



OVERCOMING CHALLENGES AND MAINTAINING COMPETITIVENESS

**REPORT ON CPA AUSTRALIA'S HONG KONG
ECONOMIC SENTIMENT SURVEY 2020**

About the survey

The survey was conducted from 8 October to 1 November 2019. A total of 207 responses were received from CPA Australia members residing in Hong Kong. Respondents come from a wide range of industries including financial services, CPA professional services, property and construction, manufacturing, technology, and education.

About CPA Australia

CPA Australia is one of the world's largest accounting bodies with more than 164,000 members working in 150 countries and regions around the world, including over 19,000 members in the Greater China region.

Acknowledgement

CPA Australia would like to acknowledge the many CPA Australia members who took part in our survey. We would especially like to thank the following members for their input and guidance in shaping this report:

- Mr Roy Lo FCPA (Aust.), 2019 Divisional President of Greater China CPA Australia
- Mr Anthony Lau FCPA (Aust.), 2019 Deputy Divisional President of Greater China CPA Australia
- Mr Janssen Chan FCPA (Aust.), 2019 Deputy Divisional President of Greater China CPA Australia
- Mr Paul Ho FCPA (Aust.), 2018 Divisional President of Greater China CPA Australia

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FOREWORD

As one of the largest professional accounting bodies in the world, CPA Australia is committed to supporting members, the accounting profession, and the broader business community through identifying economic and business trends that assist them with business planning and forecasting.

It is in this context that we have prepared this report on the 2020 Hong Kong Economic Sentiment survey – CPA Australia’s annual survey on Hong Kong’s economic and business conditions.

Recent local and international events have adversely impacted the Hong Kong economy. With this in mind, this year’s survey focuses on the economic outlook and business sentiment for 2020, and includes member expectations for economic growth, Hong Kong’s competitiveness, and business and salary trends.

The report also puts forward suggestions, which are shaped by member input, that we believe may assist the business sector weather the current economic downturn and position it for future growth.

Ultimately, the results and suggestions from the report are designed to provide information and data to assist Hong Kong businesses with their planning and forecasting for 2020.

We foresee that while the immediate outlook is grim, with appropriate prudent approaches to managing through this period and maintaining an eye on the future, Hong Kong businesses should overcome the present challenges and be well placed for the future.



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SUMMARY

Amidst global trade uncertainties and domestic political unrest, Hong Kong is facing a challenging 2020. The International Monetary Fund (IMF) has cut Hong Kong's GDP growth forecast to 0.3 per cent in 2019 and 1.5 per cent in 2020. This is down by 2.4 per cent and 1.5 per cent respectively from initial projections made earlier this year. Morgan Stanley has also cut Hong Kong's 2019 GDP forecast to negative 0.8 per cent from an earlier prediction of negative 0.3 per cent. While Standard Chartered has lowered its GDP forecast for Hong Kong to negative 1.5 per cent and negative 0.3 per cent (from prior estimates of +0.5 per cent and +1.5 per cent) in 2019 and 2020 respectively. The Hong Kong economy has undoubtedly weakened, and its effects will weigh on business, consumer, and investor sentiment in 2020.

This report summarises the key findings from a survey of our members in the business and professional sectors and provides an opportunity to gauge their opinions on the state of the Hong Kong economy and the business environment.

Economic expectations

The volatile and unpredictable situation is reflected in this year's Hong Kong economic survey with our respondents indicating a rather bleak prospect for the year ahead. Two-thirds of respondents (66 per cent) expect the Hong Kong economy to contract in 2020. This represents a significant decrease in economic confidence from the past few years when only 20 per cent of respondents expected the Hong Kong economy to contract in 2019 and only 4 per cent in 2018. The most frequently selected prediction is for Hong Kong's GDP to decline by more than 1 per cent (chosen by 43 per cent of respondents). This signifies a major shift to negative sentiment from previous years where the most popular choice was for GDP to expand by 2 to 2.9 per cent in both 2018 and 2019.

When asked what Hong Kong's 2020 economic performance will be impacted by the most, respondents identify the local political environment (75 per cent), current trade conflicts (62 per cent), and slowing global economic growth (32 per cent) as the main factors that will most likely affect the economy.

It comes as no surprise thus, that 73 per cent of respondents believe that the competitiveness of Hong Kong will decline in 2020, up 25 percentage points from 2019. The share of respondents who believe that Hong Kong's competitiveness will improve declined by almost one half from 13 per cent in 2019 to only 7 per cent in 2020.

The negative view is further reinforced by the vulnerability of the retail sector to weaker consumer sentiment and subdued economic conditions. This is reflected in the 90 per cent of respondents expecting retail property prices to decline in 2020 compared with 52 per cent of respondents for 2019. The share of respondents who believe retail property prices will decline by more than 11 per cent in 2020 increased to 65 per cent from 24 per cent in 2019.

For forecasts on residential, industrial and office property prices, a respective 73 per cent, 72 per cent and 74 per cent of respondents believe prices will fall in 2020. This is greater than the 61 per cent, 42 per cent and 36 per cent of respondents respectively who expected property prices in those sectors to fall in 2019.

Measures to boost the economy

When asked what the most effective contributors to the Hong Kong economy are, respondents chose Hong Kong's low and simple tax system (33 per cent) followed by the Greater Bay Area (GBA) initiative (29 per cent). A continuation of these policies is therefore important to Hong Kong's future success.

Many respondents also selected low interest rates (24 per cent), government action to improve the affordability of housing and office buildings (24 per cent) and government measures to support the business sector (21 per cent). Given most respondents are expecting Hong Kong's economy to decline, further measures to provide short-term stimulus to the economy should be considered.

Business trends

Unsurprisingly, expected economic weakness has translated into lower business confidence with 44 per cent of respondents expecting their company's revenue to decrease in 2020 by 2 per cent or more. In contrast, only 26 per cent of respondents expect their company's revenue to increase.

Although two-thirds of respondents (66 per cent) believe that their company's headcount will either remain the same or increase in 2020, this represents a fall of 17 percentage points from a year ago. On the other hand, the share of respondents who believe that there will be a reduction in company headcount doubled from 15 per cent in 2019 to 30 per cent in 2020.

Company's strategic focus

When asked about their company's key strategic focus for 2020, half of all respondents selected 'cost management' (50 per cent). This suggests that many companies are reacting to expected tougher business and economic conditions in 2020 with a more conservative strategic focus. Consistent with this more prudent focus, 'investing in innovation and technology', which may help cut costs and transform business models, is the second most popular choice (30 per cent). Furthermore, capital investment in this area may also indicate that companies are eyeing long-term growth and are staying ahead of continual technology disruption. Other key focuses are 'improving cash flow' and 'business process improvement' (both at 29 per cent).

Salary trends

Respondents also appear to be less positive about their salary expectation with only 36 per cent believing that their salary will increase in 2020, down from 66 per cent in 2019. Those who believe that their salary will decrease went up by 10 percentage points for 2019 to 13 per cent for 2020. Amongst those who believe that their salary will decrease, 63 per cent believe that the decrease will be 5 per cent or more.

OUR RECOMMENDATIONS

In light of the recession and difficult business conditions, it is important for both the public and private sectors to take a holistic and strategic approach to manage through tough times.

For the government, the focus should be on timely support to local businesses and buttressing Hong Kong's competitive advantages. The government could consider:

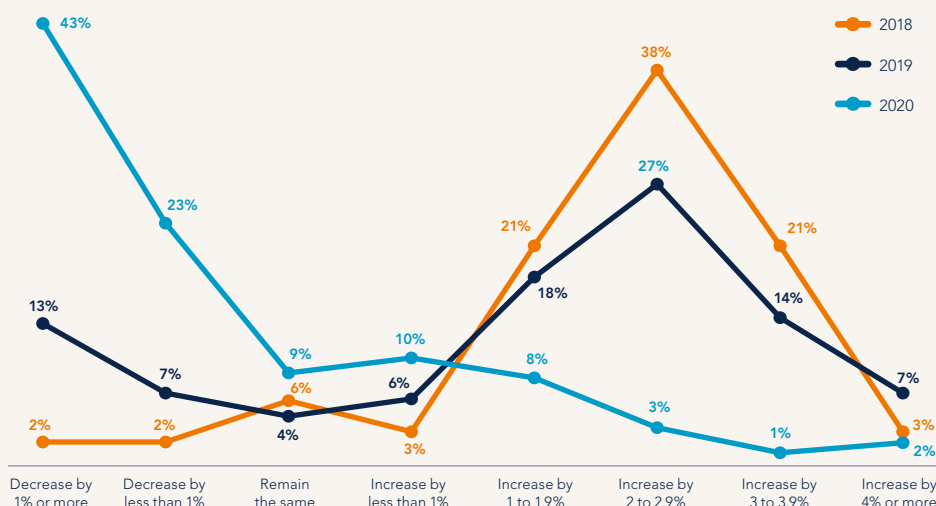
- Offering targeted cash payments or a limited-life coupon handout scheme to residents that can be redeemed in selected sectors such as transport, food, and retail.
- Temporarily increasing the size of current tax allowances to increase the amount of money in the hands of taxpayers.
- Offering more funding and assistance to help local firms, including support to expand into markets outside of Hong Kong and exploit opportunities from the Greater Bay Area initiative.
- Exploring ways to acquire and develop land for affordable housing.
- Increasing funding and facilitating large scale business, cultural, and sporting events in Hong Kong, such as providing a rent exemption for participating businesses or organisations.
- Enhancing Hong Kong's position as an international financial centre by leveraging Hong Kong's financial strengths and infrastructure advantages to continue driving the development of FinTech.
- Supporting strategically important industries with high economic potential, such as e-sports, and provide training to nurture talent.

For businesses, we suggest that the focus for 2020 should be on ensuring financial health and maximising efficiency. Businesses could consider:

- Controlling costs to a level consistent with the firm's needs rather than just cutting costs. Longer-term and recurring savings are better than short-term wins.
- Improving cash positions by increasing cash flow, such as reducing stock levels, increasing the percentage of sales for cash and decreasing the time debtors take to pay. This may provide a valuable source of finance at this time.
- Cautiously exploring new opportunities to expand and diversify businesses.
- Reviewing business operations to look for improvements, which could include through investment in innovation and technology.
- Revisiting marketing plans and consider whether it needs to be more focused on assisting businesses to improve cash positions and profitability.
- Adopting appropriate risk management strategies such as identifying possible new supplies and customers.

ECONOMIC EXPECTATIONS

FIGURE 1. HONG KONG GDP GROWTH EXPECTATIONS



Notes: (1) The percentage of respondents who selected 'Don't know' in 2018, 2019, and 2020 were 5%, 3%, and 1% respectively. (2) Percentages may not add up to 100 per cent due to rounding.

Question: In your opinion, do you think Hong Kong's GDP in 2020 will...?

Figure 1 shows that growth expectations for the Hong Kong economy in 2020 are down from expectations in 2018 and 2019. In fact, pessimism on economic growth is at an all-time low since the question on expected GDP growth was first asked in the 2011 edition of the survey.

66 per cent of respondents expect GDP to contract in 2020. This represents a significant decrease in economic confidence from the last two years when only 4 per cent and 20 per cent of respondents expected the Hong Kong economy to contract in 2018 and 2019 respectively.

Furthermore, the proportion of respondents expecting a contraction of more than 1 per cent increased from 13 per cent in 2019 to 43 per cent in 2020, and the proportion of respondents expecting an expansion declined by 48 percentage points from 72 per cent in 2019 to only 24 per cent in 2020.

Factors expected to impact Hong Kong's economic performance in 2020

It comes as no surprise that respondents identified the local political environment (75 per cent), followed by the trade war between the US and other major economies (62 per cent) as the

factors most likely to have a detrimental impact Hong Kong's economic performance in 2020.

Weaker economic growth in global markets (32 per cent), slower economic growth in China (30 per cent), and competition from neighbouring economies and high property prices (both 19 per cent) were also major factors that respondents believe will affect Hong Kong's economy in 2020.

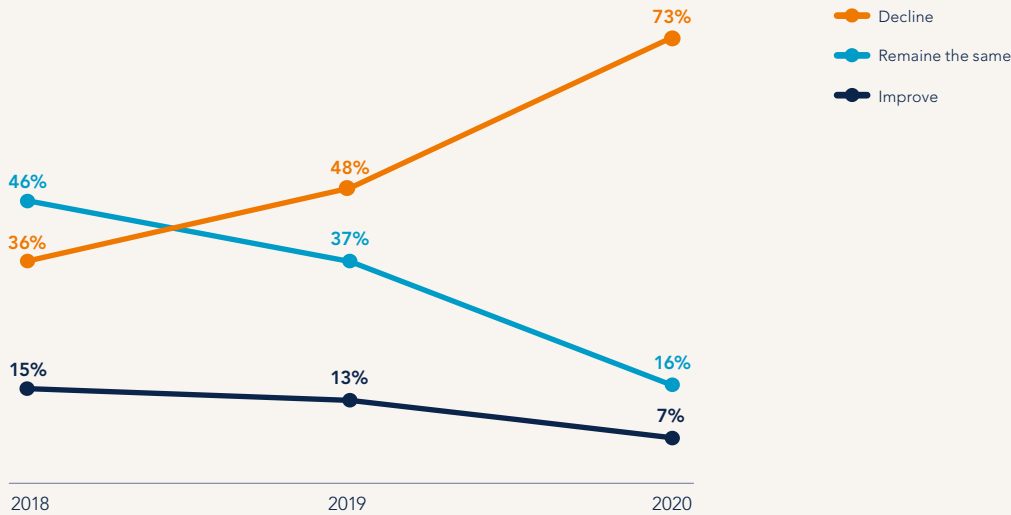
Factors selected as most likely to support the economy in 2020 are its low and simple tax system (33 per cent) and the Greater Bay Area (GBA) initiative (29 per cent).

The results indicate that Hong Kong's low and simple tax system should help Hong Kong maintain a high degree of competitiveness despite current concerns. Further, the opportunities provided by the GBA initiative and coupled with the recent policy announcement that will make it easier for Hong Kong residents to live and work in other parts of the bay area, should also help Hong Kong maintain its competitiveness in the long run.¹

In addition, nearly a quarter of all respondents chose government action to improve the affordability of housing and office buildings (24 per cent) and low interest rates (24 per cent) as contributors to the Hong Kong economy in 2020.

¹Please see CPA Australia's Greater Bay Initiative: Factors Important to Its Success, https://www.cpaaustralia.com.au/~/_media/corporate/allfiles/document/professional-resources/business-management/greater-bay-area-initiative-report.pdf, for a member's survey on the most important factors to the success of the GBA initiative.

FIGURE 2. EXPECTATIONS FOR HONG KONG'S COMPETITIVENESS



Notes: (1) The percentage of respondents who selected 'Don't know' in 2018, 2019, and 2020 were 3%, 2%, and 3% respectively. (2) Percentages may not add up to 100 per cent due to rounding.

Question: *In your opinion, do you think Hong Kong's competitiveness in 2020 will...?*

A larger proportion of respondents expect Hong Kong's competitiveness to decline in 2020 than the past two years. 73 per cent of respondents believe that Hong Kong's competitiveness in 2020 will decline, a jump from 48 per cent in 2019 and 36 per cent in 2018.

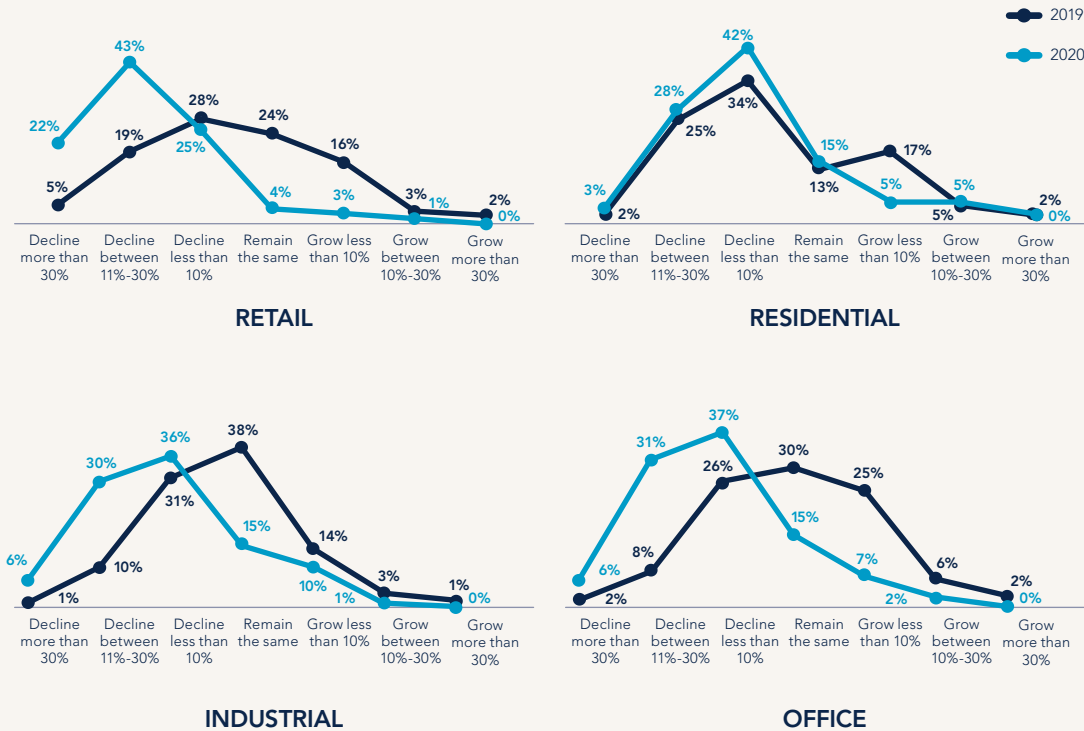
Correspondingly, the share of respondents who believe that Hong Kong's competitiveness will improve declined from 13 per cent in 2019 to only 7 per cent in 2020.

While this suggests that recent local and international events may have had a significant negative influence on respondent's outlook for Hong Kong's competitiveness in 2020, it may also reflect the growing competition Hong Kong is facing from other rapidly developing neighbours including Mainland Chinese cities and the countries of Southeast Asia (19 per cent of respondents selected increasing competition from other Asian economies as having an impact on Hong Kong's economy in 2020).

A point to note, the 2019 edition of the Global Competitiveness Report by the World Economic Forum ranked Hong Kong the third most competitive economy globally out of 141 economies, up from seventh in 2018. However, the data upon which the World Economic Forum ranked Hong Kong was collected before the political unrest began and so does not necessarily "reflect any of their potential consequences—positive or negative—on the drivers of competitiveness."²

²World Economic Forum, *The Global Competitiveness Report 2019*, p.21, http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf

FIGURE 3. EXPECTED CHANGES IN PROPERTY PRICES



Note: Respondents who selected 'Don't know' are not shown.

Question: Compared to 2019, by what percentage do you believe Hong Kong's property price will change in 2020?

Difficult economic conditions, weaker consumer sentiment, and lower business spending are also reflected in a projected contraction of property prices across all sectors. Figure 3 shows that at least 7 out of 10 respondents expect property prices to fall in 2020.

The bleak expectations for property prices are most noticeable in the retail sector where 90 per cent of respondents believe retail property prices will fall in 2020 compared with 52 per cent of respondents for 2019. The share of respondents who believe retail property prices will decline by more than 11 per cent in 2020 increased by 41 percentage points from 24 per cent in 2019 to 65 per cent.

73 per cent of respondents believe residential property prices will fall in 2020, compared with 61 per cent of respondents for 2019. The share

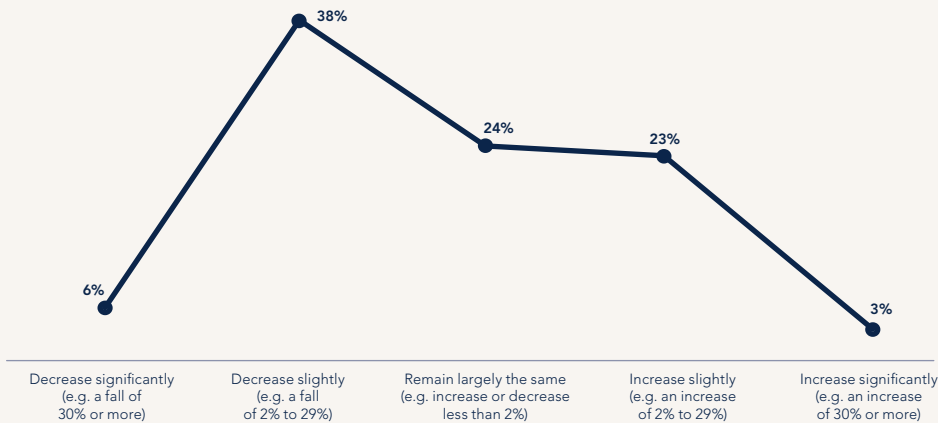
of respondents who believe residential property prices will decline by more than 11 per cent in 2020 increased from 27 per cent in 2019 to 31 per cent.

72 per cent of respondents believe industrial property prices will fall in 2020, compared with 42 per cent of respondents for 2019. The share of respondents who believe industrial property prices will decline by more than 11 per cent in 2020 increased from 11 per cent in 2019 to 36 per cent.

74 per cent of respondents believe office property prices will fall in 2020, compared with 36 per cent of respondents for 2019. The share of respondents who believe office property prices will decline by more than 11 per cent in 2020 increased from 10 per cent in 2019 to 37 per cent.

BUSINESS TRENDS

FIGURE 4. EXPECTED CHANGE IN COMPANY REVENUE IN 2020



Notes: (1) The percentage of respondents who selected 'Don't know' was 6%.
 (2) This question is new and did not appear in previous editions of the survey.
 (3) Percentages may not add up to 100 per cent due to rounding.

Question: In your opinion, do you think Hong Kong's competitiveness in 2020 will...?

Heading into 2020, weak business sentiment and economic prospects are expected to create headwinds for business, with respondents indicating particularly pessimistic revenue forecasts for their company.

44 per cent of respondents expect their company's revenue to decrease by 2 per cent or more in 2020. Amongst those who expect their company's revenue to decrease, 13 per cent believe that revenue will decrease by 30 per cent or more.

On the other hand, only 26 per cent of respondents expect their company's revenue to increase. Given Hong Kong's weaker economic momentum and slower global growth, subdued expectations on company revenue is expected to persist in the short-term.

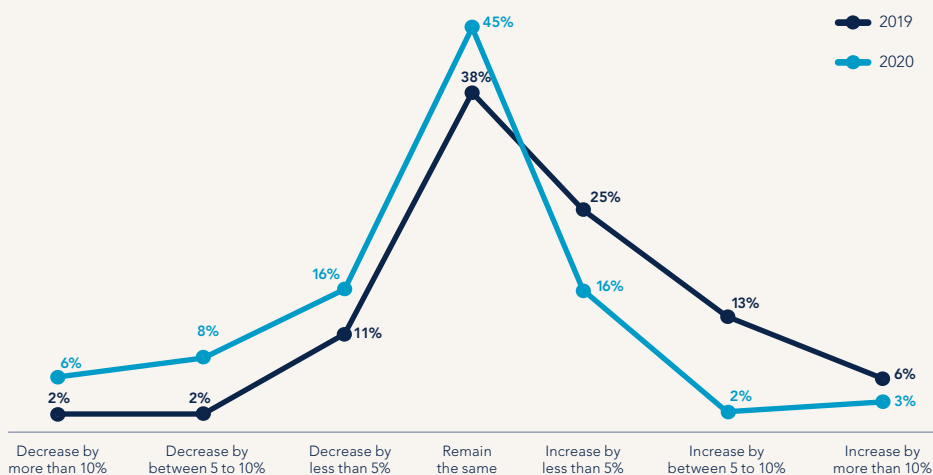
Table 1 below shows that respondents working in companies with less than 100 employees and between 100 to 499 employees are more likely to expect a decrease in company's revenue (45 per cent and 51 per cent respectively) than respondents working in companies with 500 or more employees (40 per cent). Nonetheless, the proportion of respondents working in companies with 500 or more employees expecting a decrease in company's revenue is still higher than those expecting an increase, 40 per cent versus 35 per cent. This suggests that while larger-sized companies may have better revenue prospects than smaller-sized companies, there remains concern over revenue prospects for 2020 in companies of all sizes.

TABLE 1. DISTRIBUTION OF EXPECTED CHANGE IN COMPANY'S REVENUE IN 2020 BY COMPANY SIZE

Company size (by no. of employees)	Decrease significantly (e.g. a fall of 30% or more)	Decrease slightly (e.g. a fall of 2% to 29%)	Remain largely the same (e.g. increase or decrease less than 2%)	Increase slightly (e.g. an increase of 2% to 29%)	Increase significantly (e.g. an increase of 30% or more)	Don't know
Less than 100	5%	40%	26%	21%	4%	4%
100 to 499	8%	43%	23%	15%	8%	5%
500 or above	7%	33%	20%	35%	0%	5%

Note: Percentages may not add up to 100 per cent due to rounding.

FIGURE 5. EXPECTED CHANGE IN HEADCOUNT IN 2020



Notes: (1) The percentage of respondents who selected 'Don't know' in 2019 and 2020 were 4% and 2% respectively.
 (2) Percentages may not add up to 100 per cent due to rounding.

Question: By what percentage range do you think your company's headcount will change in 2020 from 2019?

Figure 5 shows that 30 per cent of respondents are expecting their employer to reduce their headcount, compared with 15 per cent in 2019. On the other hand, the share of respondents expecting their company's headcount to increase dropped from 44 per cent in 2019 to 21 per cent in 2020.

Although two-third of respondents (66 per cent) believe that their company's headcount will either remain the same or increase in 2020, this represents a fall of 16 percentage points from a year ago.

When categorised by company size, only 14 per cent of respondents working in companies with less than 100 employees expect headcount to increase, compared to 26 per cent of respondents working in companies with 100 to 499 employees and 36 per cent of respondents working in companies with 500 or more employees (see Table 2 below). This may indicate that larger-sized companies are better placed to expand in 2020 compared to smaller-sized ones.

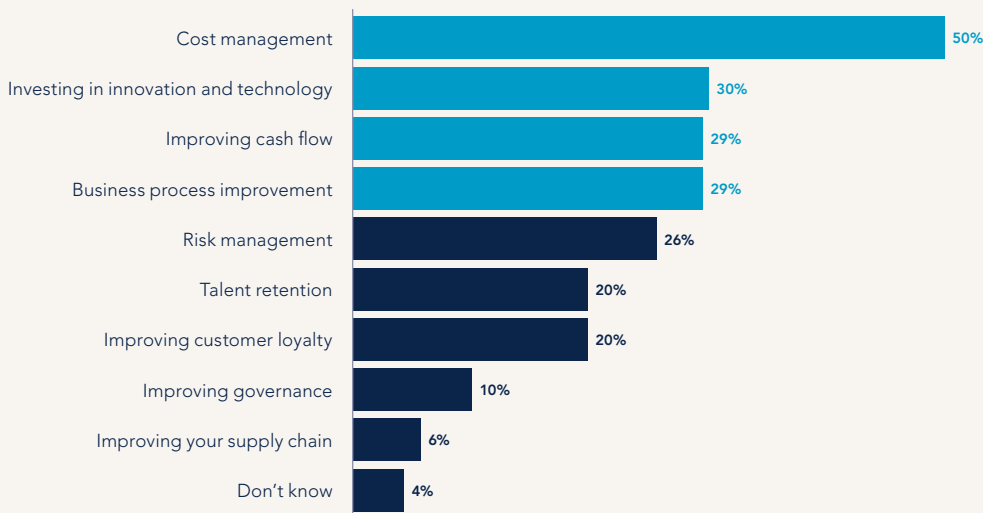
TABLE 2. DISTRIBUTION OF EXPECTED CHANGE IN COMPANY'S HEADCOUNT IN 2020 BY COMPANY SIZE

Company size (by no. of employees)	Decrease by more than 10%	Decrease by between 5 to 10%	Decrease by less than 5%	Remain the same	Increase by less than 5%	Increase by between 5 to 10%	Increase by more than 10%	Don't know
Less than 100	7%	9%	16%	53%	10%	1%	3%	1%
100 to 499	8%	8%	15%	45%	13%	3%	10%	0%
500 or above	5%	7%	20%	31%	31%	5%	0%	0%

Note: Percentages may not add up to 100 per cent due to rounding.

COMPANY'S STRATEGIC FOCUS

FIGURE 6. KEY STRATEGIC FOCUSES FOR COMPANIES IN 2020



Question: Which of the following best describes what you expect to be your company's key strategic focuses for 2020?
(Please select up to three options)

Respondents identify 'cost management' (50 per cent), 'investing in innovation and technology' (30 per cent), 'improving cash flow' (29 per cent), and 'business process improvement' (29 per cent) as the top three strategic focuses for their company in 2020.

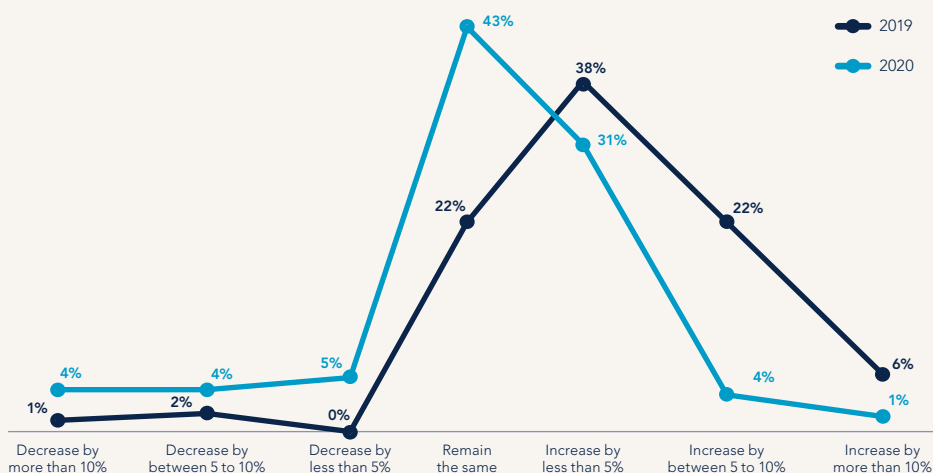
This comes as no surprise as companies, in the face of negative externalities, will focus on managing their financial position and reviewing their business model.

Interestingly, the relatively high proportion of respondents who chose 'investing in innovation and technology' may indicate that companies are eyeing long-term growth opportunities and are trying to stay ahead of continual technological disruption. This may also illustrate that respondents believe investing in new technology solutions could potentially help their company cut operational costs, transform business models, and increase profitability.

Businesses should at least keep up with technological trends to cater to changing customer needs, new regulations, and new industry practices. For example, the launch of virtual banks may change how people consume traditional banking services while the role out of 5G may unleash the potential of e-sports to target the young generation.

SALARY TRENDS

FIGURE 7. EXPECTED CHANGE IN SALARY IN 2020



Notes: (1) The percentages of respondents who selected 'Don't know', 'I do not plan to work in the next 12 months' or 'Not applicable' in 2019 and 2020 were 8% and 6% respectively.
(2) Percentages may not add up to 100 per cent due to rounding.

Question: In comparison to 2019, do you believe that your salary in 2020 will....?

Respondents appear to be less positive about their salary expectation in 2020 with only 36 per cent believing that their salary will increase, down from 66 per cent in 2019. Those who believe that their salary will decrease went up from 3 per cent for 2019 to 12 per cent for 2020. Amongst those who believe that their salary will decrease, 63 per cent believe that the decrease will be 5 per cent or more.

Nevertheless, Figures 5 and 7 both show that a majority of respondents display some confidence in their employment situation. This may indicate that many respondents continue to believe in the resilience of Hong Kong's businesses despite major economic and political

headwinds. It could also indicate that consumer confidence may rebound quickly at some point in 2020, providing a boost to the economy.

Table 3 below shows that optimism about salary prospects is most apparent amongst junior-level employees with 58 per cent expecting a salary increase and none expecting a decrease in 2020. Salary prospects amongst other managerial levels, most noticeably amongst senior-level employees, are generally more subdued, though the majority of mid-level and senior-level employees still expect their salary to remain the same or increase (90 per cent and 72 per cent respectively).

TABLE 3. DISTRIBUTION OF EXPECTED CHANGE IN SALARY IN 2020 BY COMPANY POSITION

Company position	Decrease by more than 10%	Decrease by 5 to 10%	Decrease by less than 5%	Remain the same	Increase by less than 5%	Increase by 5 to 10%	Increase by more than 10%	Don't know
Junior-level	0%	0%	0%	38%	48%	10%	0%	5%
Mid-level	1%	4%	3%	43%	42%	4%	1%	1%
Senior-level	10%	6%	9%	49%	17%	3%	3%	4%

Note: Percentages may not add up to 100 per cent due to rounding.

CONCLUSION

While the results of the survey may paint a generally subdued outlook for 2020, they also indicate that Hong Kong businesses are well placed to manage through the current situation and achieve sustainable growth in the medium-term.

To do this, businesses will need to make full use of Hong Kong's comparative advantages, grasp the opportunities provided by the Greater Bay Area initiative, and implement strategies that not only help them manage through this tough period, but also add long-term value.

Hong Kong has shown the world, time and again, that it is remarkably resilient and adaptable to the vicissitudes of history. As an organisation that has been in Hong Kong since the 1950s, CPA Australia remains confident in Hong Kong's future.

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