

The background image is a high-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. Various vehicles, including cars and vans, are visible on the road. In the background, a dense urban skyline is visible under a blue sky with scattered white clouds. A prominent skyscraper with a pointed top is on the left. A white rectangular box with a teal border is overlaid on the right side of the image, containing the title and date.

Standard Chartered Hong Kong SME Leading Business Index

Quarter 3, 2018

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.



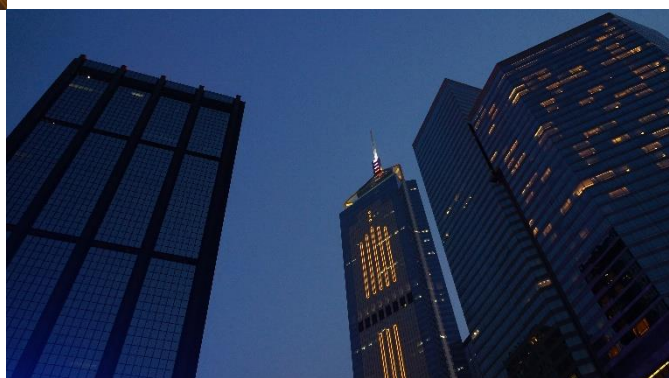
Summary

The 25th survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted from mid to late June 2018. Top management of 811 SMEs were surveyed to gauge their views on the outlook of the overall business environment and regional economic changes in the 3rd quarter of 2018.

Key findings

The Overall Index of the Standard Chartered SME Index retaining same with previous quarter, reading at 49.7 for the third quarter of 2018. Key findings of the survey are as follows:

- ⊕ Overall Index comprising five Sub-Indices, the Sub-Indices for “Staff Number”, “Investments” and “Sales Amount” remain positive, reading at 52.7, 53.9 and 50.3 respectively;
- ⊕ The “Global Economy Growth” Sub-Index (42.8) has slightly increased 4.0 points, while the “Profit Margin” Sub-Index has dropped 2.0 points to 43.5;
- ⊕ The business sentiment of the import, export and wholesale sector has improved notably, with the industry sub-index rising 5.8 points to 49.6. People of import, export and wholesales’ outlook for “Sales Amount” has also exceptionally turned positive;
- ⊕ The manufacturing industry sub-index (45.1) rising for three consecutive quarters;
- ⊕ The Retail Sub-Index dropped 0.4 points to 48.2, with outlook for “Staff Number” and “Investments” stayed positive.;
- ⊕ Surveyed SMEs generally operate their bank accounts through Branch Counter (45%) and Online Banking (43%);
- ⊕ Around 22% of the SMEs spend over 8 man-hours weekly to deal with their bank accounts. Nearly 80% of them think that digital technology can help reduce the said man-hours;
- ⊕ 46% of surveyed SMEs heard about “Virtual Bank” before, while 23% of them reluctant to use the relevant services;
- ⊕ For those who are interested in using “Virtual Bank”, they will mainly consider “Cyber Security” (77%) and “Stability of System” (61%) when choosing the services.

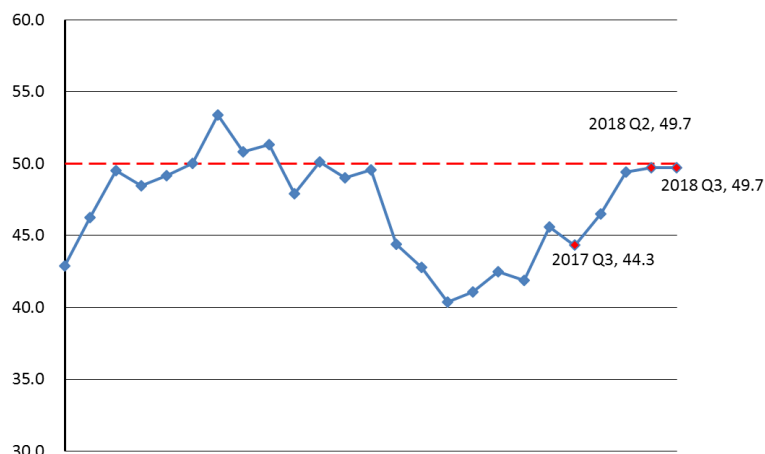


Standard Chartered SME Index

2018 Q3

49.7

Standard Chartered SME Index



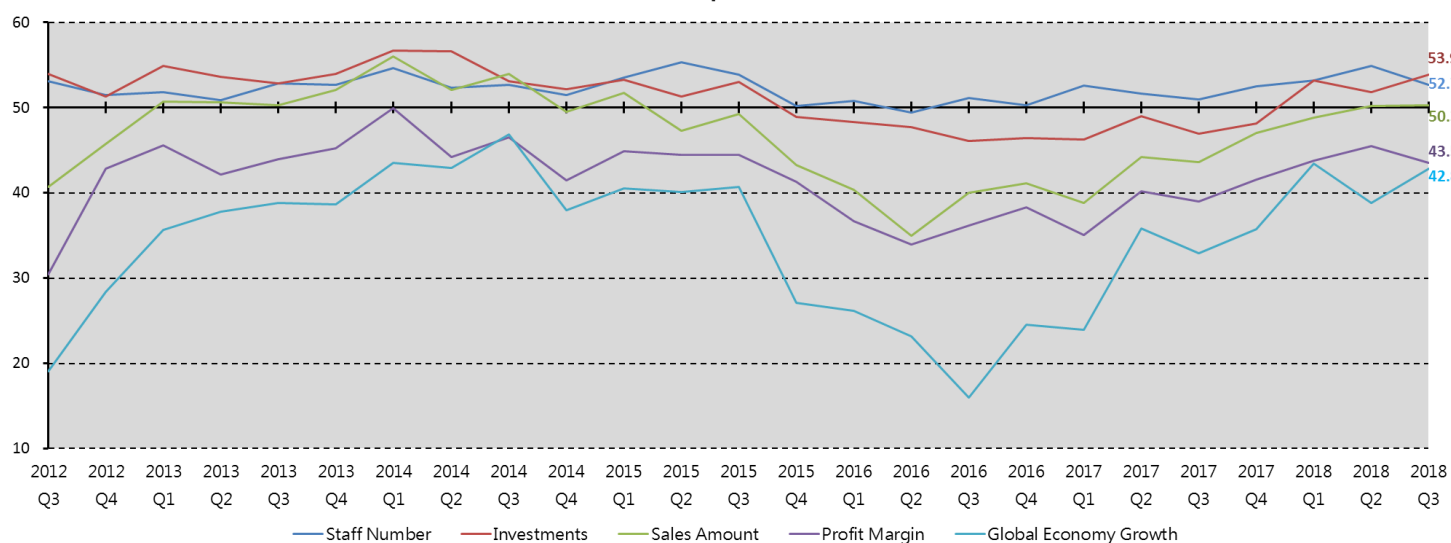
The Overall Index of the Standard Chartered SME Index for the third quarter of 2018 remaining unchanged, reading at 49.7, while the start of the US-China trade war could spell uncertainties on future business outlook.

Overall Index comprising five Sub-Indices. In this quarter, the Sub-Indices for “Staff Number” (52.7), “Investments” (53.9) and “Sales Amount” (50.3) remained positive. The “Global Economic Growth” Sub-Index is registered at 42.8, up 4.0 points from the last quarter, while the “Profit Margin” Sub-Index is down 2.0 points to 43.5.

Compared to the third quarter of 2017 (44.3), the Index of this quarter (49.7) increased by 5.4 points. All the sub-indices were increased simultaneously.

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The five component sub-indices



LB Index Industry Indices

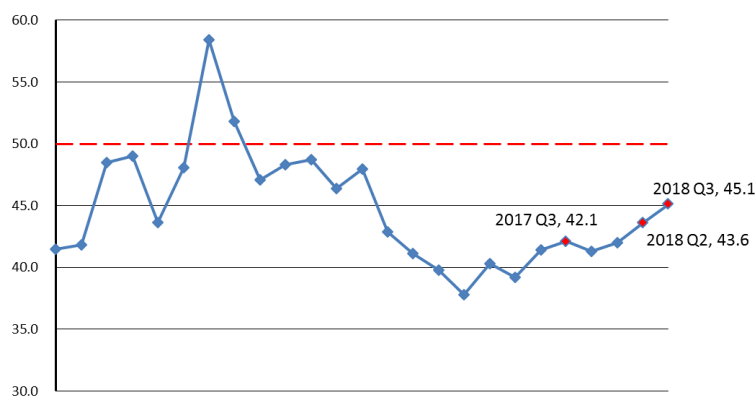
Manufacturing industry| 45.1

Manufacturing industry sub-index has increased by 1.5 points to 45.1, which also increased 3.0 points when compared to the same quarter in last year(42.1). Manufacturing SMEs' confidence in the "Investment" was clearly improved this quarter, and the overall upward trend continues.



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

Manufacturing Industry Sub-Index

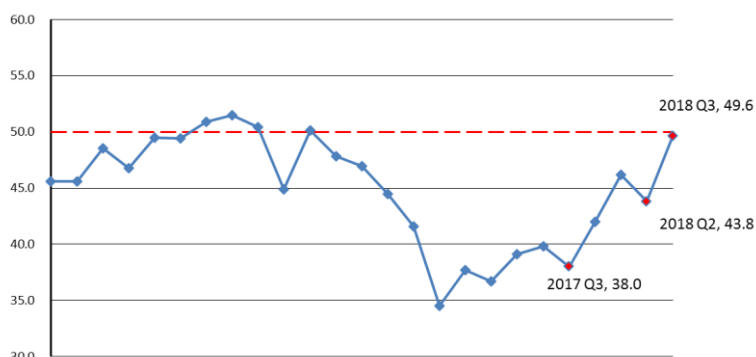


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Import/Export Trade and Wholesale industry| 49.6

The Import, Export and Wholesale Industry Sub-Index increased by 5.8 points to 49.6, with a more significant increment of 11.6 points when comparing to the same period in last year(38.0). SMEs' confidence in every components was improved this quarter, especially "Sales Amount".

Import/ Export and Wholesales Industry Sub-Index



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

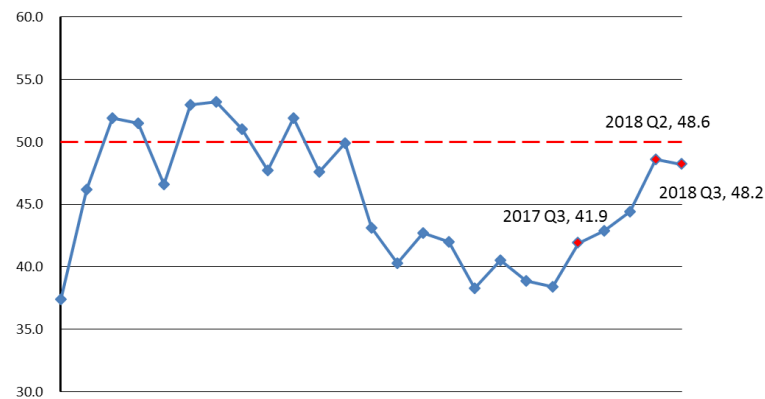


Retail industry | 48.2

The Retail Sub-Index dropped 0.4 points to 48.2, Compared with the same period in last year, the index increased 6.3 points. Retailers' outlook for "Staff Number" and "Investments" has dropped but still be positive. Overall, the retail industry is still rebuilding their business confidence.

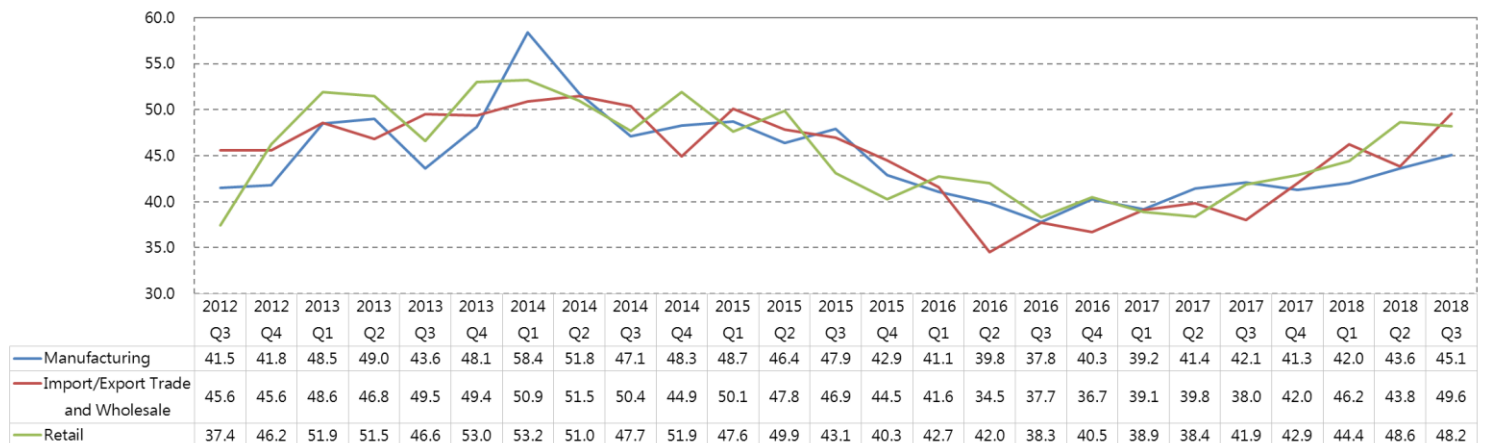
Component	View	Compare to last quarter	Compare to last year
Industry Index	Negative	Down	Up
Staff Number	Positive	Down	Down
Investment	Positive	Down	Up
Sales Amount	Negative	Down	Up
Profit Margin	Negative	Up	Up
Global Economy Growth	Negative	Up	Up

Retail Industry Sub-Index



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Standard Chartered SME Index by Industry

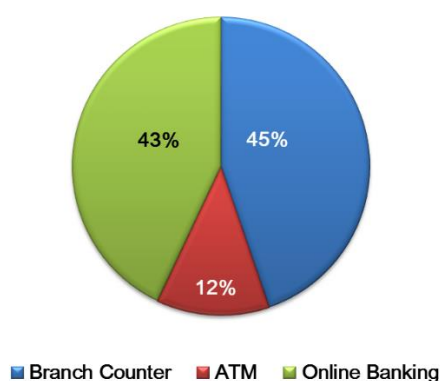


Featured topic

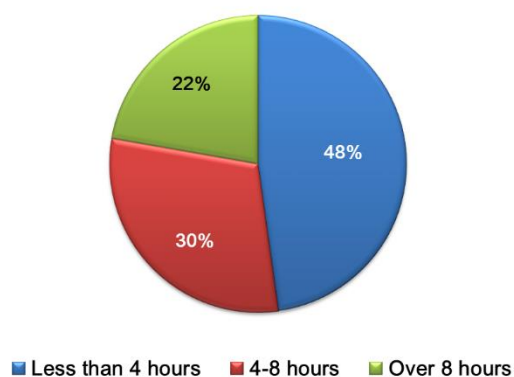
(a) Views of SMEs on the management of corporate bank accounts and “Virtual Banks”

The survey also gauged the views of SMEs on the management of corporate bank accounts and “Virtual Banks”. Most of them tend to use Branch Counter(45%) and Online Banking(43%), and nearly 22% surveyed SMEs spent above 8 hours to manage their bank account weekly.

Usual Method to Manage Corporate Bank Account

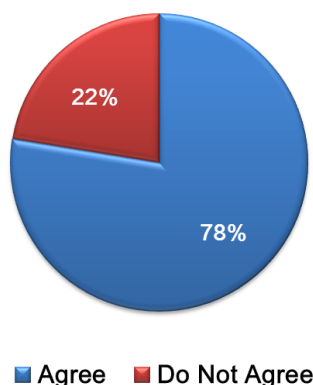


Average Weekly Man-hour Required to Deal with Banking Matters



Also, nearly 78% of surveyed SMEs believe that digital technology can help them to reduce needed time in managing bank account. It shows that most of them have interest in applying digital technology. 7

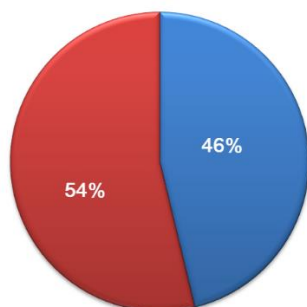
Digital Technology Helps Reducing the Required Processing Time



(a) Views of SMEs on the management of corporate bank accounts and “Virtual Bank” (Con’t)

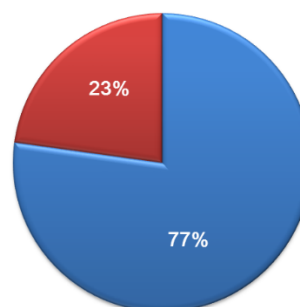
The survey also explored the view of SMEs on “Virtual Bank”. Less than 50% of surveyed SMEs heard about “Virtual Banks” before. And there are 77% of SMEs have interest in using the service of “Virtual Bank”.

Understanding of SMEs towards “Visual Bank”



■ Heard About it Before ■ No Idea

Willingness of SMEs to Use “Visual Bank” Services



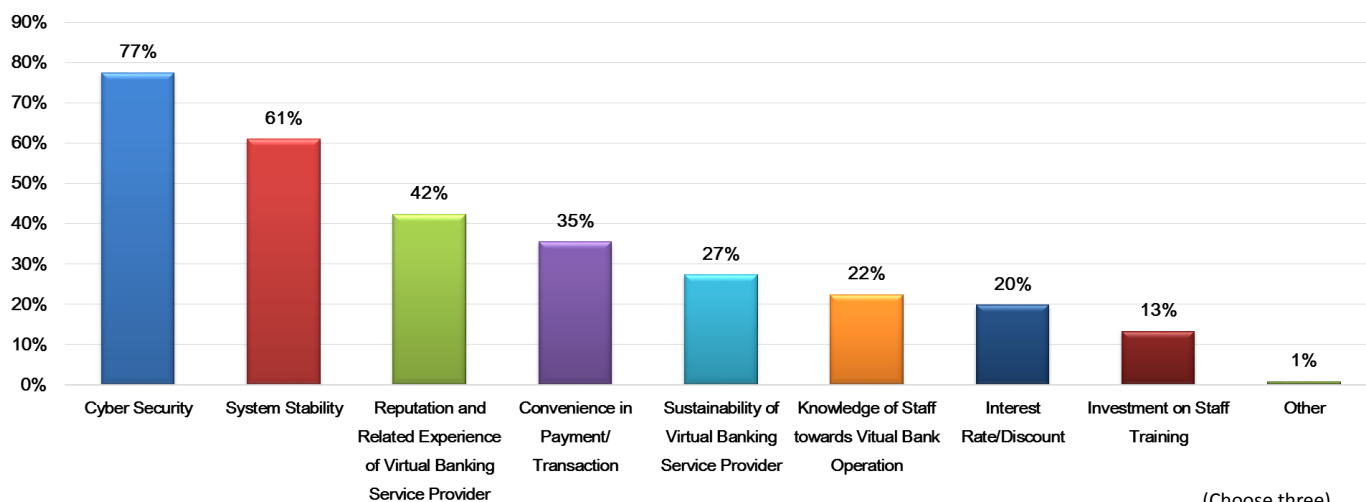
■ Interested ■ Not Interested

SMEs who are interested in using “Virtual Bank”, they mainly consider about below reasons:

1. Cyber Security (77%)
2. System Stability (61%)
3. Reputation and Related Experience of Virtual Banking Service Provider (42%)

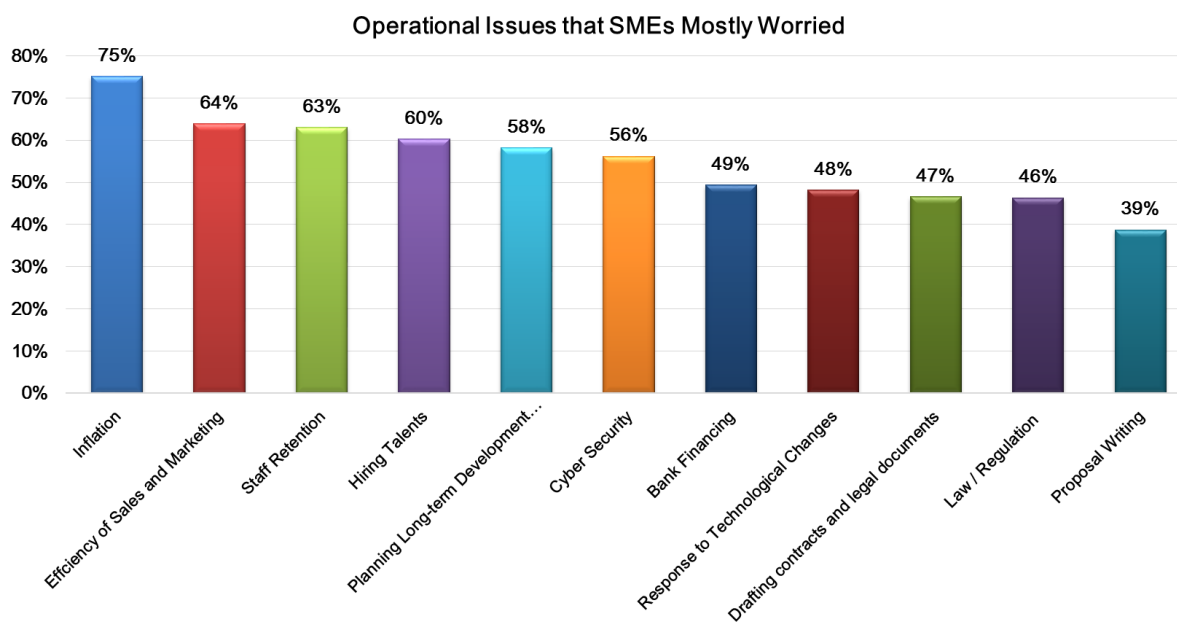
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Key Considerations when Selecting “Visual Bank” Service



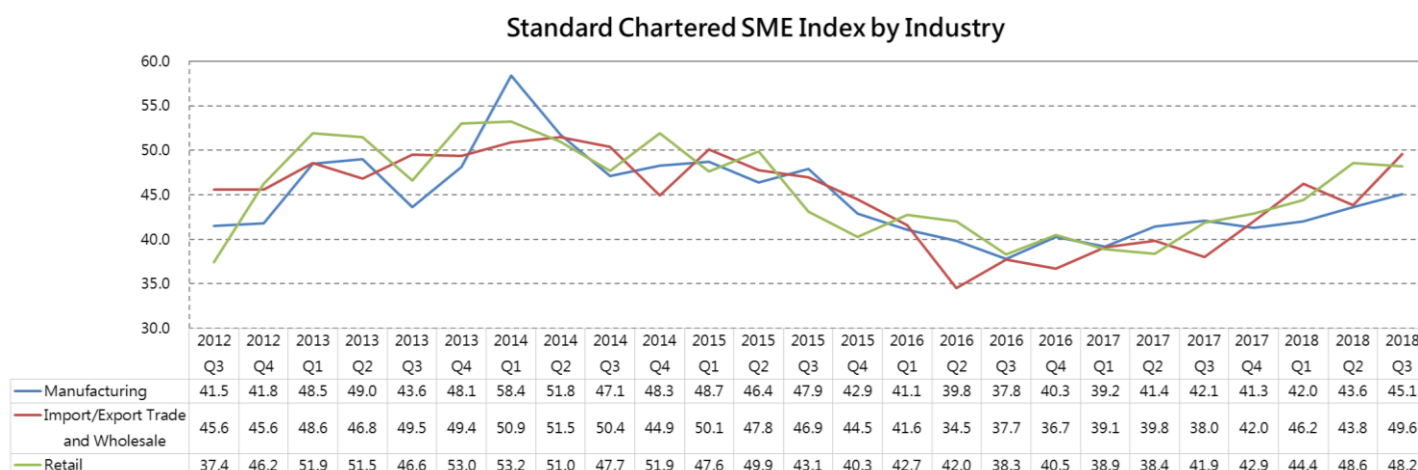
(b) Operational Issues that SMEs mostly worried

The survey also explored the concerns of SMEs' senior management team in various industries. "Inflation"(75%), "Efficiency of Sales and Marketing"(64%) and "Staff Retention"(63%) are the first three concerns in various industries, it shows that there are few concerns with their business in the future.



Appendix

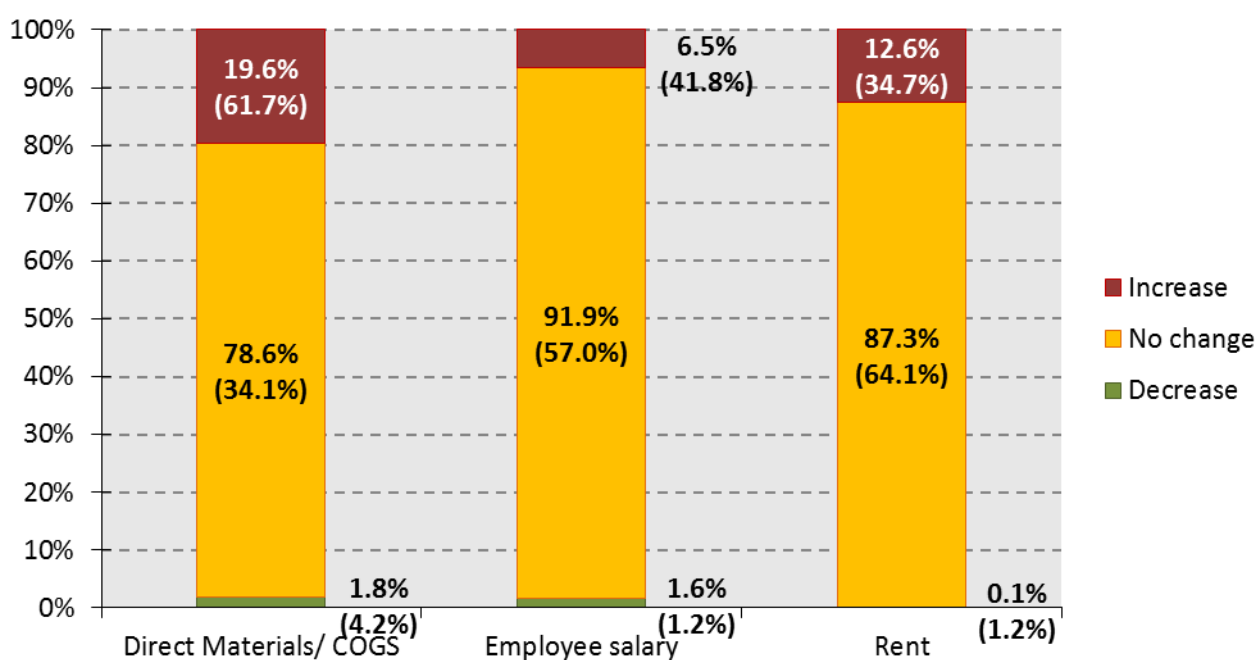
Standard Chartered SME Index by Industry



Change of major cost components

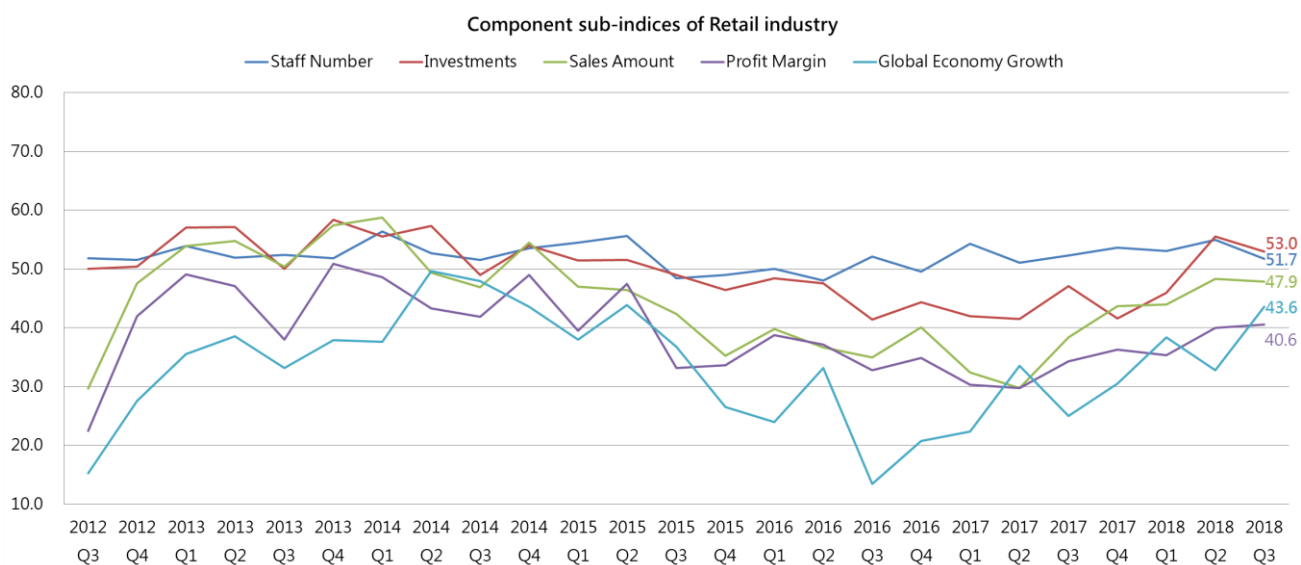
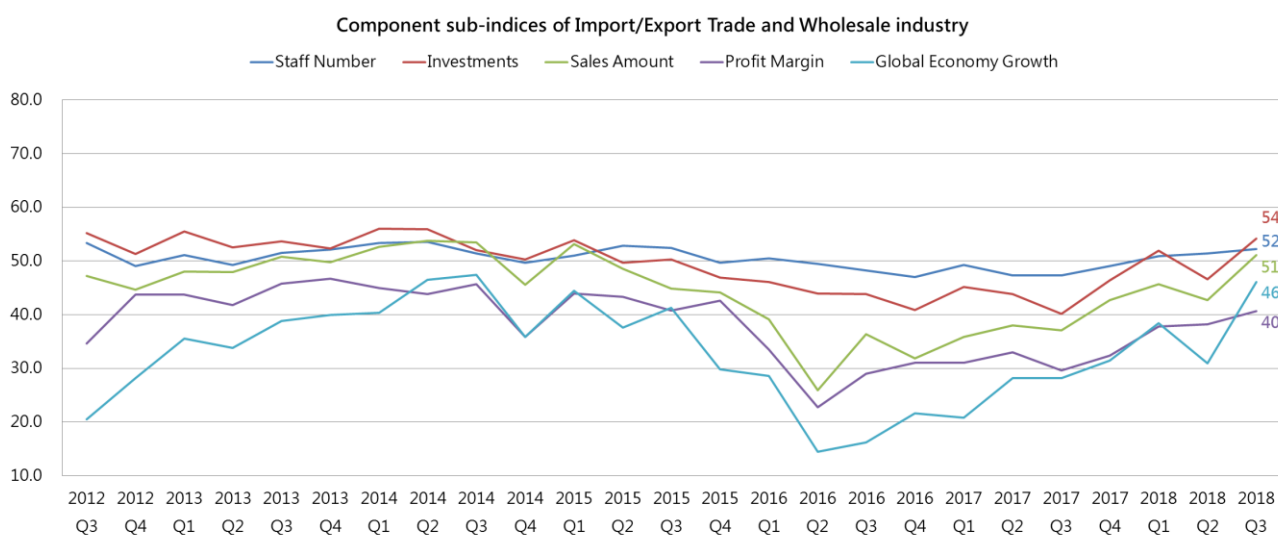
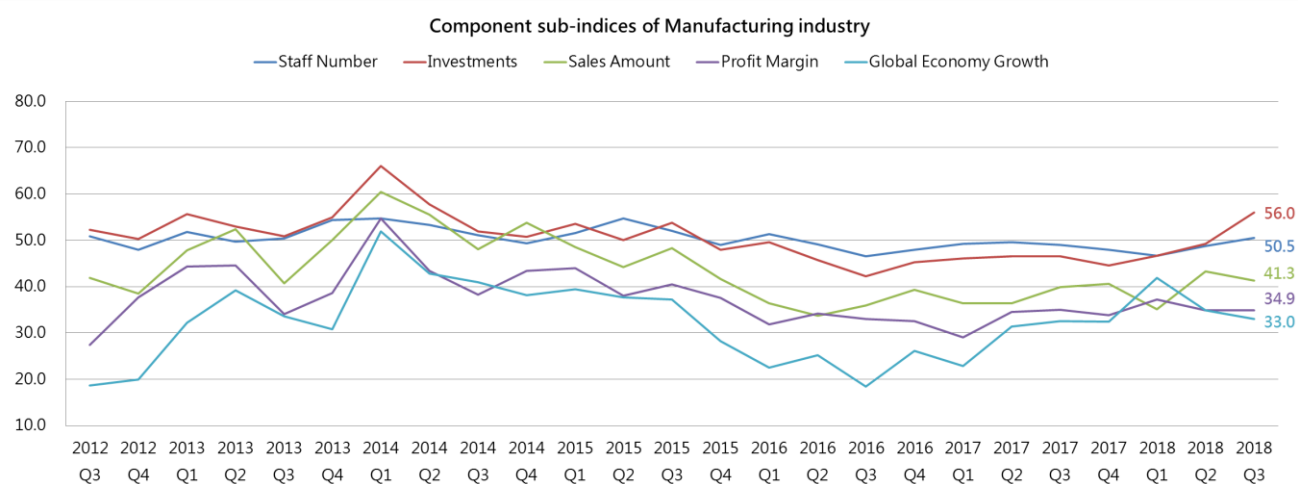
Change of major cost components

(Last quarter figures in bracket)



Appendix

Component sub-indices of 3 main industries



Report release

The Standard Chartered SME Index is released 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.

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