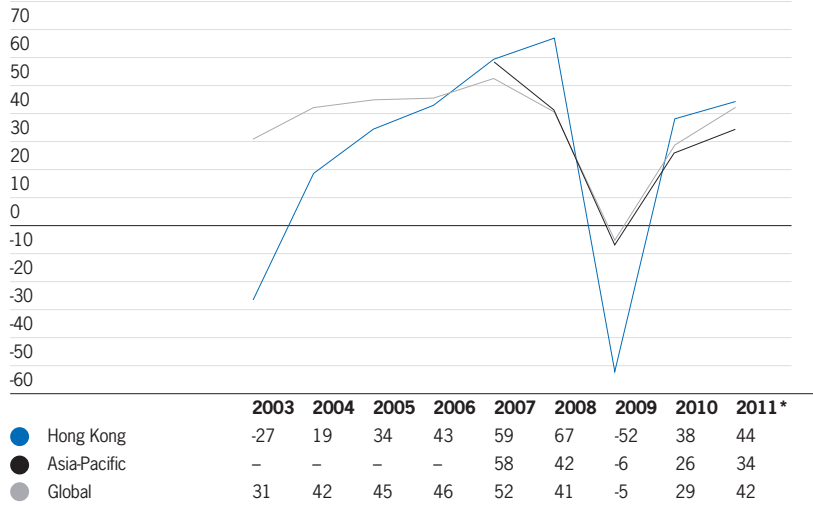


Profitability expectations

- the balance of businesses expecting to increase profits in Hong Kong rose by 6 percentage points from 2010, to +44 per cent
- this is also higher than the Asia-Pacific average (34 per cent)
- global expectations have risen back to 2008 levels, rising by 13 percentage points from 2010 to +42 per cent.

Figure 5: Profitability expectations: 2003-2011

Percentage balance of businesses indicating an increase against those indicating a decrease



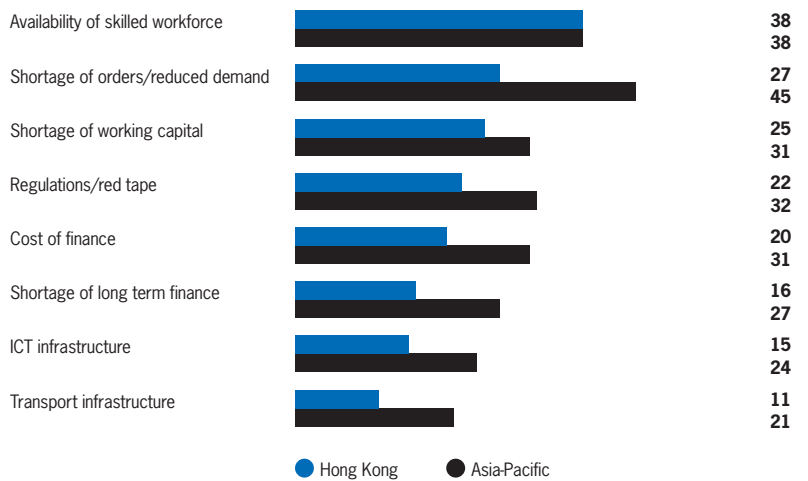
Source: Grant Thornton IBR 2011

Constraints

- a lack of availability of a skilled workforce is cited as the most pressing constraint on expansion by businesses in Hong Kong (38 per cent)
- a shortage of orders/reduced demand is the greatest constrain for businesses in the Asia-Pacific region as a whole (45 per cent), but just 27 per cent of businesses in Hong Kong cite this as a constraint.

Figure 6: Constraints on expansion

Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint

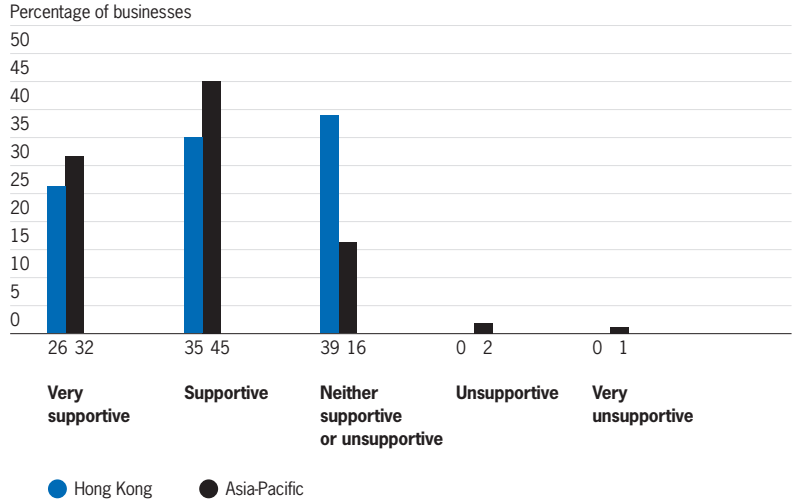


Source: Grant Thornton IBR 2011

Support of lender

- just over three-fifths of businesses in Hong Kong are happy with the level of support provided by lenders; 61 per cent class lenders as supportive or very supportive towards their business
- however, this is below the Asia-Pacific average of 77 per cent
- no businesses in Hong Kong class lenders as unsupportive of their business, compared to three per cent across the Asia-Pacific region.

Figure 7: Level of support provided by lenders



Source: Grant Thornton IBR 2011

Currency

- fully 80 per cent of respondents indicated confidence in using the renminbi (RMB) for business, but just half indicated confidence in the Hong Kong dollar (HKD)
- this compares to just 24 per cent and 18 per cent who feel confident using the United States dollar (USD) and euro respectively
- stability and demand (58 per cent) were cited as the two major drivers of confidence in a currency, followed by liquidity (50 per cent).

Figure 8: Confidence in using major currencies in business



Source: Grant Thornton IBR 2011



