

MOVING FORWARD AND REBUILDING CONFIDENCE

REPORT ON CPA AUSTRALIA'S HONG KONG ECONOMIC
SENTIMENT SURVEY 2021

DECEMBER 2020

CPA
AUSTRALIA



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HONG KONG ECONOMIC SENTIMENT SURVEY 2021



POSITIVE CONTRIBUTORS

1. Universally available COVID-19 vaccine
2. Recovery of the global economy
3. Growth in Mainland China's economy

75%

Expect Hong Kong's recession to continue into 2021

CHALLENGES

1. COVID-19 pandemic
2. Local political environment
3. Weak global economic recovery

BUSINESS SENTIMENT AND KEY STRATEGIC FOCUSES

- Cost reduction
- Improve business efficiency
- Improve cash flow

46%

Expect business revenue to decrease by more than 2 per cent

- 45%** expect headcount to remain the same
- 57%** expect salary to remain the same

- EMPLOYMENT SUPPORT SCHEME**
- **61%** believe the scheme was the relief measure that supported their business the most in 2020
 - **38%** think the government should extend the scheme to help sustain their business in 2021

IMPROVE HONG KONG'S COMPETITIVENESS

ACTIONS TO BE TAKEN

- Maintain Hong Kong's world-class legal system
- Strengthen Hong Kong's international financial position
- Strengthen cooperation with the rest of the GBA

SKILLS NEEDED

- Creativity and innovation
- Critical thinking and analytical skills
- Digital and technical skills

RECOMMENDATIONS



Extend and optimise the Employment Support Scheme to provide further time-limited financial support to employers to retain employees



Issue perpetual bonds and / or long-term bonds in international bond markets



Expand the scope of eligible securities under the mutual market access programs and increase mutual access between the Mainland and Hong Kong financial markets such as the implementation of Wealth Management Connect Scheme



Continue expanding international economic and trade connections and proactively seek to join the Regional Comprehensive Economic Partnership as soon as possible

KEY HIGHLIGHTS

Amidst COVID-19-related uncertainties and economic headwinds such as global trade tensions and a global recession, Hong Kong is facing a challenging 2021. While international organisations such as the International Monetary Fund is projecting Hong Kong's GDP to rebound by 3.7 per cent in 2021, and the Asian Development Bank is forecasting Hong Kong's 2021 GDP to increase by 5.1 per cent, CPA Australia's Hong Kong Economic Sentiment Survey 2021 finds that these projections are not yet translating through to the real economy, with the pandemic and global concerns weighing on the forecasts accountants have for Hong Kong's economy in 2021.

This report summarises the key findings from a survey of our members in the business and professional sectors on the state of Hong Kong's economy and business environment.

Economic expectations

The volatile and unpredictable situation is reflected in this year's survey results with many respondents expecting a rather bleak 2021. Three-quarters of respondents (75 per cent) expect the Hong Kong economy to contract in 2021. This represents a further deterioration in economic confidence from the past year when 66 per cent of respondents expected the Hong Kong economy to contract in 2020.

When asked what factors would likely support Hong Kong's economic recovery in 2021, respondents identified a universally available COVID-19 vaccine (54 per cent), global economic recovery (49 per cent), and growth in Mainland China's economy (30 per cent).

When asked what they expect to be the main challenges to Hong Kong's economy in 2021, respondents were most likely to identify the COVID-19 pandemic (66 per cent), the local political environment (55 per cent), and a weak global economic recovery (51 per cent).

The pessimistic view is reflected in forecasts for retail property prices; with 86 per cent of respondents expecting retail property prices to decline in 2021.

For residential, industrial and office property prices, a respective 49 per cent, 76 per cent and 83 per cent of respondents believe prices will fall in 2021.

Business trends

Unsurprisingly, expected economic weakness has translated into lower business confidence with 46 per cent of respondents expecting their company's revenue to decrease in 2021 by 2 per cent or more, up from 44 per cent in 2020. In contrast, only 26 per cent of respondents expect their company's revenue to increase in 2021, which is the same percentage as in 2020.

Although nearly three in five respondents (58 per cent) believe that their company's headcount will either remain the same or increase in 2021, 41 per cent expect it to decrease, a higher proportion than the 30 per cent that expected their employer's headcount to fall in 2020.

Respondents also appear to be less positive about their salary expectation with only 15 per cent believing that their salary will increase in 2021, down from 36 per cent in 2020. Those who believe that their salary will decrease went up from 13 per cent in 2020 to 24 per cent in 2021. Amongst those who believe that their salary will decrease, 79 per cent believe that the decrease will be 5 per cent or more, up 16 percentage points from 2020.

When asked about their company's key strategic focus for 2021, more than half of all respondents selected 'cost reduction' (58 per cent). This suggests that many companies will take a more defensive strategy given the expected tough business and economic conditions in 2021. Consistent with this more conservative focus, 'improve business efficiency', which may help cut costs and transform business models, is the second most popular choice (46 per cent). Other key focuses are 'improve cash flow' (36 per cent) and 'digital transformation' (34 per cent).

Measures to support businesses

When asked what the most effective government relief measure was in supporting business in 2020, a majority of respondents chose the Employment Support Scheme (ESS) (61 per cent). The Hong Kong Government may wish to consider extending the ESS to provide further time-limited financial support to employers to assist them to retain employees and reduce redundancies.

Many respondents selected extending and improving access to the ESS (38 per cent), cash handouts to residents (35 per cent), and incentives for landlords to reduce or waive the rent they charge small and medium-sized enterprises (SMEs) (33 per cent) as non-tax measures they would like to see in 2021 to help support businesses.

On tax measures to sustain businesses, respondents were most likely to choose the introduction of a tax holiday or reduced profits tax for regional headquarters based in Hong Kong (25 per cent) and introducing tax loss carry back for SMEs or businesses in hard-hit sectors for two years (24 per cent).

Given most respondents are expecting Hong Kong's economy to decline further, the government should consider providing additional stimulus measures to support the economic recovery and transformation, while at the same time exploring ways to increase revenue to maintain financial stability. A fast recovery will support improvements in government finances.

Actions to improve competitiveness

A focus on enhancing Hong Kong's competitiveness should help the city in its post-COVID-19 recovery and beyond. The most popular actions respondents believe the government should implement to improve the city's competitiveness are to maintain its world-class legal system (49 per cent), to strengthen its international financial position (48 per cent), and strengthen cooperation with the rest of the Greater Bay Area (GBA) (40 per cent).

Complementing government actions to improve competitiveness is a growing emphasis on nurturing talent and developing the skill sets of the workforce. Respondents identified creativity and innovation (56 per cent), critical thinking and analytical skills (53 per cent), and digital and technical skills (51 per cent) as the top-three skills that employees will need to possess in order to enhance Hong Kong's competitiveness.

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, buttressing Hong Kong's competitive advantages, and exploring new growth opportunities, while keeping an eye on its financial stability. The government could consider implementing the following measures:

Measures to support small and medium-sized enterprises

- Extend and optimise the ESS to provide further time-limited financial support to employers to retain employees.
- Introduce, for two years, tax loss carry back for SMEs or businesses in hard-hit sectors.
- Introduce incentives for commercial landlords who reduce rents for small business tenants.

Measures to enhance Hong Kong's position as an international financial centre

- Implement further measures to develop Hong Kong into a leading Family Office Hub.
- Issue perpetual bonds and / or long-term bonds in international bond markets.

Measures to enhance collaboration within the GBA

- Expand the scope of eligible securities under the mutual market access programs and increase mutual access between the Mainland and Hong Kong financial markets, such as the implementation of Wealth Management Connect Scheme.
- Optimise the Greater Bay Area Youth Employment Scheme to attract more employers to offer opportunities to Hong Kong talent.

Measures to explore and expand into overseas market

- Continue expanding international economic and trade connections and proactively seek to join the Regional Comprehensive Economic Partnership (RCEP) as soon as possible.
- Optimise the Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund) and offer more funding and assistance to help local firms better access markets outside of Hong Kong, especially in Mainland China and ASEAN countries.

Measures to support the development of Smart City

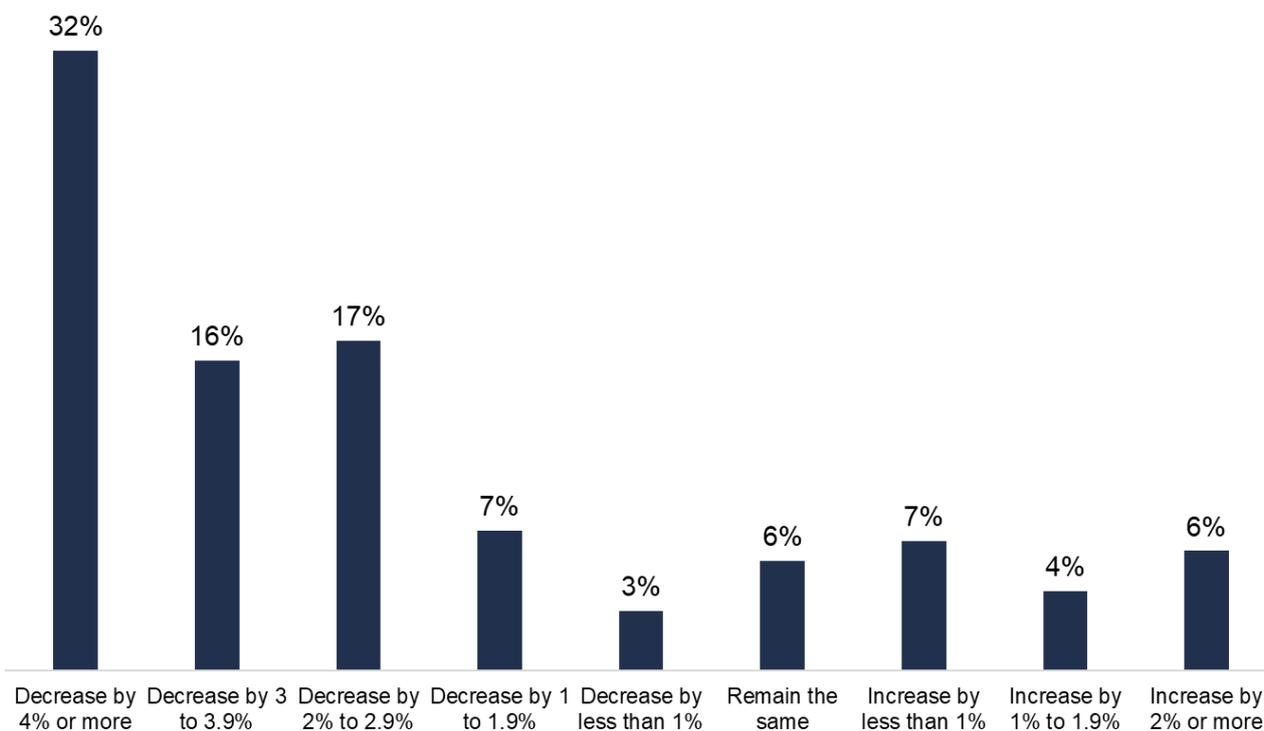
- Continue supporting the development of 5G and offer more funding options to help local firms deploy 5G technology.

For businesses, we suggest that the focus for 2021 should be on ensuring financial health, maximising efficiency, and cautiously identifying growth opportunities. Businesses could consider the following suggestions:

- Control 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.
- Improve cash positions by improving cash flow, such as reducing stock levels, increasing the percentage of sales for cash and decreasing the time debtors take to pay.
- Review business operations to look for improvements, such as through digitisation and automation.
- Encourage a corporate-wide innovative culture through cultivating a talent pool, such as providing training programs and seminars on improving creativity and innovation, critical-thinking and analytical skills, and digital and technical skills to employees.
- Cautiously explore new opportunities to diversify and expand businesses, especially in the GBA, other parts of Mainland China, ASEAN countries, and other RCEP member countries.

ECONOMIC EXPECTATIONS

Figure 1. Hong Kong GDP growth expectations



- Notes:**
- (1) The percentage of respondents who selected 'Don't know' was 2%.
 - (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 2021 will...?

Figure 1 shows that overall growth expectations for the Hong Kong economy in 2021 are overwhelmingly negative. In fact, pessimism about 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.

75 per cent of respondents expect GDP to contract in 2021, somewhat worse than the 66 per cent of respondents that expected the Hong Kong economy to contract in 2020. Of the respondents who forecast the economy to shrink in 2021, 86 per cent expect the decrease to be 2 per cent or more. Furthermore, the proportion of respondents expecting an expansion declined by 7 percentage points from 24 per cent in 2020 to 17 per cent in 2021.

While many international organisations have forecast Hong Kong's economy to rebound in 2021, with the International Monetary Fund projecting a 3.7 per cent growth¹, the Asian Development Bank expecting a 5.1 per cent increase², and DBS Bank forecasting a 4 per cent expansion³, the discrepancy in growth expectations shows that confidence in the future state of the Hong Kong economy remains very weak amongst respondents. It appears that a positive growth outlook for 2021 has yet to reach the real economy and there is some way to go before business confidence rebounds.

¹ International Monetary Fund. (2020). [World Economic Outlook](#).

² Asian Development Bank. (2020). [Economic Forecasts September 2020](#).

³ DBS Bank. (2020). [Hong Kong: Upgrading the 2021 outlook](#).

Challenges to Hong Kong's economy in 2021

It comes as no surprise that respondents identified the COVID-19 pandemic (66 per cent), followed by the local political environment (55 per cent) and a weak global economic recovery (51 per cent) as the main challenges facing the Hong Kong economy in 2021.

US foreign policy (30 per cent), increasing competition from neighbouring economies (19 per cent), and corporate liquidity issues (18 per cent) were also factors that respondents believe will be major challenges facing Hong Kong's economy in 2021.

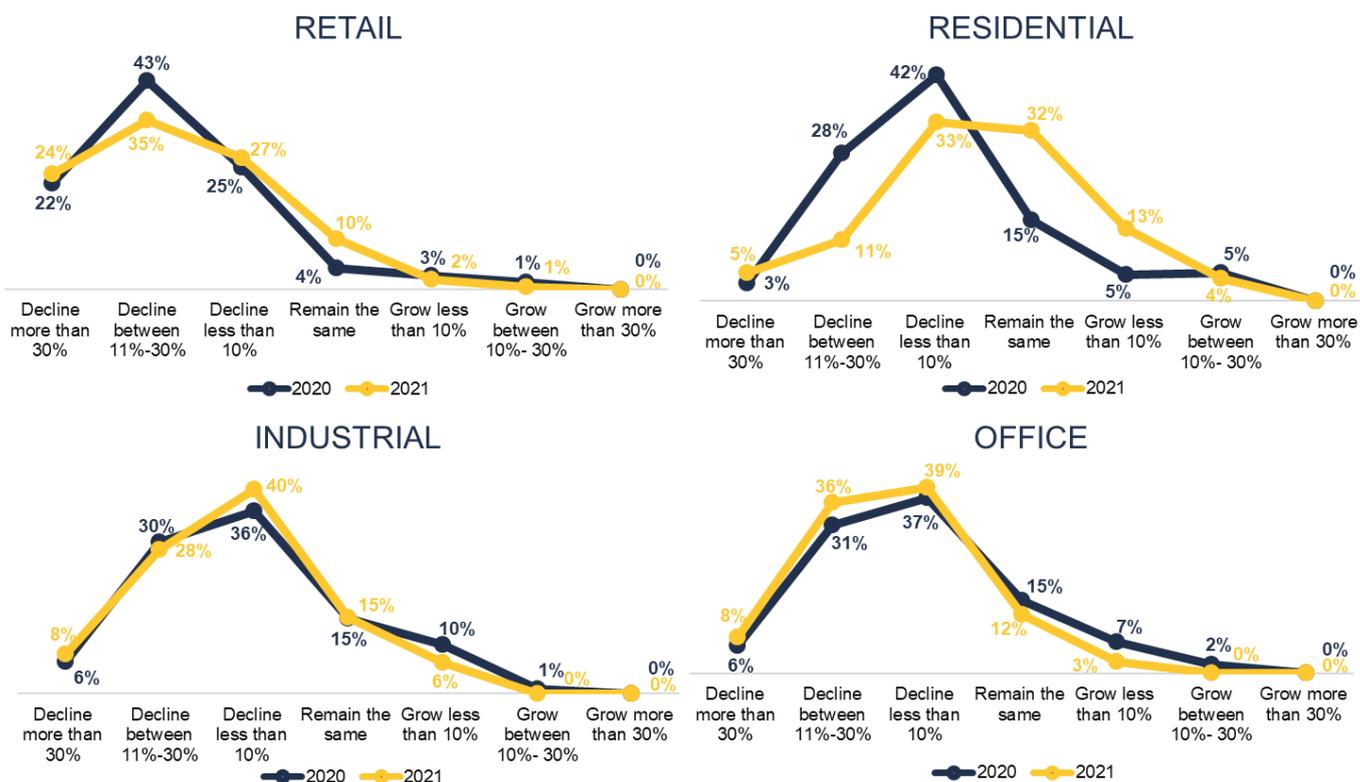
Factors expected to contribute to Hong Kong's economic recovery in 2021

The most frequently chosen factors that respondents believe will contribute to Hong Kong's economic recovery in 2021 are a universally available COVID-19 vaccine (54 per cent), global economic recovery (49 per cent), and growth in Mainland China's economy (30 per cent).

The results indicate that respondents believe a universally available COVID-19 vaccine should be a powerful pull-factor for Hong Kong's economy. Effective control of the pandemic could potentially unleash pent-up consumer demand and increase business spending. Further, strong economic growth in Mainland China's economy in 2021 should also provide support to Hong Kong's economic recovery.

In addition, many respondents also chose government initiatives to strengthen Hong Kong's position as a leading financial centre (27 per cent), the GBA initiative (24 per cent), and low interest rates (17 per cent) as potential major contributors to Hong Kong's economic recovery in 2021.

Figure 2. Expected changes in property prices



Note: The percentage of respondents who selected 'Don't know' are not shown.

Question: Compared to 2020, by what percentage do you believe Hong Kong's property price will change in 2021?

The impacts of COVID-19 pandemic, weak consumer confidence and lower business spending are reflected in a projected contraction of property prices across most sectors. Figure 2 shows that at least seven out of ten respondents expect property prices in the retail, industrial, and office sectors to fall in 2021, and about one-half of respondents expect residential property prices to drop in 2021.

The comparatively bleak expectations for property prices are most noticeable in the retail sector where 86 per cent of respondents believe retail property prices will fall in 2021. Although this represents a slight decrease from 90 per cent in 2020, the results indicate that the majority of respondents believe that the market for retail properties will continue to be very soft.

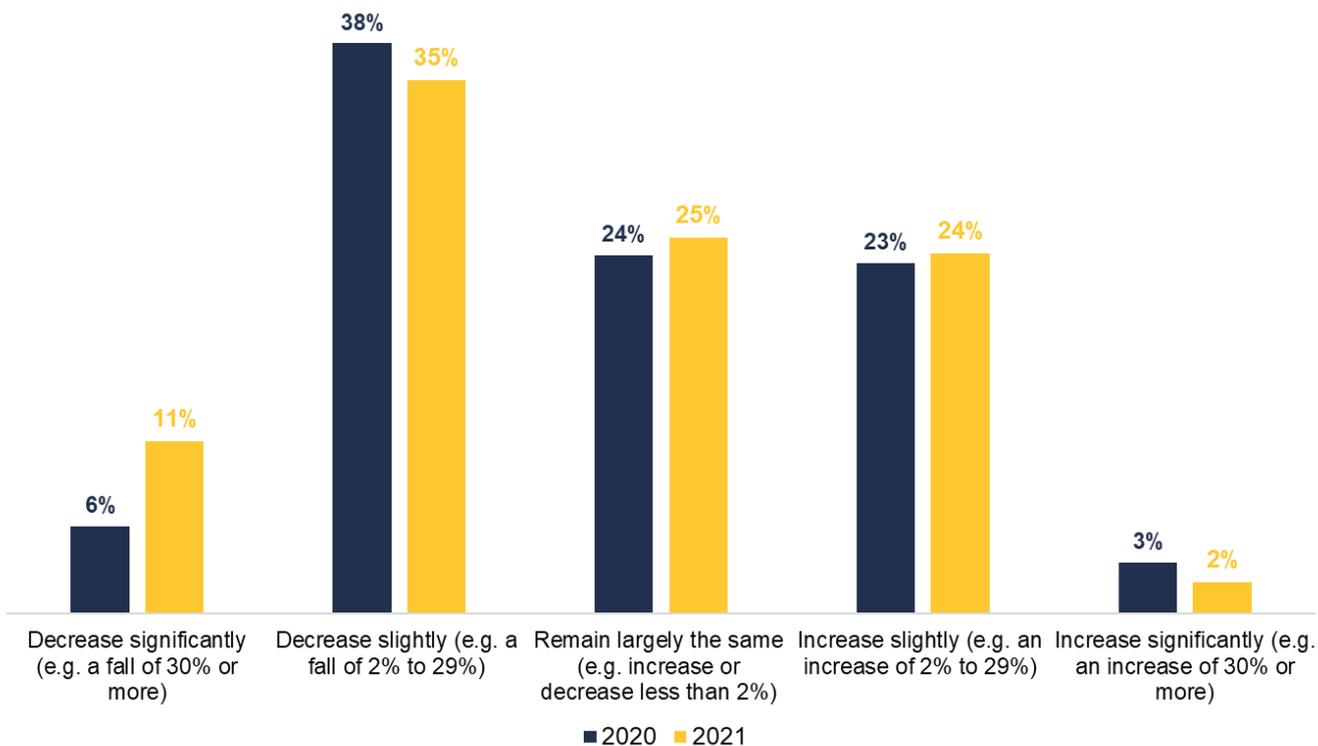
76 per cent of respondents believe industrial property prices will fall in 2021, compared with 72 per cent of respondents in 2020. The share of respondents who believe industrial property prices will remain the same or increase in 2021 declined from 26 per cent in 2020 to 21 per cent.

83 per cent of respondents believe office property prices will fall in 2021, compared with 74 per cent of respondents in 2020. The share of respondents who believe office property prices will decline by more than 11 per cent in 2021 increased from 37 per cent in 2020 to 44 per cent. The increase in the proportion of respondents believing that office property prices will drop can be attributed to the softening demand for office spaces, as work-from-home arrangements become increasingly common and cost-saving and downsizing measures become a priority for businesses in tough times.

49 per cent of respondents believe residential property prices will fall in 2021, representing a decrease of 24 percentage points from 2020. On the other hand, the share of respondents who believe residential property prices will remain the same or increase went up from 25 per cent in 2020 to 49 per cent in 2021. The change in expectations suggests an improvement in sentiment of the residential property market in 2021.

BUSINESS TRENDS

Figure 3. Expected change in company revenue

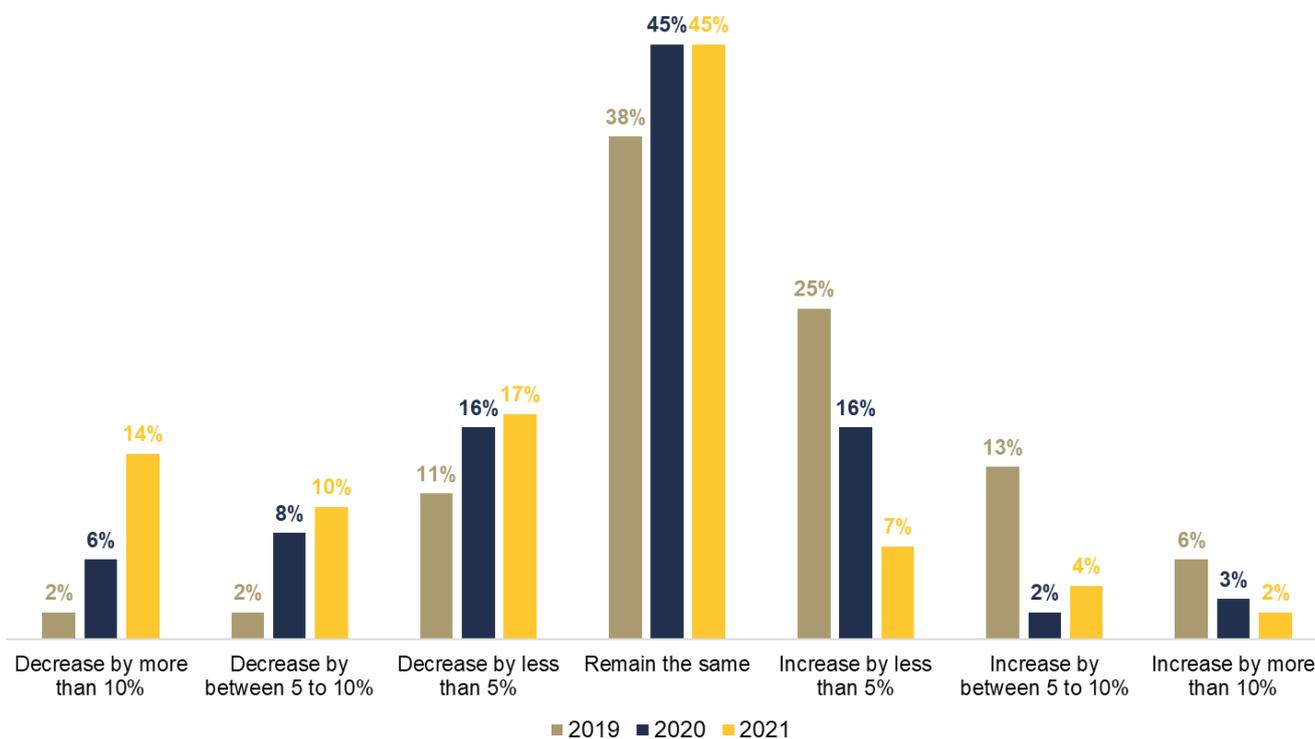


- Notes:**
- (1) The percentage of respondents who selected 'Don't know' in 2020 and 2021 was 6% and 3% respectively.
 - (2) Percentages may not add up to 100 per cent due to rounding.

Question: In comparison to 2020, do you expect your company's revenue in 2021 will...?

Heading into 2021, weak business confidence and economic prospects are expected to create headwinds for businesses, with nearly half of respondents (46 per cent) forecasting their company's revenue to decrease by 2 per cent or more in 2021, compared to 44 per cent in 2020. Amongst those who expect their company's revenue to decrease by 2 per cent or more, 24 per cent believe that revenue will decrease by 30 per cent or more, representing an increase of 11 percentage points from 2020.

On the other hand, only 26 per cent of respondents expect their company's revenue to increase. Given the magnitude of Hong Kong's recession in the first three quarters of 2020 as well as a global economic slowdown, subdued expectations on company revenue is expected to persist in the short to medium-term.

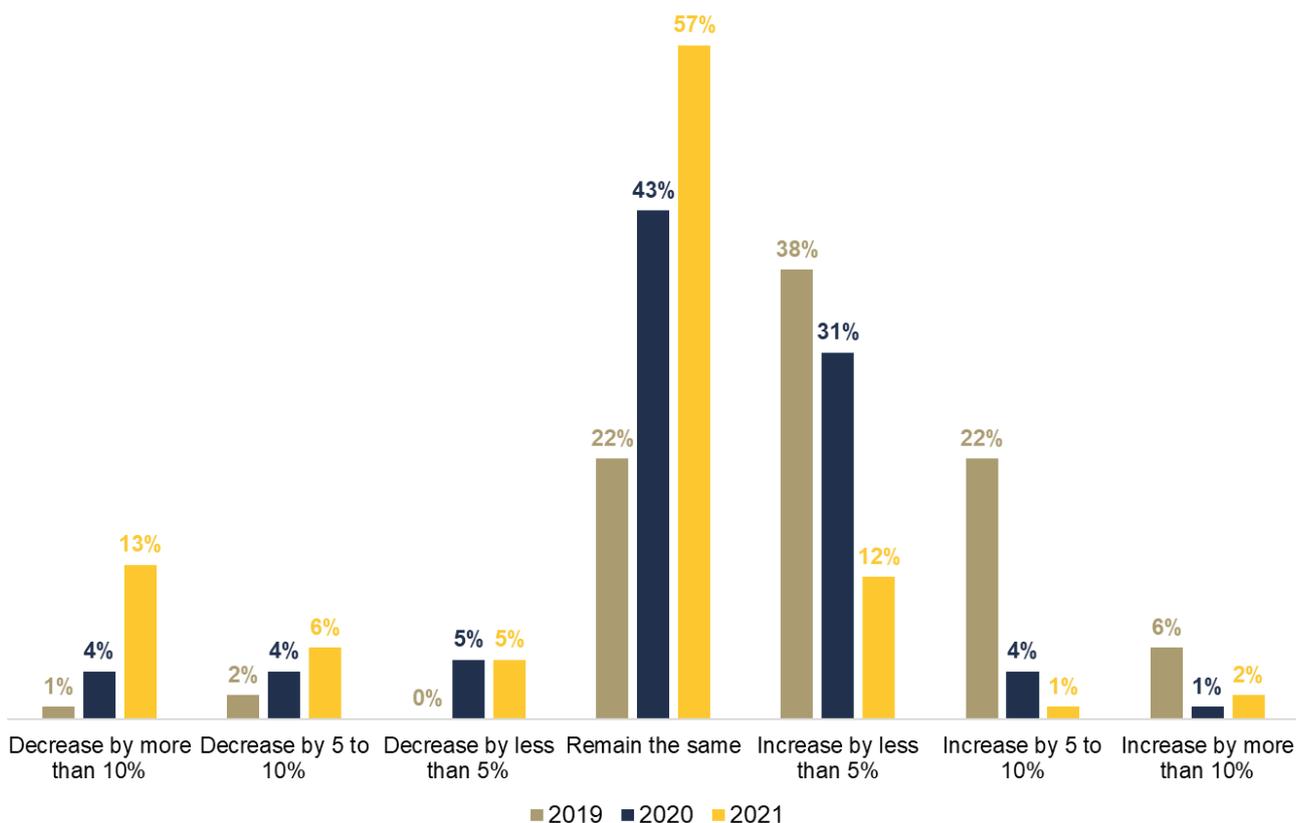
Figure 4. Expected change in headcount

- Notes:**
- (1) The percentage of respondents who selected 'Don't know' in 2019, 2020, and 2021 was 4%, 2%, 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 2021 from 2020?

Figure 4 shows the lack of business confidence is also impacting expectations for business growth with only 13 per cent of respondents expecting their employer to increase headcount in 2021, down from 21 per cent in 2020 and 44 per cent in 2019. On the other hand, 41 per cent of respondents expect their employer to reduce their headcount, compared with 30 per cent in 2020 and 15 per cent in 2019.

The Hong Kong Government may wish to consider measures to reduce the expected increase in unemployment for example, extending the ESS.

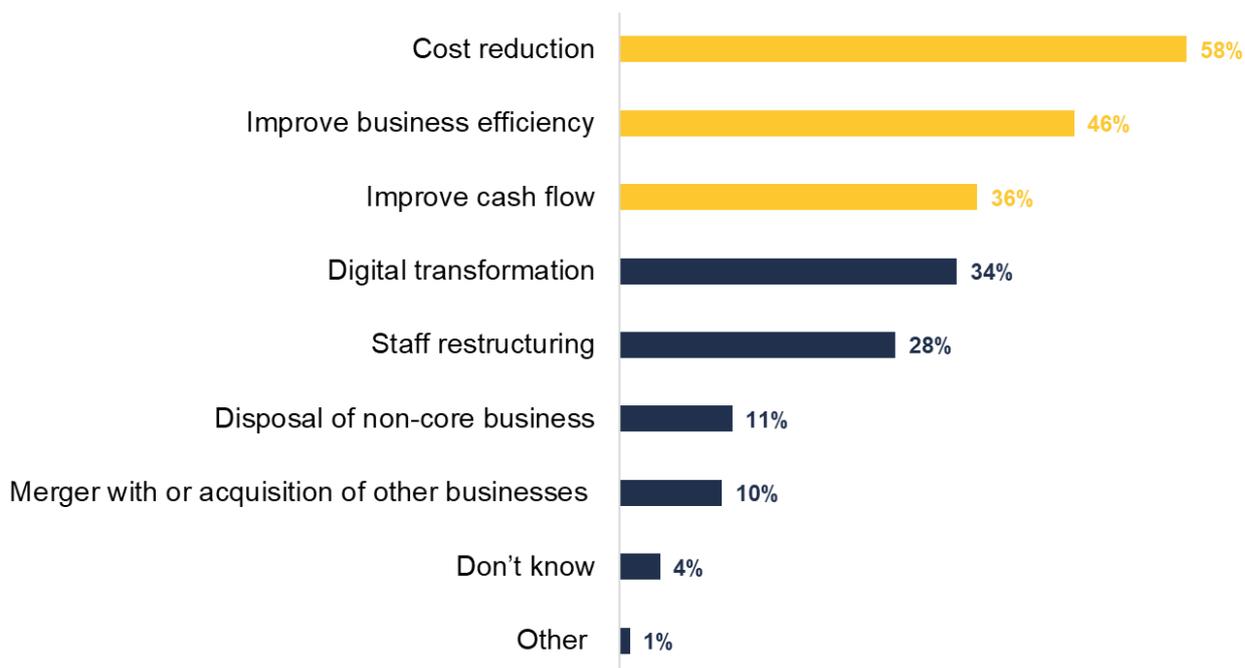
Figure 5. Expected change in salary

- 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, 2020, and 2021 were 8%, 6%, and 4% respectively.
 - (2) Percentages may not add up to 100 per cent due to rounding.

Question: In comparison to 2020, do you believe that your salary in 2021 will....?

The lack of business confidence and weak expectations for the labour market is translating through to low salary expectations. Respondents appear to be significantly less positive about their salary expectation in 2021 with only 15 per cent believing that their salary will increase, down from 36 per cent in 2020 and 66 per cent in 2019. Those who believe that their salary will decrease went up from 13 per cent in 2020 to 24 per cent in 2021. Amongst those who believe that their salary will decrease, 79 per cent believe that the decrease will be 5 per cent or more, up 16 percentage points from 2020.

Nevertheless, Figures 4 and 5 both show that a majority of respondents still display some confidence in their employment situation in 2021. This may indicate that many respondents continue to believe that there is some degree of resilience amongst Hong Kong's businesses despite major economic headwinds. It could also indicate that respondents feel that, depending on factors such as the availability of a COVID-19 vaccine, there could be a possibility of a rebound in consumer and business confidence at some point in 2021.

Figure 6. Key strategic focuses for companies in 2021

Question: Which of the following best describes what you expect to be your company's key strategic focuses for 2021? (Please select up to three options)

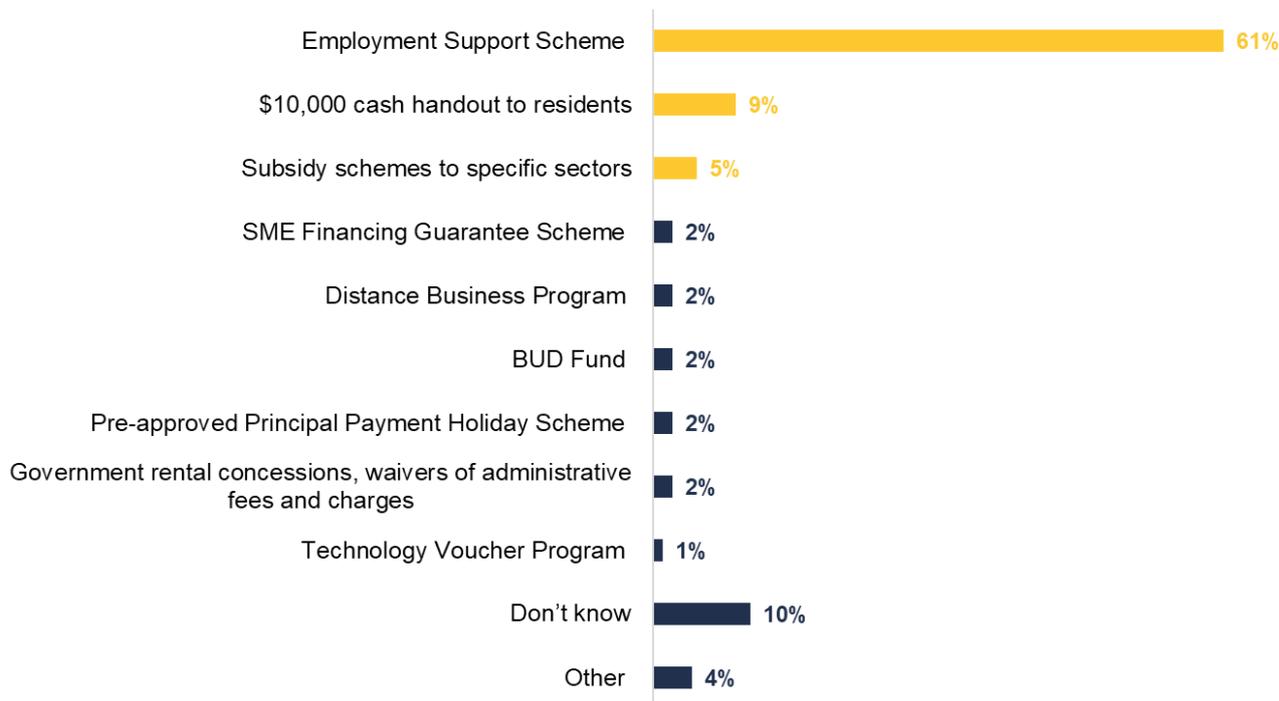
In the face of negative externalities, it is no surprise that our members are most likely to expect their employers will focus on 'cost reduction', 'improve business efficiency', and 'improve cash flow' in 2021. Such prudent approaches should see many businesses effectively manage through the current troubles and be well placed to take advantage of the recovery when it comes.

More than one-third (34 per cent) of respondents also chose 'digital transformation' as a strategic focus for their company. This may indicate that companies are increasingly seeing the value of digitalising their business operations to adapt to changing consumer and employee needs brought about by the COVID-19 pandemic and to stay ahead of continual technological disruption.

This may also illustrate that respondents believe digital transformation could potentially help their company reduce operational costs, improve efficiency, and to adapt to changing consumer preferences - essential elements for companies to sustain themselves and to succeed in a disrupted environment.

MEASURES TO HELP SUPPORT BUSINESSES

Figure 7. Government relief measures that supported business the most in 2020



Question: Which of the following government relief measures supported your business the most in 2020?

Figure 7 shows that the Hong Kong Government's ESS, which ran from June 2020 to November 2020, was the most effective relief measure in assisting businesses to manage through these tough times, with 61 per cent of respondents selecting this as the measure that supported their business the most.

Non-tax measures to help sustain businesses

When asked what non-tax measures the Government should introduce in 2021 to further support businesses, extending and improving access to the ESS (38 per cent), cash handouts to residents (35 per cent), and introducing incentives for landlords to reduce or waive the rent they charge SMEs (33 per cent) were the measures most frequently chosen by respondents.

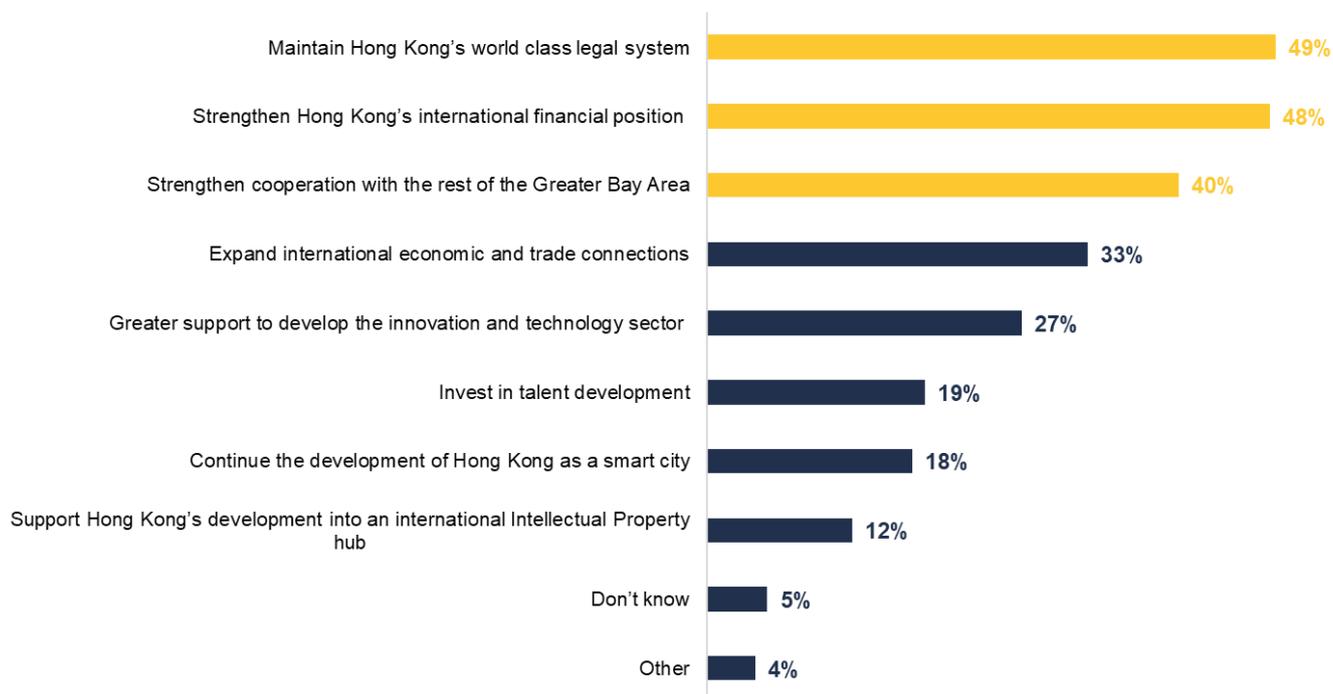
Other non-tax measures to help support businesses that respondents chose include waiving registration fees, utility charges and rates for the year of 2021 (31 per cent), offering more funding to help local firms adopt technology solutions (20 per cent), and temporarily waiving Mandatory Provident Fund contributions (19 per cent).

Tax measures to help sustain businesses

The top tax measures respondents believe the Government should introduce in 2021 to help support businesses are a tax holiday or reduced profits tax for regional headquarters based in Hong Kong (25 per cent) and the introduction, for two years, of a tax loss carry back for SMEs or businesses in hard-hit sectors (24 per cent).

ACTIONS TO IMPROVE COMPETITIVENESS

Figure 8. Actions to improve Hong Kong's competitiveness



Question: Which of the following actions do you think the Hong Kong Government should implement to improve Hong Kong's international competitiveness? (Please select up to three options)

Figure 8 shows that the most popular actions respondents believe the Hong Kong Government should implement to improve the city's competitiveness are to maintain Hong Kong's world class legal system (49 per cent), strengthen Hong Kong's international financial position (48 per cent), and strengthen cooperation with the rest of the GBA (40 per cent).

The results indicate that many respondents believe maintaining Hong Kong's institutional strengths such as a robust and trustworthy legal system is an enduring source of competitiveness and is a cornerstone to attracting and retaining companies to conduct business in Hong Kong.

Further, the various measures announced in the Hong Kong Chief Executive's Policy Address 2020 such as the tax concession for carried interest issued by private equity funds operating in Hong Kong, and the promotion of family office businesses, will provide a boost to the development of the financial services industry and should improve Hong Kong's standing as an international financial hub.

Hong Kong will also benefit from mutual access to financial markets through the cross-boundary Wealth Management Connect scheme, other connect programs, and an increased presence of family offices from high-net-worth individuals. In addition, recent policy announcements such as the GBA Youth Employment Scheme will make it easier for young Hong Kong residents to work, live, and study in other parts of the bay area. In the long run, these measures should help Hong Kong improve its competitiveness.

Employment skills needed to enhance Hong Kong's competitiveness

When asked what employment skills are needed to enhance Hong Kong's competitiveness, creativity and innovation (56 per cent), critical thinking and analytical skills (53 per cent), and digital and technical skills (51 per cent) were the employment skills most frequently chosen by respondents.

Given that the socio-economic ramifications of the COVID-19 pandemic will likely stretch into 2021 and beyond, nurturing talent and building up the expertise of the local workforce to adapt to sectoral transformations is essential to improving employment prospects and competitiveness.

CONCLUSION

According to Hong Kong's Financial Secretary, the city's economy is expected to recover in the second half of 2021, as the economy moves out of recession. In the short-term, the COVID-19 pandemic will continue to be a key threat to Hong Kong's economy and the immediate outlook will be subdued.

Nevertheless, tough economic conditions will compel Hong Kong to increase its efforts to strengthen its traditional competitive advantages, such as its financial services sector, and look for new drivers of economic growth and competitiveness such as in innovation and technology, so that it will be well-placed for future development once the economy recovers.

Yet, an economic rebound will be highly dependent on effectively controlling the pandemic, the continuation of Mainland China's post-pandemic recovery, improvement in Sino-US relations, and the recovery of the global economy in 2021. To position for future growth, companies in Hong Kong should also consider opportunities from expanding connections with countries in ASEAN and the Regional Comprehensive Economic Partnership.

ABOUT THE SURVEY

The survey was conducted from 9 to 20 November 2020. A total of 193 responses were received from CPA Australia members residing in Hong Kong. Respondents come from a wide range of industries including CPA professional services, financial services, and manufacturing.

ABOUT CPA AUSTRALIA

CPA Australia is one of the world's largest accounting bodies with more than 166,000 members working in 100 countries and regions around the world, and with more than 25,000 members working in senior leadership positions. It has established a strong membership base of more than 19,000 in the Greater China region.

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- Mr. Eden Wong FCPA (Aust.), 2020 Deputy Divisional President of Greater China CPA Australia
- Mr. Roy Lo FCPA (Aust.), 2019 Divisional President of Greater China CPA Australia

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