Hong Kong's Economic Prospects 1980

Industrial Production Statistics Section,
Census and Statistics Department, Hong Kong

Contents

Survey of Hong Kong's Economic Prospects for 1980

1. Introduction

1.1 As was the case last year, the Census and Statistics Department conducted a survey of economic prospects for the year 1980 during December 1979 and January 1980. The enquiry was conducted in conjunction with the Quarterly Business Survey of the 4th quarter 1979, results of which are being published separately. It covered 585 establishments each engaging 100 or more persons, randomly selected from nine major manufacturing industries and a tenth miscellaneous group, with a full enumeration of those establishments engaging 500 or more persons. The manufacturers selected were asked to give their opinions on anticipated changes in real terms in the volume of orders, as well as in employment, wages, prices, capacity utilization and capital investment in 1980 compared with their actual performance in 1979. Concurrently, opinions were sought from the 56 largest construction companies on expected changes in building material prices, employment, wages and investment.

1.2 The survey was conducted in the form of an opinion poll rather than a fact-finding enquiry. Hence it only indicates the way manufacturers and construction contractors are viewing their business prospects for the year ahead. The concensus of opinions is necessarily limited to those establishments covered by the enquiry.

1.3 The appendix gives an outline of the survey methodology and response. Out of the 641 questionnaires despatched, 609 were completed.

2. Summary

2.1 According to the survey, an overall growth of 5% in the volume of orders for 1980 was expected, the growth being expressed in quantity terms with price inflation effects discounted. The rate of growth in orders was similar for both the overseas and local markets. Export orders from the United States should grow by 6% while those from the Federal Republic of Germany, by 5%. Expectations about the United Kingdom market were apparently less favourable and a growth of 3% in the volume of orders was forecast. There were signs of continued diversification of overseas markets to new outlets; the expected growth in orders coming from such destinations together was about 6%.

2.2 Many industries which performed well in 1979 considered that they had good prospects for 1980. They included electronics (11% growth in expected orders), watches and clocks (10%), and food products (7%). The printing, plastics, metal products and electrical appliances industries also had a satisfactory outlook for 5% growth in business. A more conservative outlook was taken by manufacturers of textiles and clothing; they expected orders to increase by around 3% in quantity terms.

2.3 Employment in the manufacturing industries surveyed should increase by 5% in 1980 over the level attained in 1979. The labour market was likely to remain tight during the year; and wage rates would rise much faster than manufacturing employment. Wages for operatives in 1980 would average 12% higher than in 1979.

2.4 The prices of raw materials and semi-manufactured inputs with a world-wide inflationary climate were expected to increase by 12% on the average. Products for export, on the other hand, would only obtain a smaller price increase of 9%. The figures suggest that manufacturers have reservations about their ability to shift the full effect of material price and wage increases to their final prices.

2.5 Production capacity was likely to be more intensively utilized in 1980 (estimated at 90% of full capacity) than in 1979 (at 88%). Additional capital investment would occur in the manufacturing sector by way of machinery installations and factory floor space. Both were expected to increase by about 5% during 1980 as compared with the end of 1979.

3. Survey results

(A) Expected volume of orders

Table A(1) Expected increases in the volume of orders by industry and market
(whole year of 1980 over 1979)

Industry	Expected percentage increase in the volume of orders						
	From overseas markets					From the local market	From all markets
	United States	F.R. of Germany	United Kingdom	Other countries	All overseas destinations		
Food	*	*	*	*	10	7	7
Clothing	2	2	3	5	3	4	3
Textiles	3	7	2	5	4	2	3
Printing	*	*	*	*	3	7	6
Plastics	5	5	2	4	4	8	5
Metal products	7	**	5	4	5	5	5
Electrical machinery and appliances	14	7	-7	-3	5	5	5
Electronics	12	10	6	15	11	12	11
Watches and clocks	20	3	7	12	13	6	10
Miscellaneous	4	10	3	8	6	6	6
All above industries	6	5	3	6	5	5	5

Table A(2) Expected increases in the volume of orders by industry and market
(first half 1980 over first half 1979)

Industry	Expected percentage increase in the volume of orders						
	From overseas markets					From the local market	From all markets
	United States	F.R. of Germany	United Kingdom	Other countries	All overseas destinations		
Food	*	*	*	*	6	7	7
Clothing	2	**	3	4	2	4	3
Textiles	4	8	**	6	5	3	4
Printing	*	*	*	*	6	8	7
Plastics	2	4	**	3	2	8	3
Metal products	7	-4	3	**	**	3	**
Electrical machinery and appliances	36	3	-8	-9	11	5	9
Electronics	12	11	6	12	11	14	11
Watches and clocks	25	-7	6	14	12	6	10
Miscellaneous	4	11	3	8	7	6	7
All above industries	6	4	3	5	5	5	5

Table A(3) Expected increases in the volume of orders by industry and market (second half 1980 over second half 1979)

Industry	Expected percentage increase in the volume of orders						
	From overseas markets					From the local market	From all markets
	United States	F.R. of Germany	United Kingdom	Other countries	All overseas destinations		
Food	*	*	*	*	16	7	7
Clothing	3	3	4	6	3	3	3
Textiles	**	6	2	3	3	2	2
Printing	*	*	*	*	2	7	6
Plastics	7	6	3	6	6	7	6
Metal products	7	4	6	8	7	7	7
Electrical machinery and appliances	-3	10	-7	2	**	5	**
Electronics	12	9	7	17	12	10	11
Watches and clocks	18	10	7	11	13	6	11
Miscellaneous	4	9	2	8	6	6	6
All above industries	5	5	4	7	6	5	6

* Figures not shown because of limited coverage.
** Changes of 1% or less.

3.1 Because most factories in Hong Kong manufacture to order, manufacturers will have more confidence in their business prospects when their order books are filled, i.e. when orders expected become orders placed. Unless the order book position is satisfactory throughout the period of 12 months, it is conceivable, therefore, that the expectations obtained from manufacturers will be less optimistic for the latter months of the year. Thus data relating to the first half of 1980 should in general be more reliable than those for the second half as they are separately presented.

3.2 The electronics and watches and clocks industries had the most promising outlook for 1980 compared with other industries surveyed. The electronics industry caters for both the local market (largely for intermediate parts and components) and the overseas market (largely for finished products) whereas the watch industry predominantly manufactures for export. The electronics industry would face a strong demand on all fronts during 1980, except perhaps from the United Kingdom. The watch industry would, on the other hand, receive its support mostly from the United States; prospects in foreign markets other than the Federal Republic of Germany and the United Kingdom should also be encouraging.

3.3 The food and printing industries rank next in terms of business expectations for 1980, their growth in orders being estimated at 7% and 6% respectively. Since local consumption constitutes a major share of the industries' output, their expected growth would largely be derived from a steady increase in domestic demand.

3.4 In the case of plastic products, the outlook was better for the local market than for overseas markets, but a high proportion of such goods are produced for export. With a 5% overall growth, plastics manufacturers expected a 4 or 5% increase in orders from the United States, Federal Republic of Germany, and other markets but only a 2% increase from the United Kingdom. They also expected an 8% increase in local demand for 1980.

3.5 On metal products and electrical appliances, the expected growth in orders was 5% for both the local and overseas markets. The United States should be a source of higher demand for the metal products industry, and more so for the electrical appliances industry. Market prospects for electrical appliances in the United Kingdom were not so good.

3.6 The prospects of clothing manufacturers for 1980 were only modest. They were probably affected by views on protectionist measures at the time of the enquiry. With total export sales forecast to grow by 3%, the expected growth for the industry was also put at 3% despite a 4% increase envisaged for the domestic demand of locally produced clothing. Export sales to the United States, Federal Republic of Germany and United Kingdom might expand by 2 or 3% in 1980.

3.7 The textiles industry, on the other hand, envisaged a higher increase in export sales (4%) than in local sales (2%) for 1980, although its overall expected growth was much the same as that of the clothing industry. The Federal Republic of Germany was a major source of such expected increase.

3.8 In addition to annual comparisons, the survey provides some expectation data relating to the first half and second half of 1980 matched with the corresponding periods of 1979. In general, manufacturers' expectations for the second half of 1980 are subject to a wider margin of uncertainty than those for the first half. The expected growth in orders for all manufacturing industries surveyed was around 5% between the first half of 1979 and that of 1980, and 6% between the second half of 1979 and that of 1980.

(B) Prices of products for export and of raw materials and semi-manufactured inputs

Table B Expected increases in prices of products for export and of raw materials and semi-manufactured inputs by industry

(average prices for 1980 over 1979)

Industry	Expected percentage increase in prices of	
	Products for export	Raw materials and semi-manufactured inputs
Food	9	16
Clothing	9	11
Textiles	8	11
Printing	9	13
Plastics	11	15
Metal products	9	13
Electrical machinery and appliances	6	9
Electronics	10	12
Watches and clocks	**	3
Miscellaneous	10	14
All above industries	9	12

** Change of 1% or less.

3.9 Except for watches and clocks and electrical appliances, the prices of raw materials and semi-manufactured inputs in the industries surveyed were expected to increase by more than 10% in 1980. They ranged from 15 or 16% in the case of inputs for plastics and food manufacturing, to 11 or 12% in the case of inputs for the textiles, clothing, and electronics industries.

3.10 Against the background of an input cost push, manufacturers were cautious about transferring the full extent of these price increases to their buyers. Thus in all but the plastics industry, the expected price increase of products for export should not exceed 10%. The rate of increase was envisaged to be 8 to 10% for food products, textiles, clothing, printing, metal products and electronics, and 6% for electrical machinery and appliances. The prices of watches and clocks, a commodity group now undergoing rapid design evolution, were likely to remain stable for 1980 if the prices of their inputs did not increase beyond 3%. The disparity between expected product and material price increases was greatest in the food industry.

(C) Capacity utilization

Table C Capacity utilization by industry
(average utilization in 1979 and 1980)

Industry	Degree of capacity utilization (%)	
	Attained in 1979	Expected for 1980
Food	79	82
Clothing	85	87
Textiles	91	91
Printing	90	90
Plastics	88	90
Metal products	90	91
Electrical machinery and appliances	89	90
Electronics	90	93
Watches and clocks	91	93
Miscellaneous	91	92
All above industries	88	90

3.11 Production capacity in the manufacturing industries surveyed was likely to have a higher degree of utilization in 1980 than in 1979. This, to some degree, revealed manufacturers' conservative attitude towards planned capital investment (to be elaborated in Section E below), in that money would not be spent on increasing capacity unless the additional demand requiring this was certain and not temporary.

3.12 Several industries expecting a significant growth in sales, namely electronics, watches and clocks, and metal products, envisaged a capacity utilization rate of over 90% for 1980. A similar expectation was also held by textile establishments, reflecting perhaps their steady mode of operation. The clothing, printing, plastics and electrical appliances industries should be able to utilize 87 to 90% of their production capacity for the year ahead, whereas for food products a rate of 82% was to be expected.

(D) Employment and wages

Table D Expected increases in employment and wage rates by industry
(average levels in 1980 over 1979)

Industry	Expected percentage increase in	
	Number of persons engaged	Wage rates of operatives
Food	**	14
Clothing	5	11
Textiles	2	12
Printing	2	14
Plastics	6	13
Metal products	3	12
Electrical machinery and appliances	5	11
Electronics	12	13
Watches and clocks	6	15
Miscellaneous	4	14
All above industries	5	12

** Change of 1% or less.

3.13 Employment growth in the electronics industry, according to the manufacturers surveyed, should rise by 12% over the level of 1979. This was significantly higher than the expected employment growth of 5% for all industries under study. Industries expecting a better-than-average growth in their workforce, at 6%, were plastics and watches and clocks. In contrast, industries expecting only modest employment growth, at 2% or less, were textiles, printing, and food products.

3.14 All industries surveyed expected wage increases in excess of 10% for 1980. The extent of increase varied from 15% in the case of watches and clocks and 14% in the printing and food industries, to 11% for the manufacture of clothing and electrical machinery and appliances. The overall wage increase, envisaged to be around 12%, was close to the expected increase in material input prices.

(E) Investment intentions

Table E(1) Expected increases in machinery capacity by industry

Industry	Expected percentage increase in machinery capacity	
	Additional machinery acquired during 1979 as compared to machinery capacity as at 31.12.1978	Additional machinery to be acquired during 1980 as compared to machinery capacity as at 31.12.1979
Food	6	5
Clothing	6	3
Textiles	4	4
Printing	5	5
Plastics	7	4
Metal products	5	6
Electrical machinery and appliances	15	5
Electronics	11	10
Watches and clocks	15	7
Miscellaneous	9	8
All above industries	7	5

3.15 In previous surveys it was often found that the increase in machinery capacity actually achieved by the end of a year was higher than the increase envisaged twelve months earlier. This, together with the expectations for capacity utilization mentioned in Section C above, underscores manufacturers conservatism in reporting investment intentions. Moreover, since the production processes adopted by most local manufacturers are not heavily capital intensive, machines may be purchased and installed within a few months. The figures presented in this Section could hence be on the low side.

3.16 Machinery capacity, according to the manufacturers surveyed, could increase by 5% on average during 1980. The highest increases of 7 to 10% might occur in the electronics and watches and clocks industries. On the other hand, only modest increases of 3 to 4% were expected in the clothing, textiles and plastics industries. The actual increases in machinery capacity reported for 1979 were generally higher than had been expected, whether the comparison was drawn overall or by individual industries. Industries which recorded the highest actual expansion were : watches and clocks, electrical appliances, and electronics, all in the region of 11 to 15%. The electronics industry had a strong trend in machinery investment in both years. This was, however, not the case for the textiles industry.

Table E(2) Expected increases in factory space by industry

Industry	Expected percentage increase in factory space	
	Additional factory space acquired during 1979 as compared to total area as at 31.12.1978	Additional factory space to be acquired during 1980 as compared to total area as at 31.12.1979
Food	2	2
Clothing	8	3
Textiles	3	3
Printing	8	8
Plastics	10	5
Metal products	4	8
Electrical machinery and appliances	20	6
Electronics	20	7
Watches and clocks	7	6
Miscellaneous	10	**
All above industries	10	5

** Change of 1% or less.

3.17 From previous surveys it also appeared that the actual increase in factory floor space achieved for a year was often higher than the increase expected earlier. The actual increase in floor space reported by manufacturers was 10% for 1979. A further increase of only 5% was envisaged for 1980. Industries expecting a higher increase in the region of 7 or 8% were metal products, printing and electronics. The expected increase was below average in the case of food products, textiles and clothing, being around 2 or 3%. In terms of actual expansion for 1979, the electronics and electrical appliances industries were outstanding. The degree of expansion in factory space was, however, modest in respect of food products and textile manufacturing.

(F) The construction industry

3.18 The prices of building materials should increase by an average of 16% between 1979 and 1980. Wages of construction workers might rise by 12% and their employment, by about 6% during the same period. Machinery capacity for construction, having increased by 10% in 1979, should expand by another 8% in 1980. The contractors surveyed expected that construction activities would remain buoyant for the year but that the rapid increase in wages and material prices would be a cause of concern.

Appendix

Survey methodology and response

1. Questionnaire

1.1 Two versions of the survey questionnaire were used, one for manufacturing industries and another for the construction sector. Questions asked of manufacturers included the expected volume of orders in real terms (overall and by major markets), expected capacity utilization, expectations about changes in the level of employment, wages and prices, and investment intentions for 1980 as compared with the actual outcome for 1979. For construction companies, the questionnaire was somewhat simplified and only questions on changes in the level of employment, wages, material prices and investment were asked.

1.2 To facilitate prompt reporting and speedy processing, the multiple-choice method was employed in the design of questions. Brackets with intervals of a 3% change were used to give a range of possibilities for expected changes; but for changes of 20% or more in either direction, respondents were asked to indicate the rough magnitudes in terms of percentages.

2. Sample design

2.1 The survey was confined to establishments engaging 100 or more persons in nine major manufacturing industries plus a tenth miscellaneous group, which together covered some 43% of total employment in the manufacturing sector. Establishments of 500 persons or more were fully enumerated while a one-in-four sample was taken of those establishments engaging 100 to 499 persons. This yielded a sample of 585 establishments. The Register of Manufacturing Establishments maintained by the Department provided the frame for sample selection.

2.2 Besides the manufacturing sector, the 56 largest contractors in the construction industry were also enumerated.

3. Enumeration and response

3.1 The survey was carried out through personal visits to the managements concerned. The enumeration period lasted for two and a half weeks commencing 2nd January 1980. Questionnaires were sent to the respondents on 20th December 1979. Survey officers of the Department then proceeded on their visits to offer explanations and assistance and to collect the completed questionnaire.

3.2 The overall response was highly satisfactory. Out of the 641 questionnaires despatched, 609 completed returns were received. The remaining cases were largely inactive. Eight establishments were unable to complete the questionnaire by the close of the survey.

4. Editing and computation procedures

4.1 The editing procedures applied to individual returned questionnaires were mainly credibility checks on the magnitude and direction of change in reported characteristics, as well as consistency checks on related answers provided by the same establishment and among different establishments of the same industry. These procedures served to safeguard the quality of the summary results.

4.2 The primary aim of the survey was to ascertain the average percentage changes expected for important economic attributes, both overall and for each of the ten industry groups surveyed. Expectations expressed by individual establishments were therefore aggregated with due regard to their sample selection probabilities and employment sizes. In the case of market prospects, an additional set of weights was used to take account of differences in the pattern of market concentration among reporting establishments.