

A wide-angle photograph of a Hong Kong highway interchange. In the background, several tall skyscrapers are visible against a blue sky with scattered white clouds. The foreground shows a multi-lane highway with cars and vans moving along. There are green landscaped areas with palm trees and other plants between the road sections. A tall light pole stands on the right side of the highway.

Standard Chartered Hong Kong SME Leading Business Index

Quarter 1, 2020

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 no less than 800 local SMEs from the manufacturing, import/export trade and wholesale, retail, accommodation and catering services, information and communications, finance and insurance, professional services, and real estate industries. It covers SMEs’ outlook on their ‘Recruitment Sentiment’, ‘Profit Margin’, ‘Investment Sentiment’, ‘Business Condition’, and ‘Global Economy’ for the next quarter.

Methodology

Sample Distribution

Data are collected from 825 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 activities 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
Recruitment Sentiment	25%
Investment Sentiment	25%
Business Condition	20%
Profit Margin	20%
Global Economy	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 31st survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted in December 2019. Top management of 825 SMEs were surveyed to gauge their views on the outlook of the overall business environment and regional economic changes in the 1st quarter of 2020.

Key Findings

The 2020 Q1 Overall Index of the Standard Chartered SME Index increased by 1.7 points, reading at 33.1, indicating that SMEs' confidence in the business environment turns better. Key findings of the survey are as follows:

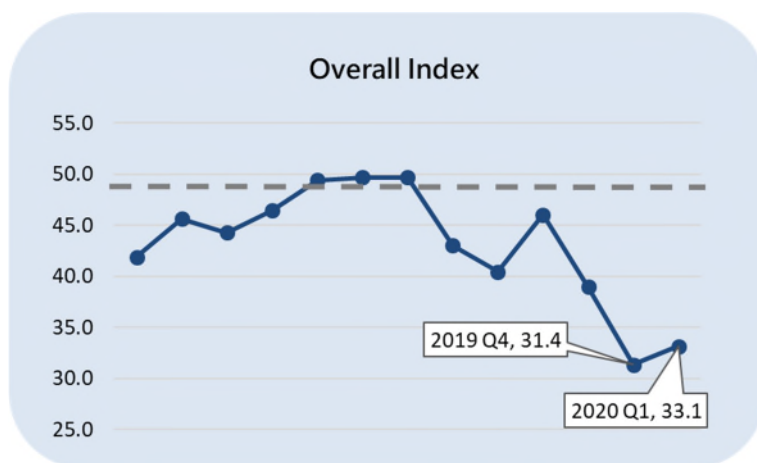
- ⊕ Overall Index comprising five sub-indices, and all the sub-indices increased simultaneously; "Global Economy" recorded a relatively large climb of 6.5 points, increased to 15.4;
- ⊕ "Manufacturing Industry" and "Import/Export Trade & Wholesale Industry" sub-indices increased when compared to last quarter, while "Retail Industry" recorded a slight decrease by 1.8 points to 25.5;
- ⊕ Most of the surveyed SMEs remain conservative for their business strategies in 2020, while there was a slight increase in SMEs inclining to pursue progressive approach;
- ⊕ To cope with 2020 business challenges, 36% of surveyed SMEs said they would lower operation cost, followed by improve customer service (35%), and develop new business/product (32%);
- ⊕ 65% of surveyed SMEs said they were planning to implement their business strategies in the first quarter of 2020, reflecting that SMEs are proactively and swiftly responding to business challenges in 2020;
- ⊕ When being asked about the supports they would like to receive when formulating business strategy, 91% of surveyed SMEs needed external supports. Among the respondents, most of surveyed SMEs (55%) wish to have funding support, while 34% and 32% of them would like to have more supports on marketing and promotion, as well as business partners searching respectively;
- ⊕ Regarding the funding support, 51% of surveyed SMEs wish government and public organisations would simplify application procedures of funding schemes, followed by introduce more support measures (46%), accelerate processing time of funding schemes (43%) and increase limits of funding schemes (40%);
- ⊕ 50% of surveyed SMEs wish banks and financial institutions would reduce interest rate, followed by introduce simple loan products (36%), shorten processing time of loan applications (35%) and increase the loan amount (33%);
- ⊕ In respect of assistance on digital technology deployment, about 28% of surveyed SMEs wish to have more supports on big data integration; followed by cyber security (27%), process automation (23%) and IoT application (21%).



Standard Chartered SME Index

2020 Q1

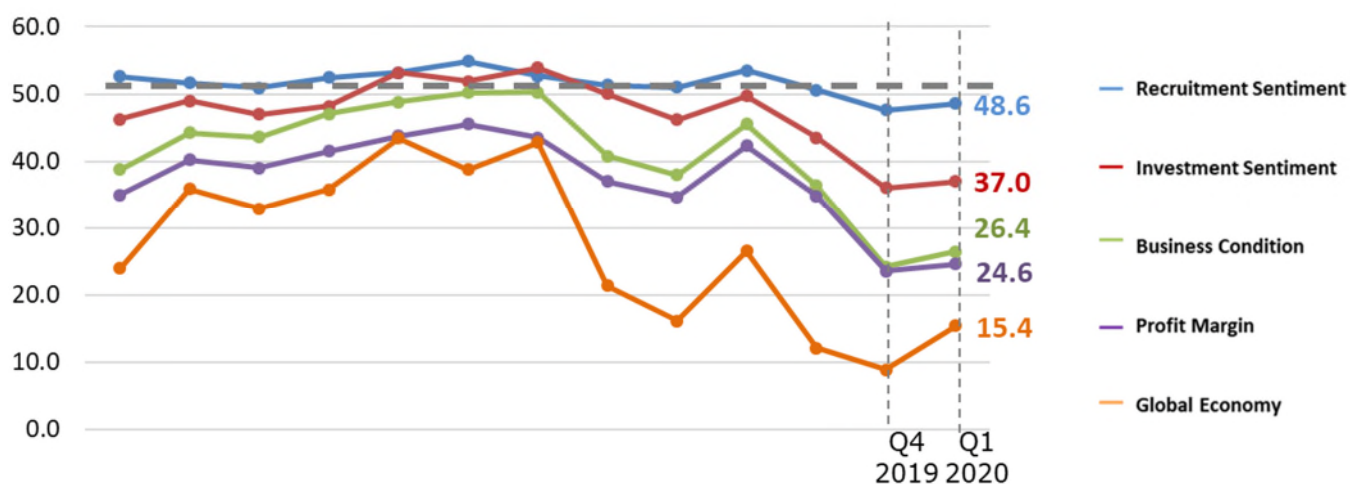
33.1



Compared with last quarter, the Overall Index increased by 1.7 points to 33.1, indicating that SMEs' confidence in the business environment turned better.

This quarter, all the five sub-indices* of the Overall Index increased simultaneously. "Global Economy" recorded a relatively large climb of 6.5 points, increased to 15.4. "Recruitment Sentiment" increased from 47.6 to 48.6, while "Investment Sentiment" (37.0), "Business Condition" (26.4) and "Profit Margin" (24.6) respectively increased by 0.9, 2.2 and 1.0 points.

The Five Component Sub-Indices



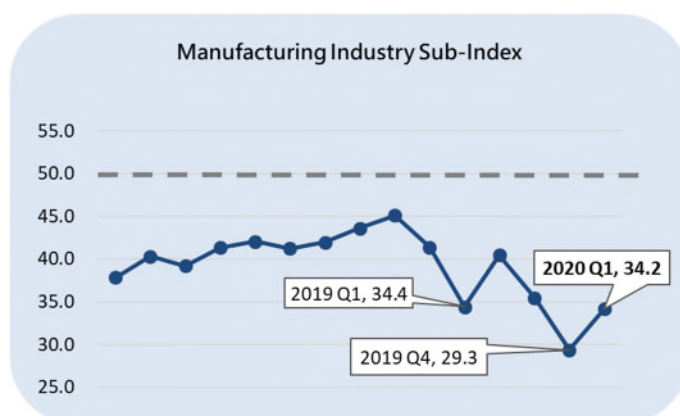
Industry Sub-indices

Manufacturing Industry | 34.2

Manufacturing Industry sub-index increased by 4.9 points to 34.2. Compared to last quarter, "Global Economy" sub-index recorded a relatively large increase of 12.5 points, increased to 19.3.



Component	Index	Compare to last quarter	Compare to same period of last year
Industry Index	34.2	Up	Down
Recruitment Sentiment	48.4	Up	Up
Investment Sentiment	39.3	Up	Down
Business Condition	27.5	Up	Down
Profit Margin	24.2	Up	Down
Global Economy	19.3	Up	Up

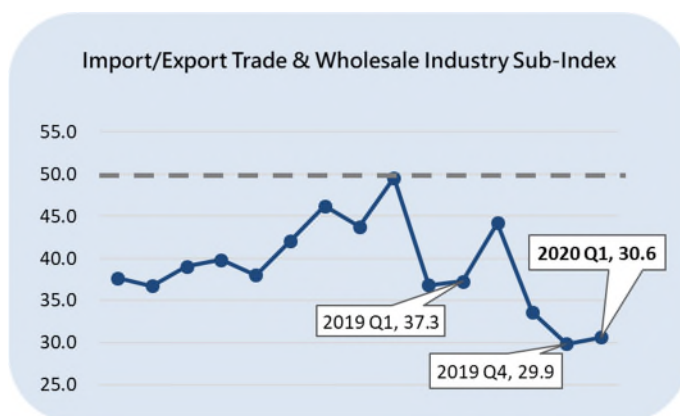


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Import/Export Trade and Wholesale Industry | 30.6

Import/Export Trade and Wholesale Industry sub-index increased by 0.7 points to 30.6. Compared to last quarter, "Investment Sentiment", "Business Condition" and "Global Economy" sub-indices recorded a slight increase.

Component	Index	Compare to last quarter	Compare to same period of last year
Industry Index	30.6	Up	Down
Recruitment Sentiment	46.6	Down	Down
Investment Sentiment	35.6	Up	Down
Business Condition	24.1	Up	Down
Profit Margin	21.0	Down	Down
Global Economy	10.6	Up	Down

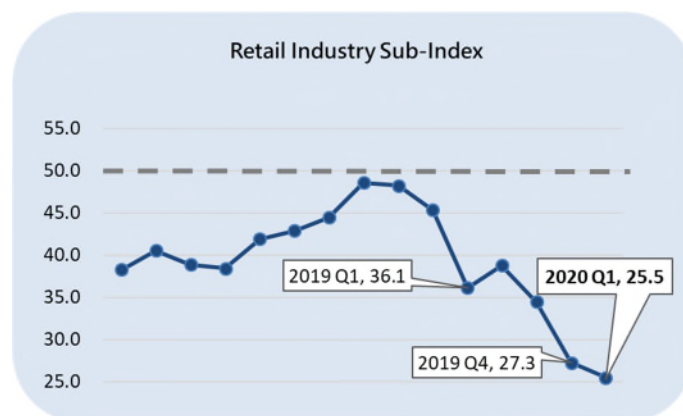


Industry Sub-indices

Retail Industry | 25.5

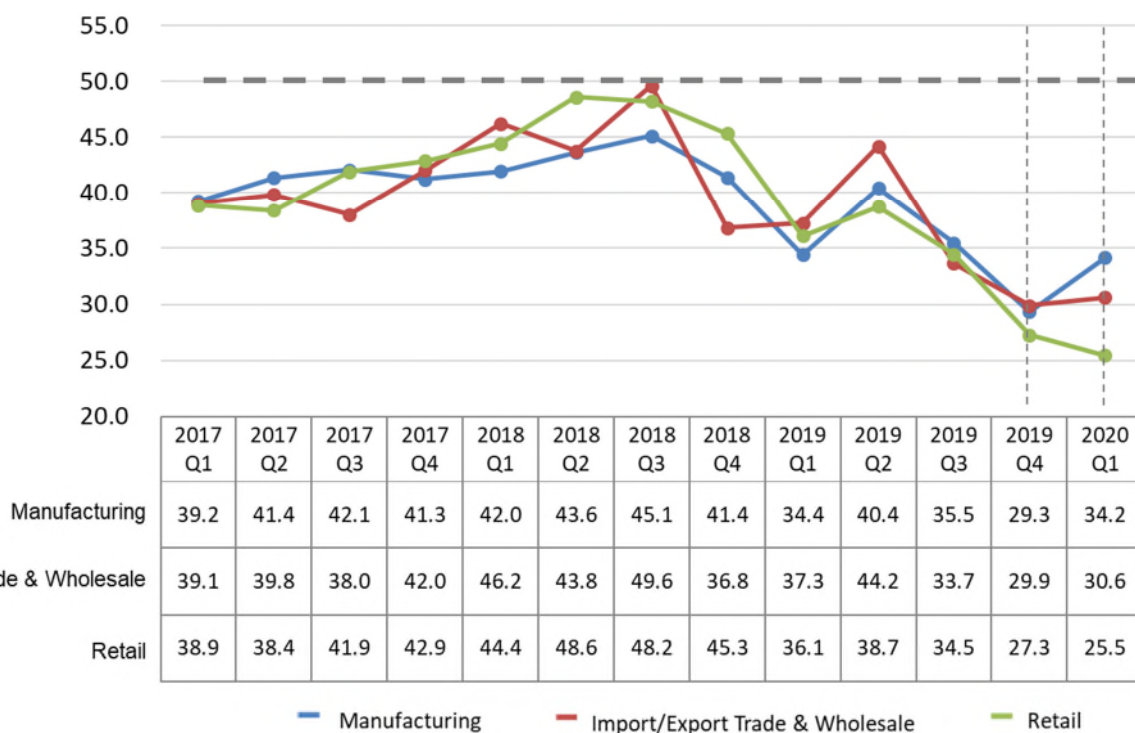
Retail Industry sub-index decreased by 1.8 points to 25.5. Compared to last quarter, only "Global Economy" sub-index recorded a slight increase.

Component	Index	Compare to last quarter	Compare to same period of last year
Industry Index	25.5	Down	Down
Recruitment Sentiment	45.8	No change	Down
Investment Sentiment	27.1	Down	Down
Business Condition	15.1	Down	Down
Profit Margin	15.1	Down	Down
Global Economy	12.0	Up	Down



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SME Index for Selected Industries

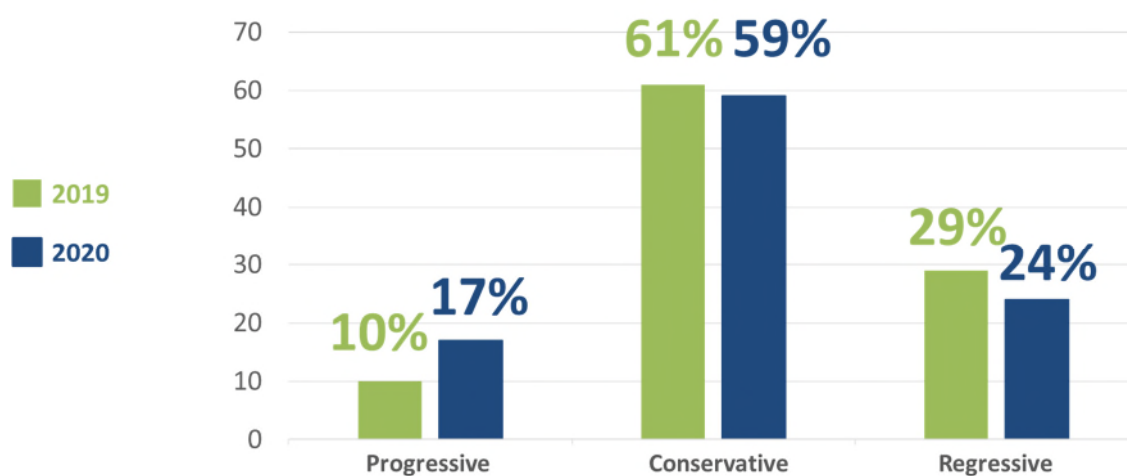


Featured Topic

SMEs' Response to Business Challenges in 2020

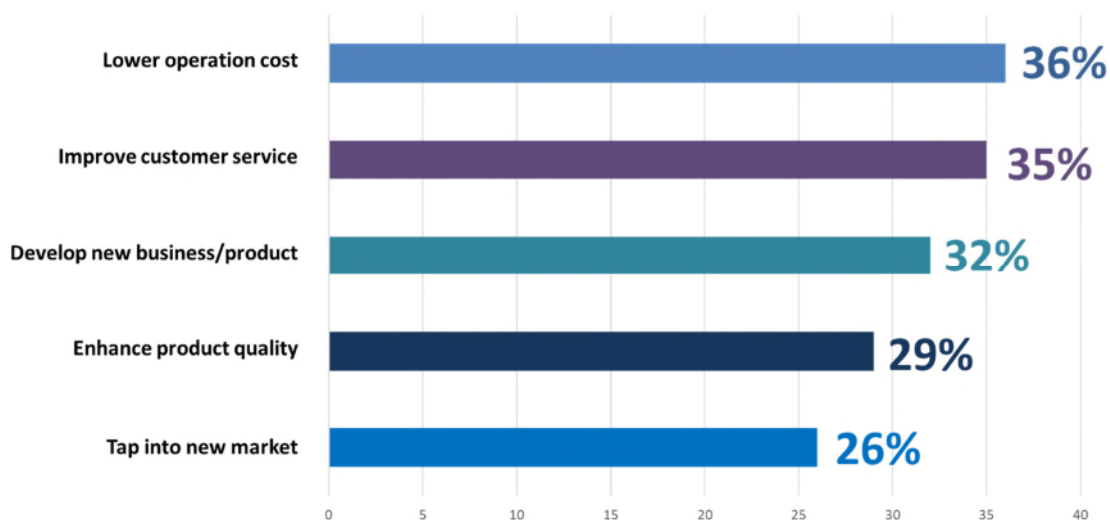
In view of the changing global economy, the survey also examined SMEs' business strategic direction in 2020. Most of the surveyed SMEs (59%) remain conservative for their business strategy in 2020, while more SMEs (17%) tend to pursue progressive approach comparing to last year.

SMEs' Business Strategic Direction:



To cope with 2020 business challenges, 36% of surveyed SMEs said they would lower operation cost, followed by improve customer service (35%), and develop new business/ product (32%).

SMEs' Response to Business Challenges in 2020:

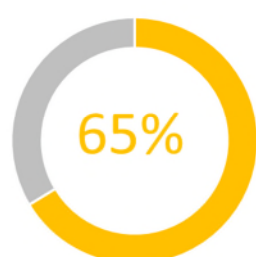


Featured Topic

SMEs' Response to Business Challenges in 2020

When being asked about the plan for implementing business strategy, 65% of surveyed SMEs said they were planning to implement their business strategies in the first quarter of 2020 and 20% of surveyed SMEs would implement their plans in the second quarter of 2020.

SMEs' Expected Timeline to Implement Business Strategy:



2020 Q1



2020 Q2

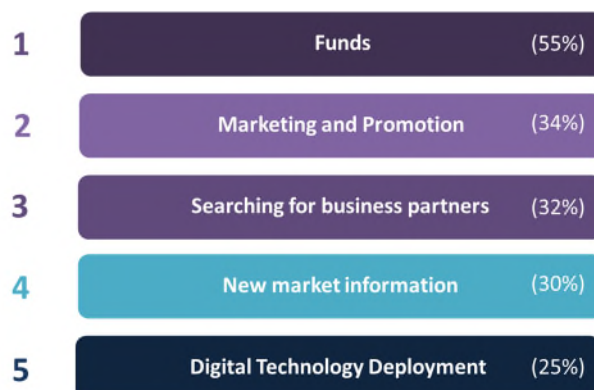


2020 Q3 onwards

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When formulating business strategy, 91% of surveyed SMEs said they needed external supports. Among the respondents, most of the surveyed SMEs (55%) wish to have funding support, while 34% and 32% of them would like to have more supports on marketing and promotion, as well as business partners searching respectively.

Supports that SMEs Wish to Receive when Formulating Business Strategy:



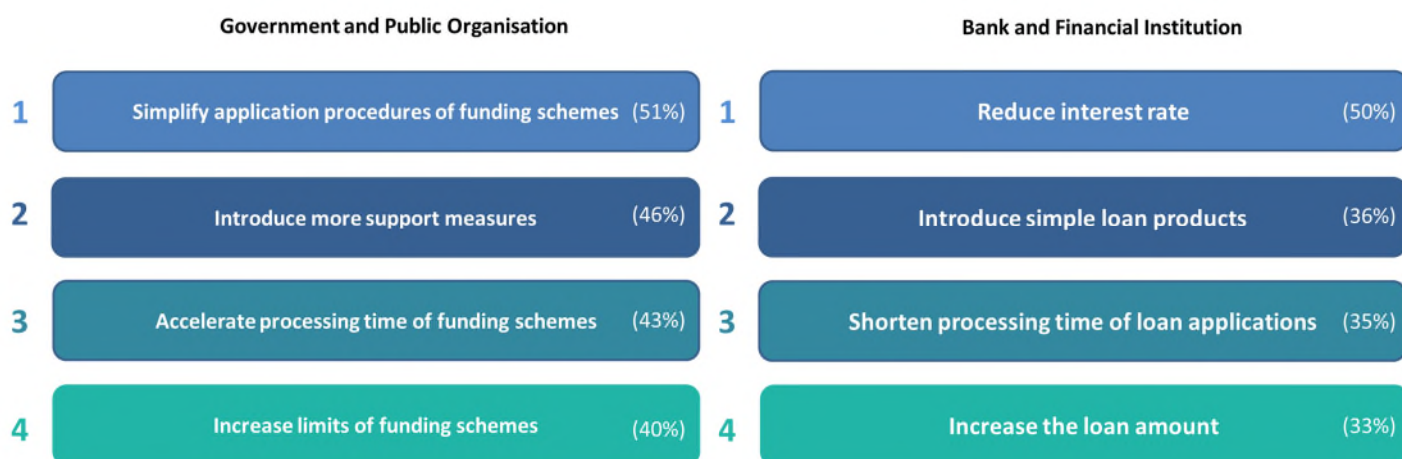
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SMEs' Response to Business Challenges in 2020

Regarding the assistance on funding support, 51% of surveyed SMEs wish government and public organisations would simplify application procedures of funding schemes, followed by introduce more support measures (46%), accelerate processing time of funding schemes (43%) and increase limits of funding schemes (40%).

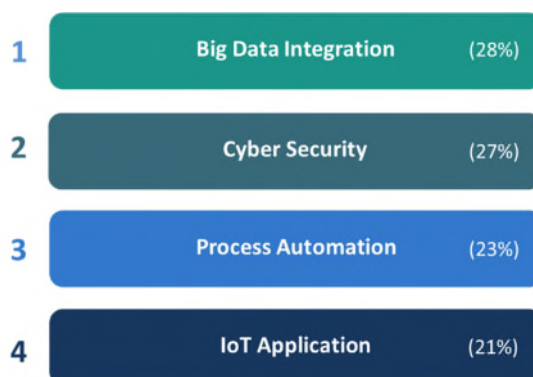
50% of surveyed SMEs wish banks and financial institutions would reduce interest rate, followed by introduce simple loan products (36%), shorten processing time of loan applications (35%) and increase the loan amount (33%).

Assistance that SMEs Wish to Receive on Funding Support:



Digital technology deployment is another aspect that SMEs require. According to the survey, 28% of surveyed SMEs wish to have more supports on big data integration; followed by cyber security (27%), process automation (23%) and IoT application (21%).

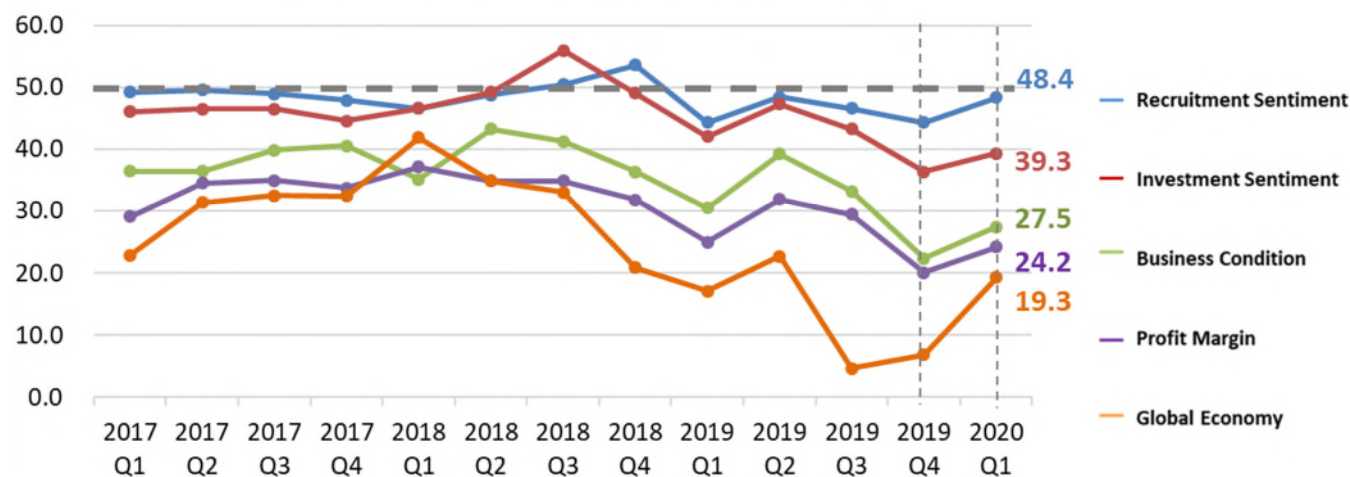
Supports that SMEs Wish to Receive on digital technology deployment:



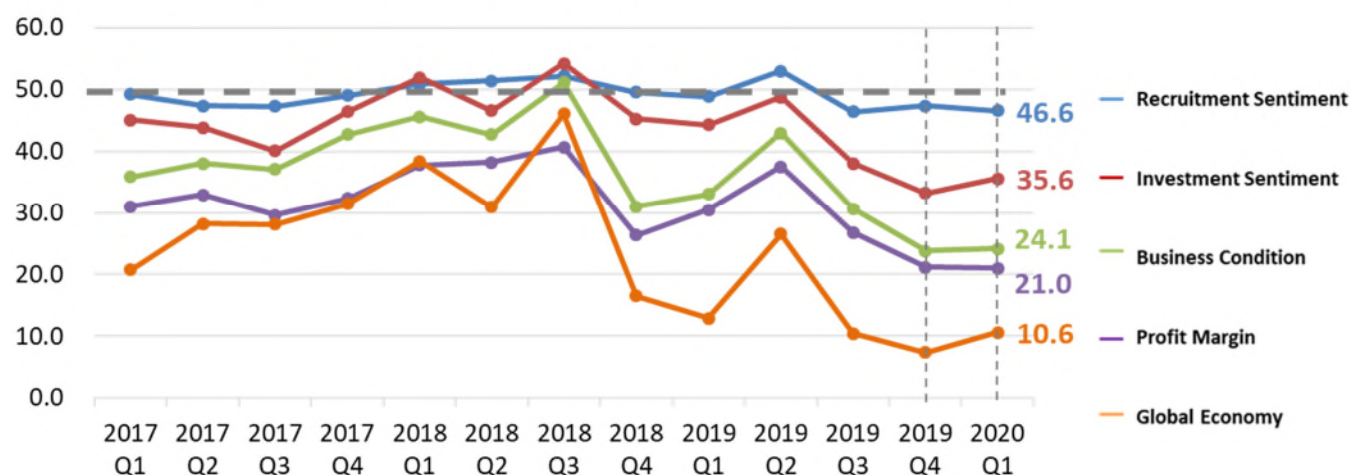
Appendix

Component Sub-Indices of 3 Main Industries

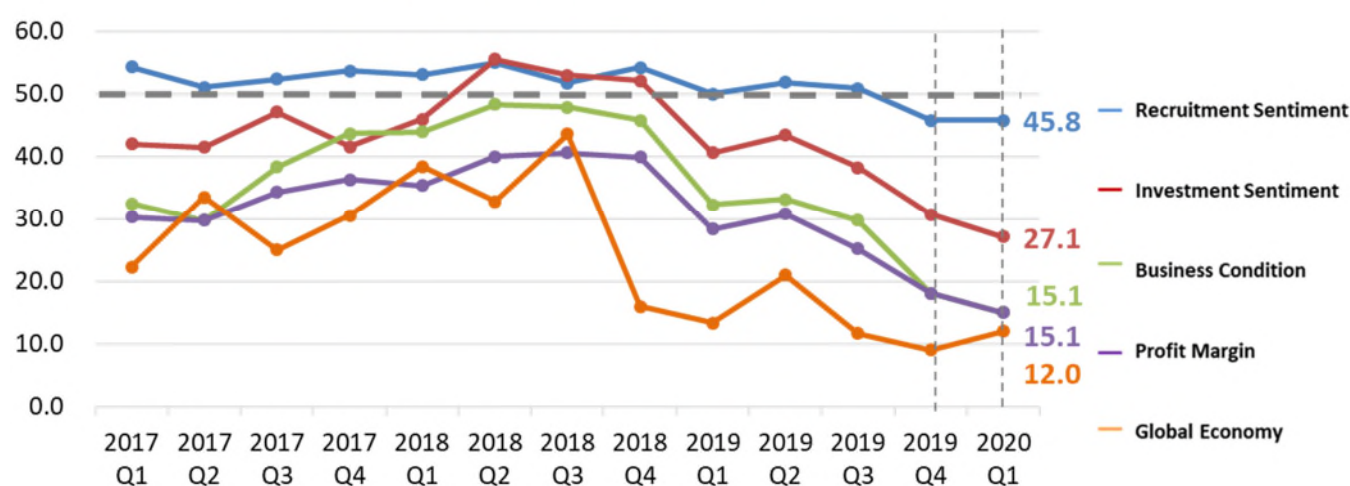
Component Sub-Indices of Manufacturing Industry



Component Sub-Indices of Import/Export Trade and Wholesale Industry

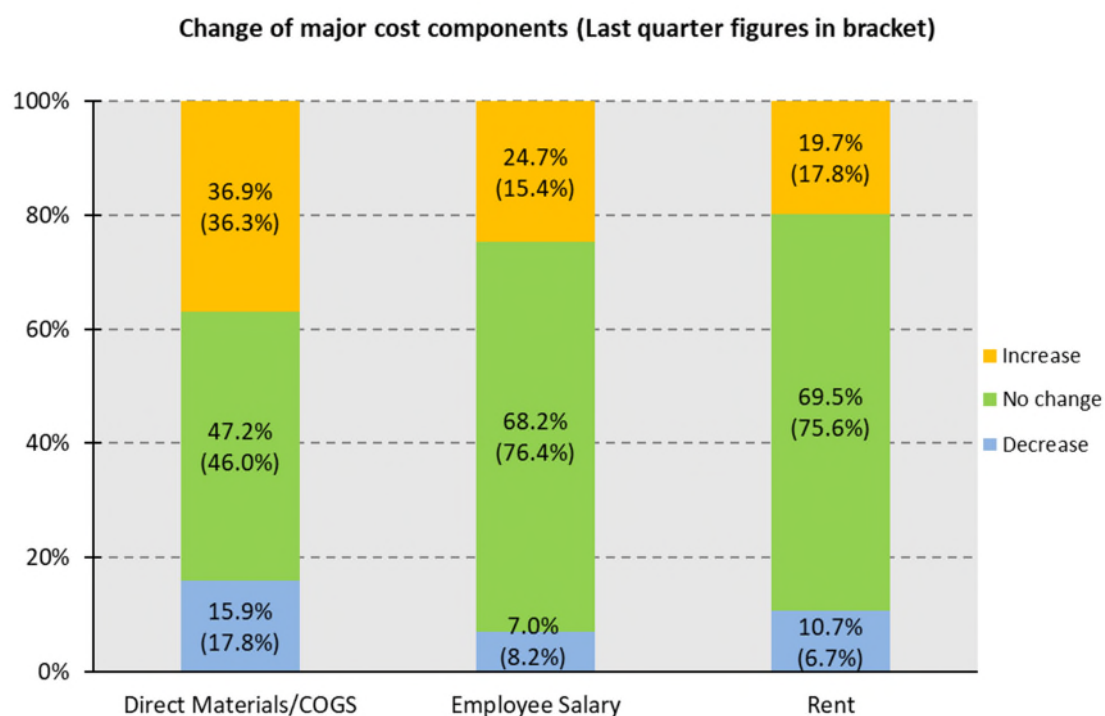


Component Sub-Indices of Retail Industry



Appendix

Change of Major Cost Components



Report Release

The Standard Chartered SME Index is released every quarter. Full reports can be downloaded at www.smeone.org.

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