



# Standard Chartered Hong Kong SME Leading Business Index

Quarter 4, 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 September 2013. Top management of 800 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 2013.

# Key findings

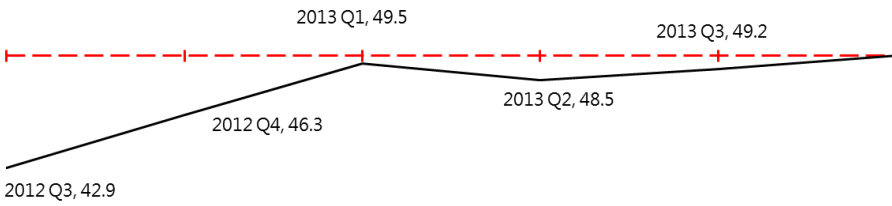
Local SMEs expect a steady business outlook to continue for the fourth quarter of 2013 as the Overall Index of the Standard Chartered SME Index has edged up 0.8 point to 50.0 no-change mark, which is the record-high level since its launch. The confidence of local SMEs is picking up as they put aside a negative business outlook for the first time in 1.5 years. Key findings of the survey are as follows:

- ⊕ A slight improvement in Overall Index brings it to 50.0 no-change mark. All Sub-indices are at record-high level when comparing with the previous readings;
- ⊕ Manufacturing Industry Sub-Index has increased to 48.1, getting close to the 50.0 no-change mark with 'Sales Amount' rebounds and 'Staff Number' reaches its new high. However, 'Global Economic Growth' continue to drop;
- ⊕ Retail industry sub-index registered at its new high 53.0, the industry is optimistic on 'Profit Margin';
- ⊕ SMEs predict rental cost has reached its peak, over 70% respondents from the 3 main industries do not worry about rising rental in this quarter ;
- ⊕ SMEs regarded the huge market potential as the biggest draw for doing business in the Mainland while operating cost becomes one of the main pull factors.

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# Standard Chartered SME Index



# 50.0

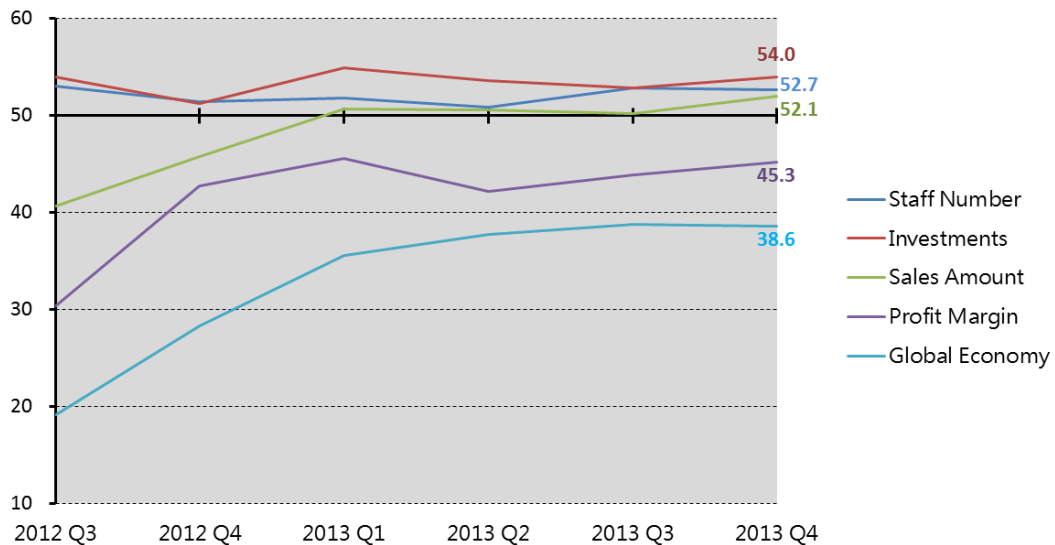
2013 Q4

**The Standard Chartered SME Index has edged up 0.8 point to the 50.0 no-change mark, which is at its record-high level since its launch. Local SMEs put aside a negative business outlook for the first time.**

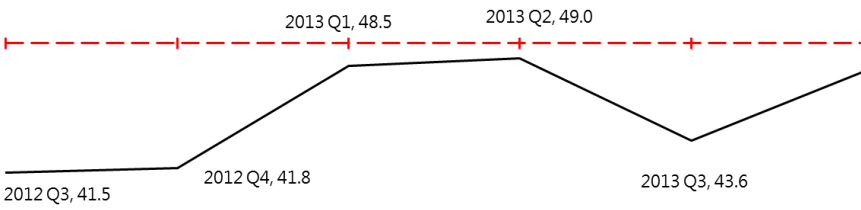
All five component sub-indices, including 'Staff Number', 'Investments', 'Sales Amount', 'Profit Margin' and 'Global Economic Growth', are at record-high level when comparing with previous readings, which reflects a continuous improvement in SMEs' business sentiment in the past 1.5 years. The view of 'Sales Amount', as you can see, was changed from a bleak outlook to a positive outlook, which reached a new high of 52.1 in this quarter. Same as the past few quarters, 'Staff Number' and 'Investments' are the highest among the 5 component sub-indices, which means SMEs are willing to invest in their long-term development and their confidence is rising gradually.



## The five component sub-indices



# Manufacturing Industry Sub-Index



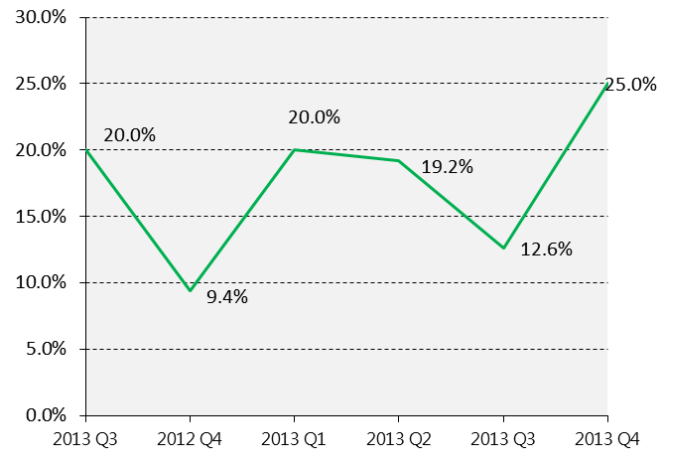
# 48.1

2013 Q4

**Manufacturing Industry Sub-Index has increased to 48.1, getting close to the 50.0 no-change mark. Manufacturing SMEs' confidence is increased compare with last quarter. Although they are still carrying negative sentiment, it is noted that there is a great improvement when comparing with last year's reading.**

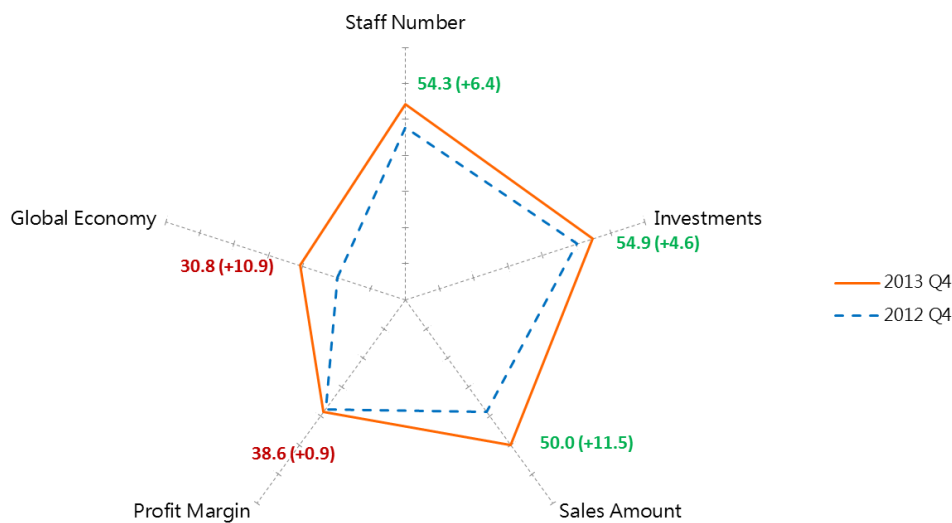
A huge rebound is recorded for 'Sales Amount', the component sub-index increased 9.2 points to 50.0. Fuelled by growing confidence, this is the first time that more than 20% of manufacturing SMEs believe their sales amount is going to increase. However, the figures also reflect a trend in shortened order cycle. To release the pressure of production and delivery capacity, manufacturers are advised to adopt new management systems, such as 'Quick Response Management System', to enhance the response rate and to cope with the market demand. On the other hand, the rebound of economic indicators for the manufacturing industry and the upswing of the Mainland's economy are also contributed to the rising confidence in business outlook for manufacturing SMEs.

Percentage of manufacturing SMEs with positive outlook on Sales amount



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## Components of Manufacturing industry sub-index



## Import/export Trade and Wholesale Industry Sub-Index

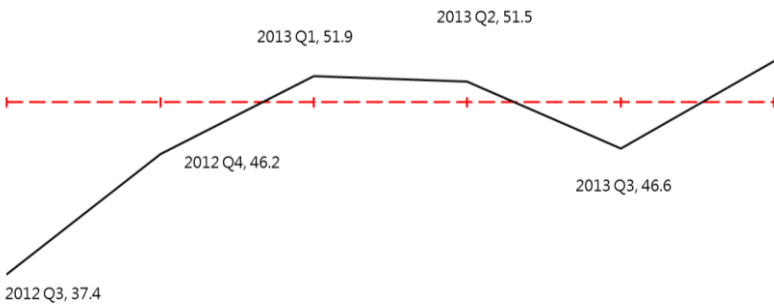
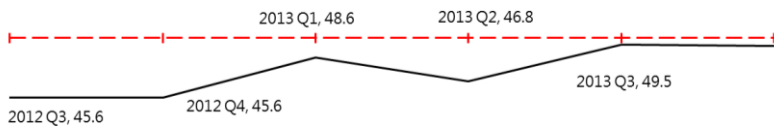
# 49.4

2013 Q4

## Retail Industry Sub-Index

# 53.0

2013 Q4



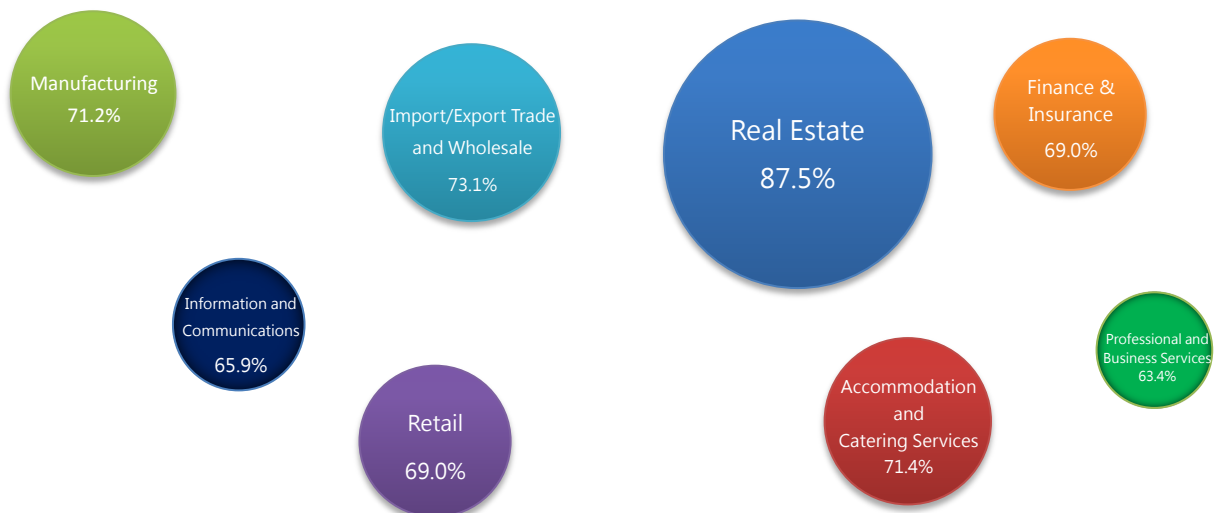
The remaining 2 main industries are having opposite sentiment on this quarter. Import/Export Trade and Wholesale industry sub-Index drops 0.1 point to 49.4, indicates a slightly pessimistic sentiment while Retail industry sub-index is up by 6.4 points and reaches its record-high of 53.0.

Import/export Trade and Wholesale Industry sub-index is comparatively stable among the three main industries, but there is an upward trend in the past 12 months.

The Retail industry sub-index is registered above 50.0, which means retailers are quite optimistic in their traditional peak season. Retailers are having a better view on 'Sales Amount' and 'Profit Margin', which

leads the component sub-Index edging up 7.0 points and 12.9 points respectively. As the global economy is recovering, it is expected that retailers are more positive on the business outlook in this quarter. However, we have to continue to monitor the impact of China's Tourism Law and uncertainties in the global economy on the industry. SME retailers should enhance their service standards and create unique 'Customer Experience' to attract more local and overseas customers. Moreover, the survey notes that SMEs in different industries are relieving from the pressure of high rental cost. Many respondents do not worry about rising rental in this quarter, which means SMEs notice the impact of HK government's property policy.

### Percentage of respondents in each industry that believe rent will not go up



# Featured topic

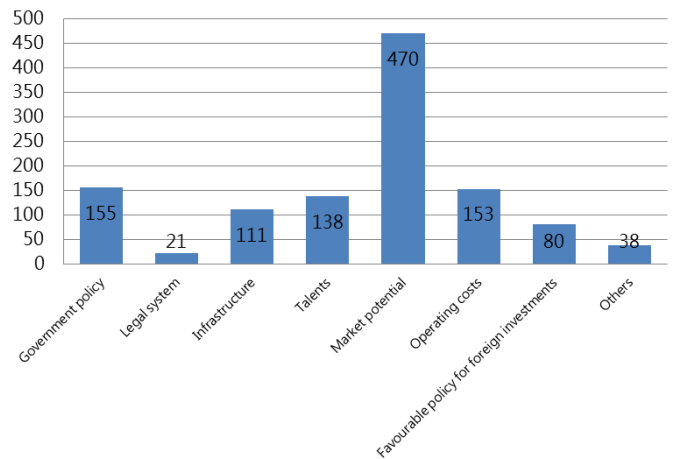
## Views of SMEs on business expansion to the Mainland

The industrial structure of China keeps changing in the past few years; Hong Kong SMEs may also change their views on China market due to its rapid changes. The survey also gauged the views of SMEs on business expansion to the Mainland.

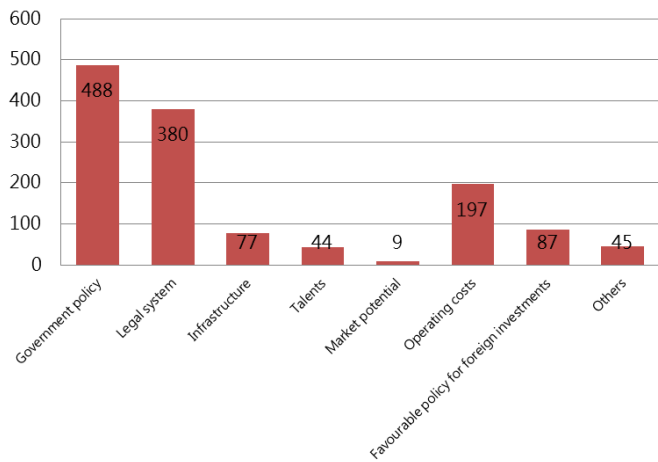
Overall score for China business sentiment is 5.6 (out of 10).

SMEs regarded the huge market potential as the biggest draw for doing business in the Mainland, especially for service industries such as information technology and communications (ITC), as well as professional and business services. More than 70% of respondents in these industries are having the same views, they believe Cloud computing and Demand Side Platform are the two services with great potential at this moment.

Advantages of China market



Disadvantages of China market



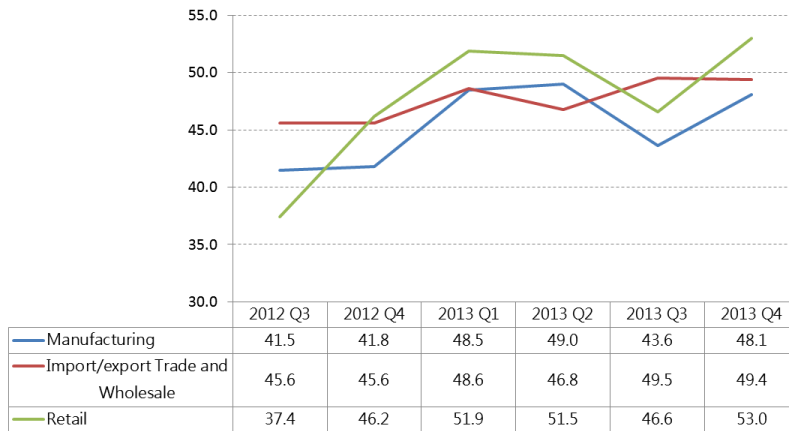
Government policy and legal system of the Mainland are the main pull factors, to be followed by operating costs. More than 30% of respondents from industries that require considerable investments, such as manufacturing and ITC, cited operating cost as the main obstacle for enter the market.



# Appendix

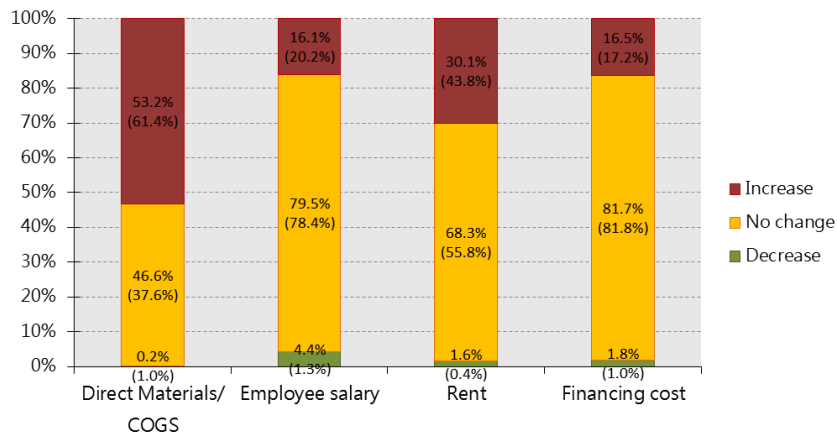
## Standard Chartered SME Index by Industry in 6 quarters

Standard Chartered SME Index by Industry



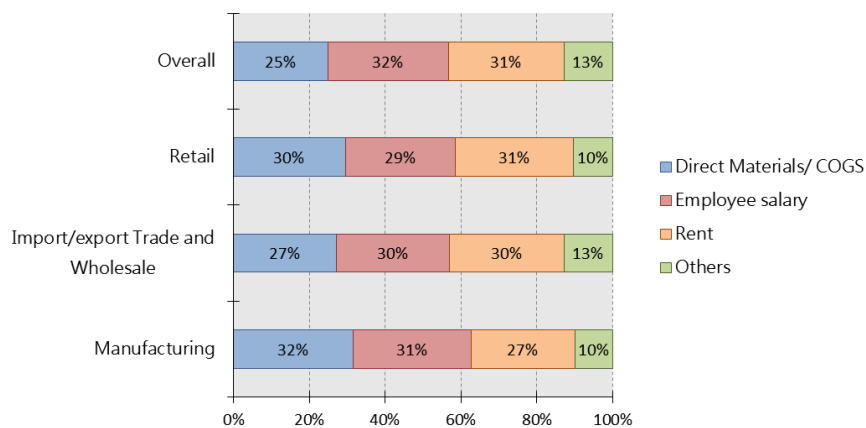
## Change of major cost components

Change of major cost component (2013 Q3 figures in bracket)



## 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](http://www.smeone.org), and the next report will be published in early January 2014.

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