

## **Standard Chartered Hong Kong SME Leading Business Index Report**

### **Fourth Quarter 2012**

Release Date: 17<sup>th</sup> October 2012

#### **Executive Summary**

The second survey of the Standard Chartered Hong Kong SME Leading Business Index (Standard Chartered SME Index) was conducted in September 2012. Top management of 806 SMEs were surveyed to gauge their views on the outlook of the overall business environment and regional economic changes in the 4<sup>th</sup> quarter of 2012.

The Standard Chartered SME Index is registered at 46.3 for the 4<sup>th</sup> quarter of 2012, representing a slight increase of 3.4 points from last quarter's reading of 42.9. Although it indicates that SMEs are less pessimistic about the overall business environment and regional economies, it is still below the 50.0 no-change mark.

Key findings of the survey are as follows:

- 1) The sentiments of the manufacturing industry and the import/export trade and wholesale industry remain almost the same as last quarter, while the sentiment of the retail industry records significant improvement, up by 8.8 points, from 37.4 for the 3<sup>rd</sup> quarter to 46.2 for the 4<sup>th</sup> quarter.
- 2) The Mainland "Individual Visit Scheme" may not have a significant impact on the sales of SMEs in the retail industry, because nearly 71% of them expect less than 10% sales come from Mainlanders in the 4<sup>th</sup> quarter of 2012.
- 3) SMEs are less pessimistic about direct materials/ cost of goods sold. Only 53.7% of SMEs expect it to increase in the 4<sup>th</sup> quarter, representing a decrease of 21.6% from last quarter.
- 4) Expanding customer base/ developing new markets remains as the key challenge for SMEs in the manufacturing and the import/export trade and wholesale industries, while rising rent is the key challenge for SMEs in the retail industry.
- 5) The top three investment initiatives for SMEs are altering production capacity, increasing raw material inventory level, and purchasing equipment and facilities, while none of the surveyed SMEs plan to invest in automation.

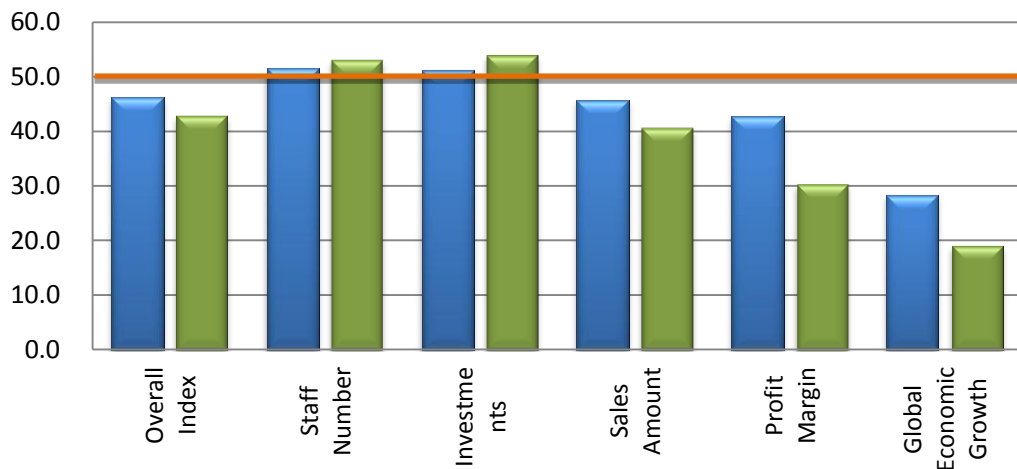


## **4<sup>th</sup> Quarter Index up slightly to 46.3, but still indicates Pessimistic sentiments**

The Standard Chartered SME Index is registered at 46.3 for the 4<sup>th</sup> quarter of 2012, an increase of 3.4 points from last quarter's reading of 42.9, indicating that SMEs are less pessimistic about the forthcoming business environment. Nevertheless, it is still below the 50.0 no-change mark, indicating pessimistic sentiments in overall business environment.

Among the five surveyed areas, the Staff Number Sub-Index and the Investments Sub-Index are registered at 51.5 and 51.3 respectively, indicating optimistic sentiments in employment and investments despite a slight decrease compared against last quarter's readings. The Sales Amount Sub-Index up slightly to 45.8 from 40.7 of last quarter. The remaining two sub-indices, namely the Profit Margin Sub-Index and the Global Economic Growth Sub-Index, show significant increase of 12.4 and 9.2 points from last quarter respectively. However, one must take note that all these three sub-indices still fall below the 50.0 no-change mark, reflecting SMEs' pessimistic sentiments in the overall business performance of SMEs and the global economic trend for the 4<sup>th</sup> quarter of 2012.

### **Standard Chartered SME Index**



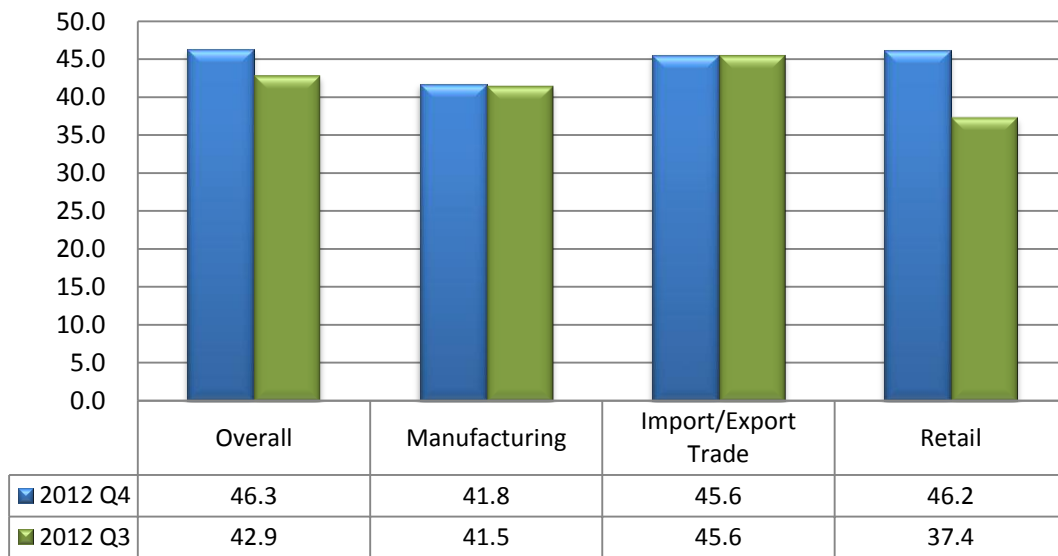
■ 2012 Q4	46.3	51.5	51.3	45.8	42.8	28.3
■ 2012 Q3	42.9	53.1	54.0	40.7	30.4	19.1
Change	+3.4	-1.6	-2.7	+5.1	+12.4	+9.2



**Sentiments of the Retail Industry increased by 8.8 points**

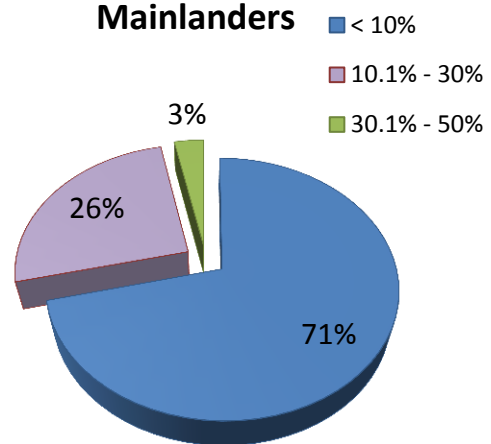
The Retail Industry Sub-Index is registered at 46.2, representing an increase of 8.8 points from last quarter. The Import/Export Trade and Wholesale Industry Sub-Index for this quarter remains at 45.6, while the Manufacturing Industry Sub-Index is registered at 41.8, representing an increase of only 0.3 point from last quarter.

**Standard Chartered SME Index by Industry**



Although still below the 50.0 no-change mark, the Sub-Index indicates that SMEs in the retail industry are expecting much improved performances in the 4<sup>th</sup> quarter of 2012, which is typically their peak season. Major improvement areas are Sales Amount Sub-Index (increase by 17.9 points), Profit Margin Sub-Index (increase by 19.5 points) and Global Economic Growth Sub-Index (increase by 12.3 points). However contrary to industry norm, the Mainland “Individual Visit Scheme” may not have a significant impact on the sales of SMEs in the retail industry, because nearly 71% of them expect less than 10% sales from Mainlanders in the 4<sup>th</sup> quarter of 2012.

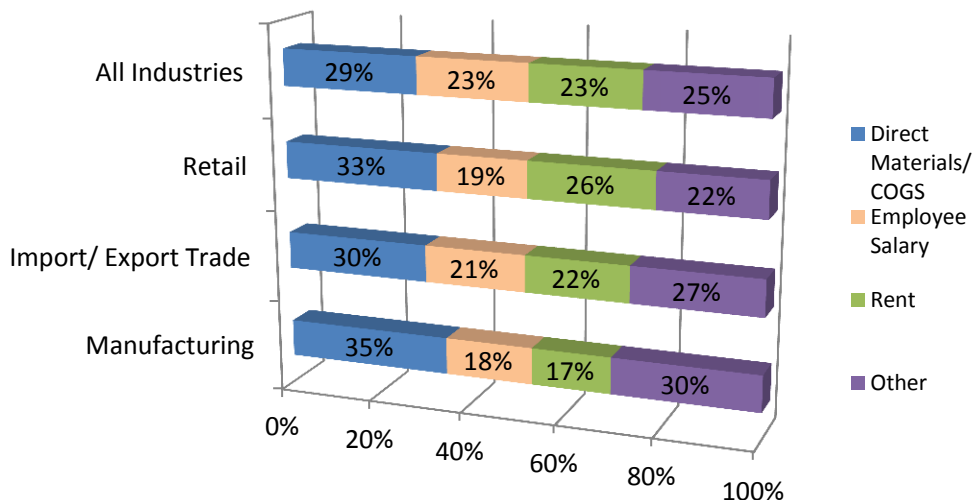
**Expected % of Sales from Mainlanders**



### Rent constitutes 26% of the Total Cost of SMEs in the Retail Industry

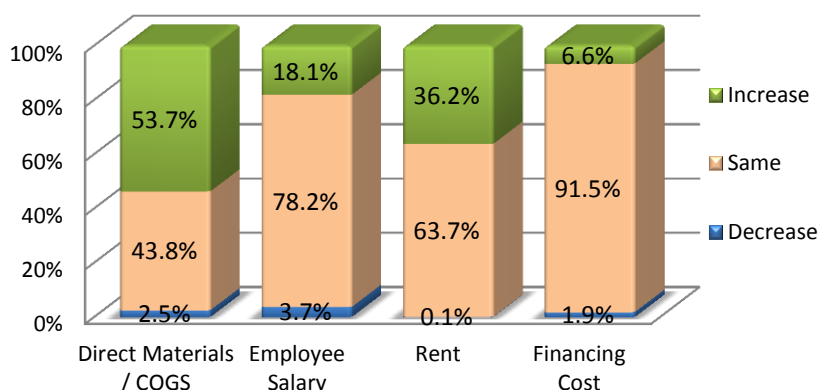
Direct materials/ cost of goods sold, employee salary, and rent are the three major cost components, which constitute approximately 75% of the total cost of SMEs. For the retail industry, the rent component constitutes about 26% of the total cost, which is 9% and 4% higher than that of the manufacturing industry and the import/export trade and wholesale industry respectively. In addition, these three cost components collectively constitute 78% of the total cost of the retail industry, which is 3% higher than the average of all industries.

**Cost Distribution by Industry**



### Direct Materials/ COGS are expected to Rise

**Change of Major Cost Components**



The percentage distributions between increase, same, and decrease of employee salary and financing cost are approximately the same as compared to last quarter's. The most noticeable change is that only 53.7% of SMEs (75.3% in 3<sup>rd</sup> quarter) expect direct materials/ cost of goods sold would rise in the 4<sup>th</sup> quarter of 2012,

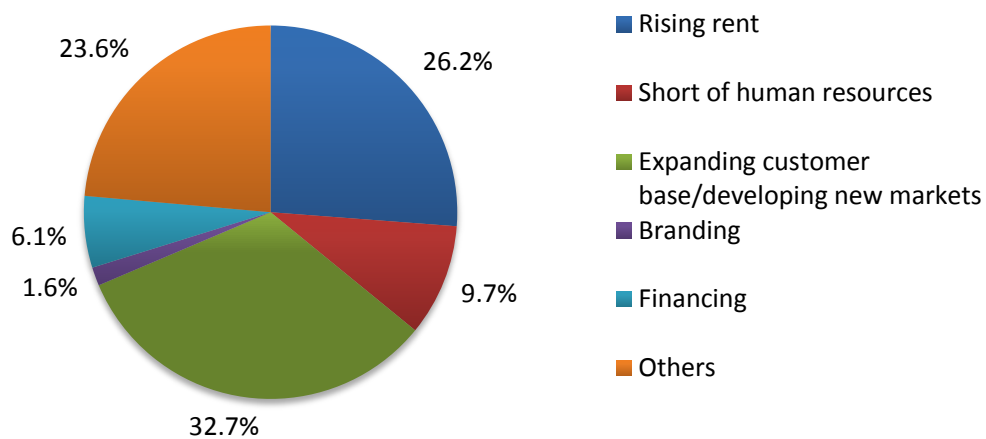
indicating that SMEs have more confidence in controlling their costs. Furthermore, SMEs' expectation towards rent was also surveyed. Result indicates that 63.7% of respondents expect it to remain unchanged while 36.2% of respondents expect it to rise in the 4<sup>th</sup> Quarter of 2012.



**Expanding Customer Base/ Developing New Markets and Rising Rent as Key Challenges**

Key challenges expected by SMEs are mainly difficulties in expanding customer base/ developing new markets (32.7%) and rising rent (26.2%). More than 40% of respondents of the manufacturing and the import/export trade and wholesale industries consider expanding customer base/ developing new markets as their main challenge, while slightly more than 40% of respondents of the retail industry pick rising rent as their key challenge in the 4<sup>th</sup> quarter of 2012.

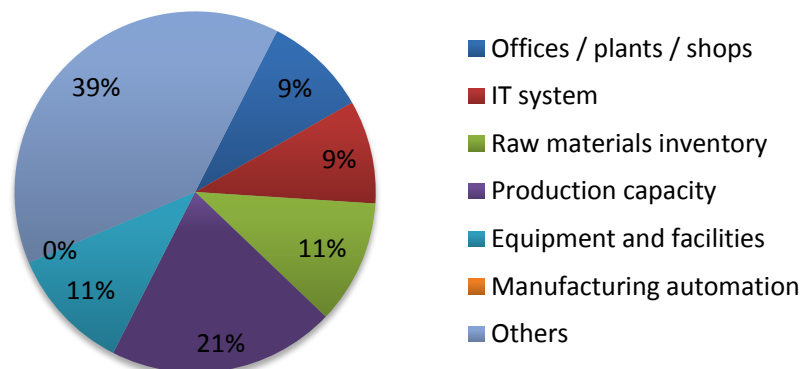
**Key Challenges of SMEs in 4<sup>th</sup> Quarter**



**HK SMEs Not Interested in Automation**

It is revealed that automation is not a resort of investments for SMEs as none of the respondents would consider this area of investment because of a lack of awareness and capital. Instead, SMEs would prefer altering production capacity, increasing raw material inventory level, and purchasing new equipment and facilities for future investments.

**Change of Area of Investment**



## **Supplementary Information**

### ***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:

$$\text{Staff Number} \times 0.25 + \text{Investments} \times 0.25 + \text{Sales Amount} \times 0.2 + \\ \text{Profit Margin} \times 0.2 + \text{Global Economic Growth} \times 0.1$$

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.

### ***Report Release***

The Standard Chartered SME Index will be released in January, April, July and October every year. Full reports can be downloaded at [www.smeone.org](http://www.smeone.org), and the next report will be published in early January 2013.

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