



# Standard Chartered Hong Kong SME Leading Business Index

Quarter 1, 2015

# 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.



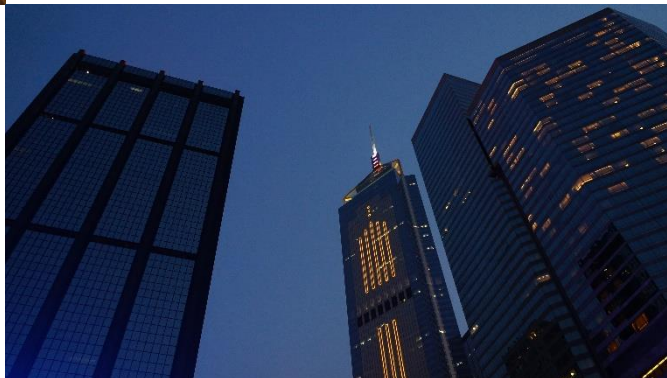
# Summary

The eleventh survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted in December 2014. Top management of 803 SMEs were surveyed to gauge their views on the outlook of the overall business environment and regional economic changes in the 1<sup>st</sup> quarter of 2015.

# Key findings

The Overall Index of the Standard Chartered SME Index has increased by 2.2 points to 50.1. Returning and raising slightly above 50.0 no-change mark, the index signals that SMEs regain confidence in the business prospects for the coming quarter. Key findings of the survey are as follows:

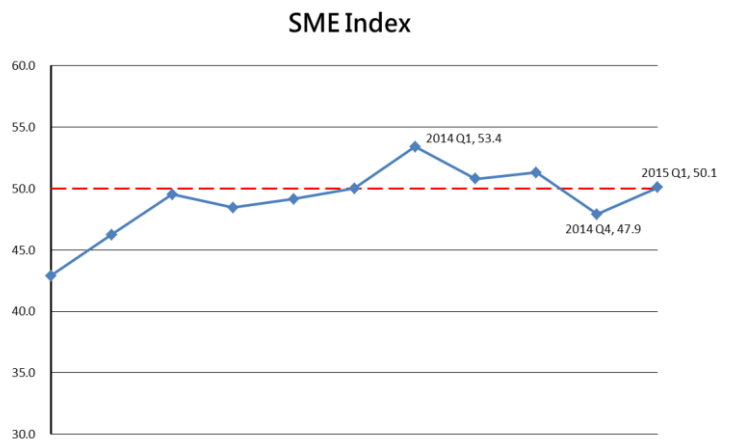
- ⊕ With reference to last quarter's figures, all component sub-indices have increased, except for "Profit Margin" and "Global Economic Growth". These two sub-indices remain below the 50.0 no change mark;
- ⊕ Compare with last quarter, the Sub- Index for Manufacturing and Import, Export and Wholesale Industry have risen; whereas that of Retail Industry has fallen;
- ⊕ Compare with the same quarter last year, the components sub-indices of the 3 main industries have fallen;
- ⊕ SMEs from the Retail Industry are pessimistic about the business outlook, as indicated by a below 50 Sub-Index;
- ⊕ SMEs from Accommodation and Food Services, Information and Communications, as well as Manufacturing sectors expected greater pressure on employee turnover this year.



# Standard Chartered SME Index

2015 Q1

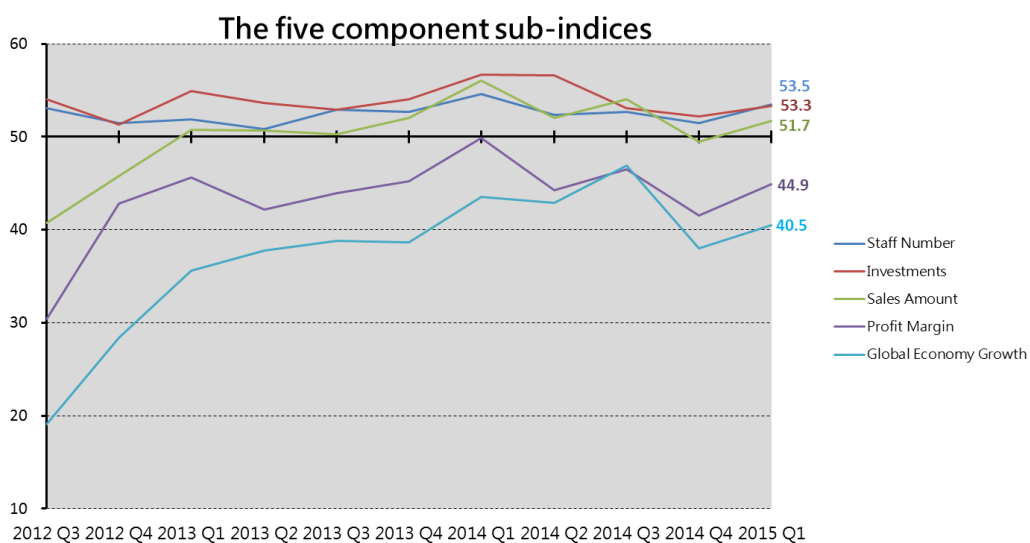
# 50.1



Standard Chartered SME Index has increased by 2.2 points to 50.1. Since the drop last quarter to below 50.0 no change mark, this quarter's Index has picked up and returned above the 50 mark. This signals that Hong Kong SMEs regain confidence in business prospects.

Similar to 2014 Q4, sentiments in "Staff Number" and "Investment" this quarter are positive as the component sub-Indices stay above the 50 mark. "Sales Amount" has improved and returned above the 50 mark, indicating that Hong Kong SMEs hold a neutral sentiment towards sales prospects. In the area of "Profit Margin" and "Global Economy Growth", although the two component sub-indices have not reached the 50 mark, they have shown significant growth compared to that of last quarter. Overall speaking, confidence among Hong Kong SMEs has restored from the previous quarter.

For the same period last year, the Standard Chartered SME Index was recorded at 53.4 for the first quarter of 2014. Comparing with same period last year, this year's Index is 3.3 points down. All component sub-indices have dropped, among which, "profit margin" has shown the most significant drop. Business optimism among Hong Kong SMEs has been weakening over the past year. Although the Index has improved this quarter, the downward trend is still observed. In 2015, Hong Kong, as well as the global economy will continue to face a lot of uncertainties. Therefore, the neutral business sentiments on the business environment for SMEs in the short term should remain unchanged.



# Industry Indices

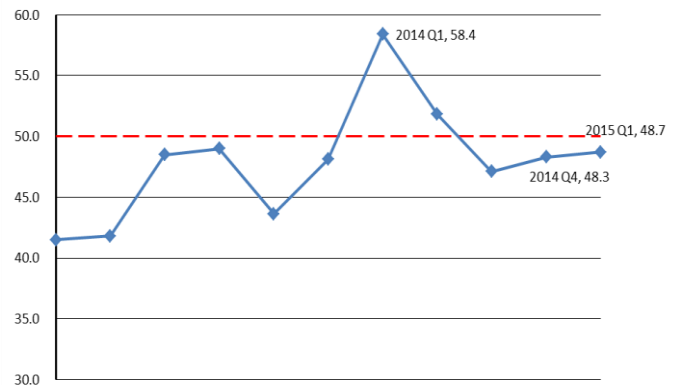
## Manufacturing industry| 48.7

Manufacturing industry index has gone up 0.4 from previous quarter. This year's index remains below the 50 mark for the third consecutive quarters. This indicates that SMEs in the manufacturing industry have held negative sentiments towards the business environment since the third quarter of last year. While the "Investment" components of the manufacturing industry remains to be above 50, there has been a significant decrease in this sub-index over the past three quarters. Such a drop appears to suggest that manufacturing businesses are not as willing to take up new business initiatives. Among all 6 component sub-indices, "the Global Economic Growth" is weakest and hovering at the level of 40 in the past few quarters. The industry will be expected to remain confused amidst the global economic uncertainties.



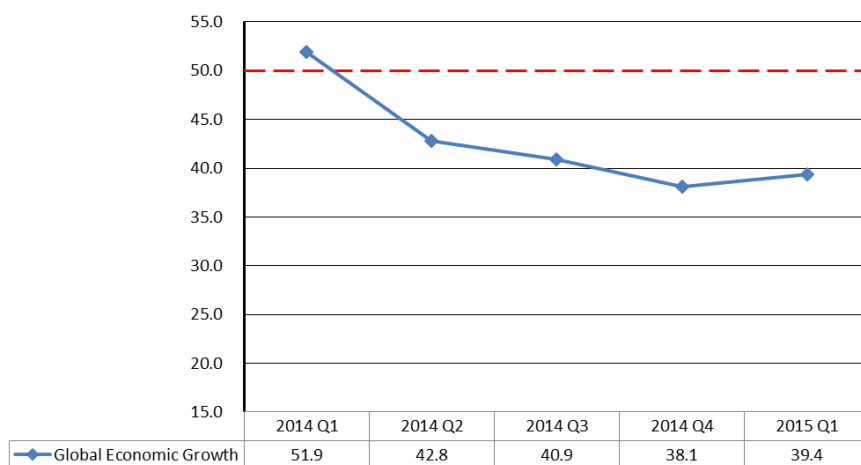
Component	View	Compare to last quarter	Compare to last year
Industry Index	Negative	Positive	Worse
Staff Number	Positive	Positive	Worse
Investment	Positive	Positive	Worse
Sales Amount	Negative	Worse	Worse
Profit Margin	Negative	Positive	Worse
Global Economy Growth	Negative	Positive	Worse

Manufacturing industry Sub-Index



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Manufacturing industry Sub-Index (Global Economic Growth)

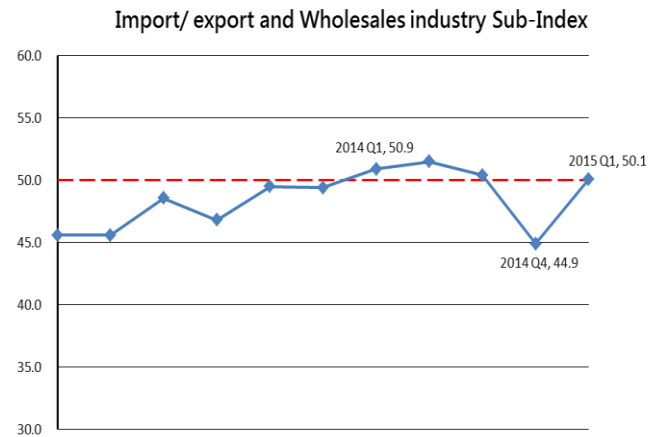


# Industry Indices

## Import/Export Trade and Wholesale industry | 50.1

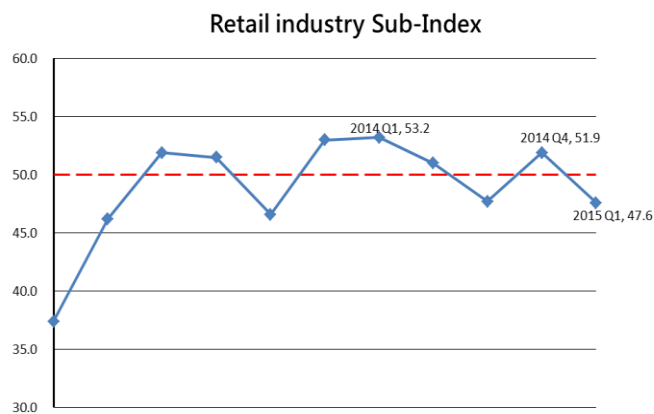
The Import, Export and Wholesale Industry Sub-Index has risen by 5.2 to 50.1, showing the Industry's optimism towards business outlook. According to the survey, except that for "Profit Margin" and "Global Economy Growth", which remain below the 50 mark, all Import/Export trade and wholesale components sub-indices have increased.

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



## Retail industry | 47.6

The Retail Industry Sub-Index has keep up with last quarter's rosy growth. This quarter, the Retail Sub-Index has fallen sharply by 5.6 to 47.6, falling below the 50 mark, revealing the industry's pessimistic outlook this season. Out of the Sub-index components, "Investment", "Sales Amount", "Profit Margin" and "Global Economy Growth" recorded declines. Out of which "Sales Amount" has shown a more significant drop of 7.5 to 47. The index for retail Industry also fell for the first time in two years, below the 50 mark. After years of rapid growth, retail SMEs should begin and be prepared for to adjust its marketing strategy, simultaneous development of online and offline sales under O2O and improve business processes. SMEs also have to make good use of the government's support programs, such as: "Retail demand for manpower management technology application Support Programme (ReTAAs)", to enhance competitiveness.



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



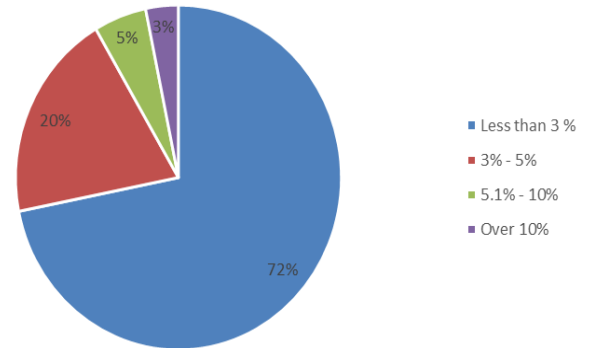
# Featured topic

## Manpower

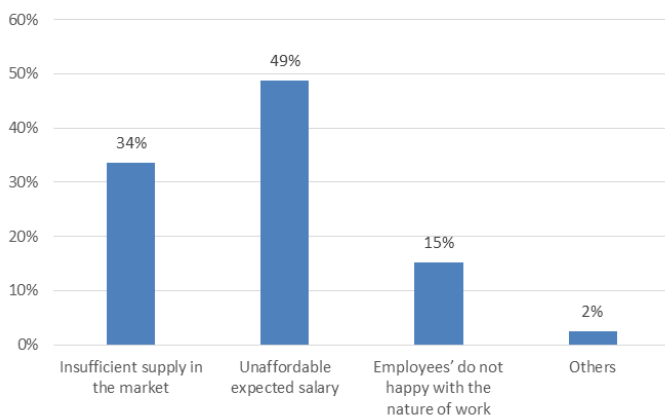
Talent and human capital are vital assets to an enterprise. On the topic of human resources, we have featured a special topic to better understand the situations SME foresee to encounter in staff turnover and vacancies filling issues of the coming year. Most SMEs believe staff turnover rate is not too high this year and over 70% of respondents believe that the staff turnover rate of the coming year will be less than 3%. SMEs from the accommodation and food services, information and communications, as well as manufacturing expected greater pressure on employee turnover this year.

When facing high employee turnover, SMEs from the accommodation and food services are more likely than other industries to hire part-time employees and retirees. There are, on the other hand, no apparent hiring patterns observed among information and communications, and manufacturing industries.

Expected Staff Turnover by SMEs for 2015



Difficulties in recruiting staff



Out of the component sub-indices, "Staff Number" has sustained at a level higher than 50, reflecting that SMEs remain positive towards hiring and capital recruitment. The survey found that the majority of the vacancies aim at workers with high school or below education background. In contrast, there are less vacancies open for workers who have attained higher education.

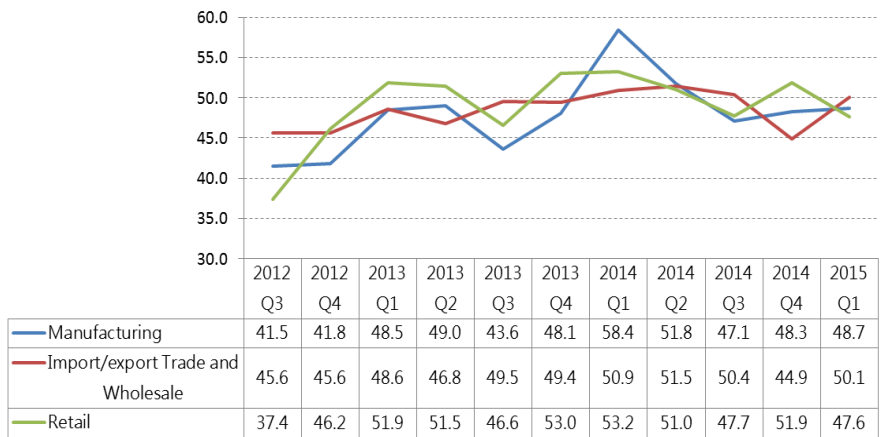
When asked about hiring right talent to fill the vacancies, about 35% of the respondents indicated that they experienced difficulty. Major difficulties include: salary requirements sought by job seekers were too high and the lack of suitable talent market.



# Appendix

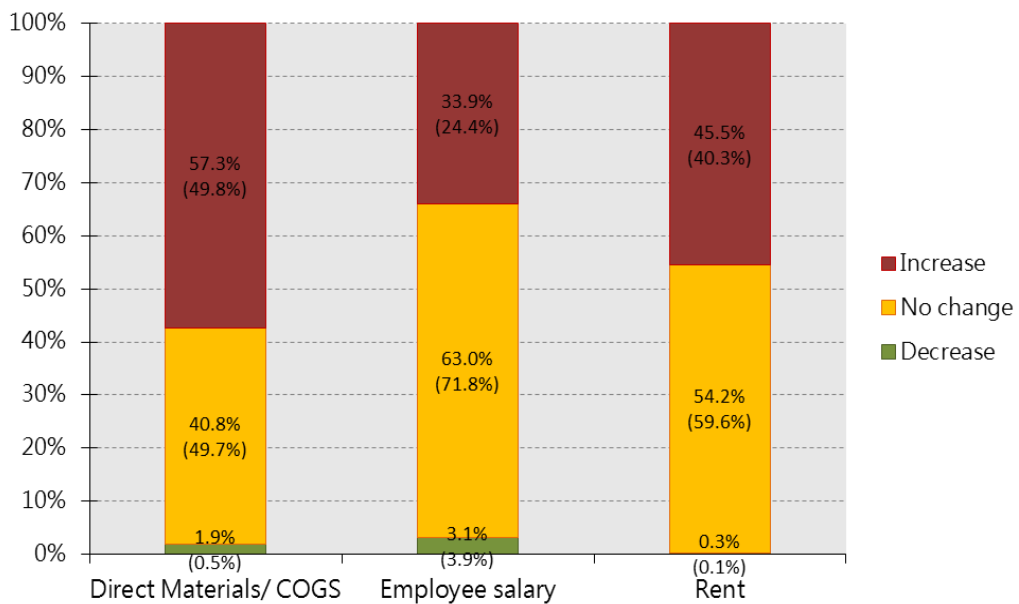
## Standard Chartered SME Index by Industry in 11 quarters

Standard Chartered SME Index by industry



## Change of major cost components

Change of major cost components (Last quarter figures in bracket)

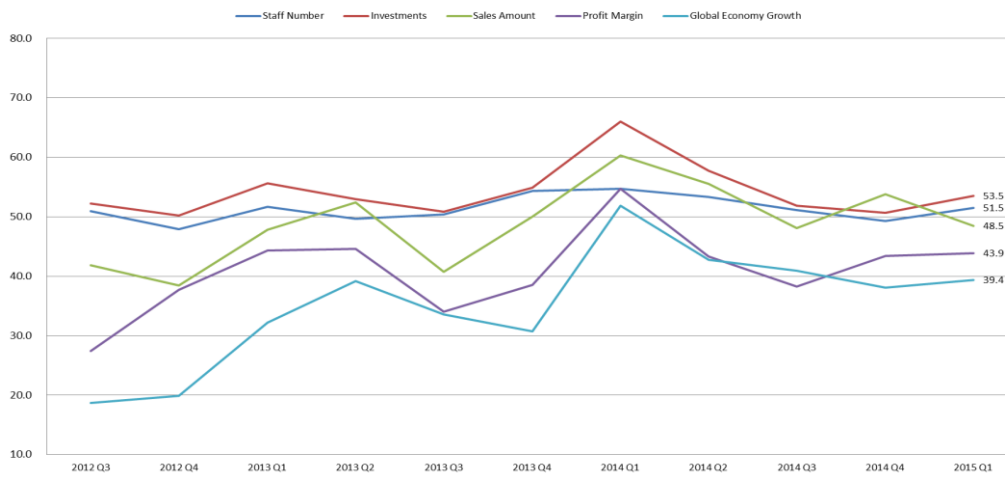




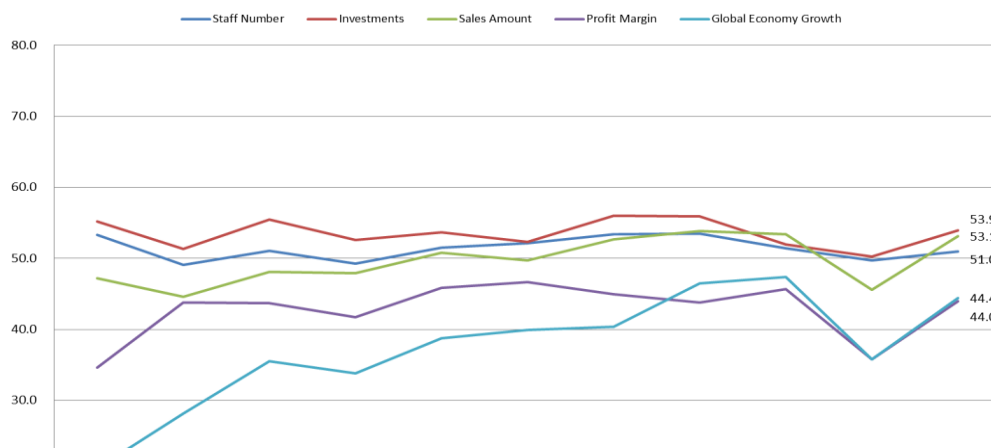
# Appendix

## Component sub-indices of 3 main industries

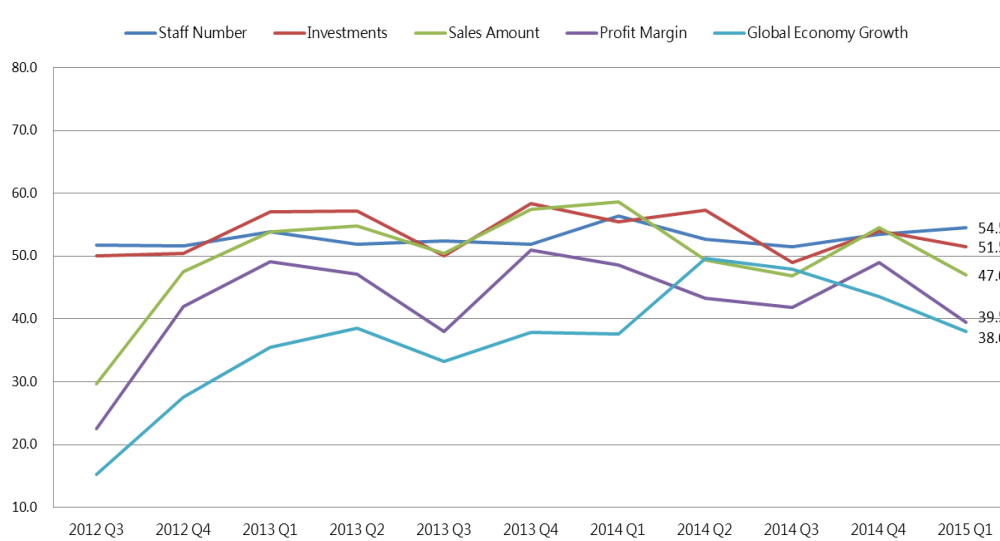
Component sub-indices of Manufacturing industry



Component sub-indices of Import/Export Trade and Wholesale industry



Component sub-indices of Retail industry



# 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 April 2015.

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