

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 depicts a modern, well-maintained urban environment.

Standard Chartered Hong Kong SME Leading Business Index

Quarter 4, 2017

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 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.



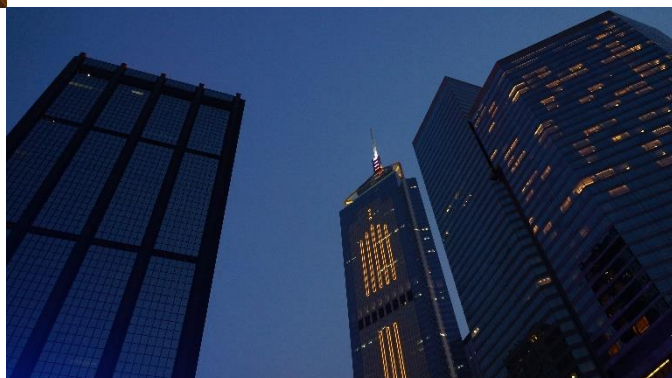
Summary

The 22nd survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted from mid to late September 2017. Top management of 820 SMEs were surveyed to gauge their views on the outlook of the overall business environment and regional economic changes in the 4th quarter of 2017.

Key findings

The Overall Index of the Standard Chartered SME Index has rebounded 2.2 points to 46.5, a record high in two years. Key findings of the survey are as follows:

- ⊕ Overall Index comprising five Sub-Indices, all the Sub-indices have improved, with “Staff Number” Sub-Index (52.5) remained positive;
- ⊕ The Sub-Indices for “Investments” (48.2), “Sales Amount” (47.1), “Profit Margin” (41.5) and “Global Economic Growth” (35.8) have increased 1.2, 3.5, 2.5 and 2.9 points respectively;
- ⊕ All the three major Industry Sub-Indices still hover around 40, way below the 50 threshold;
- ⊕ The Manufacturing Sub-Index edges down 0.8 point to 41.3, marred by the lowered “Investments” sentiment;
- ⊕ On the other hand, the Import, Export & Wholesale Sub-Index rises 4.0 points to 42.0;
- ⊕ While the Retail Sub-Index (42.9) hits a two-year high, reflecting a brightening outlook in this sector;
- ⊕ Nearly 40% of the surveyed companies have invested more than \$500,000, with “surplus from business revenue” (75%), “private investment” (31%) and “bank financing” (13%) being the top three sources of capital;
- ⊕ In the past three months, 85% of SMEs recorded accounts receivable, among which 67% was greater than or equivalent to their revenue.

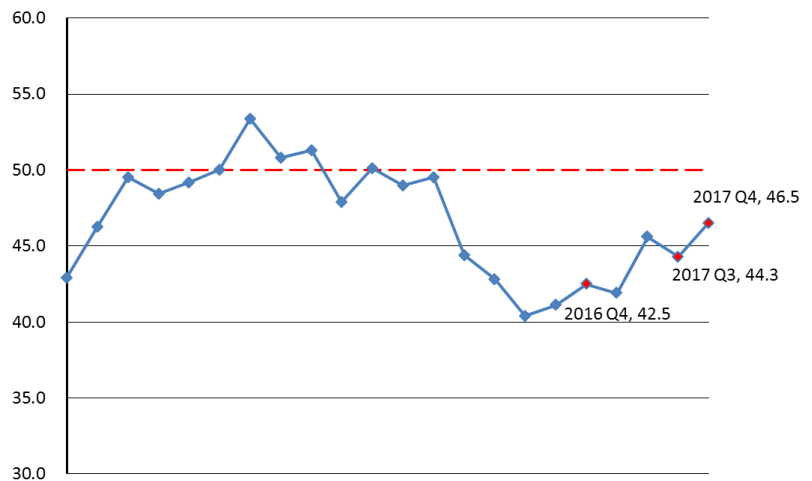


Standard Chartered SME Index

2017 Q4

46.5

Standard Chartered SME Index



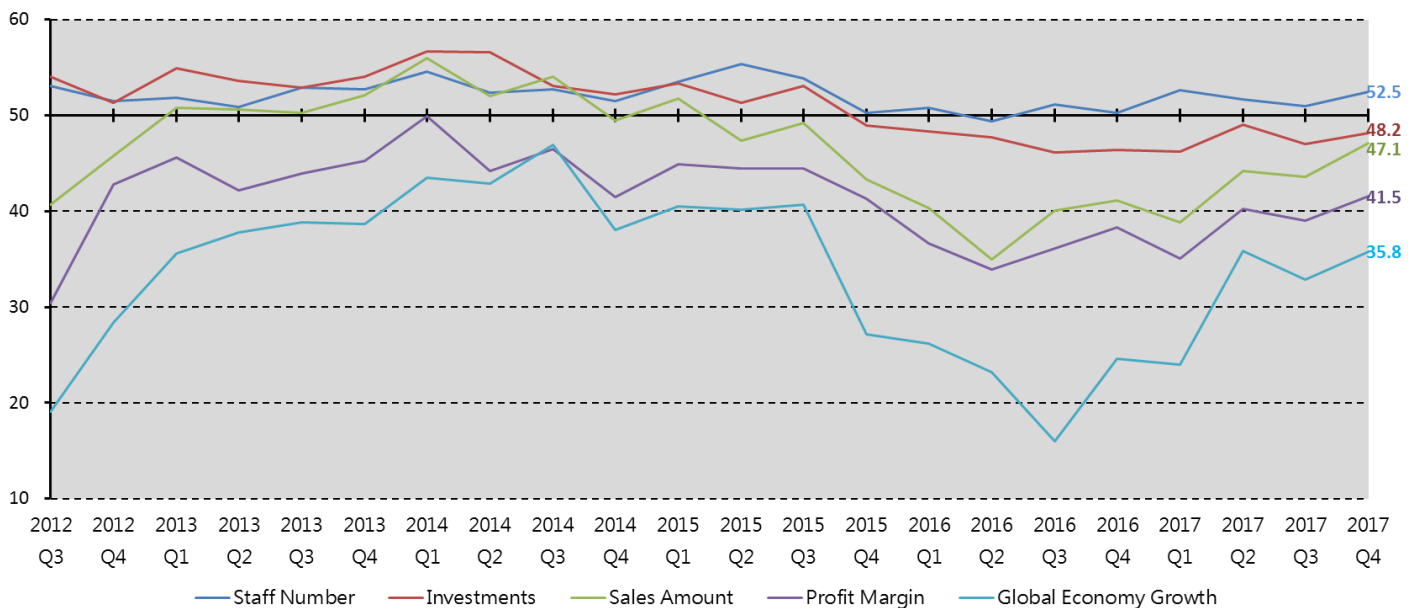
The Overall Index of the Standard Chartered SME Index has rebounded 2.2 points to 46.5, a record high in two years, reflecting business confidence of SMEs has moved one step closer towards recovery.

Overall Index comprising five Sub-Indices. In this quarter, all the Sub-indices have improved. The "Staff Number" Sub-Index (52.5) remains positive, while the Sub-Indices for "Investments" (48.2), "Sales Amount" (47.1), "Profit Margin" (41.5) and "Global Economic Growth" (35.8) have increased 1.2, 3.5, 2.5 and 2.9 points respectively.

Compared to the fourth quarter of 2016 (42.5), the Index of this quarter (46.5) increased by 4.0 points. All the sub-indices were increased simultaneously.

4

The five component sub-indices



LB Index Industry Indices

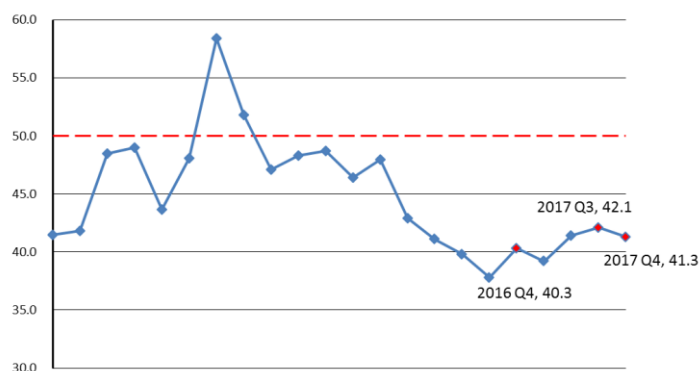
Manufacturing industry| 41.3

Manufacturing industry sub-index has decreased by 0.8 points to 41.3, marred by the lowered “Investments” sentiment. Compared to the same quarter in last year(40.3), the sub-index raised 1.0 points in contrast. Despite the slightly improvement in “Sales Amount”, all the other sub-indices dropped simultaneously. Overall, the manufacturing industry yet to be improved.

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



Manufacturing Industry Sub-Index

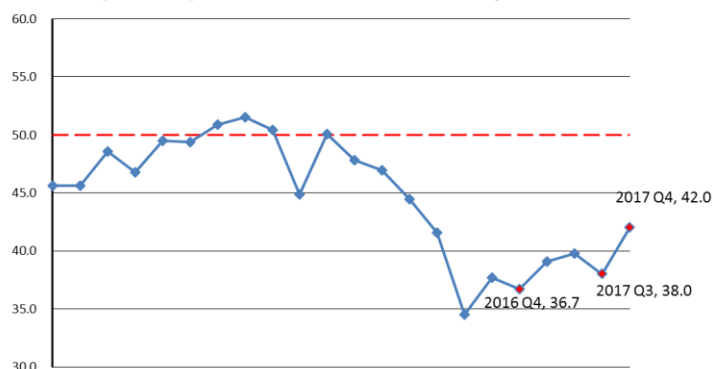


5

Import/Export Trade and Wholesale industry| 42.0

The Import, Export and Wholesale Industry Sub-Index has increased by 4.0 points to 42.0. Compared to same period in last year (36.7), the sub-index also increased significantly by 5.3 points. The index backs to the 40 level with all the sub-indices increased simultaneously, the recovery of industry outlook is in progress.

Import/ Export and Wholesales Industry Sub-Index



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



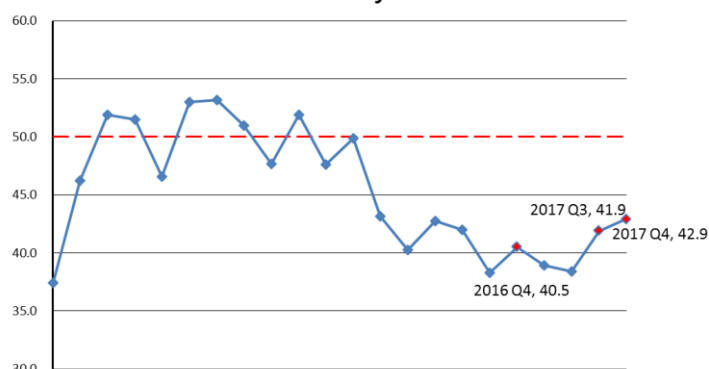
Industry Indices

Retail industry | 42.9

The Retail Sub-Index increased 1.0 points to 42.9, and also increased 2.4 points when comparing to the same period in last year (40.5). The index hits a two-year high, reflecting a brightening outlook in this sector. However, a significant drop is noted in "Investment". Overall, the upward trend of business confidence continues among retail industry.

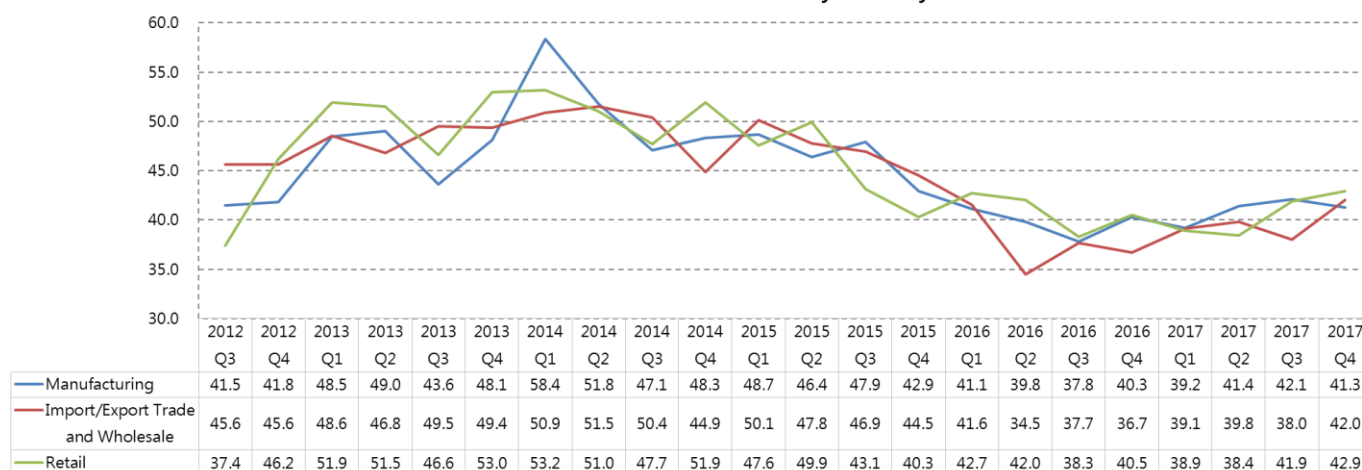
Component	View	Compare to last quarter	Compare to last year
Industry Index	Negative	Up	Up
Staff Number	Positive	Up	Up
Investment	Negative	Down	Down
Sales Amount	Negative	Up	Up
Profit Margin	Negative	Up	Up
Global Economy Growth	Negative	Up	Up

Retail Industry Sub-Index



6

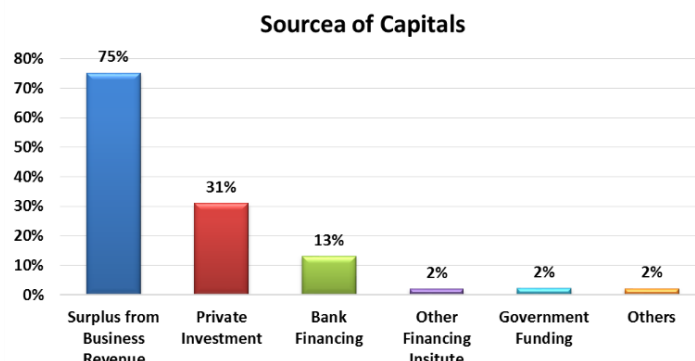
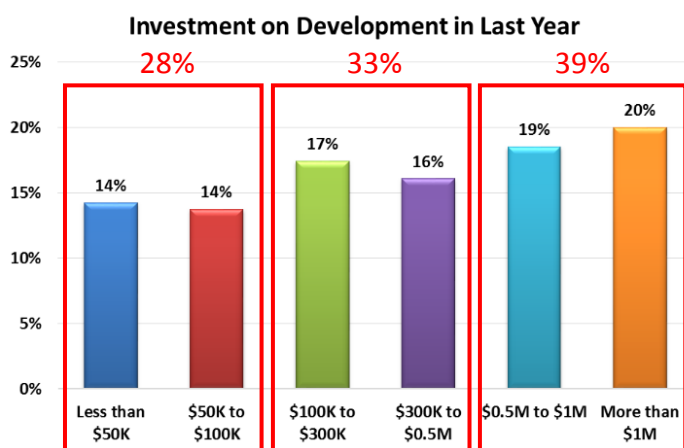
Standard Chartered SME Index by Industry



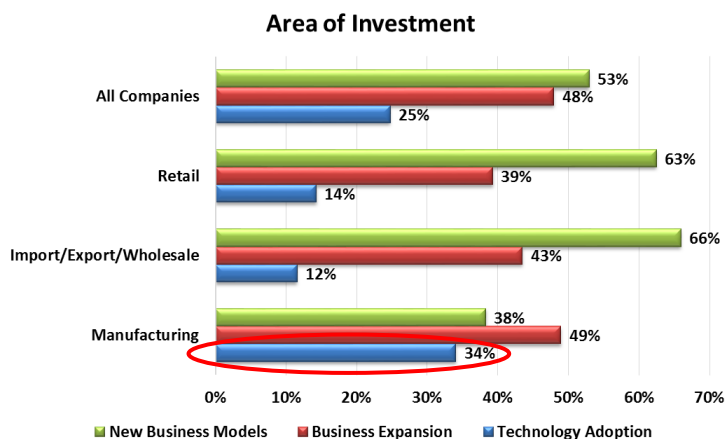
Featured topic

(a) The Investment Profile of SMEs in Last Year

This quarter survey explored the investment profile of SMEs in the last year. Nearly 40% of the surveyed companies have invested more than \$500,000, with “surplus from business revenue” (75%), “private investment” (31%) and “bank financing” (13%) being the top three sources of capital.



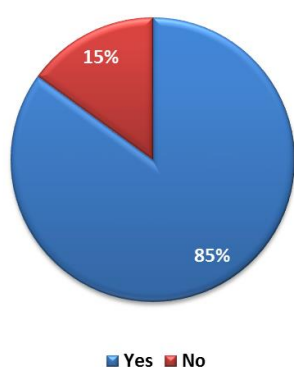
The SMEs mainly put their investments on “new business models” (53%) and “business expansion” (48%), with the least on “technology adoption” (25%). Among the three major industries, the Manufacturing sector was the most willing to employ technology (34%), with the Import, Export & Wholesale (12%), and the Retail (14%) industries being way behind.



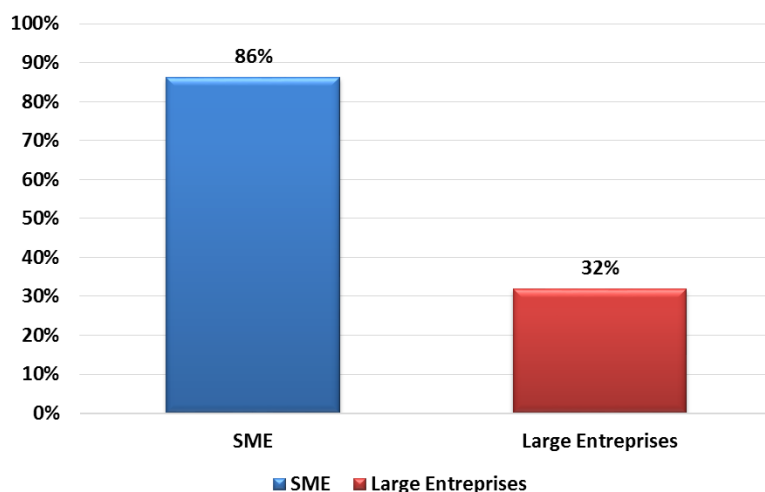
(b) The Impact of Accounts Receivable on SMEs

The survey also gauged the impact of accounts receivable on SMEs. In the past three months, 85% of SMEs recorded accounts receivable, while 15% have not recorded any accounts receivable. In term of major clients for the accounts receivable, 86% of them reported SMEs, with 32% of them also pointed out large enterprises.

With Accounts Receivable in Past 3 Months

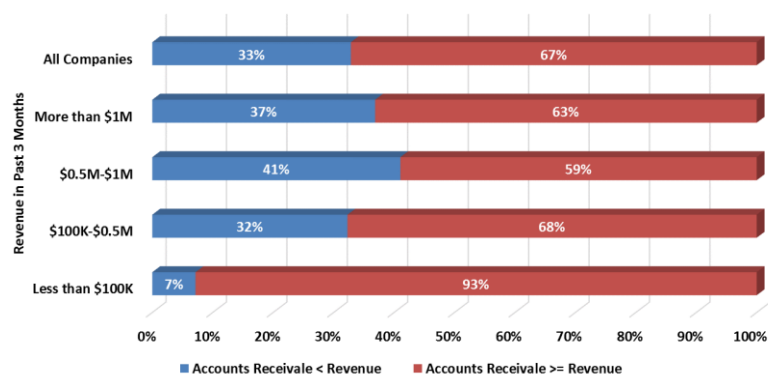


Major Clients of Accounts Receivable



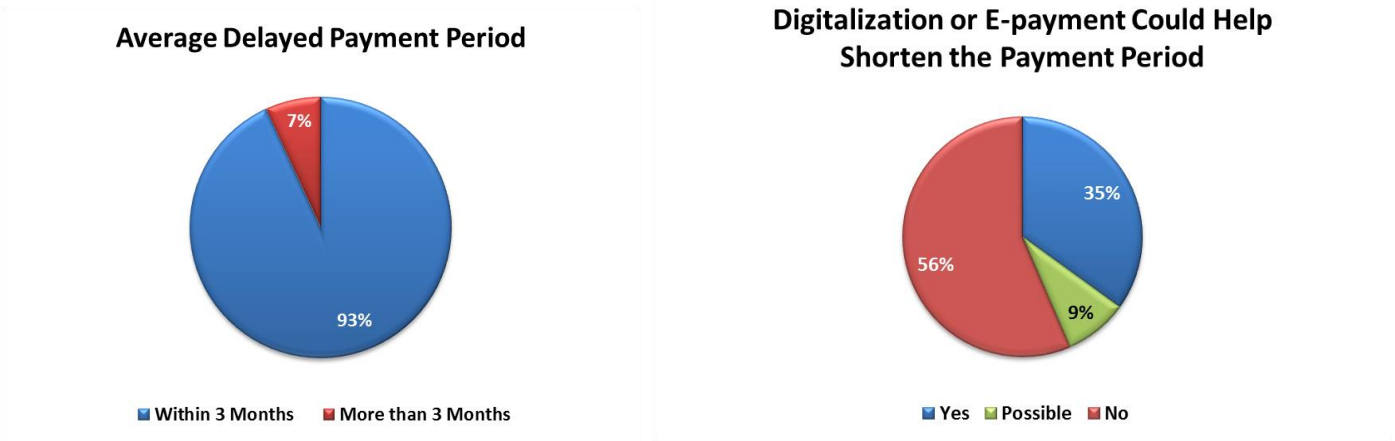
Among those SMEs with accounts receivable, 67% of them are having the amount of accounts receivable that was greater than or equivalent to their revenue. The situation is more popular in those with lower revenue, that “Less than \$100K” (93%), “\$100K-\$0.5M” (68%), “\$0.5M-\$1M”(59%), and “More than \$1M”(63%).

Comparison of Revenue and Accounts Receivable in Past 3 Months



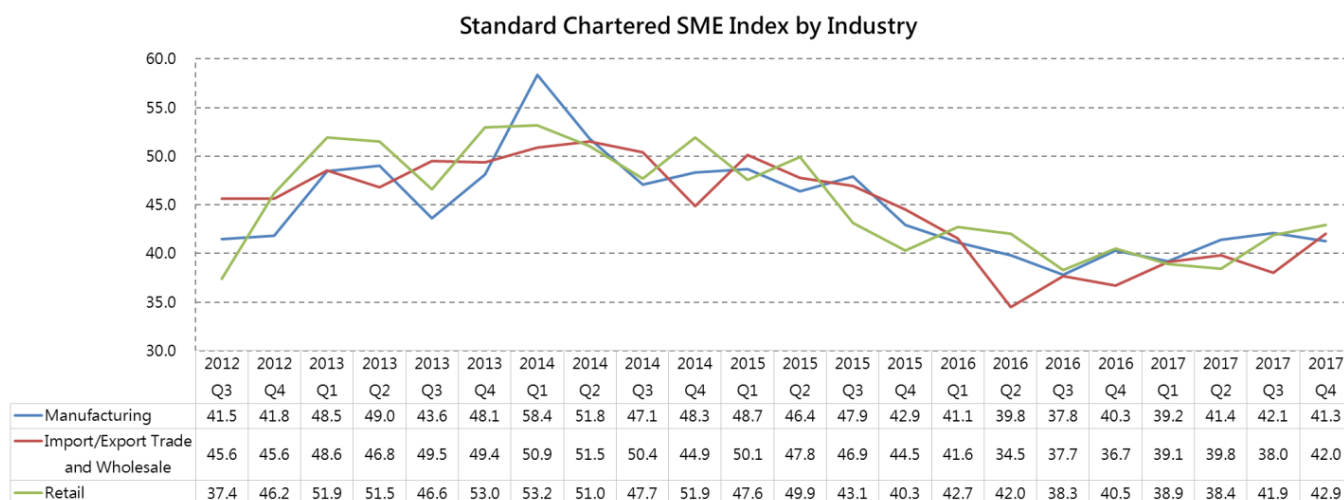
(b) The Impact of Accounts Receivable on SMEs (Con't)

The majority (93%) of companies managed to receive the delayed payment within three months, but only 35% of respondents agreed that digitalization or e-payment could help shorten the payment period, while 9% of them think it is possible, and can be studied further.

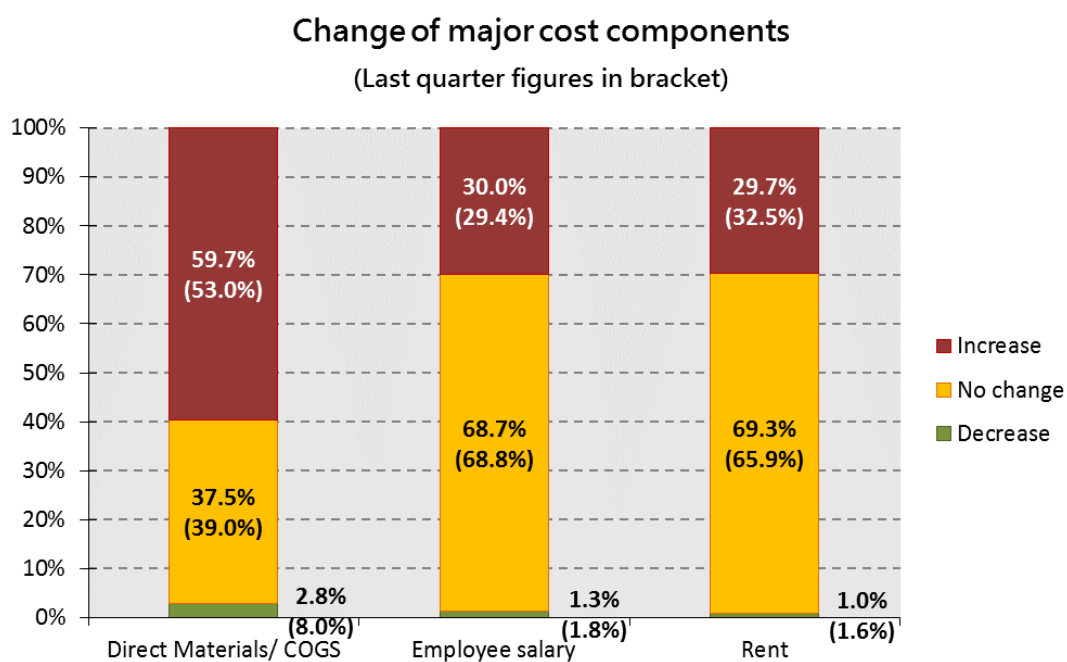


Appendix

Standard Chartered SME Index by Industry

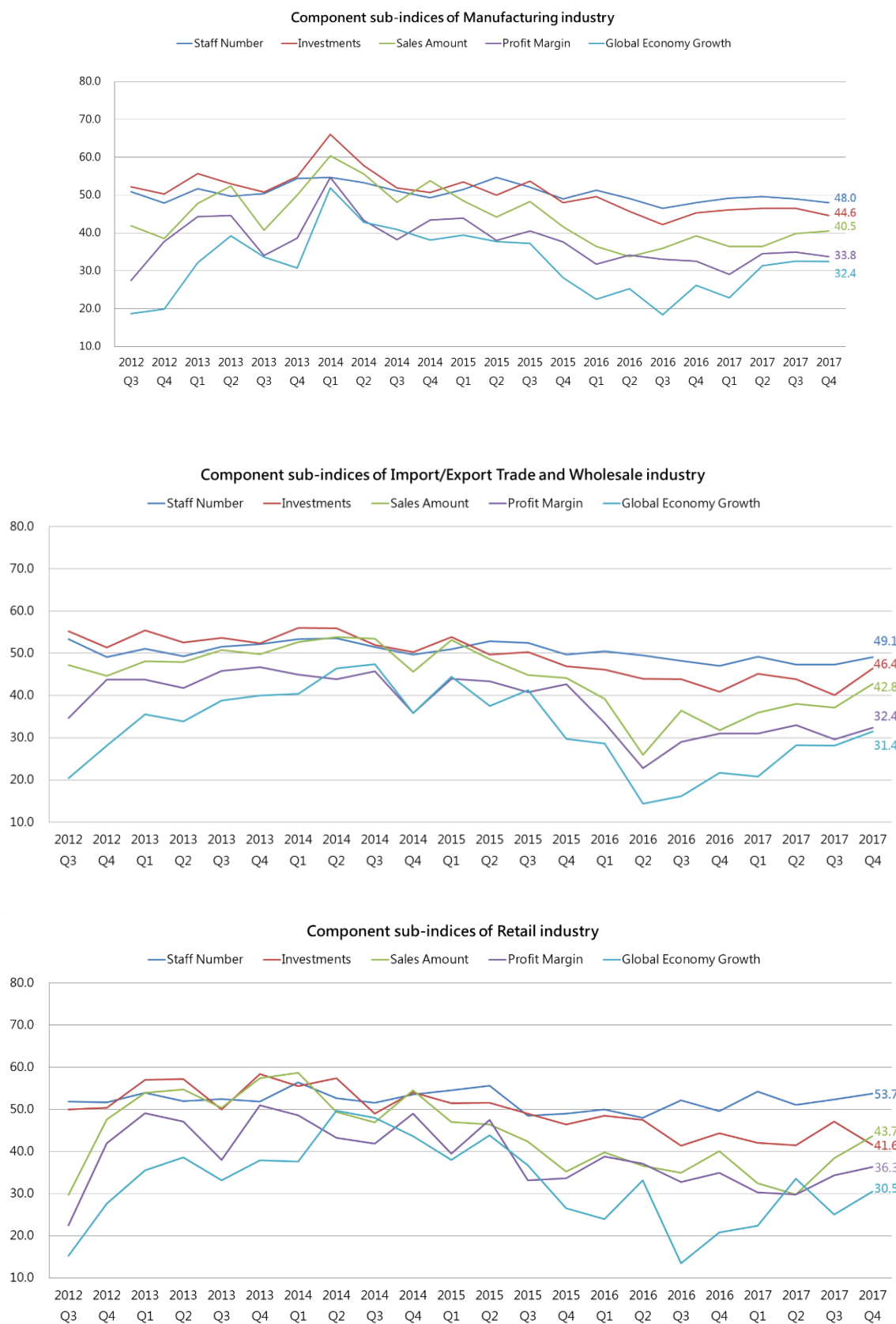


Change of major cost components



Appendix

Component sub-indices of 3 main industries



Report release

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

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

Disclaimer:

The content and data in this report is owned by Hong Kong Productivity Council (HKPC). Without the authorization of HKPC, any changes to the report content and data, as well as selling of the report, are not permitted. HKPC shall not have any liability, duty or obligation for or relating to the content and data contained herein, any errors, inaccuracies, omissions or delays in the content and data, or for any actions taken in reliance thereon. In no event shall HKPC be liable for any special, incidental or consequential damages, arising out of the use of the content and data.

12

