



Standard Chartered Hong Kong SME Leading Business Index

Quarter 1, 2016

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.



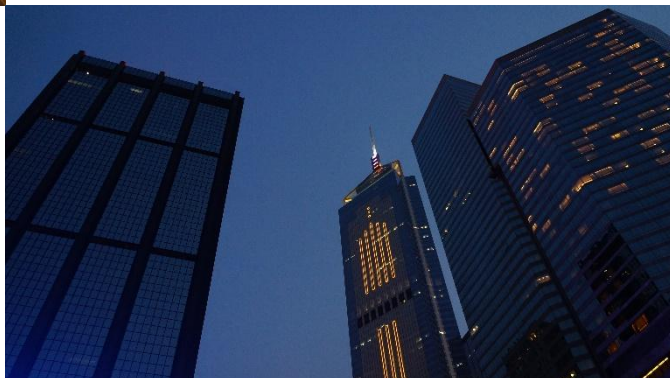
Summary

The fourteenth survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted in December 2016. Top management of 809 SMEs were surveyed to gauge their views on the outlook of the overall business environment and regional economic changes in the 1st quarter of 2016.

Key findings

The Overall Index of the Standard Chartered SME Index reported a further drop of 1.6 points to 42.8, at its record-low level since its launch. Despite the continuous pessimistic business outlook, SMEs' plans on recruitment remain neutral and their investment sentiment remains cautiously steady. Key findings of the survey are as follows:

- ⊕ Overall Index comprising five Sub-Indices. In this quarter, "Staff Number", which edged up 0.6 to 50.8, is the only Sub-Index that managed to stay above the 50 no-change mark. SMEs are under no immediate pressure to reduce staff amid the sluggish economy.
- ⊕ Sub-Indices for "Sales Amount" (40.3), "Profit Margin" (36.6), "Global Economic Growth" (26.2), and "Investments" (48.3) have dropped further. With a mild drop of 0.6, the "Investments" Sub-Index is still close to the 50 mark.
- ⊕ All the three major Industry Sub-Indices are still below the 50 threshold.
- ⊕ Both the Manufacturing Sub-Index (41.1), and Import, Export & Wholesale Sub-Index (41.6) slid to a record low, reflecting the industries expect a tough market condition ahead.
- ⊕ Despite the slightly stabilizing Retail Sub-Index with a rebound to 42.7 (up 2.4 points), a pessimistic sentiment still prevails.
- ⊕ 72% of the surveyed companies intend to maintain the current level of wages; while 26% consider a pay rise with an average increment of 4.1%. There is still no mounting pressure on layoffs and pay cuts at the moment.

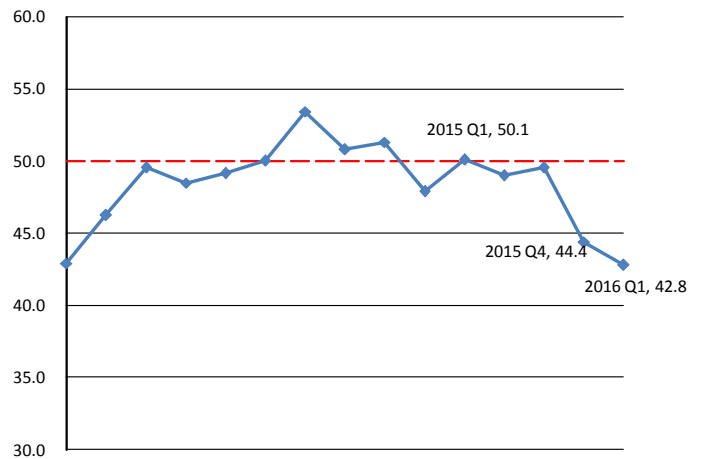


Standard Chartered SME Index

2016 Q1

42.8

Standard Chartered SME Index

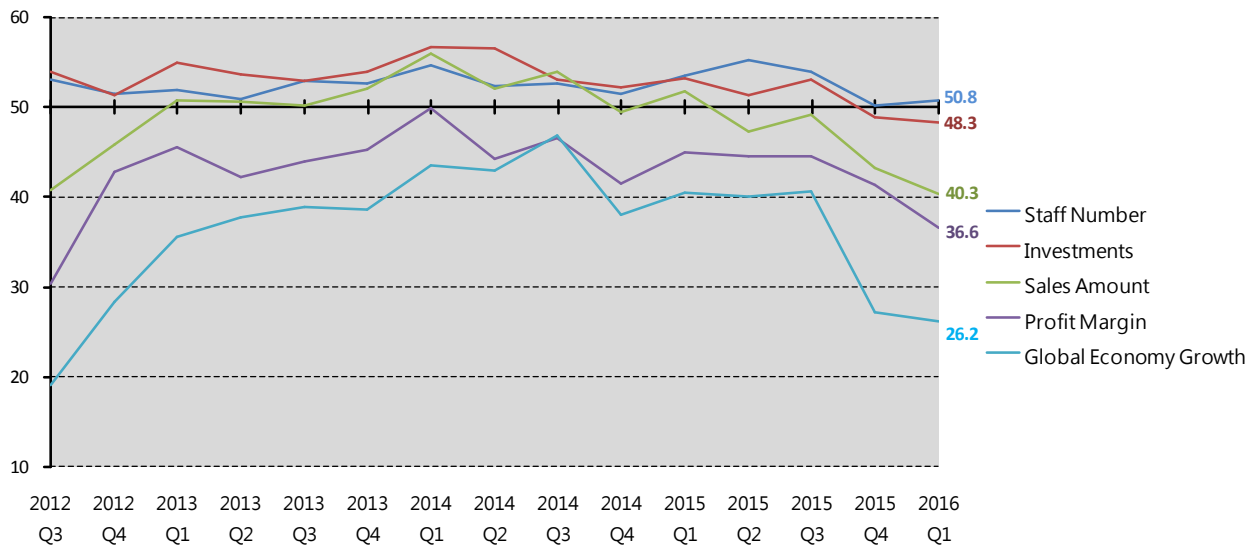


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Standard Chartered SME Index is comprised of five sub-indices, namely "Staff Number", "Investments", "Sales Amount", "Profit Margin" and "Global Economic Growth". In this quarter, "Staff Number", which edged up 0.6 to 50.8, is the only Sub-Index that managed to stay above the 50 no-change mark. SMEs are under no immediate pressure to reduce staff amid the sluggish economy. Sub-Indices for "Sales Amount" (40.3), "Profit Margin" (36.6), "Global Economic Growth" (26.2), and "Investments" (48.3) have dropped further. With a mild drop of 0.6, the "Investments" Sub-Index is still close to the 50 mark.

Compared to the first quarter of 2015 (50.1), the Index of this quarter (42.8) reduced by 7.3 points. All five sub-indices were also dropped respectively.

The five component sub-indices



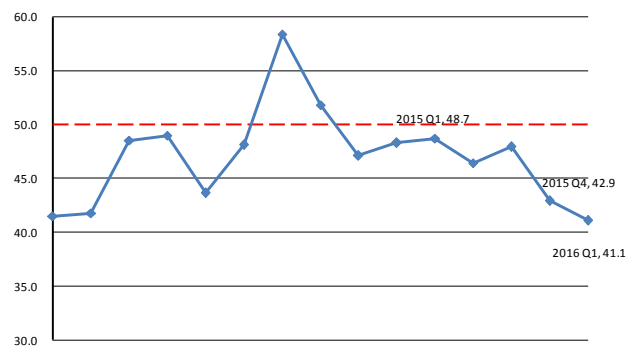
Manufacturing industry| 41.1

Manufacturing industry sub-index has decreased by 1.8 points to 41.1, at its record-low level since LBIndex launch. Comparing with same period of last year, the index has decreased significantly by 7.6 points. However, " Staff Number" and " Investment " are improving, in which "Staff Number" bounded back to above the 50-threshold. To conclude, Manufacturing industry is mainly concerned about "Sales Amount" and "Profit Margin" for the bearish outlook.



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

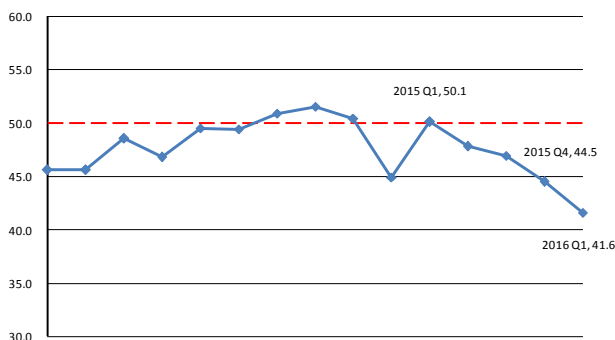
Manufacturing Industry Sub-Index



Import/Export Trade and Wholesale industry| 41.6

The Import, Export and Wholesale Industry Sub-Index has dropped by 2.9 points to 41.6, kept the downward trend as in last quarter and at its record-low level since LBIndex launch, reflecting a pessimistic sentiment towards its business prospect. Similar to Manufacturing industry, "Staff Number" bounded back to above the 50-threshold, which show the lack of workforce in the industry.

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	Up	Down
Investment	Negative	Down	Down
Sales Amount	Negative	Down	Down
Profit Margin	Negative	Down	Down
Global Economy Growth	Negative	Down	Down

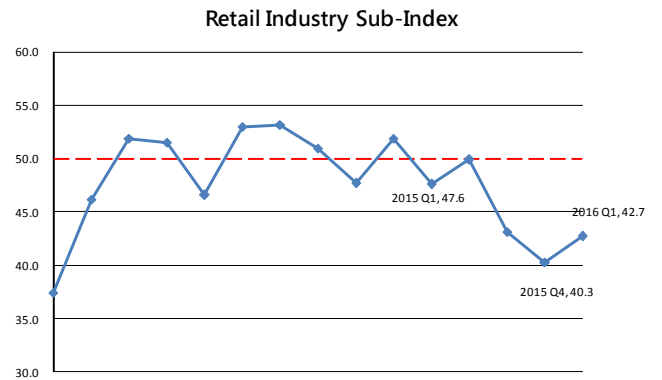


Industry Indices

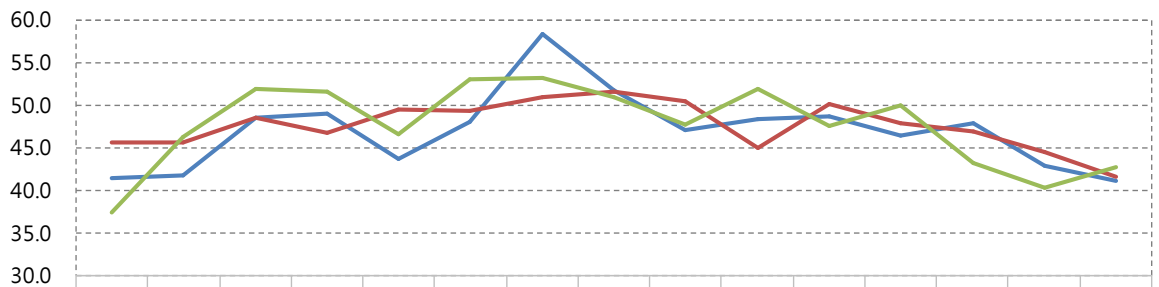
Retail industry | 42.7

The Retail Sub-Index rebounded by 2.4 points to 42.7. continues to fall further reaching 40.3 (down 2.8). Despite the confidence among retailers are slightly stabilized, with the improvement of the sub-indices except "Global Economy Growth", a pessimistic sentiment still prevails that only "Staff Number" returned to Neutral.

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



Standard Chartered SME Index by Industry



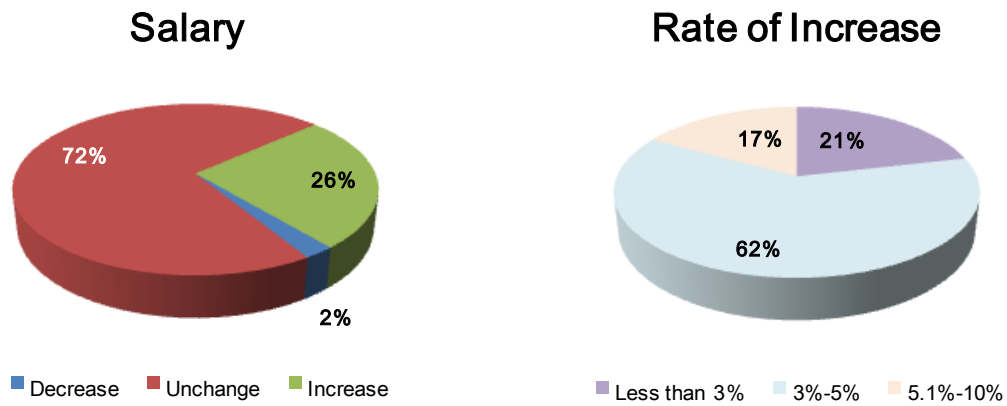
	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1
Manufacturing	41.5	41.8	48.5	49.0	43.6	48.1	58.4	51.8	47.1	48.3	48.7	46.4	47.9	42.9	41.1
Import/Export Trade and Wholesale	45.6	45.6	48.6	46.8	49.5	49.4	50.9	51.5	50.4	44.9	50.1	47.8	46.9	44.5	41.6
Retail	37.4	46.2	51.9	51.5	46.6	53.0	53.2	51.0	47.7	51.9	47.6	49.9	43.1	40.3	42.7



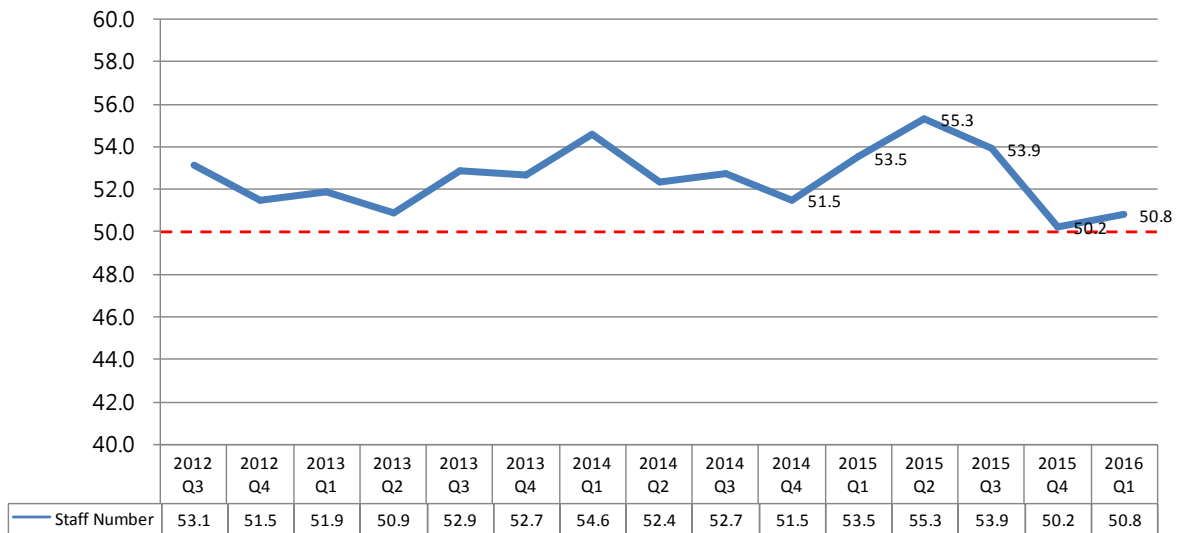
Featured topic

(a) Salary Adjustment

The featured topic in this quarter discussed the view of SMEs toward the salary adjustment in the coming quarter. It is noticed that 72% of the surveyed companies intend to maintain the current level of wages; while 26% consider a pay rise with an average increment of 4.1%.



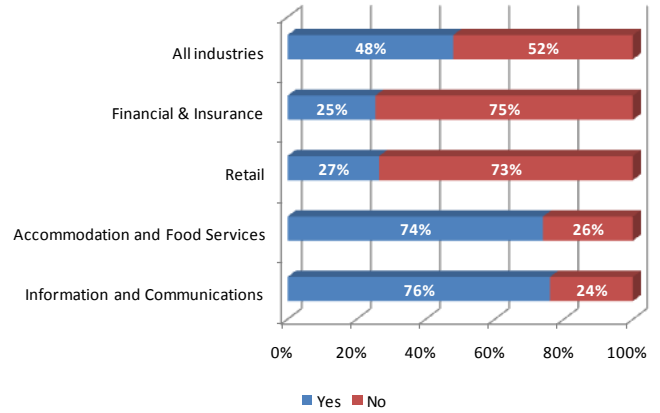
Staff Number component sub-index



(b) Online marketing

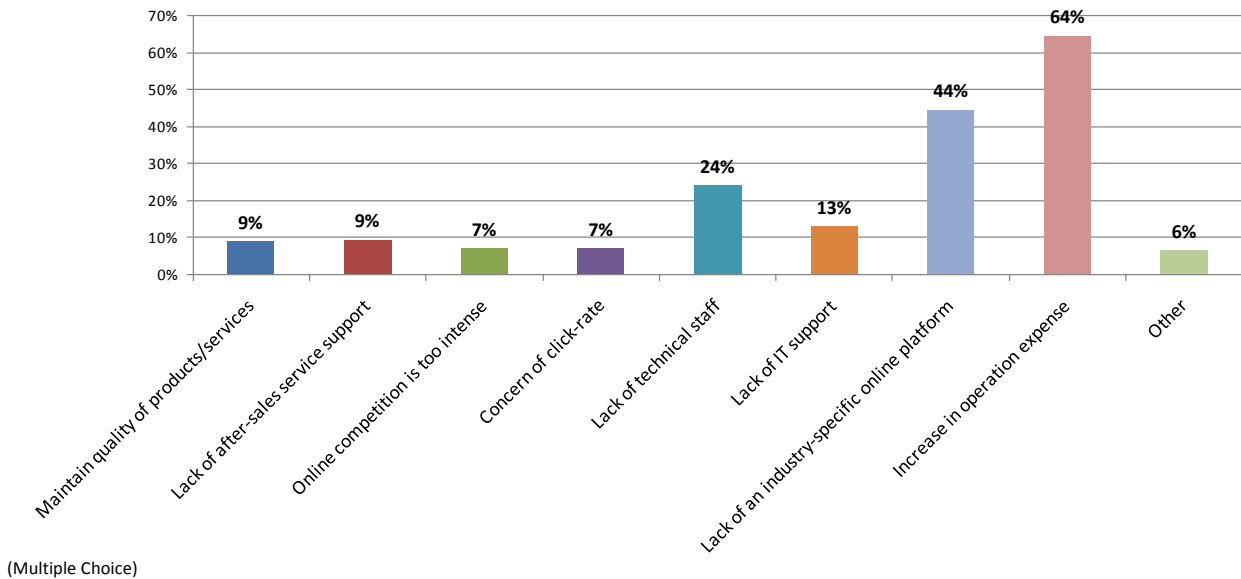
The featured topic in this quarter also study the usage of online marketing among SMEs. About 48% of the respondents utilize online channels for marketing and promotion. The Information and Communications (76%), and Accommodation and Food Services (74%) industries are the top users; while the Financial & Insurance (25%) and Retail (27%) sectors are the least frequent users.

Usage of Online Marketing



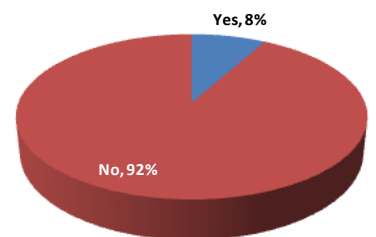
They do not deploy e-marketing due to the “increase in operation expense” (64%), “lack of an industry-specific online platform” (44%), and “lack of technical staff” (24%).

Reasons of Not Using Online Marketing



Around 92% of those SMEs whose are not using online marketing do not plan to use in the future.

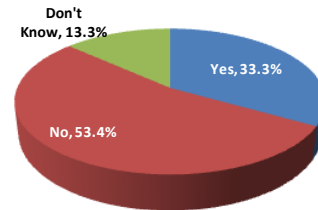
Future Usage



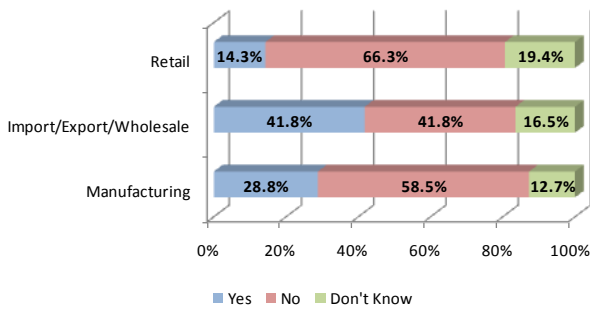
(c) The impact of US interest rate hike towards SMEs

Impact of US interest rate hike towards the business in 2016

The impact of US interest rate hike towards SMEs has also been studied in this quarter. Around 33.3% of the SMEs think that the US interest rate hike will affect its operation situation in 2016.



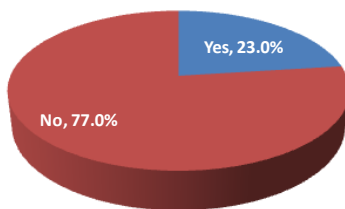
Views of Three Main Industries



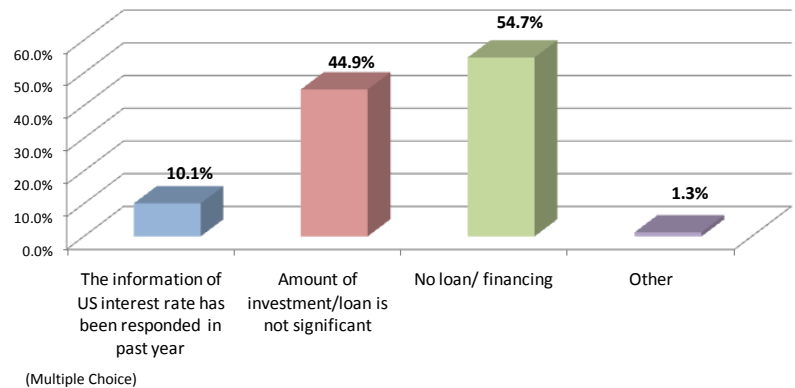
For the 3 major industries, Import, Export & Wholesale expect the effect of US interest rate hike will be more relevant to their industry, with 41.8% think that the US interest rate hike will affect its operation situation in 2016.

Around 77% of the respondents is not going to adjust their investment or loan strategy. The reasons are mainly "No loan/ financing" (54.7%), following by "Amount of investment/loan is not significant"(44.9%) and "The information of US interest rate has been responded in past year"(10.1%).

Investment/ Loan Strategy Adjustment



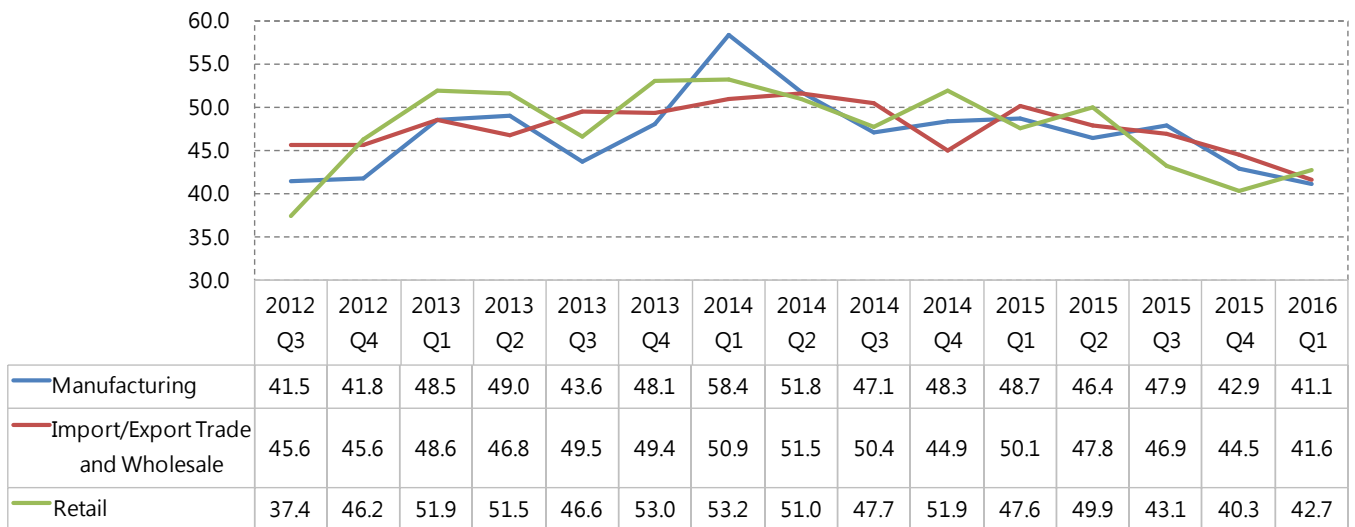
Reasons of Not Adjusting



Appendix

Standard Chartered SME Index by Industry

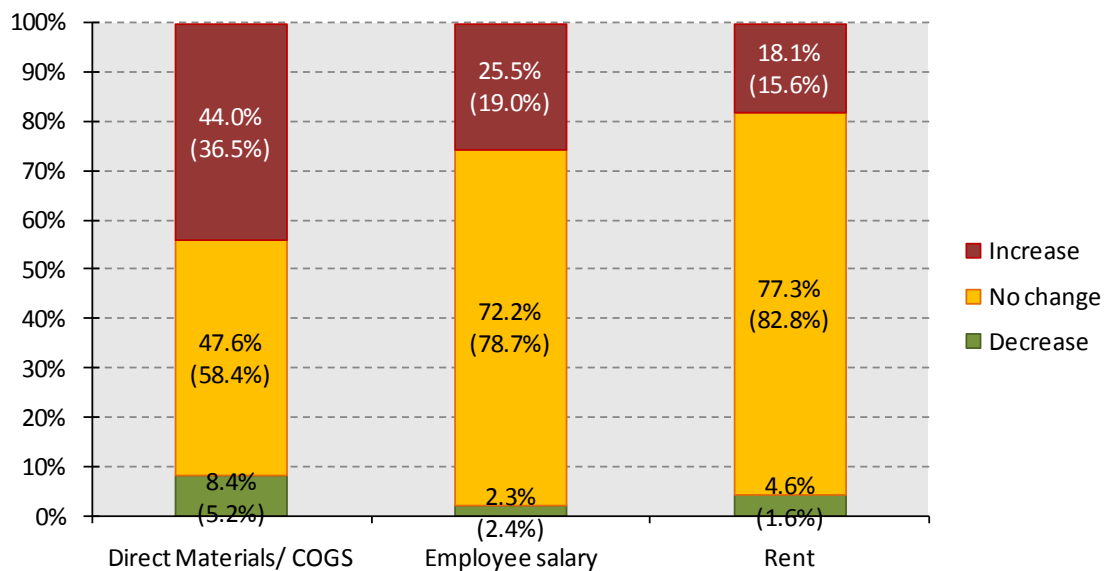
Standard Chartered SME Index by Industry



Change of major cost components

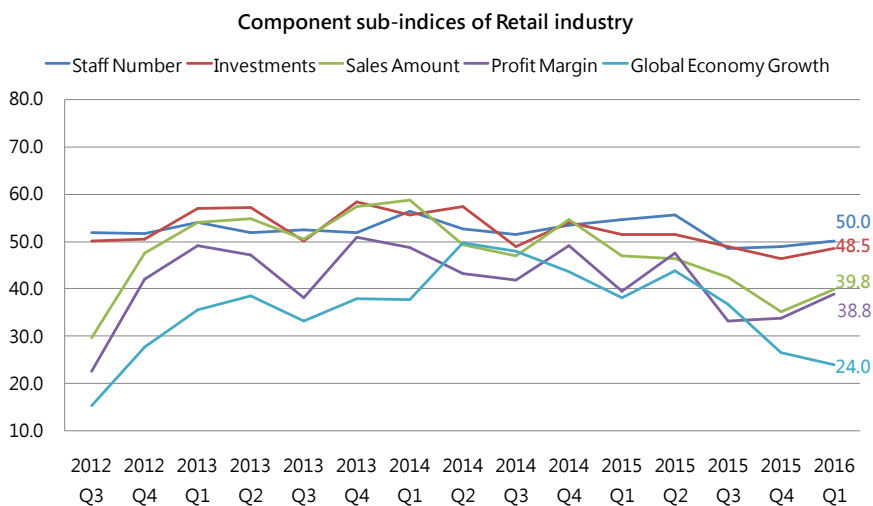
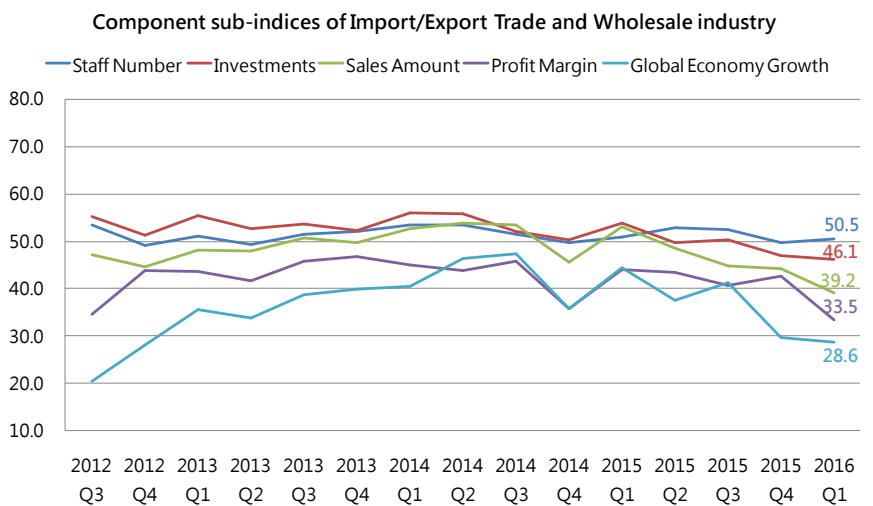
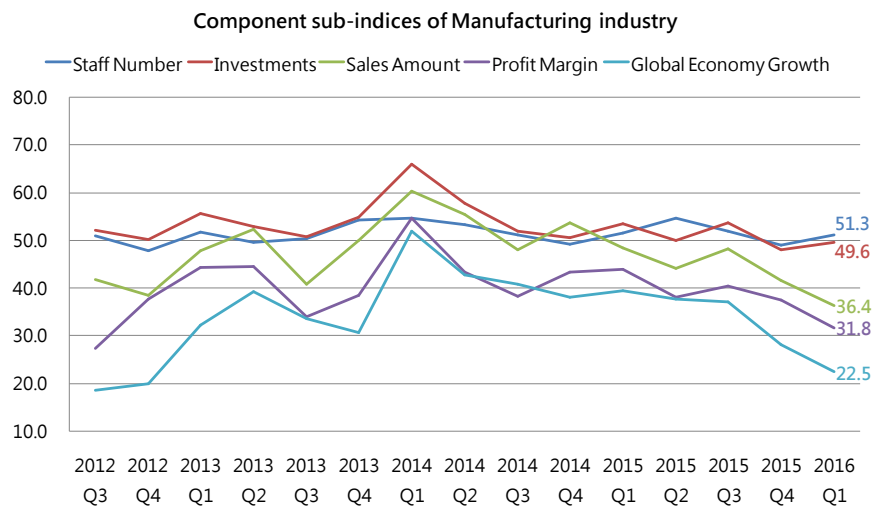
Change of major cost components

(Last quarter figures in bracket)



Appendix

Component sub-indices of 3 main industries



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 April 2016.

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

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