



Standard Chartered Hong Kong SME Leading Business Index

Quarter 3, 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.



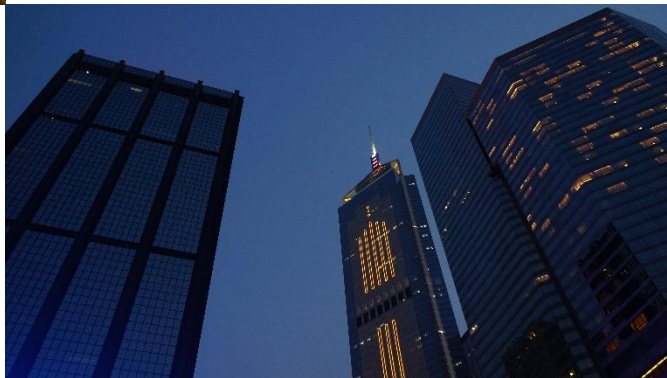
Summary

The 21th survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted from mid to late June 2017. Top management of 844 SMEs were surveyed to gauge their views on the outlook of the overall business environment and regional economic changes in the 3rd quarter of 2017.

Key findings

The Overall Index of the Standard Chartered SME Index failed to keep up the growth momentum of the last quarter, with a drop of 1.3 points to 44.3. Key findings of the survey are as follows:

- ⊕ Overall Index comprising five Sub-Indices, all the Sub-indices have dropped, among which only the “Staff Number” Sub-Index (50.9) remained positive;
- ⊕ The Sub-Indices for “Investments” (47.0), “Sales Amount” (43.6), “Profit Margin” (39.0) and “Global Economic Growth” (32.9) dropped 2.0, 0.6, 1.2 and 2.9 points respectively;
- ⊕ All the three major Industry Sub-Indices are still far below the 50 threshold, hovering around 40;
- ⊕ The Manufacturing (42.1) and Retail (41.9) Sub-Indices, which increased 0.7 and 3.5 points respectively, are the only two sectors with improved sentiment in this quarter;
- ⊕ The notable increase of the Retail Sub-Index was driven by retailers’ improving outlook on “Sales Amount”;
- ⊕ With fragile confidence in “Profit Margin”, the Import, Export & Wholesale Sub-Index failed to sustain its growth momentum and slid 1.8 points to 38.0;
- ⊕ On a scale of 1-5 (with 5 being the highest score), SMEs expressed that Hong Kong is most competitive digitally in “Cybersecurity” (3.29), but less so in “E-commerce” (2.83) and “E-payment” (2.61).

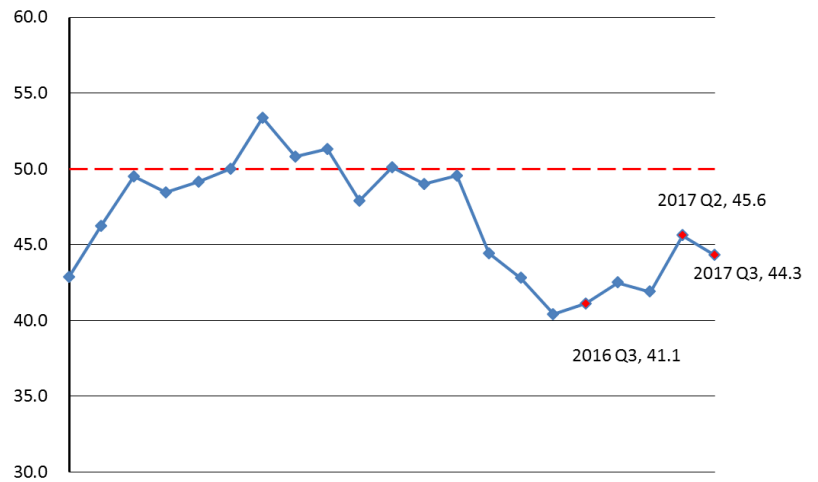


Standard Chartered SME Index

2017 Q3

44.3

Standard Chartered SME Index

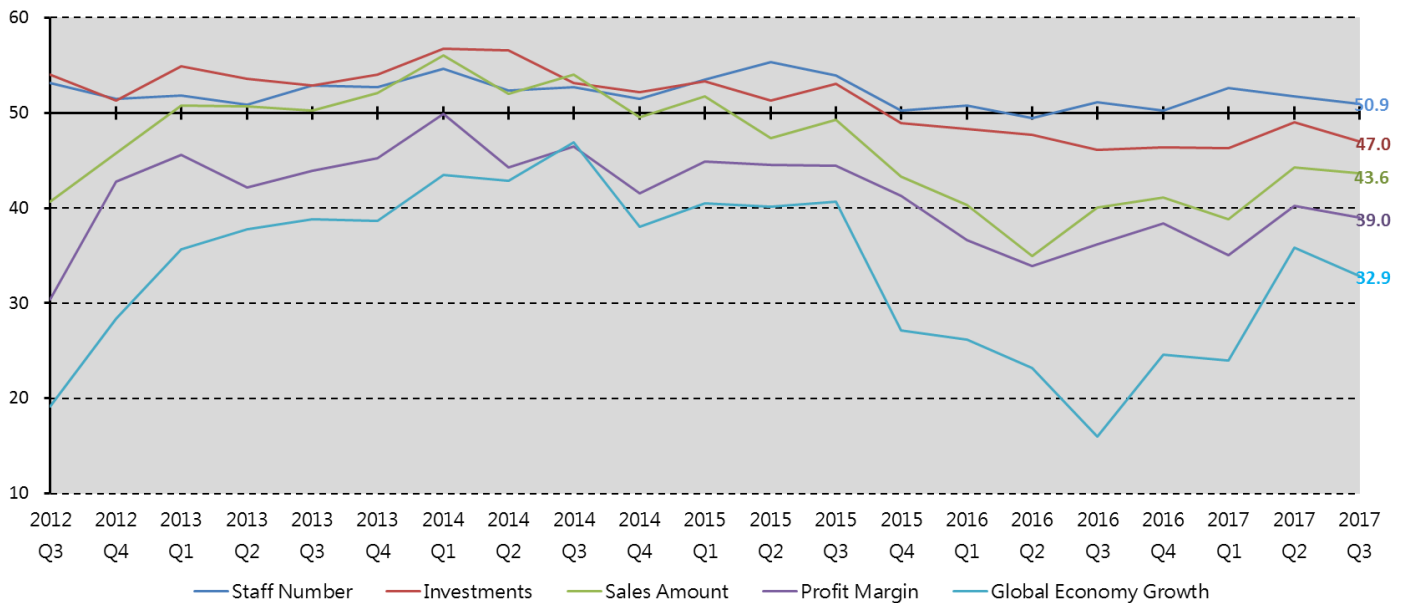


The Overall Index of the Standard Chartered SME Index failed to keep up the growth momentum of the last quarter, with a drop of 1.3 points to 44.3. Despite the Index has been fluctuating for four consecutive quarters, the Overall Index has increased 3.2 points year-on-year, reflecting a slowly improving business confidence of local SMEs.

Overall Index comprising five Sub-Indices. In this quarter, all the Sub-indices have dropped, among which only the "Staff Number" Sub-Index (50.9) remained positive. The Sub-Indices for "Investments" (47.0), "Sales Amount" (43.6), "Profit Margin" (39.0) and "Global Economic Growth" (32.9) dropped 2.0, 0.6, 1.2 and 2.9 points respectively.

Compared to the third quarter of 2016 (41.1), the Index of this quarter (44.3) increased by 3.2 points. Except "Staff Number" dropped slightly, all the other sub-indices were increased simultaneously. 4

The five component sub-indices



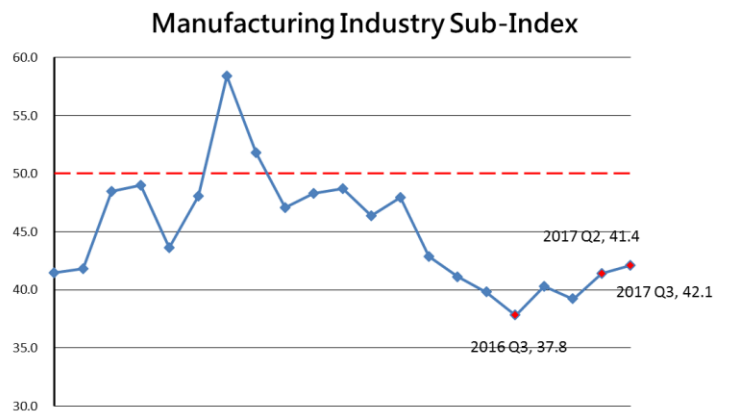
Industry Indices

Manufacturing industry| 42.1

Manufacturing industry sub-index has increased by 0.7 points to 42.1. Compared to the same quarter in last year, the sub-index also raised 4.3 points. A bright view was noted for “Sales Amount”, while the other sub-indices remain similar level to last quarter. Overall, the manufacturing industry yet to be improved as the reading is still close to 40.

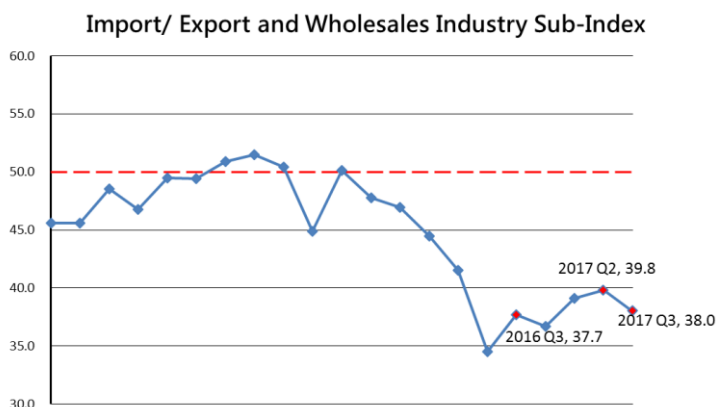


Component	View	Compare to last quarter	Compare to last year
Industry Index	Negative	Up	Up
Staff Number	Negative	Down	Up
Investment	Negative	Down	Up
Sales Amount	Negative	Up	Up
Profit Margin	Negative	Up	Up
Global Economy Growth	Negative	Up	Up



Import/Export Trade and Wholesale industry| 38.0

The Import, Export and Wholesale Industry Sub-Index has decreased by 1.8 points to 38.0. Compared to same period in last year (37.7), the sub-index increased 0.3 points in contrast. The performance of the index was mainly affected by the drop in “Investment” and “Profit Margin”. With the sub-indices remain below 40, the industry outlook stays bearish.



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



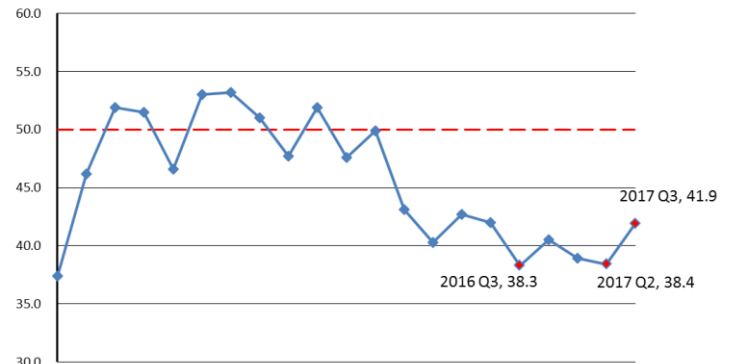
Industry Indices

Retail industry | 41.9

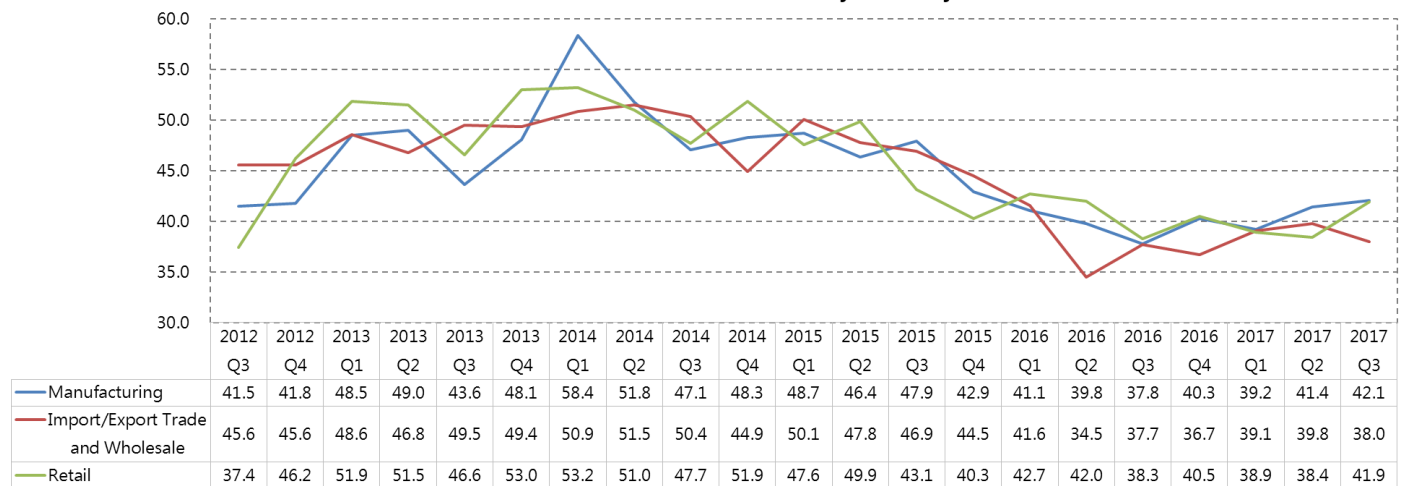
The Retail Sub-Index slightly increased 3.5 points to 41.9, and also increased 3.6 points when comparing to the same period in last year. Although “Global Economy Growth” dropped significantly, the confidence in other aspects did not affected accordingly. Overall, the overall level of confidence in the industry is still sluggish.

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

Retail Industry Sub-Index



Standard Chartered SME Index by Industry

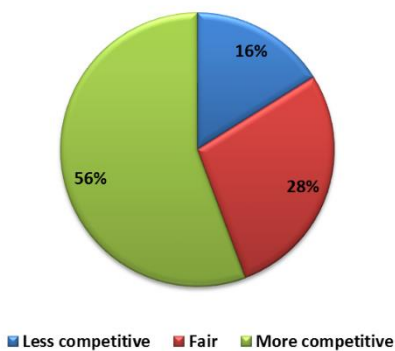


Featured topic

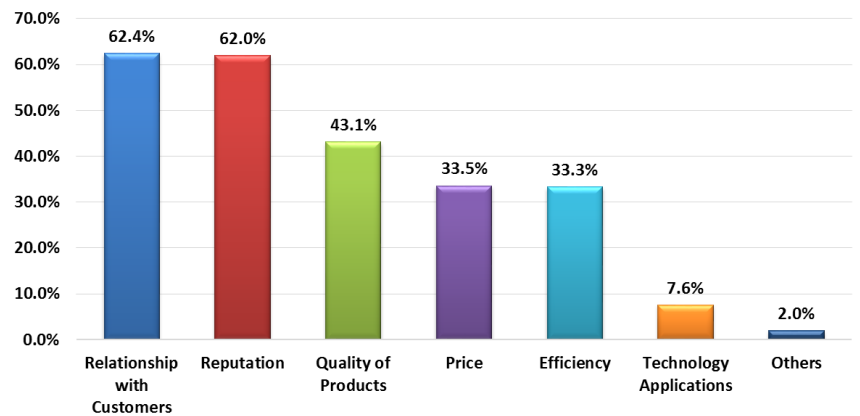
(a) Competitiveness of SME among peer within their corresponding industry

This quarter survey gauged the views of SMEs on their self-assessment of competitiveness among peer within their corresponding industry. From the result, 16% of respondents rated themselves to be “Lack of Competitiveness”, while 56% of them are having confidence in their competitiveness among peer within their corresponding industry. For the foundation of their competitiveness, they are mainly built on “Relationship with Customers” (62.4%), following by “Quality of Products” (43.1%), while the concern on “Technology Applications” (7.6%) was the lowest.

Competitiveness of SME among peer



Foundation of Competitiveness



(b) Digital competitiveness of Hong Kong – From SME Perspective

The survey also gauged the views of SMEs on the digital competitiveness of Hong Kong. On a scale of 1-5 (with 5 being the highest score), SMEs expressed that Hong Kong is most competitive digitally in "Cybersecurity" (3.29), but less so in "E-commerce" (2.83) and "E-payment" (2.61).

On a scale of 1-5 (with 5 being the highest score)

Overall Rating of SME on Digital Competitiveness of Hong Kong (Comparing to Mainland China and Overseas)					
	E-commerce	E-payment	Cybersecurity	Data Analysis	Cloud Application
Manufacturing	2.86	2.64	3.17	3.19	3.06
Import/Export/Wholesale	2.90	2.65	3.33	3.14	3.11
Retail	2.75	2.45	3.12	3.10	3.03
Accommodation and Food Services	2.44	2.35	3.51	3.41	3.33
Information and Communications	2.42	2.25	3.28	2.80	2.72
Financial & Insurance	2.94	2.67	3.46	3.15	3.05
Professional and Business Services	3.03	2.79	3.36	3.21	3.19
Real Estate	2.89	2.64	3.23	3.25	3.05
All Companies	2.83	2.61	3.29	3.15	3.09

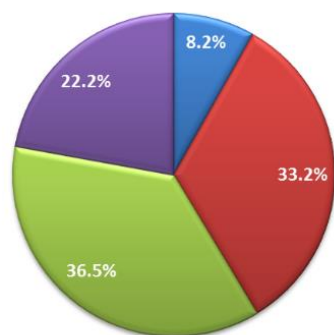


(c) Degree of "digitalization" in SMEs' business process

The survey also explored the degree of "digitalization" in SMEs' business process.

Degree of "digitalization" in SMEs' business process

The result found that 33.2% of surveyed companies are actively digitalizing their business process.

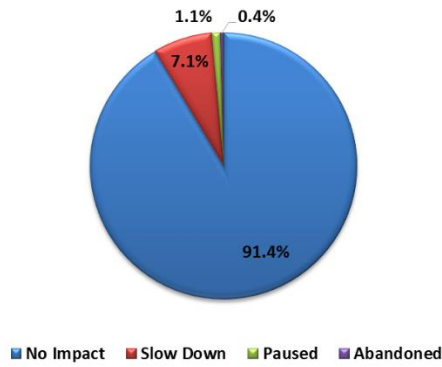


Completed Actively Digitalizing Not Yet Started No Plan

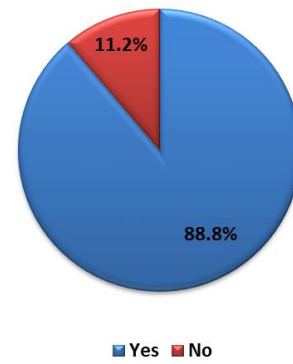


Despite the recent cyber security incidents, almost all respondents in this group (98.5%) would not consider to suspend or abandon their “digitalization” plans. Around 90% of these companies have already taken relevant cyber security measures in their course of “digitalization”.

Impact of recent cyber security incidents towards SMEs' digitalization process

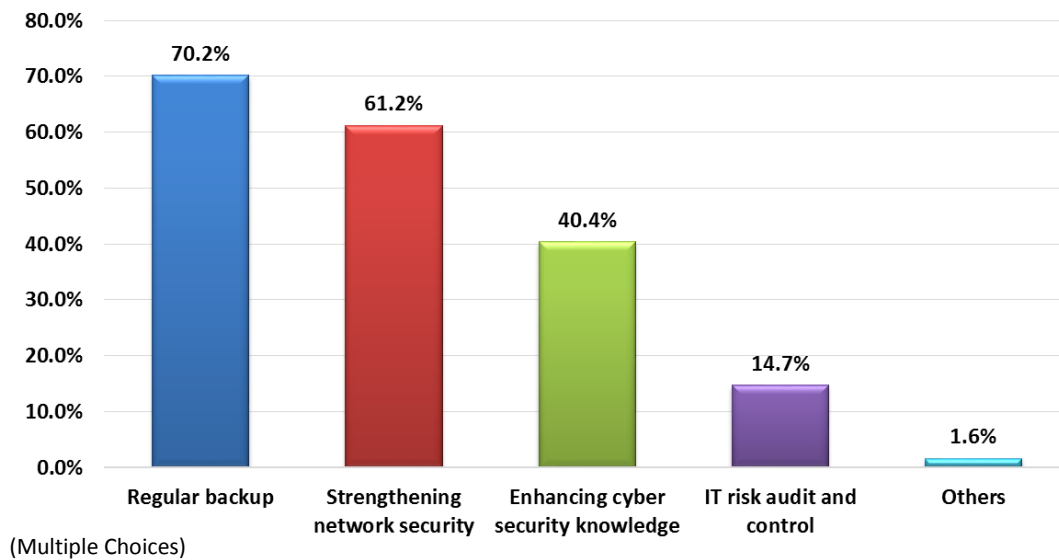


Action to protect digitalization process



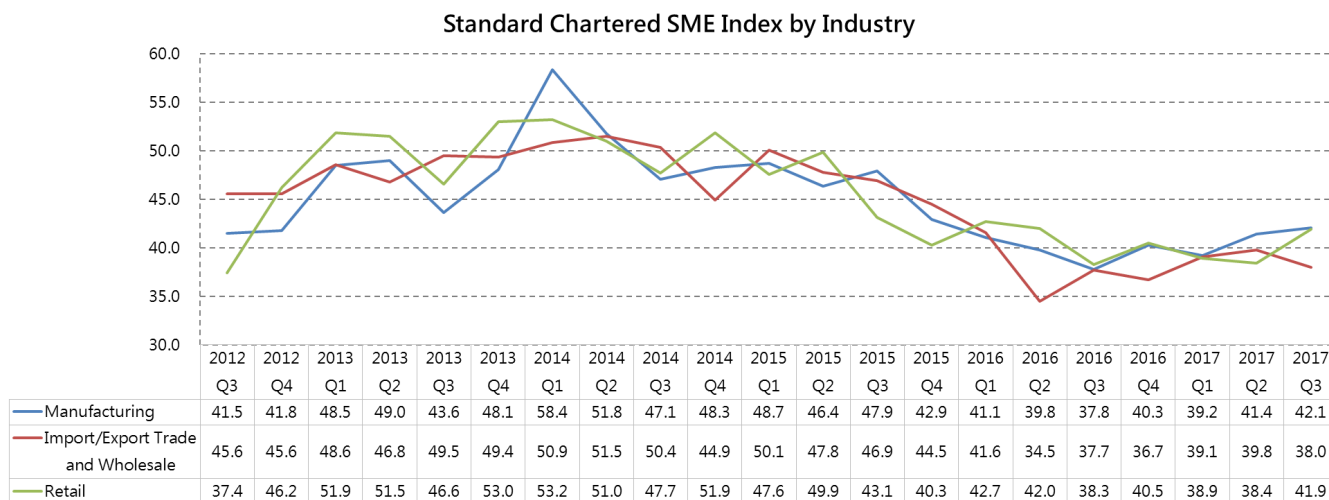
The measures include “Regular backup” (70.2%), followed by “Strengthening network security” (61.2%), and “Enhancing cyber security knowledge” (40.4%).

Protection Measures



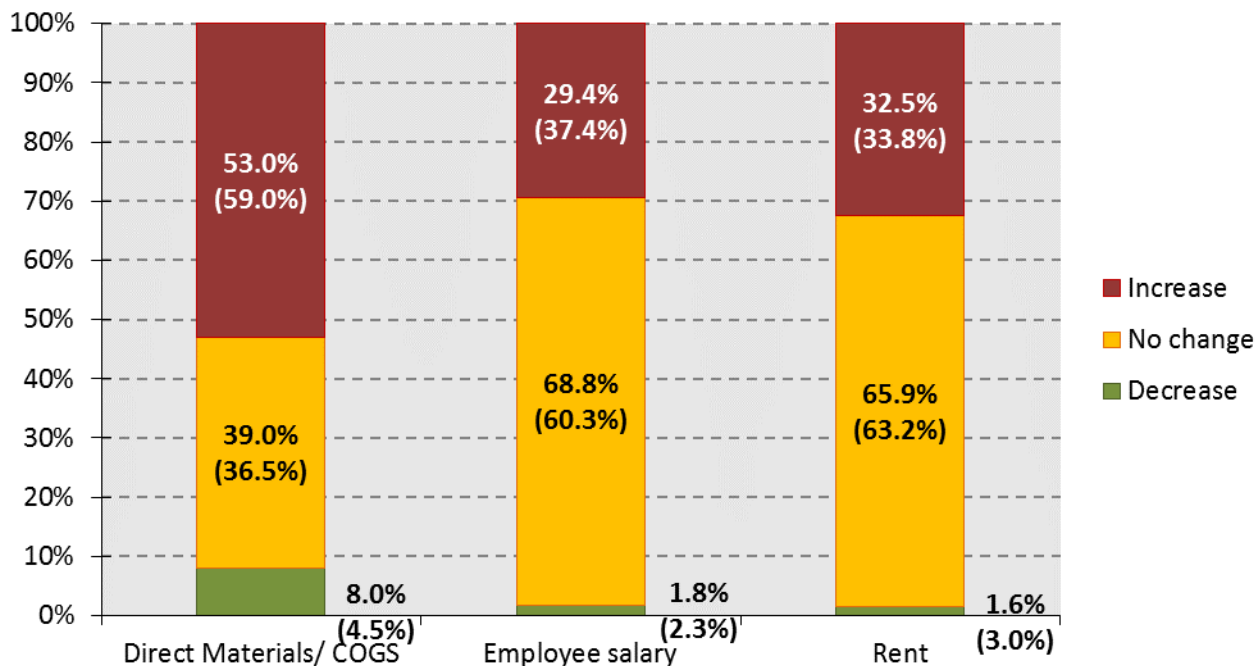
Appendix

Standard Chartered SME Index by Industry



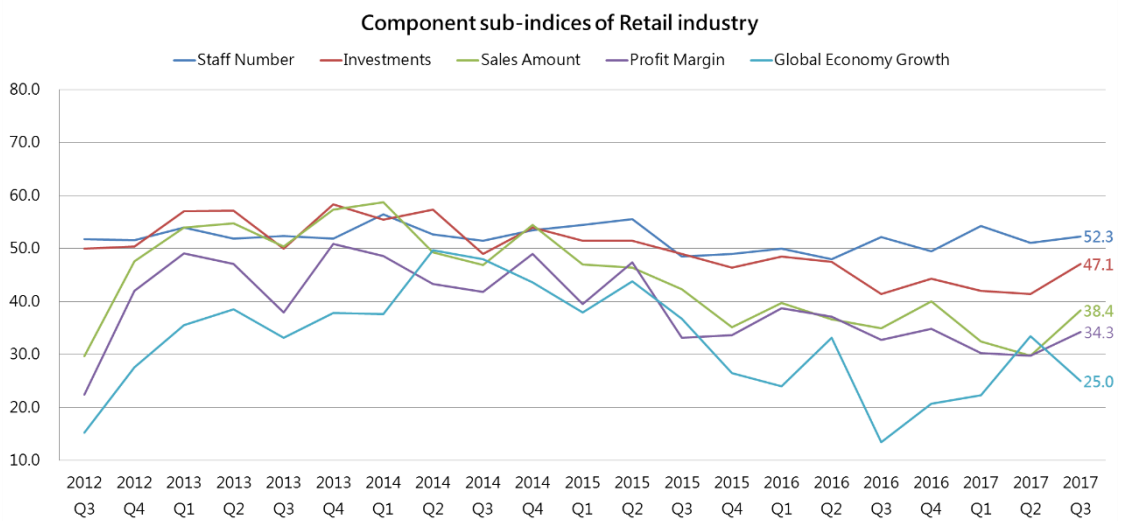
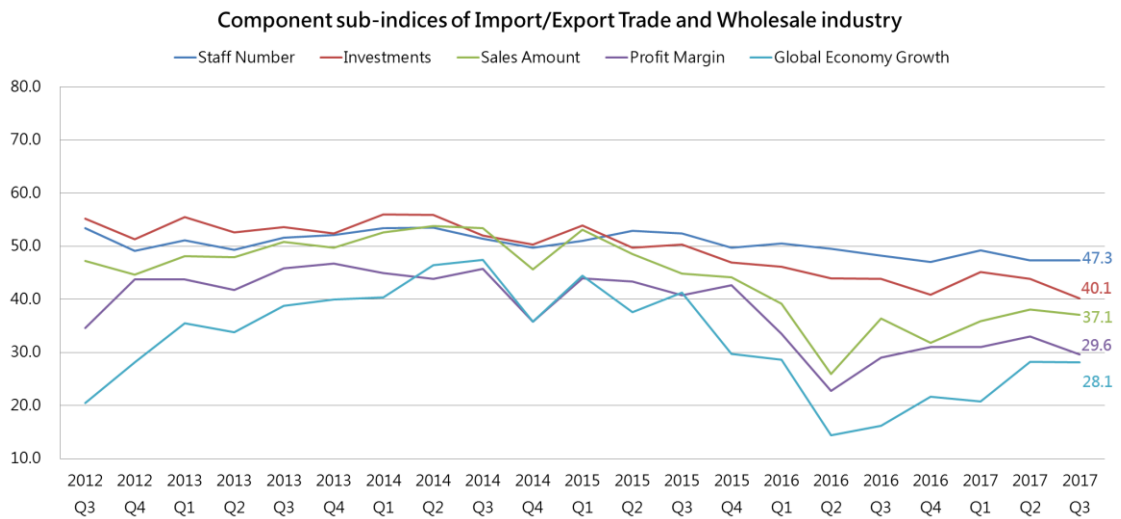
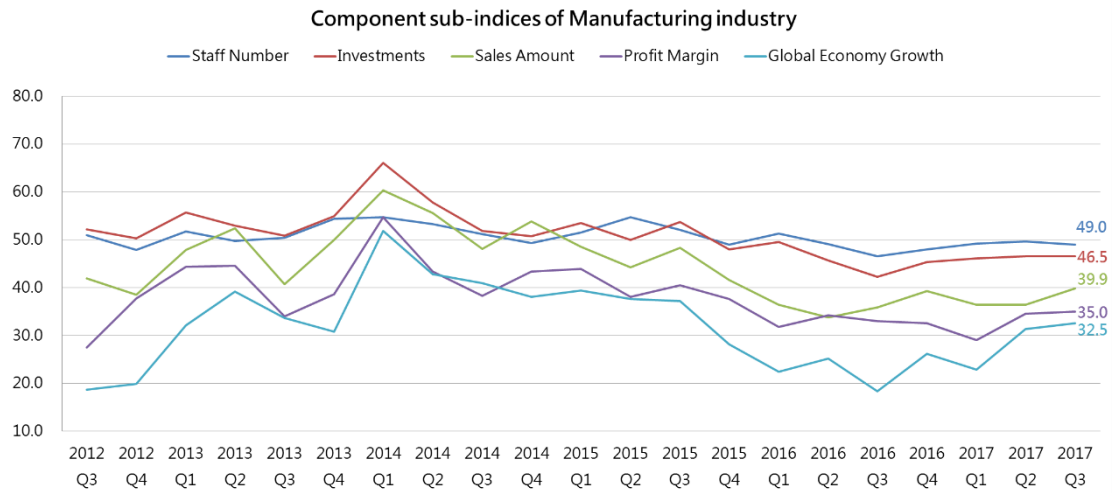
Change of major cost components

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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