



Standard Chartered Hong Kong SME Leading Business Index

Quarter 3, 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

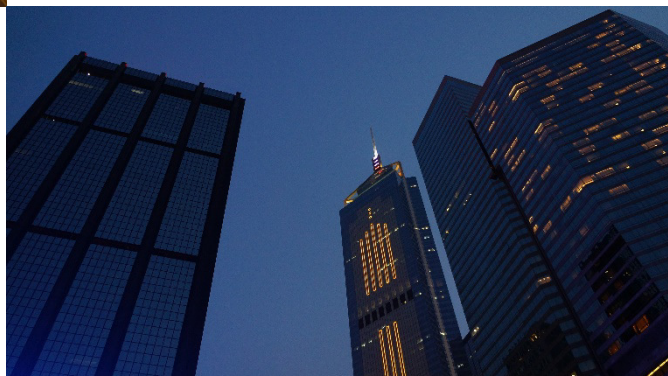
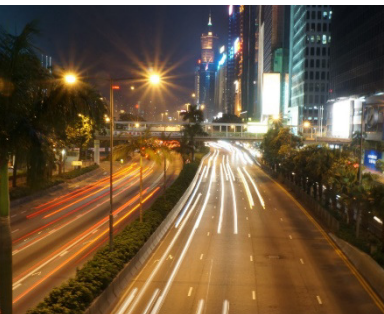
The thirteenth survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted in June 2015. Top management of 806 SMEs were surveyed to gauge their views on the outlook of the overall business environment and regional economic changes in the 3rd quarter of 2015.

Key findings

The Overall Index of the Standard Chartered SME Index has slightly increased 0.6 points to 49.6, implying the business outlook among local SMEs remains slightly bearish as the Index fails to rebound above the 50 no-change mark. Key findings of the survey are as follows:

- ⊕ The Sub-Indices for “Investments” (53.1), “Sales Amount” (49.2) and “Global Economic Growth” (40.7) have gone up, while “Profit Margin” (44.5) remains unchanged as against the last quarter;
- ⊕ Although the outlook on recruitment remains bright, the Sub-Index for “Staff Number”(53.9) fails to keep up the growth momentum of the last quarter as being dragged down by the weakening Retail, and Accommodation & Catering Services sectors;
- ⊕ The Retail Sub-Index drops significantly to 43.1 (down 6.8 points)- its record low in three years;
- ⊕ The Manufacturing Sub-Index rebounds to 47.9, below the 50 no-change mark for the fifth consecutive quarter;
- ⊕ The Import/Export Trade and Wholesale Sub-index edging down 0.9 points to 46.9. The drop is more marked as compared to the same period last year (50.4);
- ⊕ Most of the SMEs are not familiar with 3D printing technology. The main reasons for their not adopting 3D printing technology are the concerns over “capital investment cost”, followed by “insufficient knowledge on relevant industry applications” and “difficulty in selecting suitable printing materials”.

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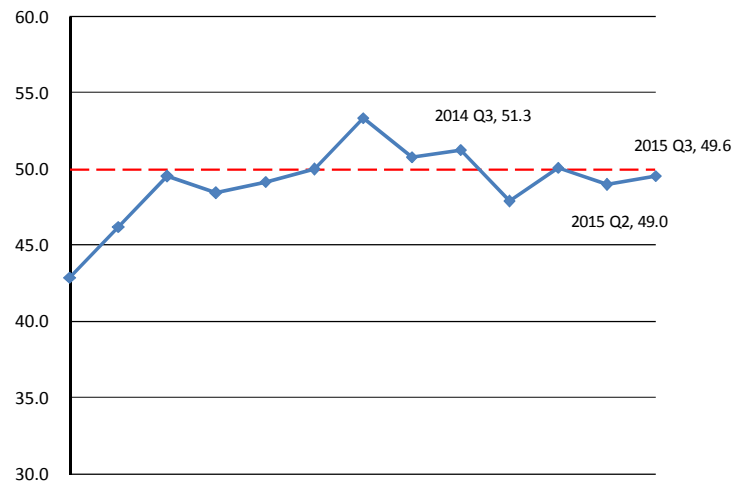


Standard Chartered SME Index

2015 Q3

49.6

Standard Chartered SME Index

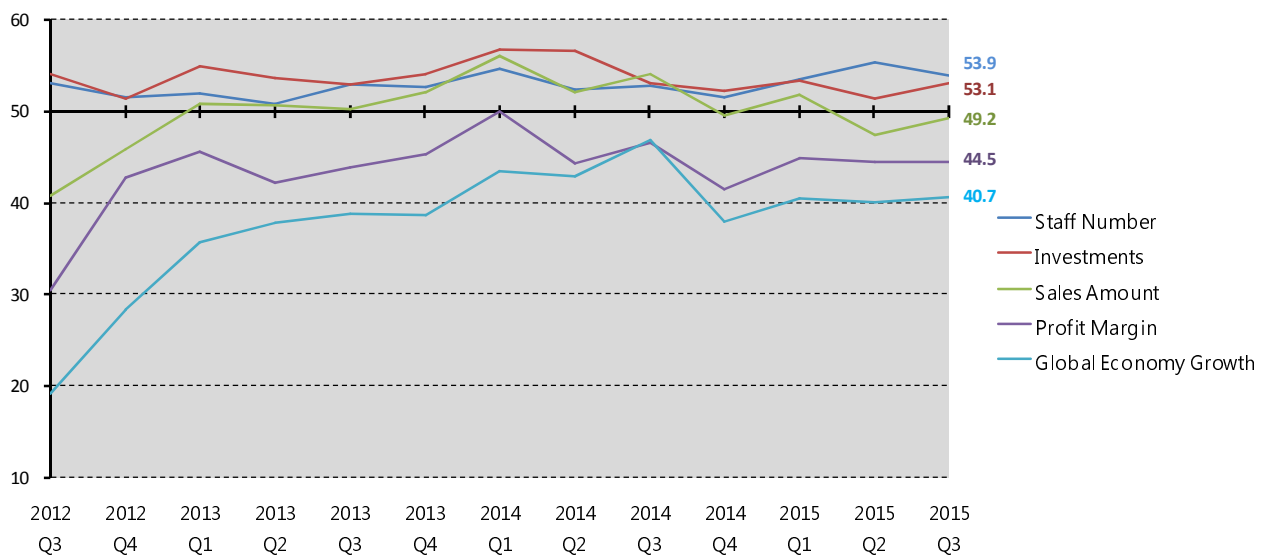


Standard Chartered SME Index has slightly increased 0.6 points to 49.6, implying the business outlook among local SMEs remains slightly bearish as the Index fails to rebound above the 50 no-change mark..

Standard Chartered SME Index is comprised of five sub-indices, namely "Staff Number", "Investments", "Sales Amount", "Profit Margin" and "Global Economic Growth". In this quarter, the Sub-Indices for "Investments" (53.1), "Sales Amount" (49.2) and "Global Economic Growth" (40.7) have gone up, while "Profit Margin" (44.5) remains unchanged as against the last quarter. Although the outlook on recruitment remains bright, the Sub-Index for "Staff Number"(53.9) fails to keep up the growth momentum of the last quarter as being dragged down by the weakening Retail, and Accommodation & Catering Services sectors.

Compared to the third quarter of 2014 (51.3), the Index of this quarter (49.6) reduced by 1.7. "Sales Amount", "Profit Margin" and "Global Economic Growth" have dropped, among which, "Global Economic Growth" has shown the most significant drop (6.2) and "Sales Amount" sentiment has changed from positive to negative as well. "Staff Number" sub-index slightly increased while "Investment" remains unchanged. In conclusion, the 2015 Q3 index reflected a slightly bearish business outlook among local SMEs.

The five component sub-indices



Industry Indices

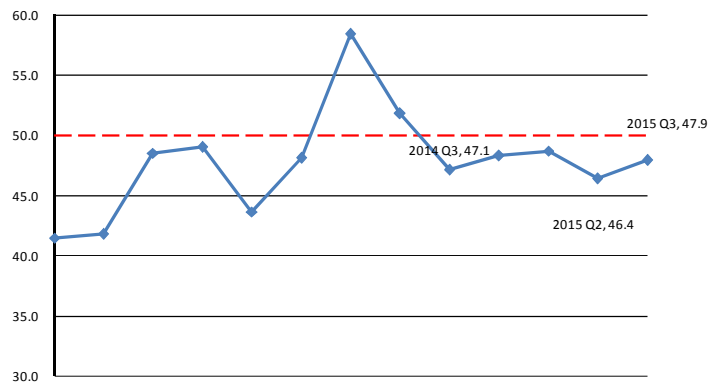
Manufacturing industry| 47.9

Manufacturing industry sub-index has increased by 1.5 to 47.9. Since the third quarter of 2014, the sub-index remains below 50 mark for the fifth consecutive quarters, but the sub-index is better off as compared to last quarter and also the same period last year, implying that the Manufacturing industry does not expect a very significant improvement in business environment in a short time but in general it shows the indication of recovery in the prospection of Manufacturing Industry. Also, the outlooks for "Staff Number" and "Investments" remain positive in this quarter, another indication of optimism towards long term business development.



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

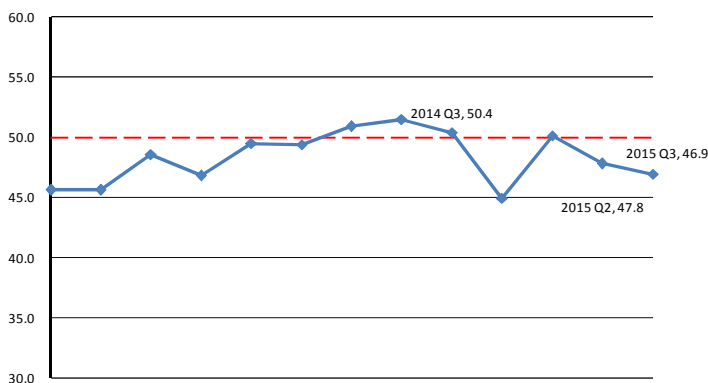
Manufacturing Industry Sub-Index



Import/Export Trade and Wholesale industry| 46.9

The Import, Export and Wholesale Industry Sub-Index has dropped by 0.9 to 46.9, kept the downward trend as in last quarter, reflecting a pessimistic sentiment towards its business prospect. "Sales Amount" and "Profit Margin" register a significant drop. "Investments" rebounds above the 50 no-change mark, while "Staff Number" has slightly decreased but still remains a positive sentiment. Compared to the third quarter of 2014, only "Staff Number" has increased while the other four component sub-indices go down, implying the industry has become more negative towards the business environment in the previous year.

Import/ Export and Wholesales Industry Sub-Index



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



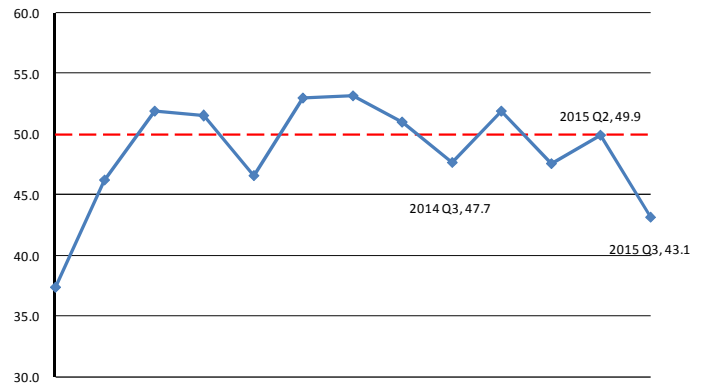
Industry Indices

Retail industry | 43.1

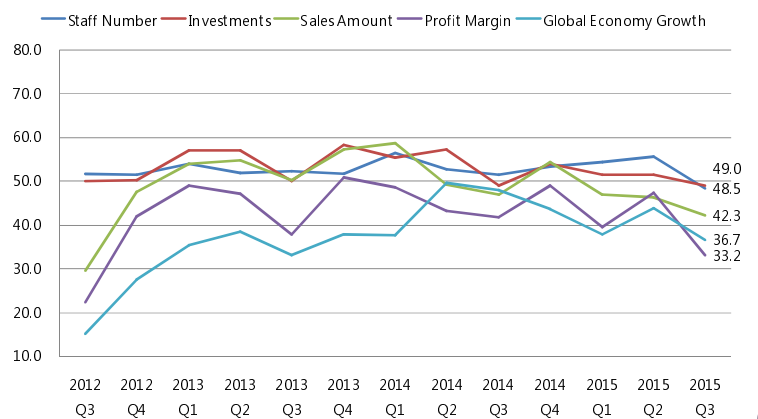
The Retail Sub-Index drops significantly to 43.1 (down 6.8 points), reached its record low since fourth quarter of 2012. The usually positive Sub-indices for "Staff Number" and "Investments" have turned negative, with the former Sub-index (48.5) even falling below 50 for the first time, reflecting a pessimistic sentiment towards business prospect. "Sales Amount", "Global Economy Growth" and "Staff Number" sub-indices have recorded the most significant decrease. Compared to the third quarter of 2014, a significant drop has also been noticed for the Retail Sub-Index, which show the negative view from the industry towards the business environment.

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

Retail Industry Sub-Index

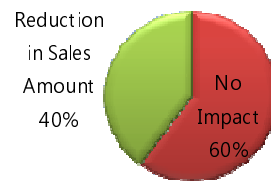


Component sub-indices of Retail industry

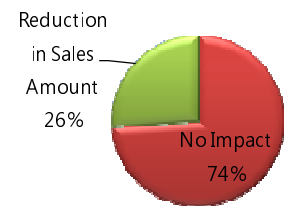


This survey also gauged the impacts of three hot issues on the sales amount in Retail Sector. It is found that 40% of the surveyed retailers consider that the decline in the number of Mainland visitors will adversely affect their sales, which contribute to the bearish prospect in Retail Sector. Reduction of import tariffs and sales tax in Mainland China and the Outbreak of Middle East Respiratory Syndrome (MERS) in South Korea were also found to be adversely affect the Retail Sector but the scale may not as large as expected, with 26% and 11% of the surveyed retailers consider that these two issues will adversely affect their sales respectively.

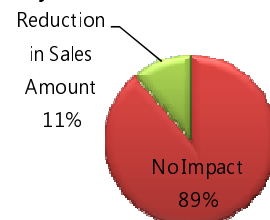
Decline in the number of Mainland visitors



Reduction of import tariffs and sales tax in Mainland China



Outbreak of Middle East Respiratory Syndrome (MERS) in South Korea



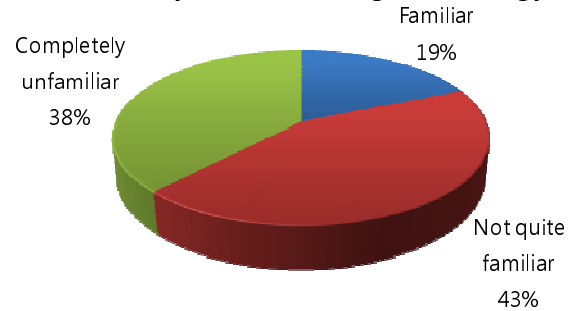
Featured topic

(a) Views on 3D Printing Technology and Related Applications

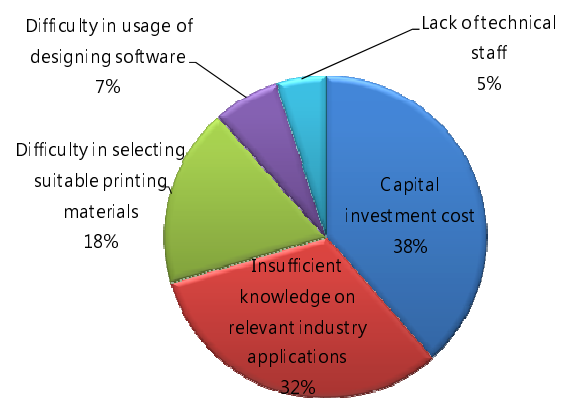
The featured topic in this quarter discussed the views of SMEs on the increasingly popular 3D printing technology and related applications in their business. Only about 19% of the respondents are familiar with 3D printing technology, with higher familiarity (33%) in "Information and Communications Industry" and "Professional and Business Services Industry" and most of the other industries are unfamiliar with 3D printing.

The main reason for their not adopting 3D printing technology is the concern over "Capital investment cost", followed by "Insufficient knowledge on relevant industry applications", "Difficulty in selecting suitable printing materials", "Difficulty in usage of designing software" and "Lack of technical staff".

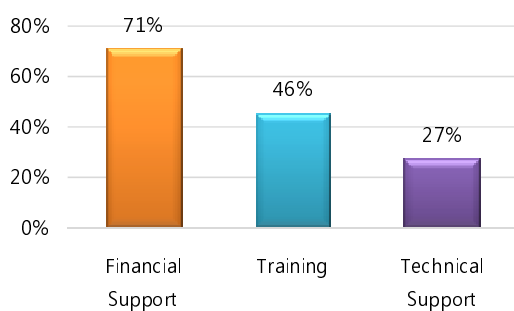
Familiarity on 3D Printing Technology



Primary reason of not adopting 3D Printing Technology



Demand on Relevent Support

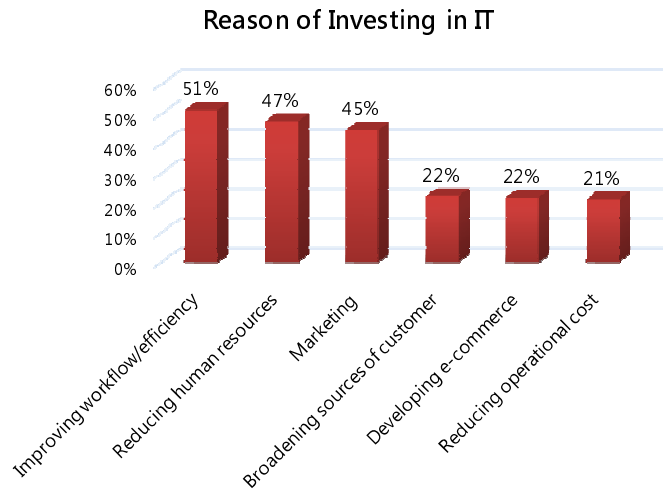


Most of the surveyed SMEs (71%) wish to obtain financial support in order to adopt 3D printing technology. Besides financial support, to master the technology and related applications, 46% and 27% of the surveyed SMEs wish to obtain training and technical support respectively.

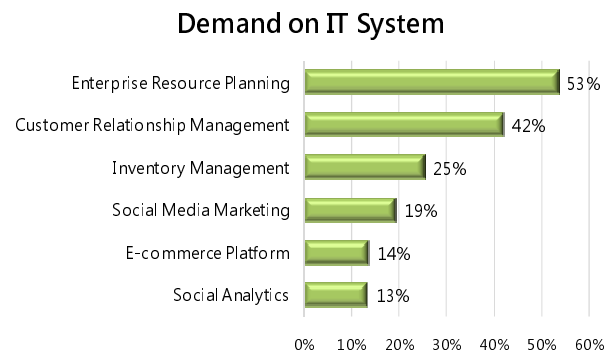


(b) Demand on Information Technology

The investment in Information Technology (IT) of SMEs has also been studied in this quarter. The result shows that the reason of investing in IT is mainly "Improving workflow/efficiency" (51%), following by "Reducing human resources" (47%) and "Marketing" (45%). For "Broadening sources of customer" (22%), "Developing e-commerce" (22%) and "Reducing operational cost" (21%), these are secondary concerns for SMEs when investing in IT.



Among all the respondents, 57% of the SMEs plan to invest in IT, with the most popular system of "Enterprise Resource Planning" (ERP) (53%), following by "Customer Relationship Management" (CRM) (42%). This shows that besides the traditional ERP system, CRM will be the new trend of IT application in business.



Industry	Top 3 IT Systems
Manufacturing	1. Enterprise Resource Planning (47%)
	2. Inventory Management (32%)
	3. Customer Relationship Management (29%)
Import/Export	1. Enterprise Resource Planning (56%)
Trade and Wholesale	2. Customer Relationship Management (43%)
	3. Inventory Management (43%)
Retail	1. E-commerce Platform (33%)
	2. Enterprise Resource Planning (33%)
	3. Inventory Management (27%)

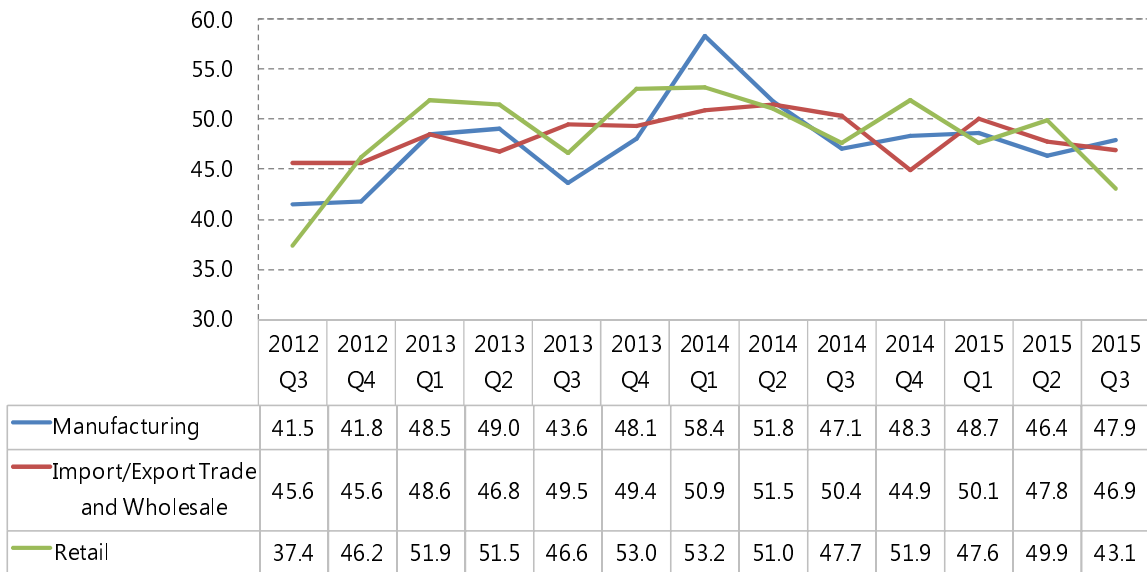
In terms of the three major industries, the demand of systems of Manufacturing Industry and Import/Export Trade and Wholesale Industry are mainly Enterprise Resource Planning, Customer Relationship Management, and Inventory Management. Retail Industry is slightly different from the other industry categories, with near 33% of the retailers plan to invest in E-commerce Platform, which indicated that they wish to broaden their source of customers and reduce operational cost by using e-commerce platform during the tough time in traditional business.



Appendix

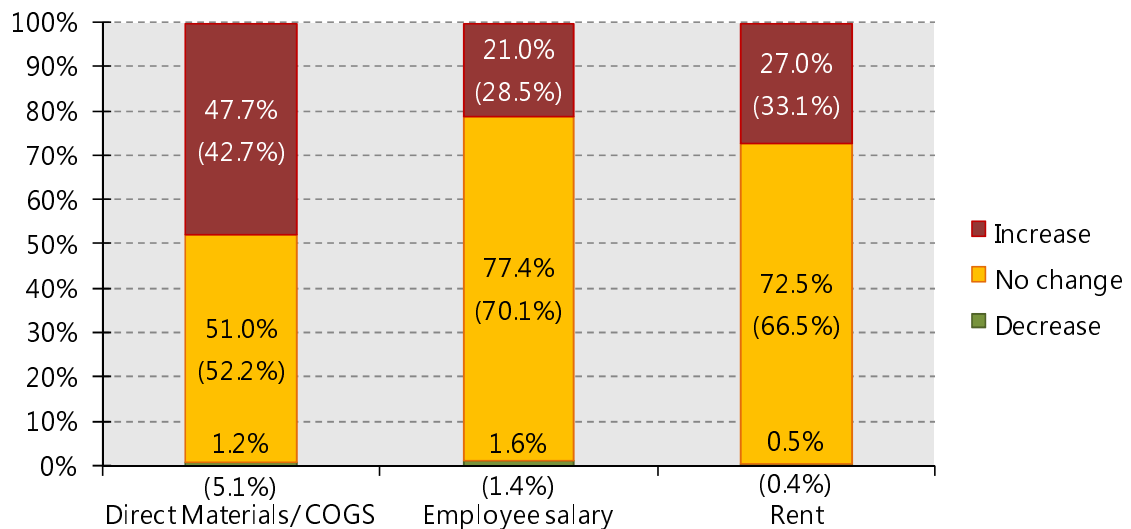
Standard Chartered SME Index by Industry

Standard Chartered SME Index by Industry



Change of major cost components

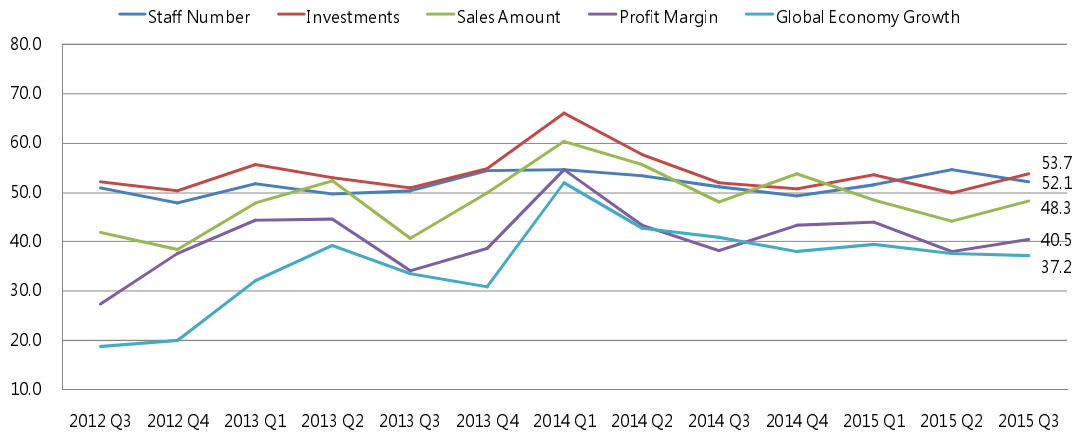
Change of major cost components
(Last quarter figures in bracket)



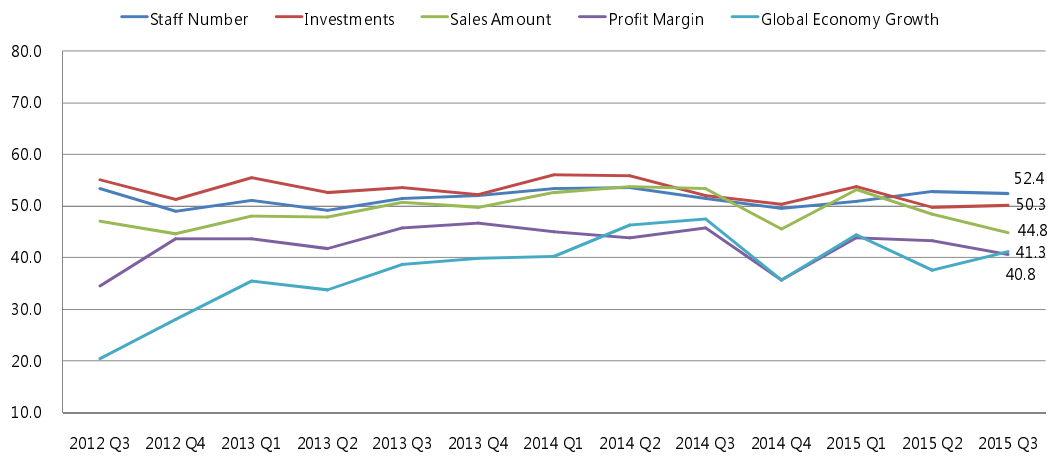
Appendix

Component sub-indices of 3 main industries

Component sub-indices of Manufacturing industry

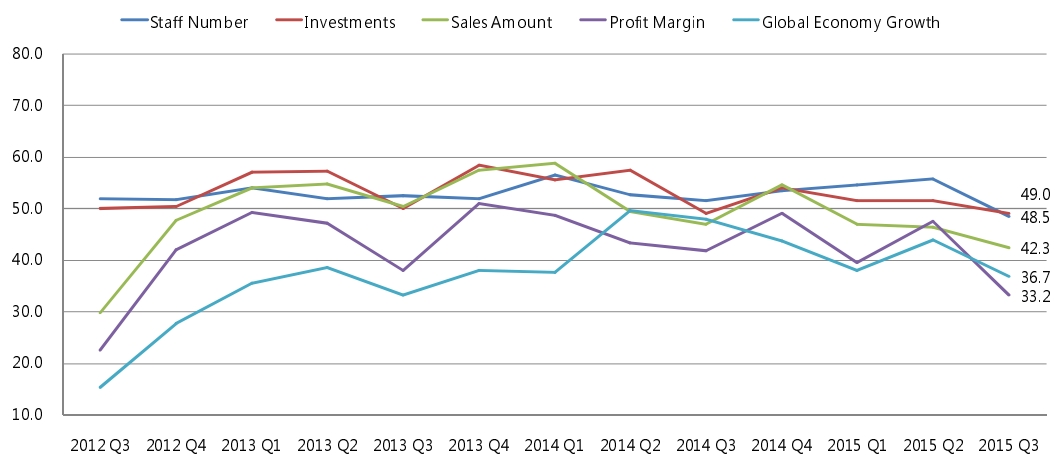


Component sub-indices of Import/Export Trade and Wholesale industry



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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, and the next report will be published in October 2015.

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