



Standard Chartered Hong Kong SME Leading Business Index

Quarter 2, 2017

About the index

Sponsored by Standard Chartered Bank (Hong Kong) Limited, the “Standard Chartered Hong Kong SME Leading Business Index” (Standard Chartered SME Index) is a forward-looking survey on local SMEs’ outlook on the overall business environment for the next quarter. HKPC’s professional team interviews no less than 800 local SMEs from the manufacturing, import/export trade and wholesale, retail, accommodation and catering services, information and communications, finance and insurance industry, professional services, and real estate industries. It covers SMEs’ outlook on their ‘sales amount’, ‘profit margin’, ‘investments’, ‘staff number’, and ‘global economic growth’ for the next quarter.

Methodology

Sample Distribution

Data are collected from over 800 SMEs using publicly available SME directories and HKSAR Census database. The sample is stratified by the Hong Kong Standard Industrial Classification (HSIC) version 2.0, and based on the number of SME establishments in Hong Kong. The stratified sample covers nine categories namely: 1) Manufacturing, 2) Import/Export Trade and Wholesale, 3) Retail, 4) Accommodation and Catering Services, 5) Information and Communications, 6) Finance & Insurance, 7) Professional and Business Services (include Legal, Accounting, Consultancy, Advertising, Interior Design), 8) Real Estate (include Property Agent, Property Management and Maintenance), and 9) Miscellaneous category (include Construction, Transportation, Courier Services, Human Health Activities, Entertainment, and Domestic Personnel such as maids, cooks, gardeners, caretakers; exclude non-commercial activity such as primary school).

Index Calculation

Standard Chartered SME Index is a composite index based on the diffusion indices of the five surveyed areas with the following weights:

Diffusion indices	Weights
Staff Number	25%
Investments	25%
Sales Amount	20%
Profit Margin	20%
Global Economic Growth	10%

Respondents indicated the change of business sentiments in three ways: Increase, same or decline. Each diffusion index is calculated using the following formula:

$$\text{Increase\%} \times 100 + \text{No Change\%} \times 50 + \text{Decline\%} \times 0$$

Diffusion indices, which have been broadly used as leading indicators, are convenient summary measures indicating the prevailing direction of change in business sentiments. An index above the 50 no-change mark generally indicates optimistic business sentiment, while that below 50 indicates pessimistic business sentiment. A reading at 50 indicates neutral business sentiment.



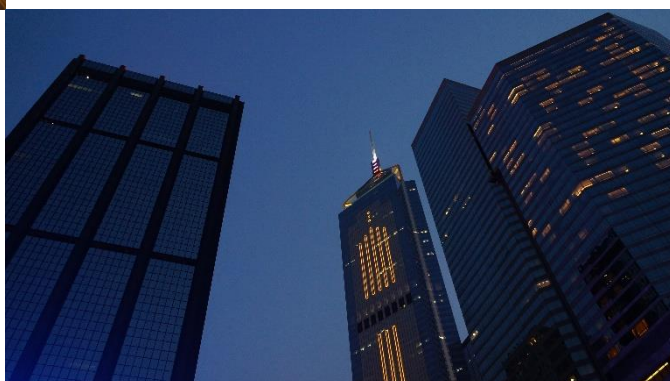
Summary

The nineteenth survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted from mid to late March 2017. Top management of 824 SMEs were surveyed to gauge their views on the outlook of the overall business environment and regional economic changes in the 2nd quarter of 2017.

Key findings

The Overall Index of the Standard Chartered SME Index has significantly rebounded 3.7 to 45.6, the highest reading since the third quarter of 2015. The business confidence of local SMEs is gradually picking up as the Index edged closer to the 50 demarcation. Key findings of the survey are as follows:

- ⊕ Overall Index comprising five Sub-Indices, the “Staff Number” Sub-Index (51.7) remained positive, despite a mild drop of 0.9;
- ⊕ The Sub-Indices for “Investments” (49.0), “Sales Amount” (44.2), “Profit Margin” (40.2) and “Global Economic Growth” (35.8) all went up;
- ⊕ Notably, the 50% increase in the “Global Economic Growth” indicates that speculations on the impacts of global market volatility have been gradually digested in recent years;
- ⊕ All the three major Industry Sub-Indices continued to fluctuate around the 40 mark;
- ⊕ Driven by the higher readings in “Profit Margin” and “Global Economic Growth”, the Manufacturing Sub-Index increased 2.2 to 41.4;
- ⊕ All other industries displayed a positive note. The “Accommodation and Food Services” (50.0) and “Financial & Insurance” (57.5) sectors were the most upbeat, with the Sub-Indices up 34% and 20% respectively;
- ⊕ The Import, Export & Wholesale (39.8) and Retail (38.4) Sub-Indices, edged up 0.7 and down 0.5 respectively, were similar to last quarter’s readings;
- ⊕ Business sentiment continues to improve, with 60% of the surveyed SMEs did not express any pressure to wind up, as compared to 25% a year ago.

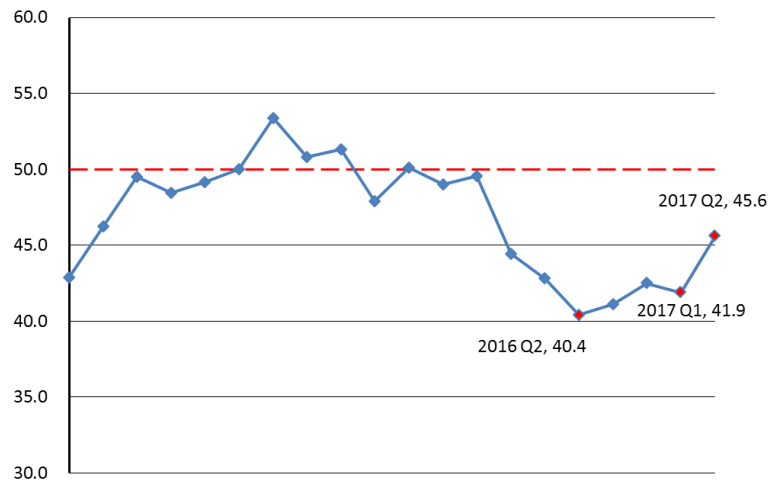


Standard Chartered SME Index

2017 Q2

45.6

Standard Chartered SME Index

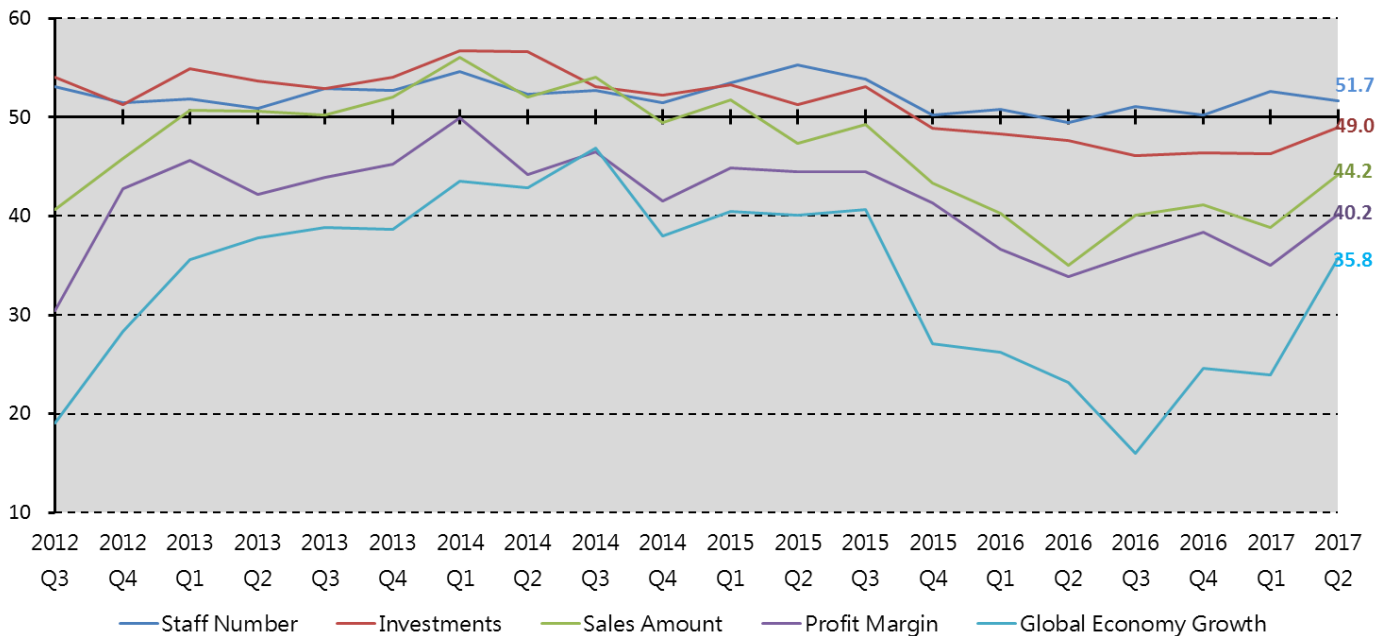


The Overall Index of the Standard Chartered SME Index has significantly rebounded 3.7 to 45.6, the highest reading since the third quarter of 2015. The business confidence of local SMEs is gradually picking up as the Index edged closer to the 50 demarcation.

Overall Index comprising five Sub-Indices. In this quarter, "Staff Number" Sub-Index (51.7) remained positive, despite a mild drop of 0.9. The Sub-Indices for "Investments" (49.0), "Sales Amount" (44.2), "Profit Margin" (40.2) and "Global Economic Growth" (35.8) all went up. Notably, the 50% increase in the "Global Economic Growth" indicates that speculations on the impacts of global market volatility have been gradually digested in recent years.

Compared to the second quarter of 2016 (40.4), the Index of this quarter (45.6) increased by 5.2 points. All the other sub-indices were also increased simultaneously.

The five component sub-indices



LB Index Industry Indices

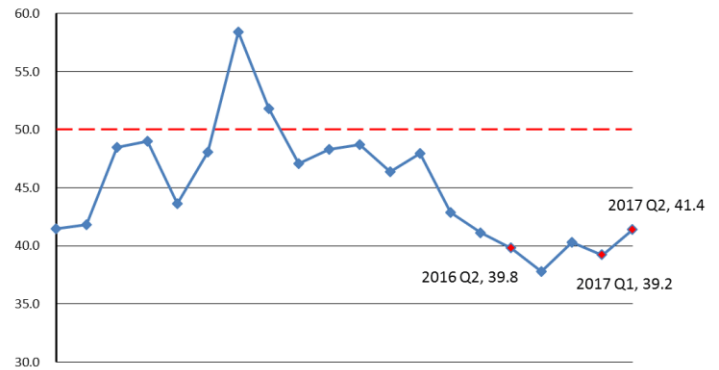
Manufacturing industry| 41.4

Manufacturing industry sub-index has increased by 2.2 points to 41.4. Compared to the same quarter in last year, the sub-index also raised 1.6 points. The increment is driven by the higher readings in “Profit Margin” and “Global Economic Growth”. Overall, the manufacturing industry yet to be improved as the reading is still close to 40.

Component	View	Compare to last quarter	Compare to last year
Industry Index	Negative	Up	Up
Staff Number	Negative	Up	Up
Investment	Negative	Up	Up
Sales Amount	Negative	No Change	Up
Profit Margin	Negative	Up	Up
Global Economy Growth	Negative	Up	Up



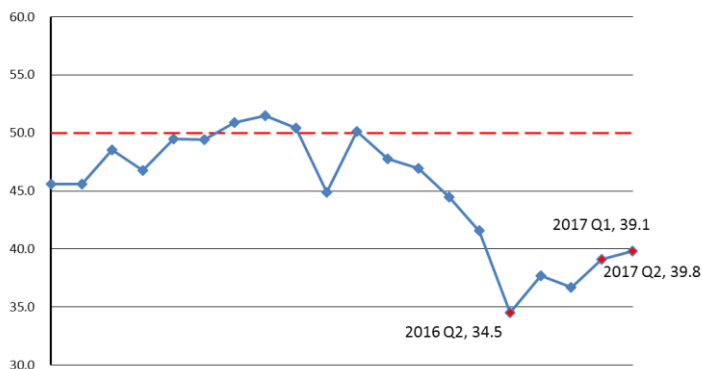
Manufacturing Industry Sub-Index



Import/Export Trade and Wholesale industry| 39.8

The Import, Export and Wholesale Industry Sub-Index has slightly increased by 0.7 points to 39.8. Compared to same period in last year (34.5), the sub-index increased 5.3 points in contrast. With the sub-indices remain below 40, the industry outlook stays bearish.

Import/ Export and Wholesales Industry Sub-Index



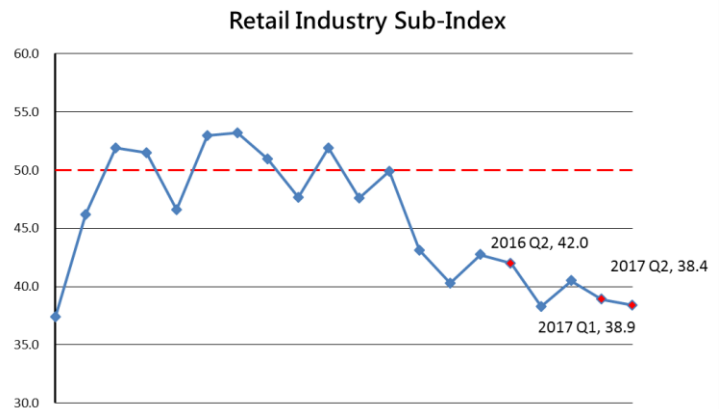
Component	View	Compare to last quarter	Compare to last year
Industry Index	Negative	Up	Up
Staff Number	Negative	Down	Down
Investment	Negative	Down	Down
Sales Amount	Negative	Up	Up
Profit Margin	Negative	Up	Up
Global Economy Growth	Negative	Up	Up



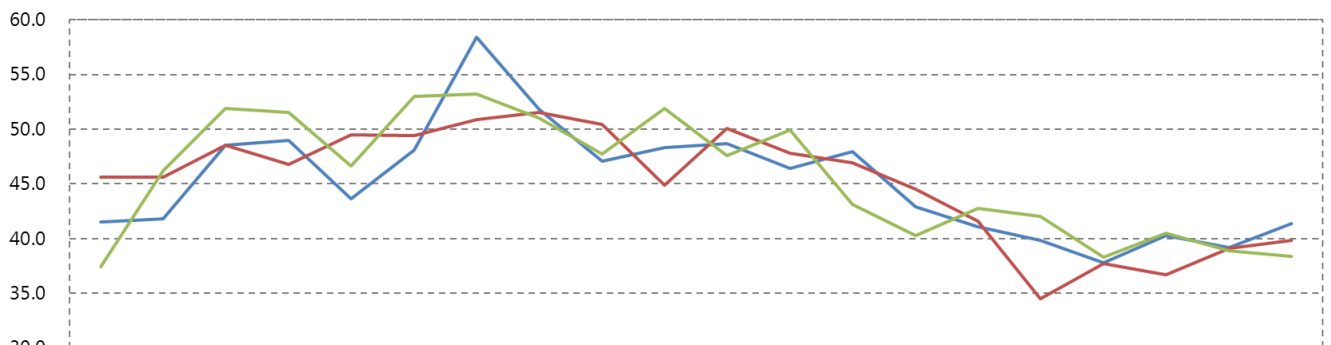
Retail industry | 38.4

The Retail Sub-Index slightly dropped 0.5 points to 38.4, and also decreased 1.6 points when comparing to the same period in last year. Overall, the index is still below 40 and is also the worst among the eight industries, the overall level of confidence in the industry is still sluggish.

Component	View	Compare to last quarter	Compare to last year
Industry Index	Negative	Down	Down
Staff Number	Positive	Down	Up
Investment	Negative	Down	Down
Sales Amount	Negative	Down	Down
Profit Margin	Negative	Down	Down
Global Economy Growth	Negative	Up	Up



Standard Chartered SME Index by Industry



	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2
Manufacturing	41.5	41.8	48.5	49.0	43.6	48.1	58.4	51.8	47.1	48.3	48.7	46.4	47.9	42.9	41.1	39.8	37.8	40.3	39.2	41.4
Import/Export Trade and Wholesale	45.6	45.6	48.6	46.8	49.5	49.4	50.9	51.5	50.4	44.9	50.1	47.8	46.9	44.5	41.6	34.5	37.7	36.7	39.1	39.8
Retail	37.4	46.2	51.9	51.5	46.6	53.0	53.2	51.0	47.7	51.9	47.6	49.9	43.1	40.3	42.7	42.0	38.3	40.5	38.9	38.4

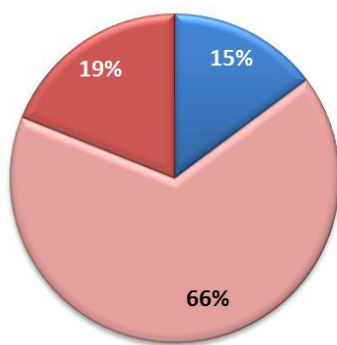


Featured topic

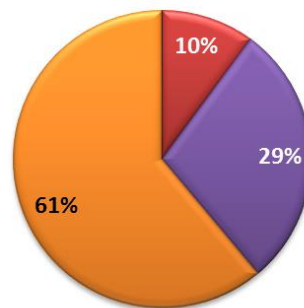
(a) Economic Condition and Implications on SME Business Survival

Following the surveys in the second and the fourth quarters of 2016, this survey continued to track the views of SMEs on the economic condition and the implications on their business survival. Around 19% and 66% of the SME respondents agree Hong Kong is facing an economic downturn or instability respectively. Among those respondents, only 10% may consider winding up their business within one year if the sluggish situation is here to stay; while 60% saw no such crisis.

Views on Economic Condition

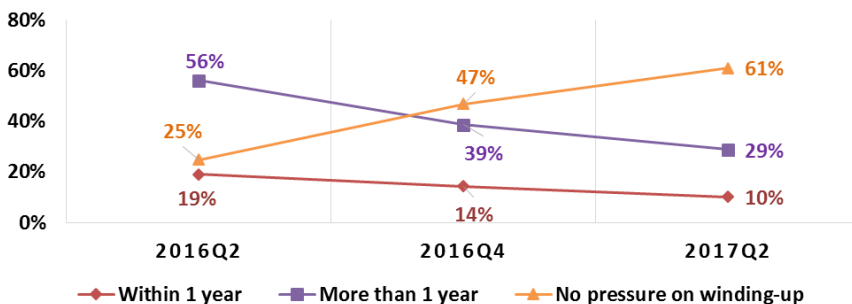


Pressure on Winding-up if Hong Kong continue to face an economic downturn or instability



■ Growing
 ■ Instable
 ■ Economic Downturn
 ■ Within 1 year
 ■ More than 1 year
 ■ No pressure on winding-up

Pressure on Winding-up if hong kong continue to face an economic downturn or instability

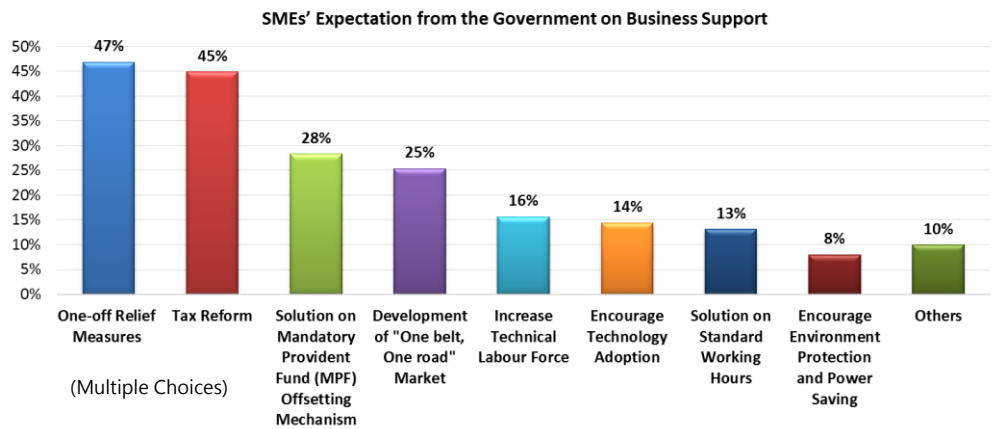


The business sentiment has significantly improved as compared to the second and the fourth quarters last year. Back then, only a respective 25% and 47% of respondents felt no pressure of business closure.

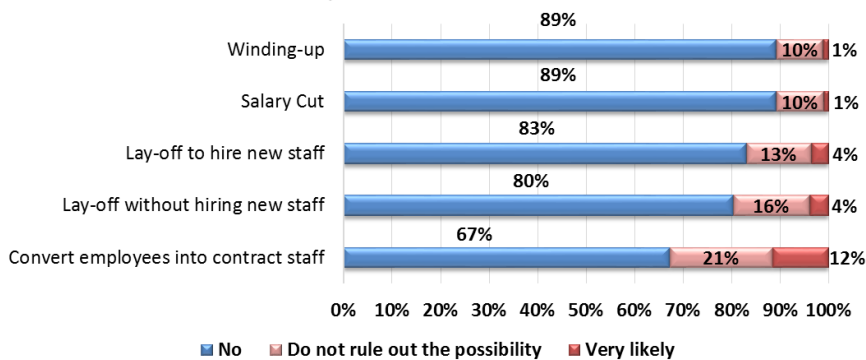


(b) SMEs' Expectation from the Government on Business Support

The survey also explored SMEs' expectation from the Government on business support. Regarding SME support measures, most surveyed companies opted for "One-off Relief Measures" (47%), followed by "Tax Reform" (45%) and "Solution on Mandatory Provident Fund (MPF) Offsetting Mechanism" (28%).



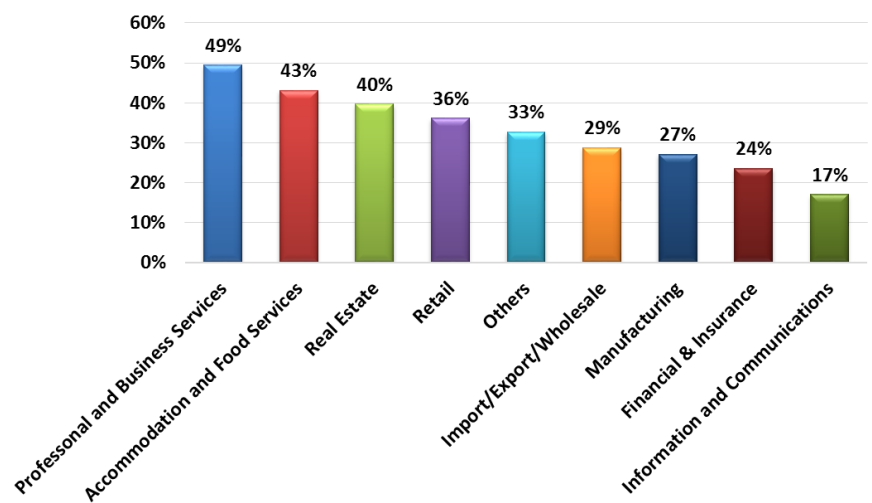
Reaction to Government proposal to progressively abolish the offsetting mechanism of MPF schemes



In view of the Government proposal to progressively abolish the offsetting mechanism of MPF schemes, around 90% of the respondents no planning on winding-up or salary cut. About 33% of SMEs might convert their employees into contract staff.

For converting their employees into contract staff, in industry perspective, "Professional and Business Services" (49%), "Accommodation and Food Services" (43%) and "Real Estate" (40%) industries showing the biggest concern.

Might covert employees into contract staff

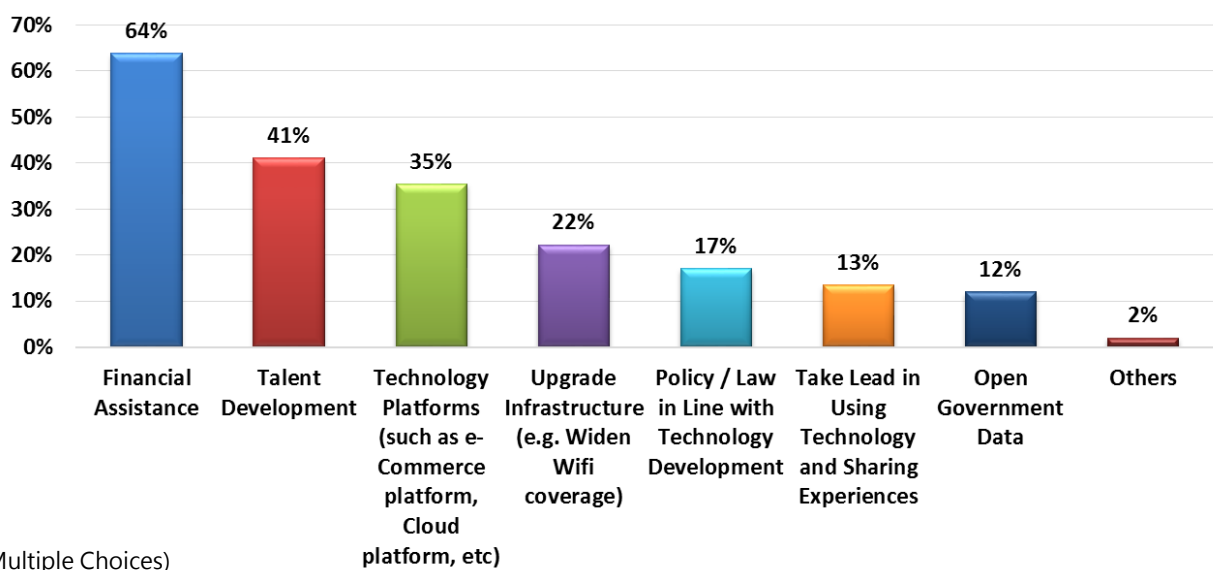


(c) SMEs’ Expectation from the Government on Technology Adoption

For technology adoption, the most preferred support is “Financial Assistance” (64%).

Apart from funding, SME also expect Government on “Talent Development” (41%), “Technology Platforms (such as e-Commerce platform, Cloud platform, etc)” (35%), and “Upgrade infrastructure (e.g. Widen Wifi coverage)” (22%).

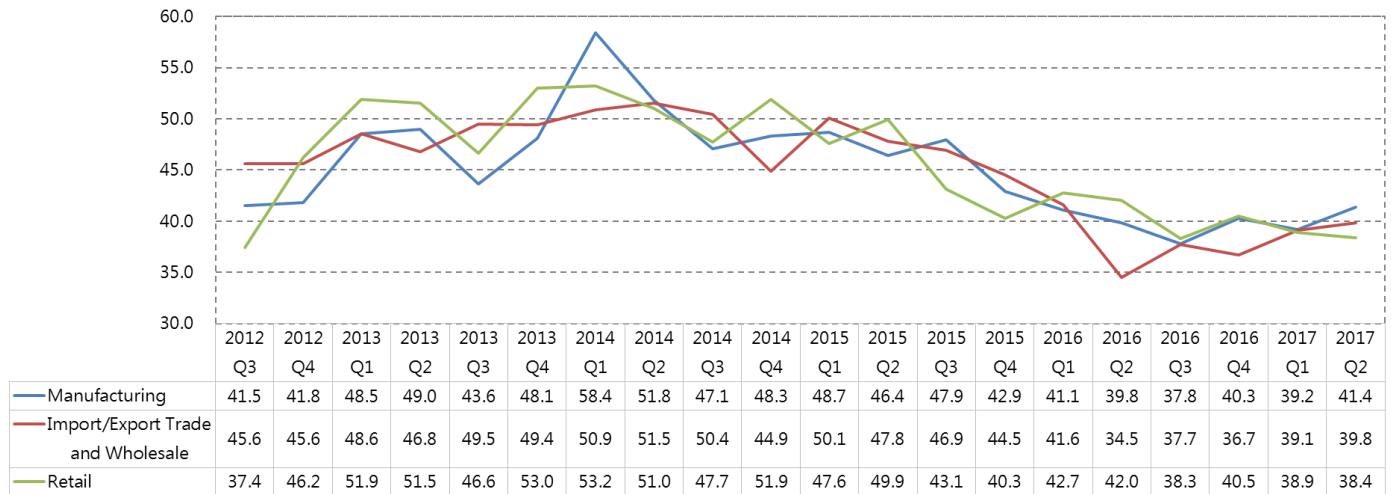
SMEs’ Expectation from the Government on Technology Adoption



Appendix

Standard Chartered SME Index by Industry

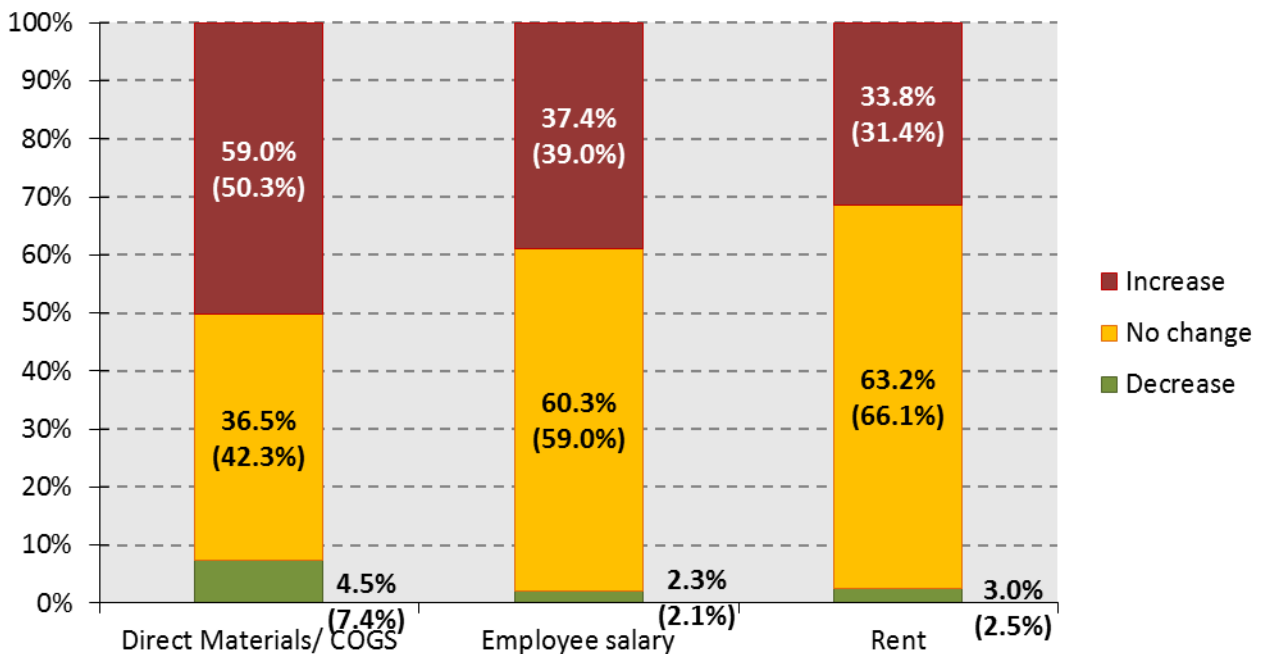
Standard Chartered SME Index by Industry



Change of major cost components

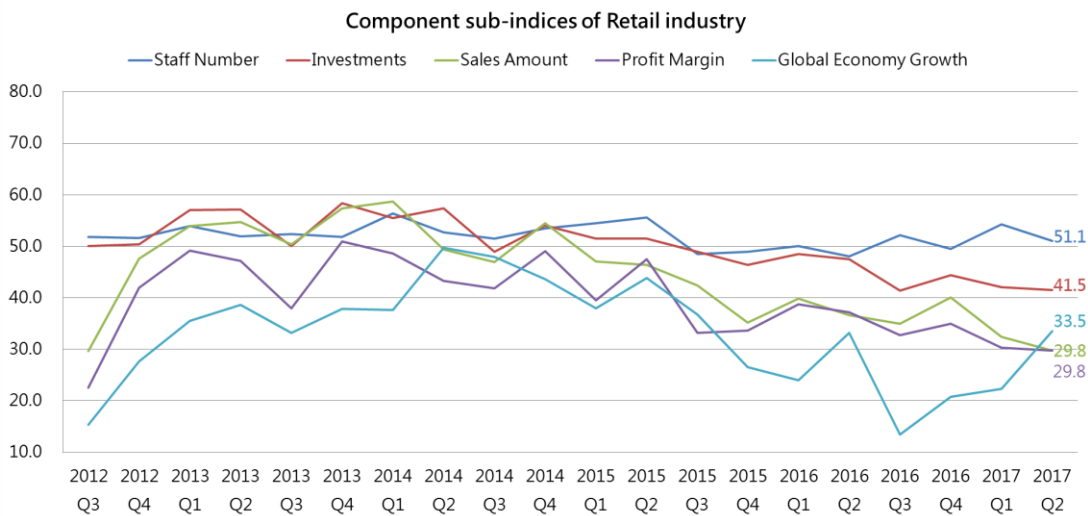
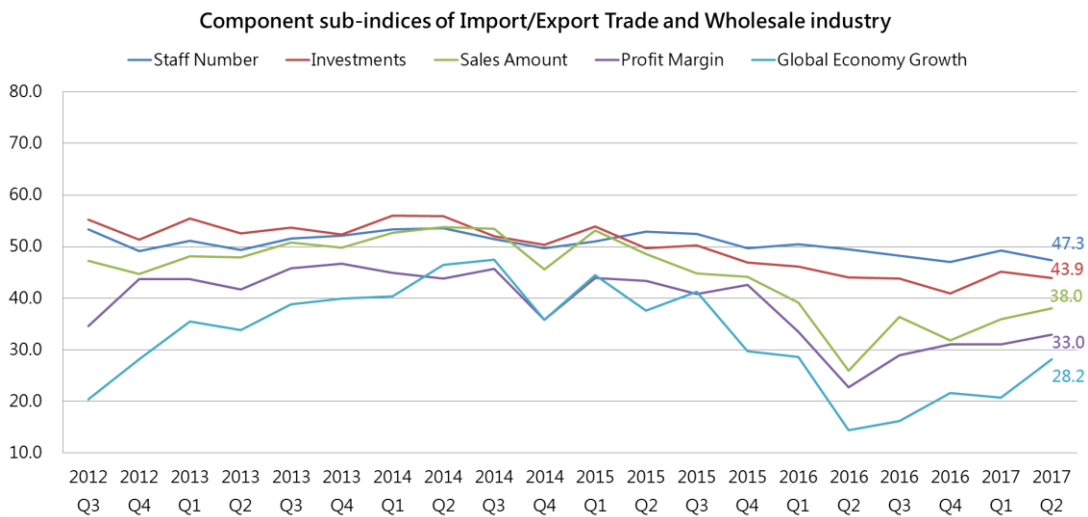
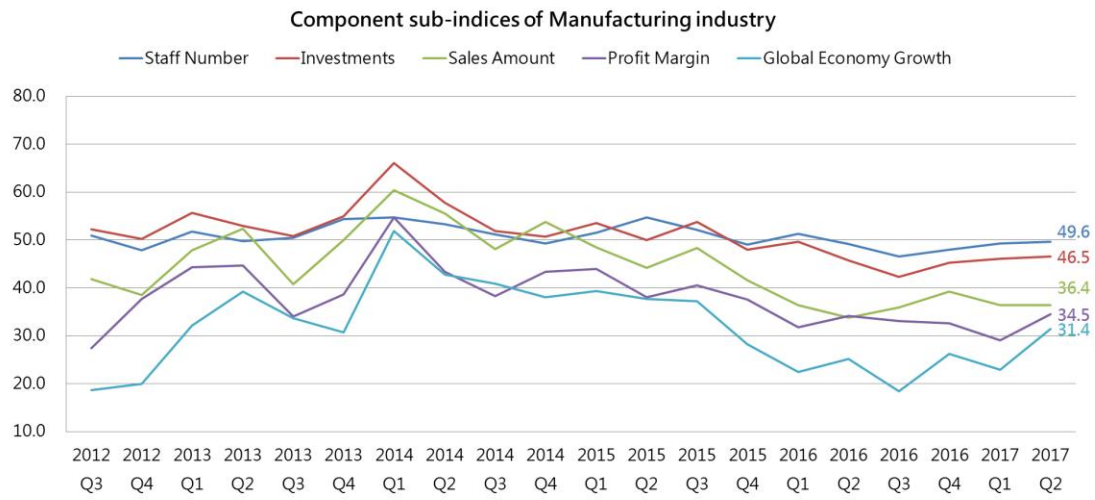
Change of major cost components

(Last quarter figures in bracket)



Appendix

Component sub-indices of 3 main industries



Report release

The Standard Chartered SME Index is released every quarters. Full reports can be downloaded at www.smeone.org.

For more details about the Index, please contact Kinson Leung at tel. (852) 2788 5795 or email: kinsonleung@hkpc.org.

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