



Standard Chartered Hong Kong SME Leading Business Index

Quarter 3, 2013

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 more 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

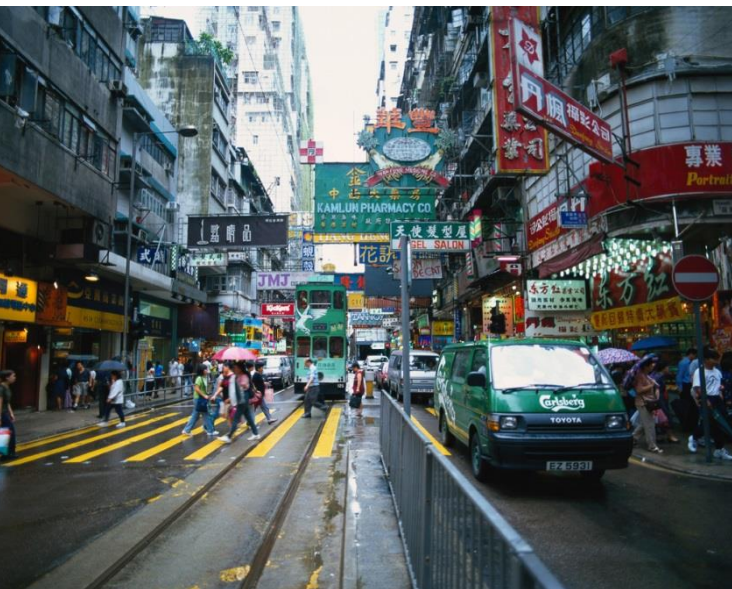
The fifth survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted in June 2013. Top management of 815 SMEs were surveyed to gauge their views on the outlook of the overall business environment and regional economic changes in the 3rd quarter of 2013.

Key findings

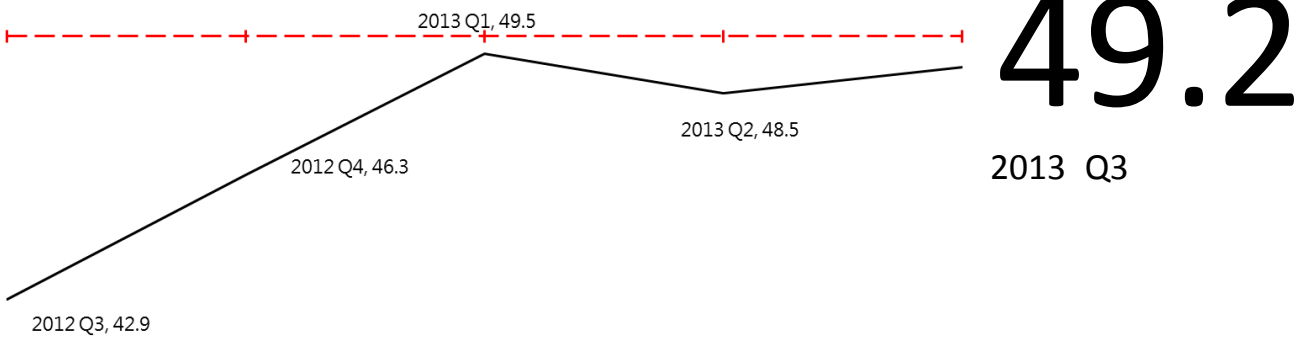
Local SMEs expect a steady business outlook to continue for the third quarter of 2013 as the Overall Index of the Standard Chartered SME Index has edged up 0.7 point to 49.2. The expected business environment in this quarter still cannot bring optimism to SMEs as the Overall Index is below the 50.0 no-change mark. Key findings of the survey are as follows:

- ⊕ Steady business outlook is expected to continue for this quarter with a slight improvement in Overall Index. Among all Sub-indices, “Staff Number” shows the greatest improvement;
- ⊕ Manufacturing Industry Sub-Index has dropped unexpectedly to 43.6. “Sales Amount” and “Profit Margin” Sub-Indices recorded a significant drop;
- ⊕ Import/export Trade and Wholesale Industry Sub-index has recorded a rise, the pessimism of Manufacturing industry have not been reflected due to the lagging effect between these two industries;
- ⊕ Retail Industry Sub-index has dropped as they may perceive that there are some changes in the market;
- ⊕ Close to 35% SMEs that do not use e-banking service indicated their lack of confidence on internet security.

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Standard Chartered SME Index



49.2

2013 Q3

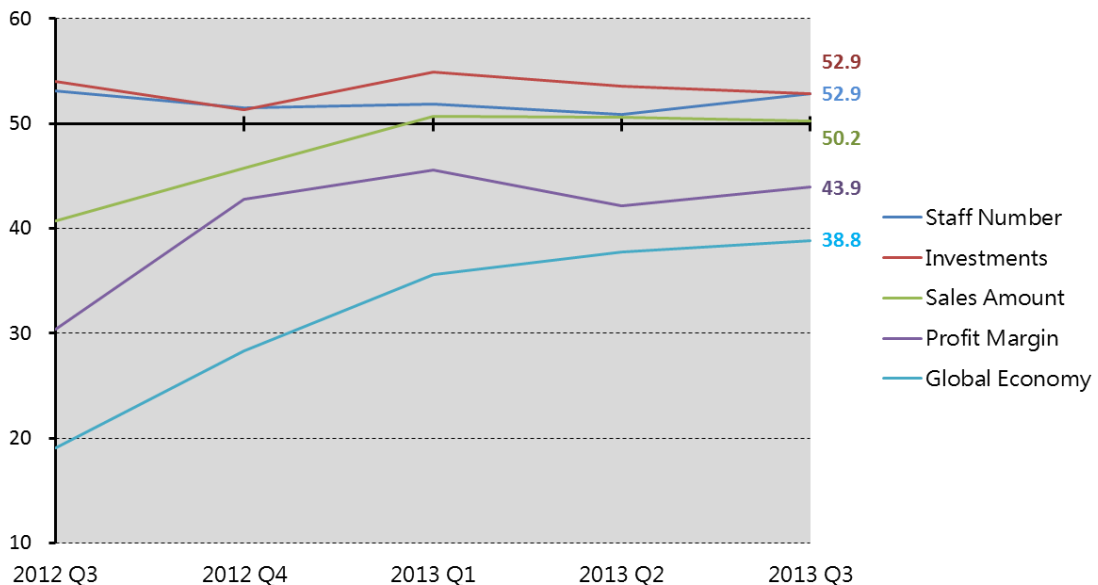


The Standard Chartered SME Index has risen 0.7 point to 49.2, which is close to 50.0 no-change mark. SMEs expect the business environment remain cautious and steady in this quarter.

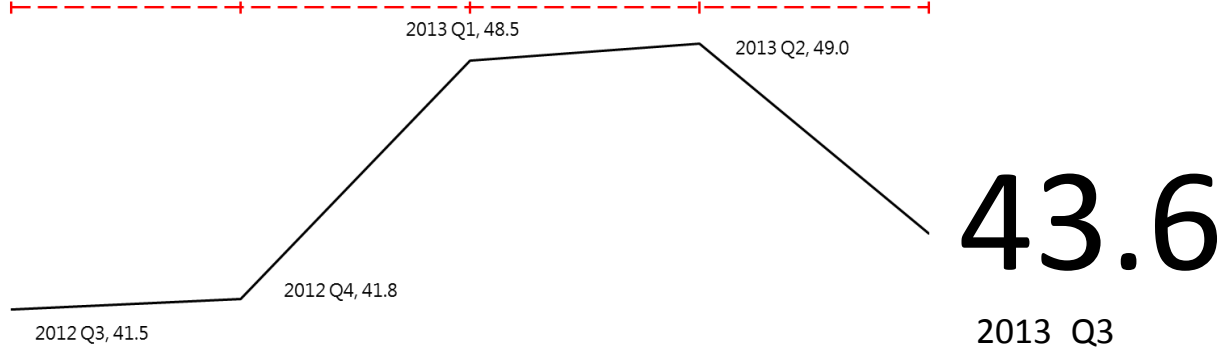
Among the five Sub-indices which contribute to the Overall Index, 3 of them including “Staff Number”, “Investments” and “Sales Amount” has remained above the 50.0 for three consecutive quarters, indicating a continued optimism in all three aspects. For Profit Margin, since the worry on material cost has not mitigated, SMEs continue their negative outlook towards this component. The Global Economy Sub-Index has risen for four consecutive quarters, reaching a new high of 38.8. Though it is the lowest among the 5 Sub-indices, the uptrend suggests a continuous improvement in SMEs’ confidence.

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The five component sub-indices



Manufacturing Industry Sub-Index

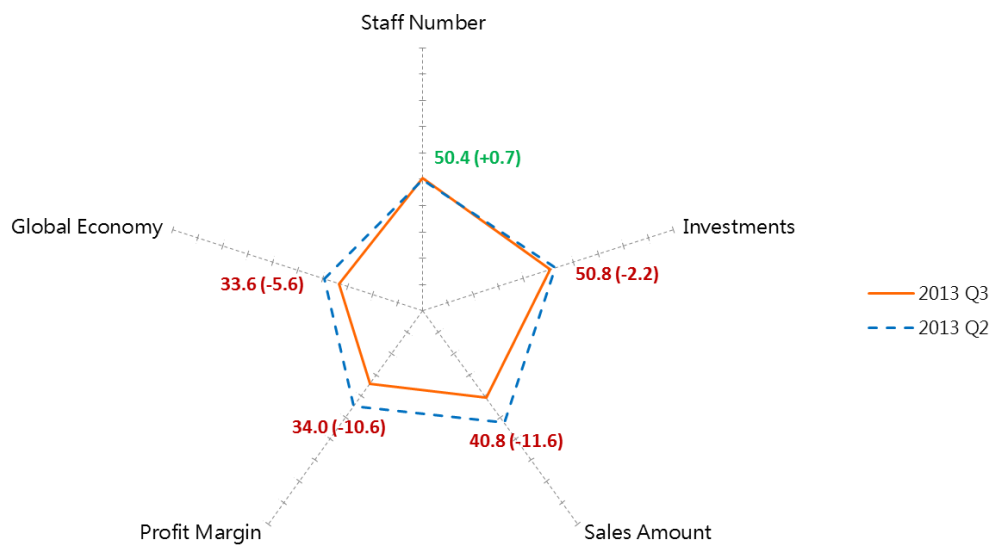
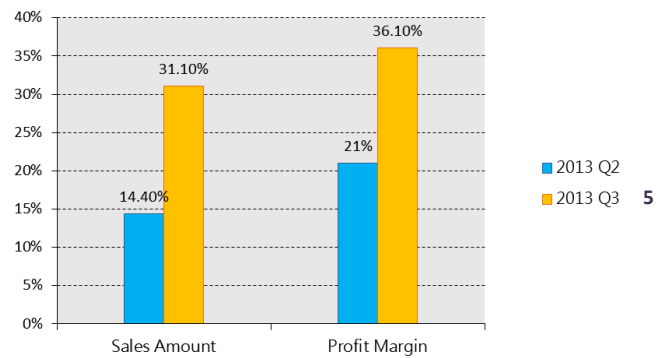


An unexpected drop is recorded after three consecutive rises in the Manufacturing Sub-index. SMEs in the Manufacturing industry anticipate a negative outlook in their traditional peak season.

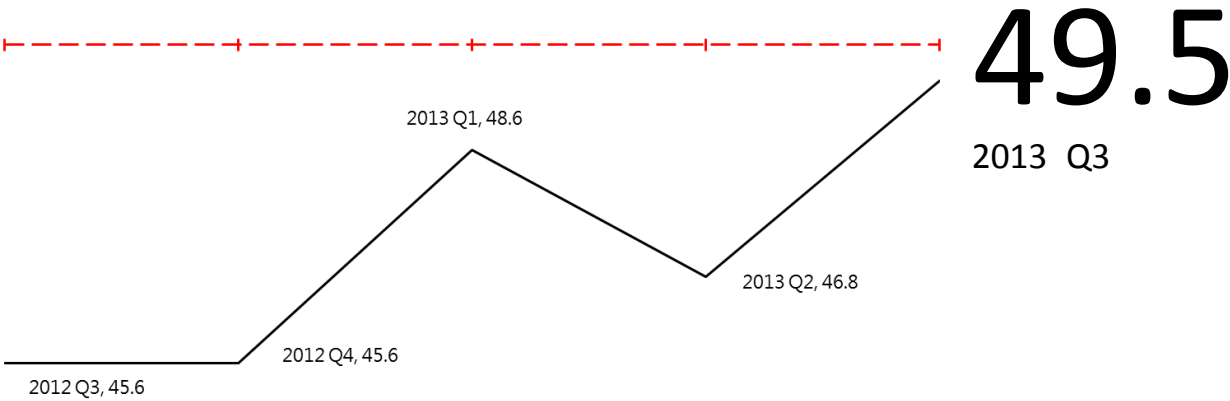
“Sales Amount” and “Profit Margin” Sub-indices have dropped 11.6 and 10.6 respectively, the percentage of respondents who are pessimistic towards these 2 components is doubled when comparing with the figures of last quarter. It may be the result of not satisfying with their orders on hand. Moreover, some external factors such as signs showing that China economy is slowing down, continued fragile external demand and protectionism in Europe and the US may bring negative emotions to manufacturing SMEs. Local manufacturers need to brace for the challenge ahead in the coming one or two quarters.

Although manufacturing SMEs feel pessimistic about their business outlook, they are keen on recruiting new staff, indicating a labour shortage problem in the Manufacturing industry.

Percentage of Manufacturing SMEs that feel pessimistic about "Sales Amount" and "Profit Margin"



Import/export Trade and Wholesale Industry Sub-Index



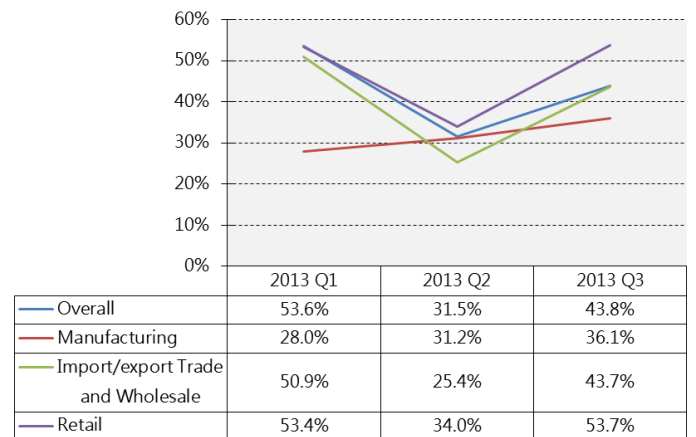
Import/export Trade and Wholesale Industry Sub-Index rises slightly by 2.7 points to 49.5. Retailers adjust their perspectives with a drop of 4.9 points and the index registers at 46.6.

SMEs in the Import/export Trade and Wholesale Industry believe that the uptrend will continue. In fact the sub-index of Import/export Trade and Wholesale Industry did not fluctuate much in the previous year with a close-to-neutral outlook. However, the Manufacturing industry Sub-index has recorded an unexpected drop in this quarter. As there is a lagging relationship between these 2 industries, it remains to be seen whether the uptrend can be sustained in the 4th quarter.

The Retail industry sub-index is registered below 50.0, which means retailers are no longer optimistic. As they are surveyed after the golden week and mother’s day, their views may have great value for reference. Also affected by external factors like new holiday policy in mainland, restricted policy of “The three public expense” and appreciation of US dollar etc., more attention should be paid on the business outlook of the Retail industry.

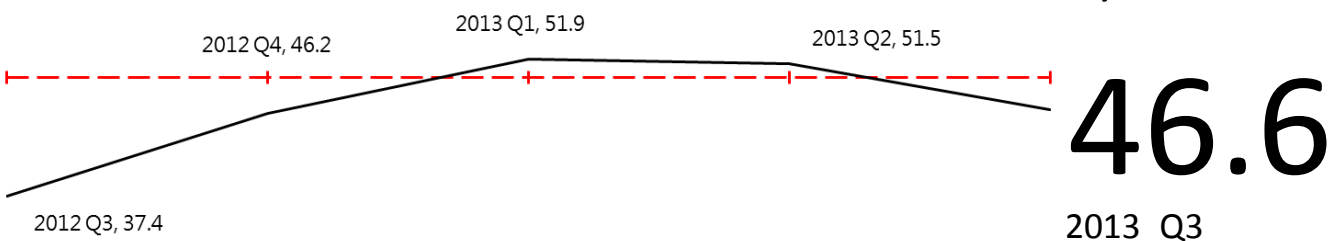
In the last survey, SMEs felt a relief to rental hikes. This time, they see the return of the pressure again, especially in the retail sector.

SMEs that expect rent will go up



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Retail Industry Sub-Index

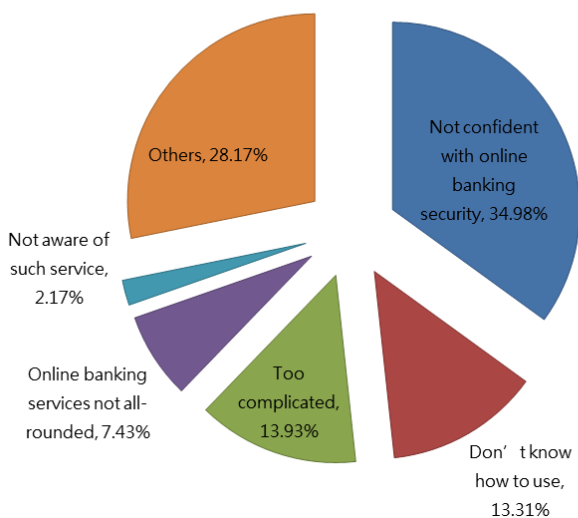


Featured topics

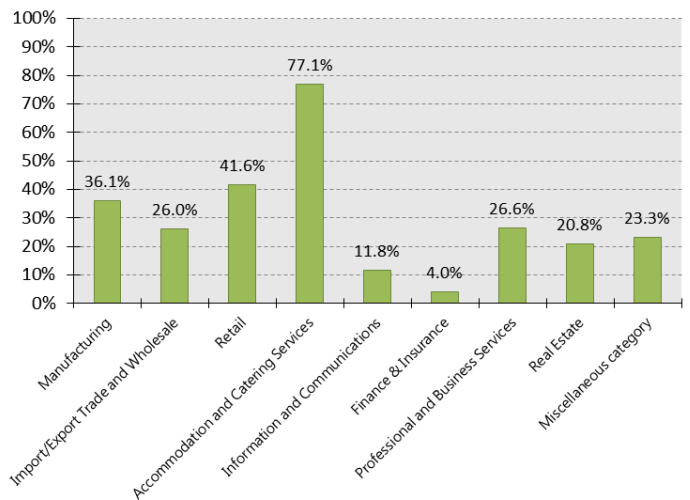
1) Internet security

Being one of the internet tools that closely linked with SMEs' operation, e-banking service requires less cost and time than doing transactions at the bank counter. However, only half of the respondents use e-banking for daily financial management. About 35% of SMEs which do not use e-banking service said that they lack confidence in the security of online transaction. e-banking service is not very popular among SMEs, and they do not think that the Internet is a secured platform for them to transfer sensitive information. Complicated by the recent incident about network monitoring, the confidence of SMEs on new mobile technologies such as internet transaction and electronic wallet may be reduced.

Reasons of not using e-banking service



Percentage of SMEs in each industry which state that the difficulty of recruiting staff increase



2) New statutory minimum wage

The new statutory minimum wage which came into effect in May does not bring impact on SMEs.

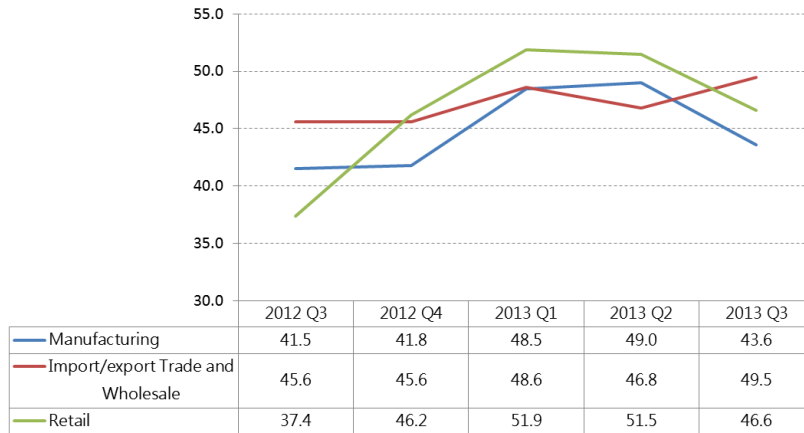
Around 80% of the surveyed SMEs do not foresee a rise in the turnover rate; while only 30% of them consider it more difficult to recruit staff. Together with the findings in the last survey, the results indicate that the new statutory minimum wage does not have significant impact on general SMEs. But among all industries, the Accommodation and Catering Services industry do bear more pressure than others.



Appendix

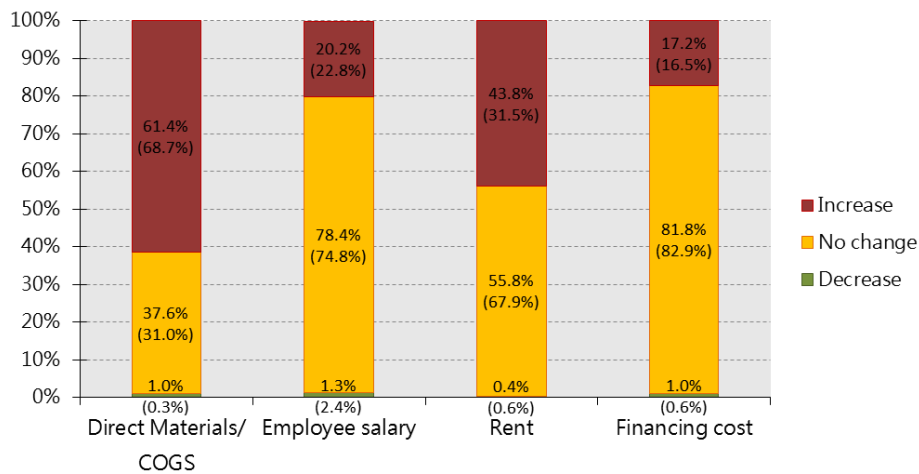
Standard Chartered SME Index by Industry in past 4 quarters

Standard Chartered SME Index by Industry



Change of major cost components

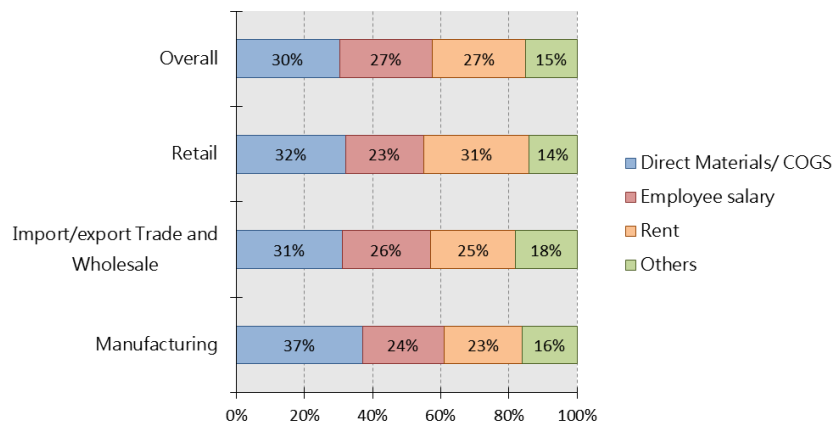
Change of major cost components (2013 Q2 figures)



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Distribution of operating costs

Distribution of operating costs



Report release

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

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