

A wide-angle photograph of a multi-lane highway interchange in Hong Kong. The road curves through a landscaped area with green grass, manicured bushes, and several palm trees. In the background, a dense urban skyline is visible under a bright blue sky with scattered white clouds. A tall, slender light pole stands on the right side of the road. The overall scene conveys a sense of modern infrastructure and urban development.

# Standard Chartered Hong Kong SME Leading Business Index

Quarter 4, 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.



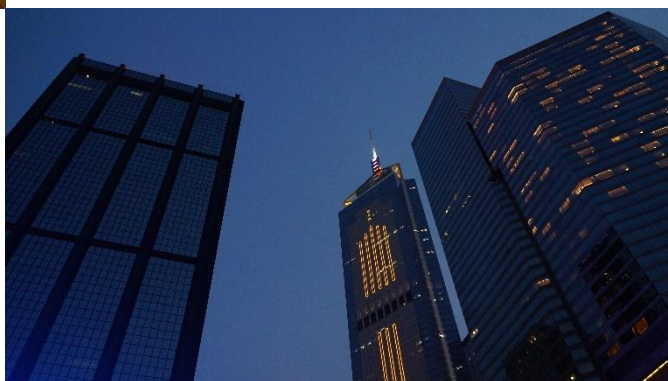
# Summary

The fourteenth survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted between September and October 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 4<sup>th</sup> quarter of 2015.

## Key findings

The Overall Index of the Standard Chartered SME Index reported a drop of 5.2 points to 44.4, the lowest record in three years, implying the bearish business outlook among local SMEs. Key findings of the survey are as follows:

- ⊕ In this quarter, all the five Sub-Indices have dropped. Notably, the Sub-Index for “Investments” (48.9) has gone below 50 for the first time. The reading for “Global Economic Growth” slid 13.2 points to 27.1; while Sub-Indices for “Sales Amount” and “Profit Margin” have decreased to 43.3 and 41.3 respectively. “Staff Number” is the only Sub-Index that barely stays above the 50 no-change mark;
- ⊕ All the three major Industry Sub-Indices and their corresponding comprising indices are below the 50 threshold;
- ⊕ The Manufacturing Sub-Index (42.9) and Import, Export & Wholesale Sub-Index (44.5) have decreased, by 5.0 and 2.4 respectively;
- ⊕ Retail Sub-Index continues to fall further reaching 40.3 (down 2.8);
- ⊕ About 61% of the respondents remarked that Hong Kong is in the “economic winter season”, and 24% of them stated that the current business climate is even worse than the financial crisis of 2008;
- ⊕ Among those who said that Hong Kong has entered the “economic winter”, 71% of them do not have any measures in place to address the challenges; while the rest may adopt various ways, such as “salary freeze/cut” (14%), “lay off” (8%), or even closing down (2%) under the economic pressure. On a more positive note, some respondents expressed that they will “develop new business” (8%), “develop online sales/marketing channels” (5%), and adopt “staff redeployment” (4%) to face the economic downturn.

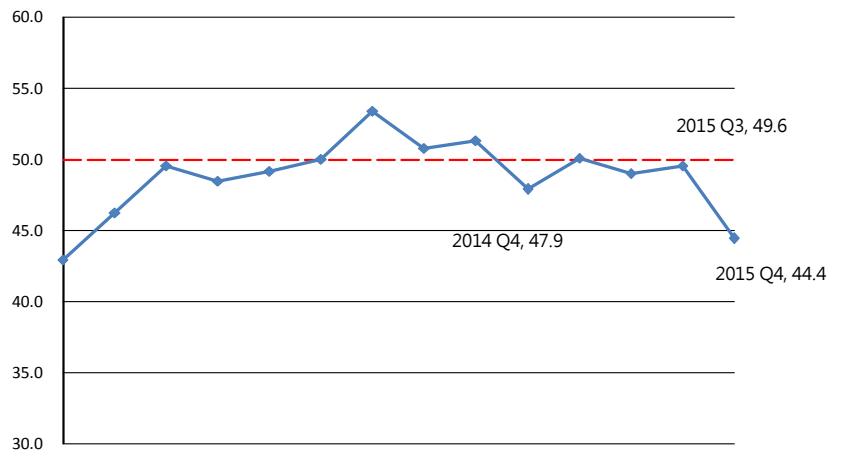


# Standard Chartered SME Index

2015 Q4

# 44.4

Standard Chartered SME Index



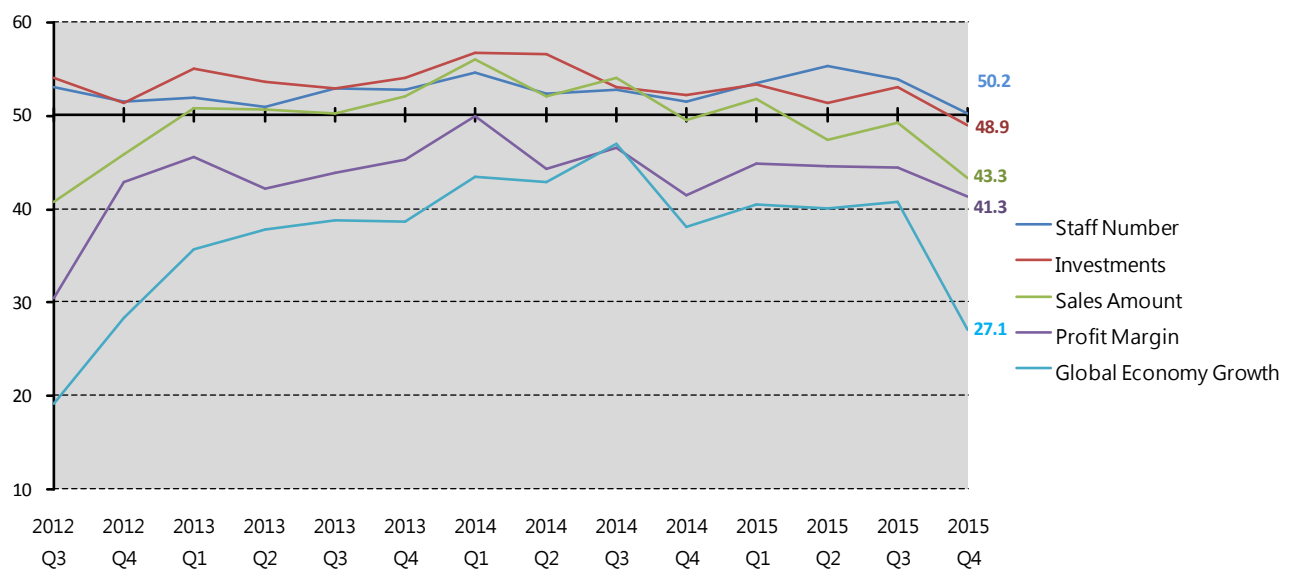
Standard Chartered SME Index has dropped 5.2 points to 44.4, the lowest record in three years , implying the bearish business outlook among local SMEs.

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, all the five Sub-Indices have dropped. Notably, the Sub-Index for "Investments" (48.9) has gone below 50 for the first time. The reading for "Global Economic Growth" slid 13.2 points to 27.1; while Sub-Indices for "Sales Amount" and "Profit Margin" have decreased to 43.3 and 41.3 respectively. "Staff Number" is the only Sub-Index that barely stays above the 50 no-change mark.

Compared to the fourth quarter of 2014 (47.9), the Index of this quarter (44.4) reduced by 3.5 points. All five sub-indices were also dropped respectively.

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The five component sub-indices



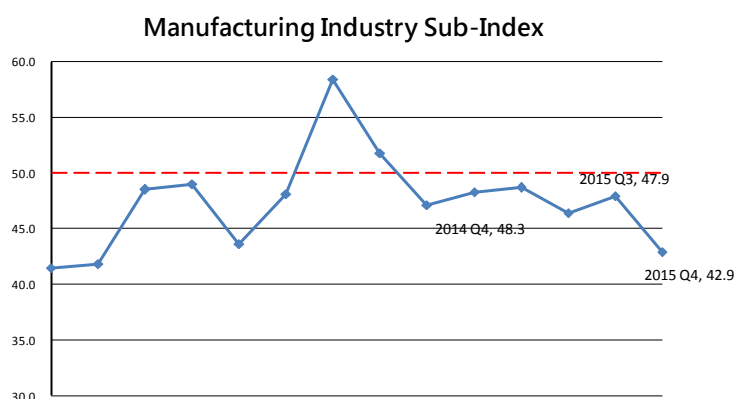
# LB Index Industry Indices

## Manufacturing industry| 42.9

Manufacturing industry sub-index has decreased by 5.0 points to 42.9. All the sub-indices were dropped and when comparing with same period of last year, the index has also decreased by 5.4 points. Both readings on the "Staff Number" and "Investments" are also below 50, an indication of their reservation towards additional investments.



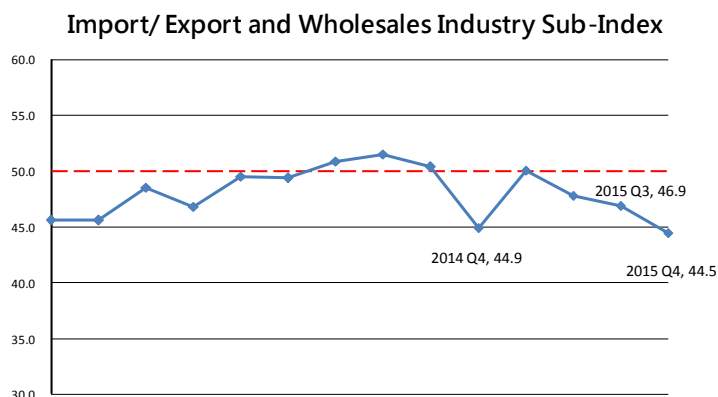
Component	View	Compare to last quarter	Compare to last year
Industry Index	Negative	Down	Down
Staff Number	Negative	Down	Down
Investment	Negative	Down	Down
Sales Amount	Negative	Down	Down
Profit Margin	Negative	Down	Down
Global Economy Growth	Negative	Down	Down



## Import/Export Trade and Wholesale industry| 44.5

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The Import, Export and Wholesale Industry Sub-Index has dropped by 2.4 points to 44.5, kept the downward trend as in last quarter, reflecting a pessimistic sentiment towards its business prospect. Similar to Manufacturing industry, both readings on the "Staff Number" and "Investments" are also below 50, an indication of their reservation towards additional investments. When comparing to last quarter and the same period in last year, "Profit Margin" was slightly increased due to the pressure relief in costs but the other 4 sub-indices were all decreased.



Component	View	Compare to last quarter	Compare to last year
Industry Index	Negative	Down	Down
Staff Number	Negative	Down	No change
Investment	Negative	Down	Down
Sales Amount	Negative	Down	Down
Profit Margin	Negative	Up	Up
Global Economy Growth	Negative	Down	Down



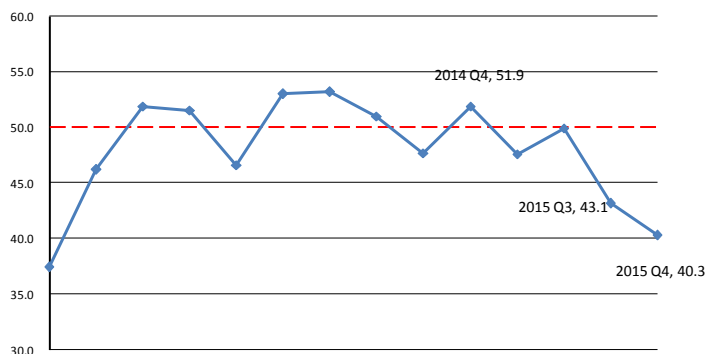
# Industry Indices

## Retail industry | 40.3

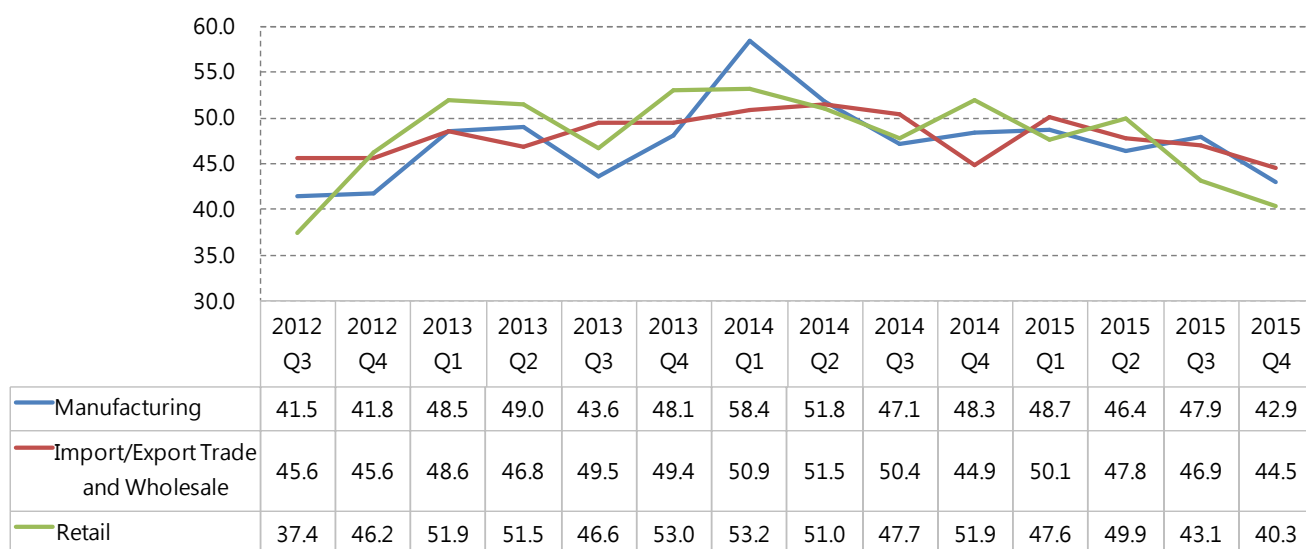
Despite that the last quarter is the traditional peak season for retailers, the Retail Sub-Index continues to fall further reaching 40.3 (down 2.8). This record low figure in three years reflects that the retail sector is not optimistic about the market situation. Compared to the last quarter, although "Staff Number" and "Profit Margin" slightly improved, the general industry confidence dropped due to the unclear global economy prospection.

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

Retail Industry Sub-Index



Standard Chartered SME Index by Industry

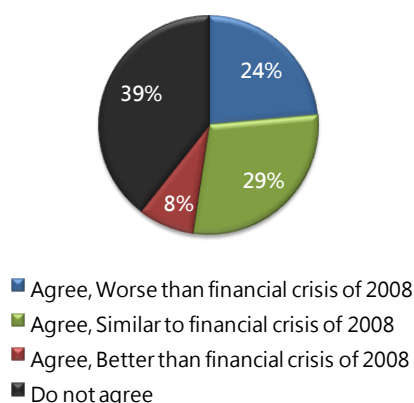


# Featured topic

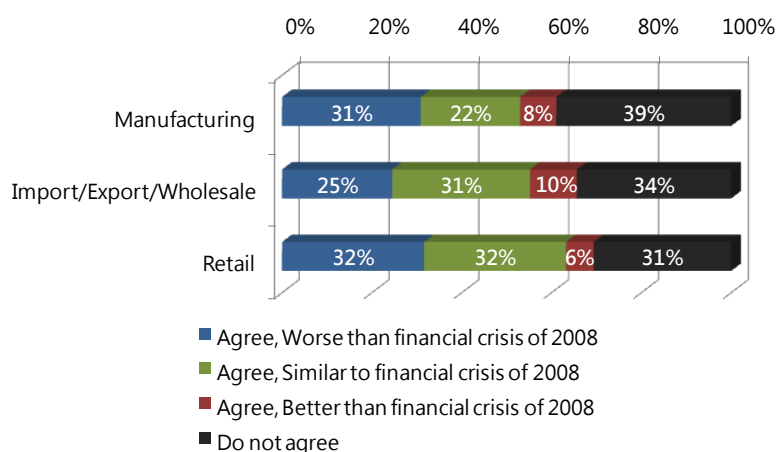
## (a) SMEs' Ways to Address the "Economic Winter Season"

The featured topic in this quarter discussed SMEs' outlook of the local economy, and their ways to address the situation. About 61% of the respondents remarked that Hong Kong is in the "economic winter season", with 24% stated that the current business climate is even worse than the financial crisis of 2008; 29% stated that the current business climate is similar to the financial crisis of 2008; and 8% stated that the current business climate is better than the financial crisis of 2008.

Whether Hong Kong has entered  
"Economic Winter Season"

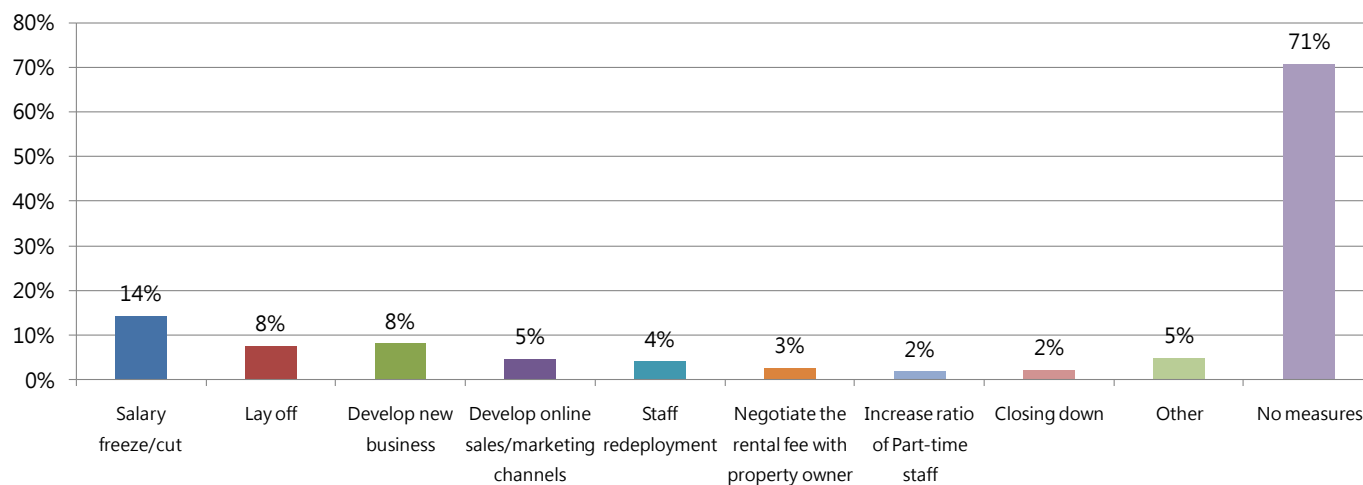


Views from Three Major Industries



Among those who said that Hong Kong has entered the "economic winter", 71% of them do not have any measures in place to address the challenges; while the rest may adopt various ways, such as "salary freeze/cut" (14%), "lay off" (8%), or even closing down (2%) under the economic pressure. On a more positive note, some respondents expressed that they will "develop new business" (8%), "develop online sales/marketing channels" (5%), and adopt "staff redeployment" (4%) to face the economic downturn.

Measures in Place to Address Economic Challenges

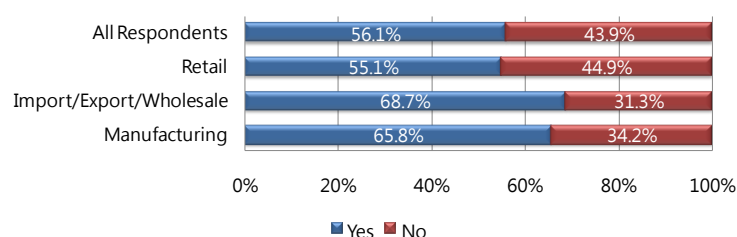


## (b) Impact of Recent Economic Fluctuations to SME's Business

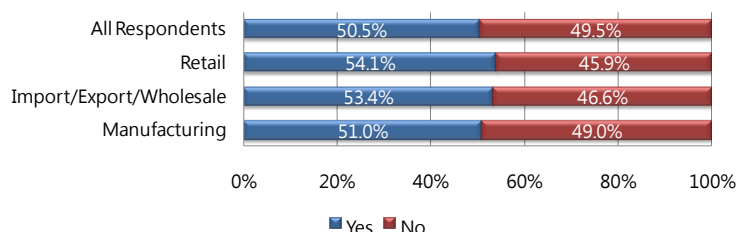
Impact of recent economic fluctuations to SME's business have also been studied in this quarter, including fluctuations in the foreign exchange markets, fluctuations in the stock market, and economic slowdown in China. The result shows that fluctuations in the foreign exchange markets and economic slowdown in China heavily affect the Manufacturing Industry and the Import, Export and Wholesale Industry, with 65%-70% of the corresponding respondents expressed that their business was affected by fluctuations in the foreign exchange markets and economic slowdown in China.

For fluctuations in the foreign exchange markets, the sentiment of the Import, Export and Wholesale Industry is largest (68.7%), following by the Manufacturing Industry (65.8%), with both of them are higher than the general average of all industries (56.1%). In the other hand, Retail Industry (55.1%) is lower than the general average.

**Business Impact under Fluctuations in Foreign Exchange Markets**

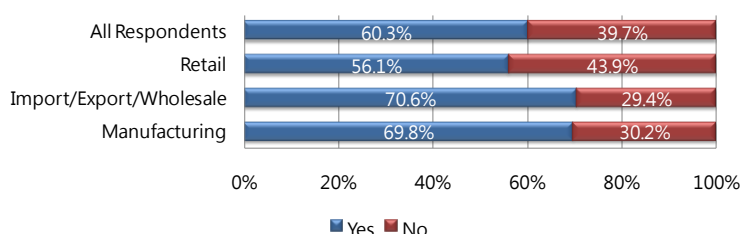


**Business Impact under Fluctuations in Stock Market**



For economic slowdown in China, the sentiment of the Import, Export and Wholesale Industry is largest (70.6%), following by the Manufacturing Industry (69.8%), with both of them are higher than the general average of all industries (60.3%). In the other hand, Retail Industry (56.1%) is lower than the general average.

**Business Impact under Fluctuations in Economic Slowdown in China**

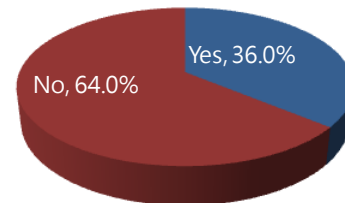




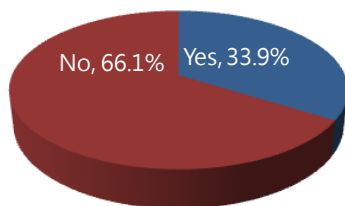
## (c) SME Foreign Exchange Risk Management

SME Foreign Exchange Risk Management have also been studied in this quarter. The result shows that 36% of the respondents do involve trade with foreign currencies and 64% of them do not.

### Involve Trade with Foreign Currencies



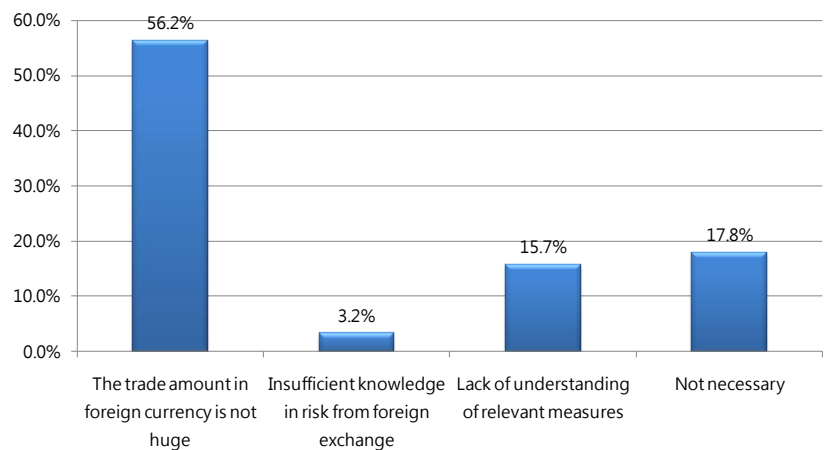
### Foreign Exchange Risk Management Measures in Act



For the SME who involve trade with foreign currencies, most of them (66.1%) expressed that they do not have any measures regarding foreign exchange risk management while 33.9% stated that they have relevant measures.

While studying the reasons of not using any foreign exchange risk management measures, 56.2% of them think that their trade amount in foreign currency is not huge, 3.2% do not have sufficient knowledge about the risk from foreign exchange, 15.7% do not understand the relevant risk management measures and 17.8% simply expressed that they do not need to consider the associated risk from foreign exchange.

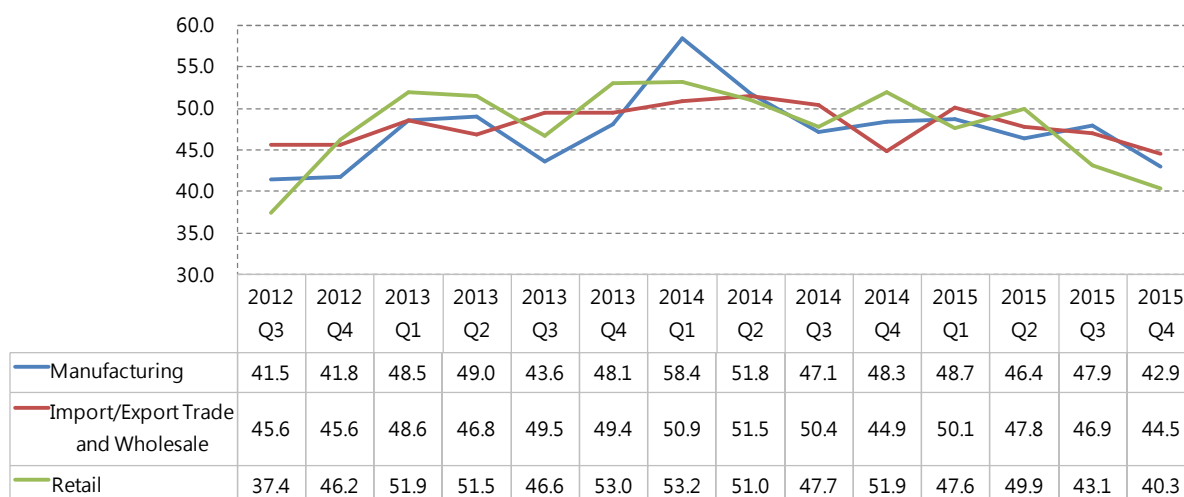
### Reasons of not Using Any Foreign Exchange Risk Management Measures



# Appendix

## Standard Chartered SME Index by Industry

Standard Chartered SME Index by Industry

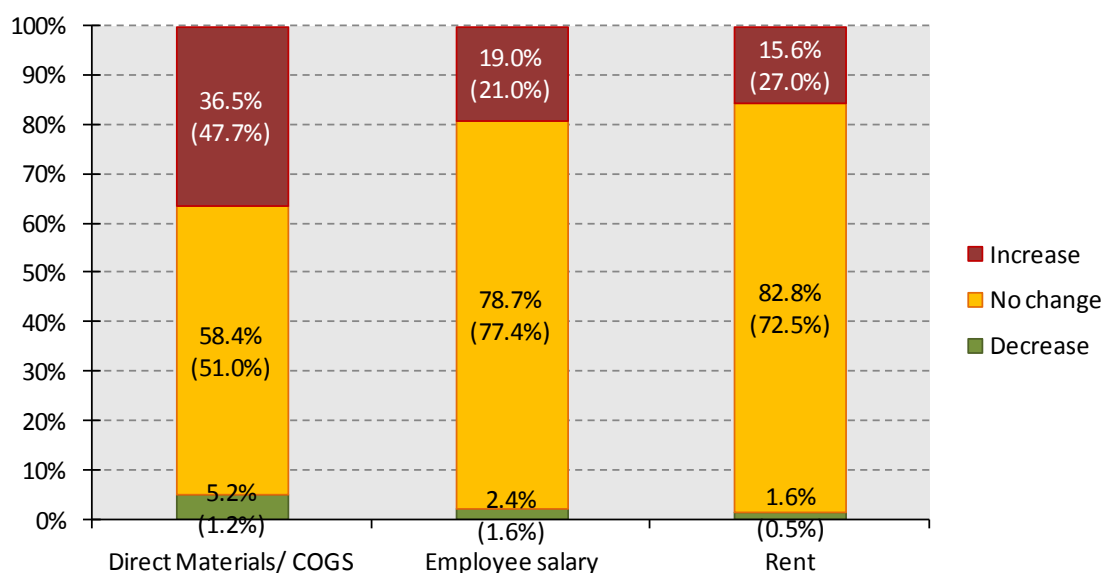


## Change of major cost components

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### Change of major cost components

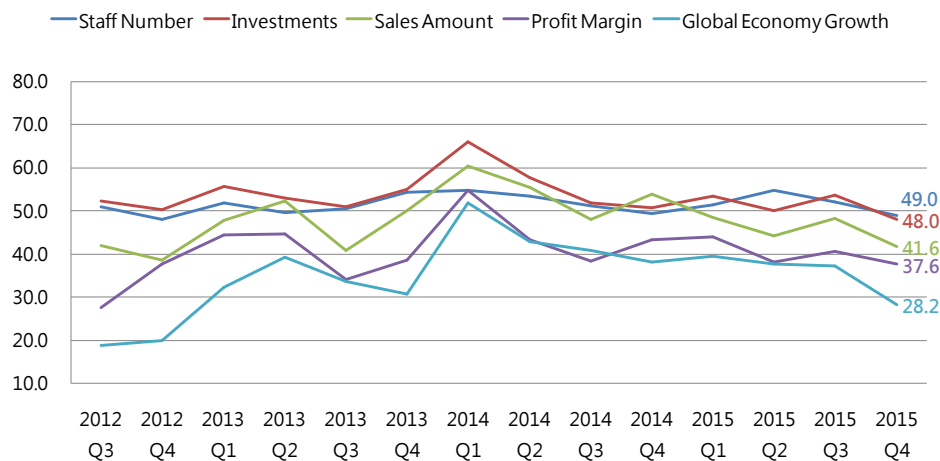
(Last quarter figures in bracket)



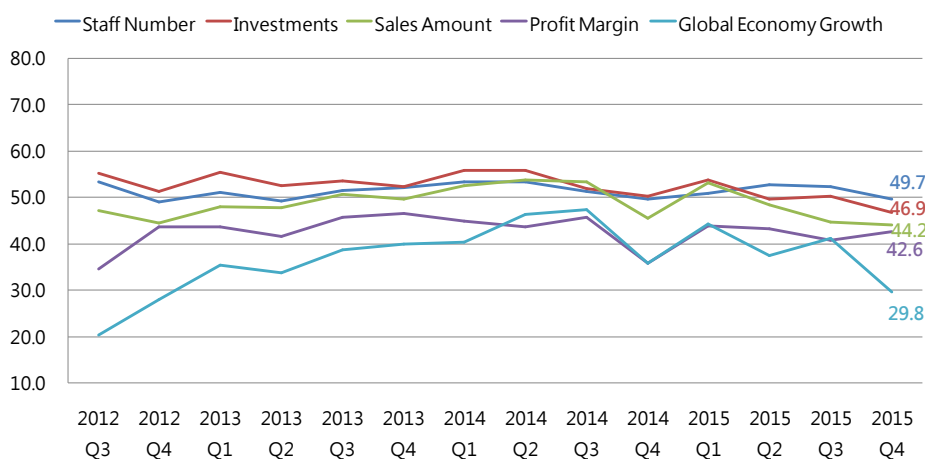
# Appendix

## Component sub-indices of 3 main industries

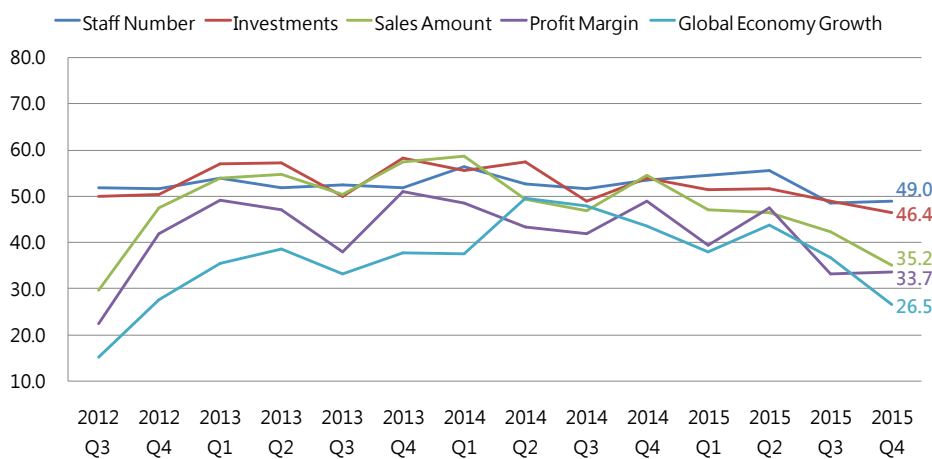
Component sub-indices of Manufacturing industry



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 January 2016.

For more details about the Index, please contact Kinson Leung at tel. (852) 2788 5795 or email: [kinsonleung@hkpc.org](mailto:kinsonleung@hkpc.org).

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