



# Standard Chartered Hong Kong SME Leading Business Index

Quarter 2, 2014



# 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 eighth survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted in March 2014. Top management of 820 SMEs were surveyed to gauge their views on the outlook of the overall business environment and regional economic changes in the 2<sup>nd</sup> quarter of 2014.

## Key findings

The Overall Index of the Standard Chartered SME Index has dropped by 2.6 points to 50.8 after it reached its record high in the last quarter. The Index still stays above the 50 no-change mark, reflecting a cautiously optimistic business outlook. Key findings of the survey are as follows:

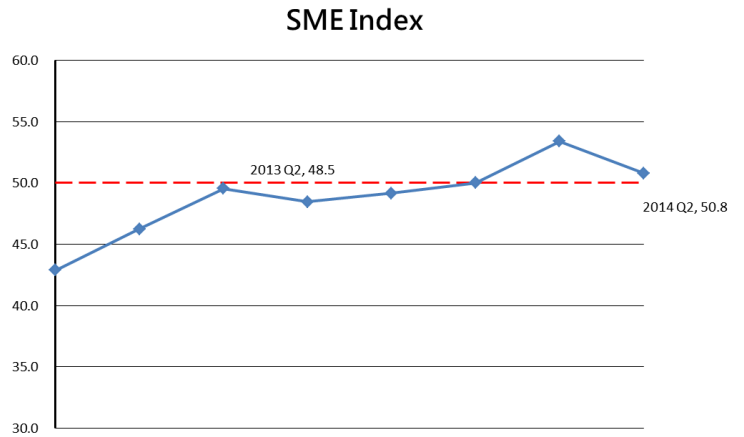
- ⊕ All component sub-indices drop, especially 'Employee Number', 'Sales Amount' and 'Profit Margin';
- ⊕ Import, Export & Wholesale industry Sub-Index rises marginally by 0.6 points to 51.5. The industry becomes more optimistic towards "Global Economic Growth" (jumps 6.1 points to 46.5) as the EU and US economies gradually improve;
- ⊕ Manufacturing industry Sub-Index drops 6.6 points to 51.8 with worsening outlook on "Investment", "Profit Margin" and "Global Economic Growth", yet the readings show improvement compared with the same period last year;
- ⊕ Pressure from employee salary expense, rent and financing cost are higher than Q2 of last year;
- ⊕ Over 85% of the respondents from Retail, and Accommodation & Food Service industries said that they have to offer much higher than the statutory minimum wage in order to fill up vacancies.



# Standard Chartered SME Index

2014 Q2

# 50.8



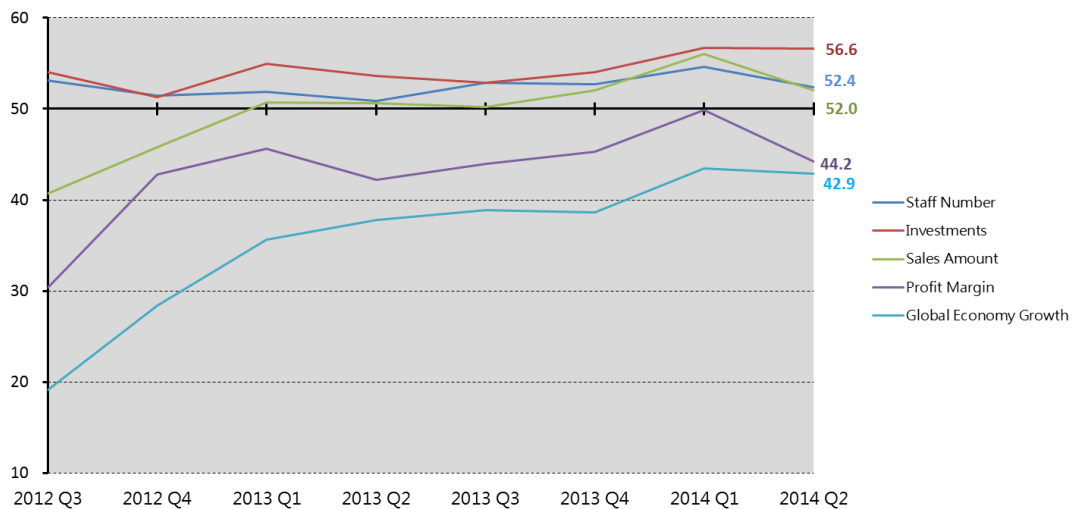
Registered at 50.8, the second consecutive quarter the SME Index stays above the 50 no-change mark, SMEs are reflecting a cautiously optimistic business outlook.

The five component sub-indices recorded a drop in this quarter. The Sub-Indices for “Staff Number” (52.4), “Sales Amount” (52.0) and “Profit Margin” (44.2) have dropped 2.2, 4.0 and 5.7 points respectively. The Sub-Indices for “Investments” and “Global Economic Growth” are similar to previous readings. Compare to 2013 Q2, improvements are noted in all component sub-indices, which shows an improving business confidence in HK SMEs.

A huge drop in ‘Profit Margin’ is noted. Apart from ‘Sales Amount’, impact from costs should not be overlooked as they are another main factor affecting SMEs’ profit. Data shows that SME’s pressure on costs reaches its 1.5 year high in this quarter. Maintain a pessimistic outlook on both ‘Direct materials’ and ‘Rent’, SMEs stress from ‘Employee Salary’ keeps rising in the past few quarters. And in this quarter, concern on financing cost arise as it is the first time more than 25% of respondent expected an increase in financing cost. Situations may become even worse when interest rate hike cycle begins.

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## The five component sub-indices



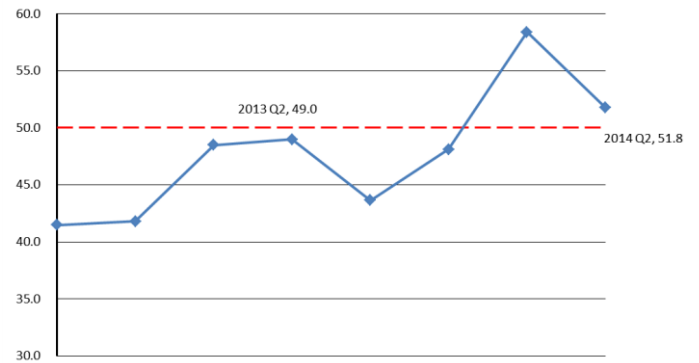
# Industry Sub-Indices

## Manufacturing industry

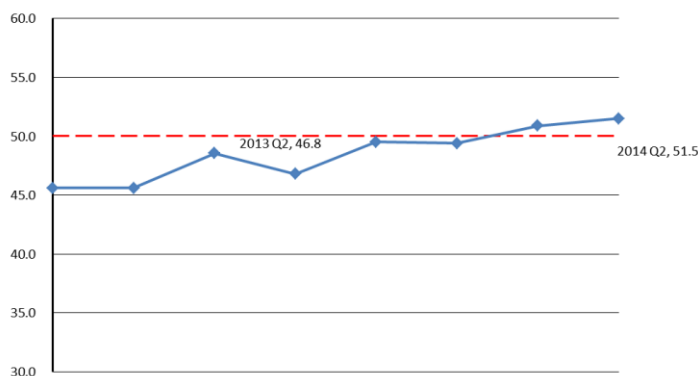
Industry Index drops by 6.6 points to 51.8 due to manufacturers' reduced confidence in 'Investment', 'Profit Margin' and 'Global Economy Growth'. However, the pressures from Employee Salary and Rent are slightly released.

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

Manufacturing industry Sub- Index



Import/ export and Wholesales industry Sub-Index



## Import/Export Trade and Wholesale industry

The Import/Export Trade and Wholesale industry index is in an upward trend. This quarter goes up 0.6 points to 51.5. The industry becomes more optimistic towards "Global Economic Growth" as the EU and US economies gradually improve. Yet pressure from 'Rent' and 'Financing cost' reached their new high.

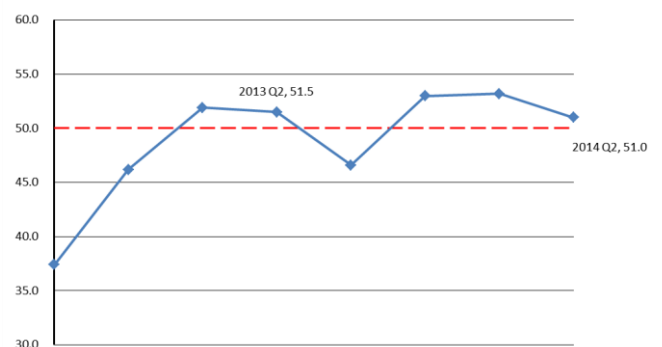
Component	View	Compare to last quarter	Compare to last year
Industry Index	Positive	Better	Better
Staff Number	Positive	Better	Better
Investment	Positive	Worse	Better
Sales Amount	Positive	Better	Better
Profit Margin	Negative	Worse	Better
Global Economy Growth	Negative	Better	Better

## Retail industry

It is not surprising that Retail industry lower the expected sales amount and profit after peak season, but the improvement in Global Economy Growth helps the index to stay above 50. Pressures from costs are similar to last quarter.

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

Retail industry Sub-Index



# Featured topic

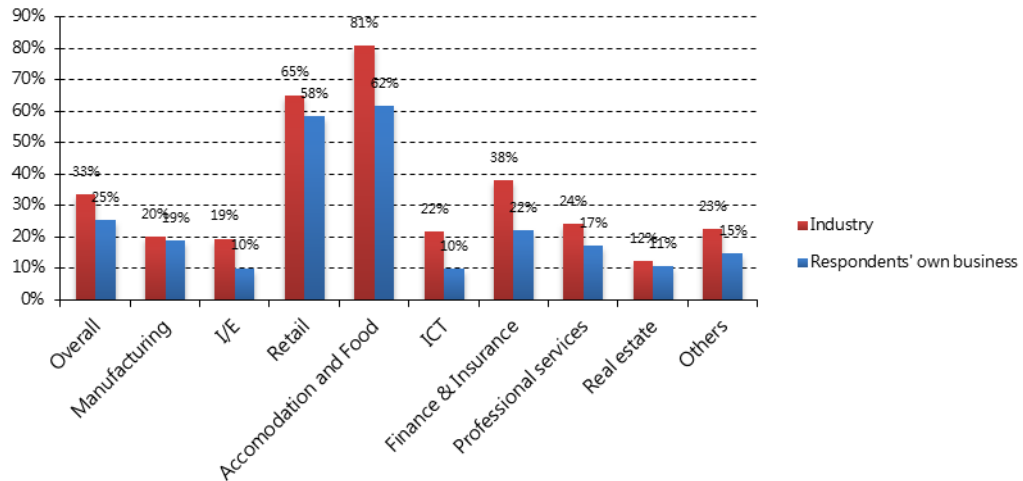


## (a) Individual visit scheme

This year marks the tenth year of the 'Individual Visit Scheme' since its launch in 2003. The survey gauged SMEs' views on the scheme from different angles.

The results indicated that SMEs support the 'Individual Visit Scheme'. About 65% surveyed SMEs in Retail industry and 81% in Accommodation and Food Service industry believe that the scheme helps the development of their industries. However, different SMEs speak in one voice when talking about benefits to their own businesses. Fewer respondents indicate that they have enjoyed direct benefits from the scheme.

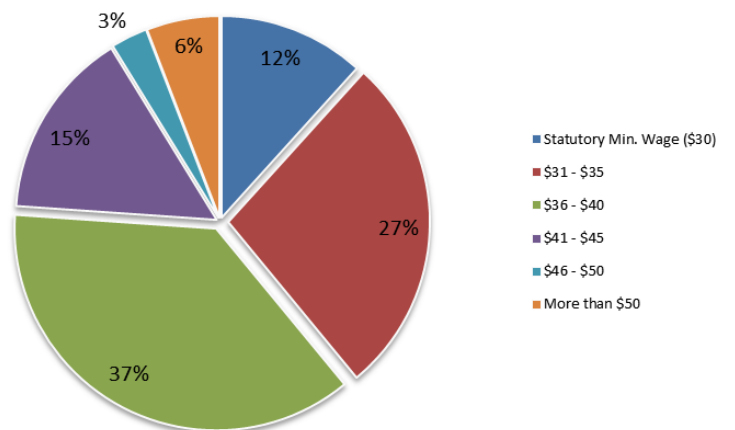
**Beneficiaries of "Individual Visit Scheme"**



## (b) Employee Salary of Retail and Accommodation & Catering Services industry

The survey also collected data on salary expenses in the Retail, and Accommodation & Food Service industries. The "Staff Number" Sub-index in the Overall index has been staying above 50 since the launch of the Standard Chartered SME Index in 2012, indicating the sustained demands for labour. With the rapid development in both industries in recent years, over 85% of the respondents said that they have to offer much higher than the statutory minimum wage in order to fill up vacancies.

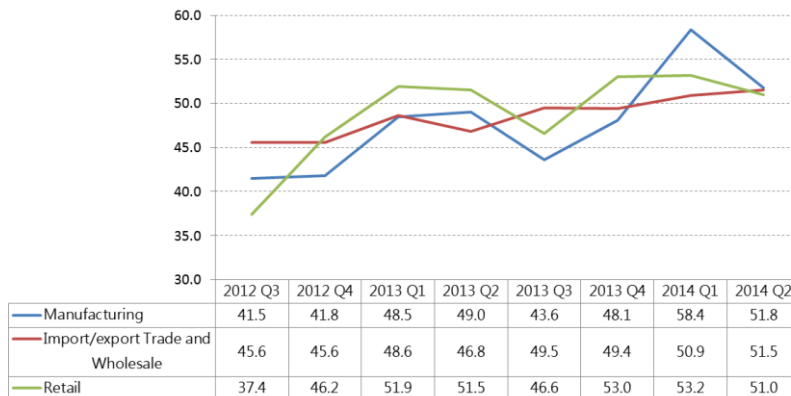
## Salary offers to new employees



# Appendix

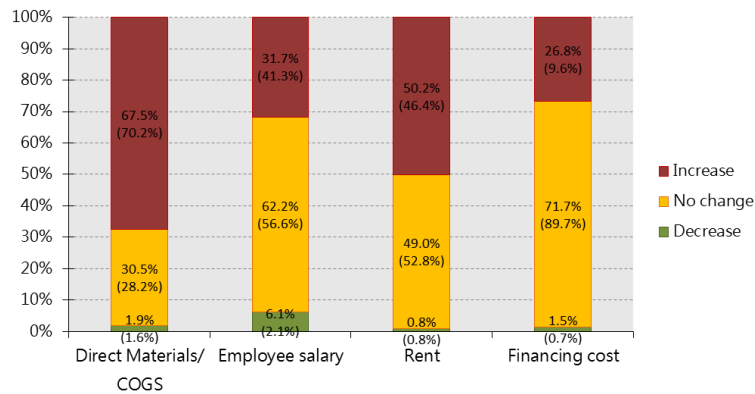
## Standard Chartered SME Index by Industry in 8 quarters

Standard Chartered SME Index by industry



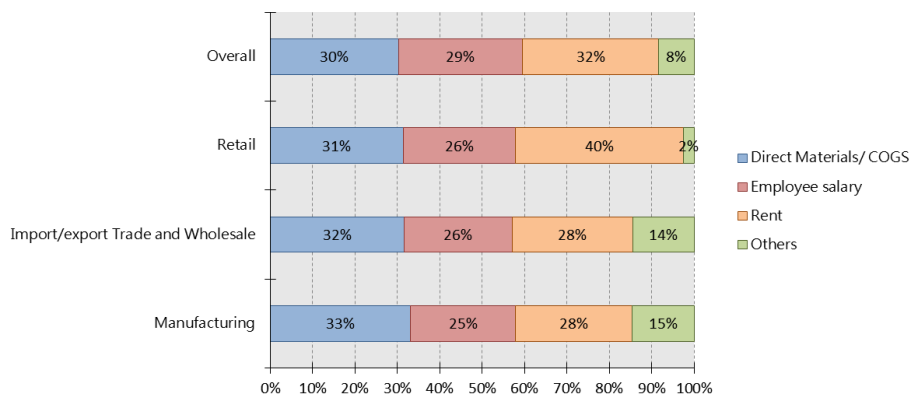
## Change of major cost components

Change of major cost components (2014 Q1 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 July 2014.

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