

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. A large, ornate landscaped area with green grass, palm trees, and red flowers is situated between the highway and the city. A tall, thin light pole stands on the right side of the highway.

Standard Chartered Hong Kong SME Leading Business Index

Quarter 4, 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.



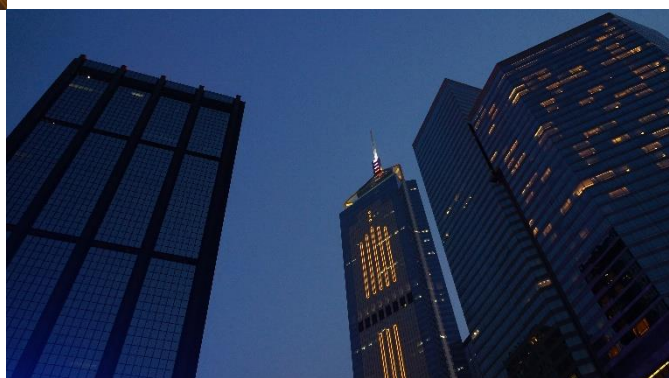
Summary

The 25th survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted from mid to late September 2018. Top management of 823 SMEs were surveyed to gauge their views on the outlook of the overall business environment and regional economic changes in the 4th quarter of 2018.

Key findings

The Overall Index of the Standard Chartered SME Index recorded a drop of 6.7 points from last quarter's 49.7 to 43.0. "Global Economic Growth" has seen a sweeping decline in sentiment. Key findings of the survey are as follows:

- ⊕ Overall Index comprising five Sub-Indices, and all the Sub-indices dropped in this quarter, with the "Global Economic Growth" Sub-Index slid drastically by half from 41.8 last quarter to 21.4;
- ⊕ The Sub-indices for "Profit Margin" and "Sales Amount" read at 37.0 and 40.7 respectively;
- ⊕ While the Sub-Indices for "Staff Number" (51.3) and "Investments" (50.1) remained positive;
- ⊕ For sectorial findings, all the three major Industry Sub-Indices dropped as well;
- ⊕ The Manufacturing Sub-Index (41.1) failed to sustain the growth momentum from the past three quarters and recorded a drop of 3.7 points;
- ⊕ The Import, Export & Wholesale Sub-Index fell below 40, reading at 36.8;
- ⊕ Despite the Retail Sub-Index slid 2.9 points to 45.3, positive sentiments of "Staff Number" and "Investments" prevail;
- ⊕ Nearly half (49%) of the respondents expected the trade conflicts to last more than one year;
- ⊕ Among the industries surveyed, the Import, Export & Wholesale sector felt the heat from the trade issue the most;
- ⊕ With around 40% of the companies in the IE sector recorded lowered sales - way higher than the overall industry average of 24%;
- ⊕ The SME respondents regarded Shenzhen (73%), Guangzhou (61%) and Zhuhai (35%) as the top three most competitive cities in the region

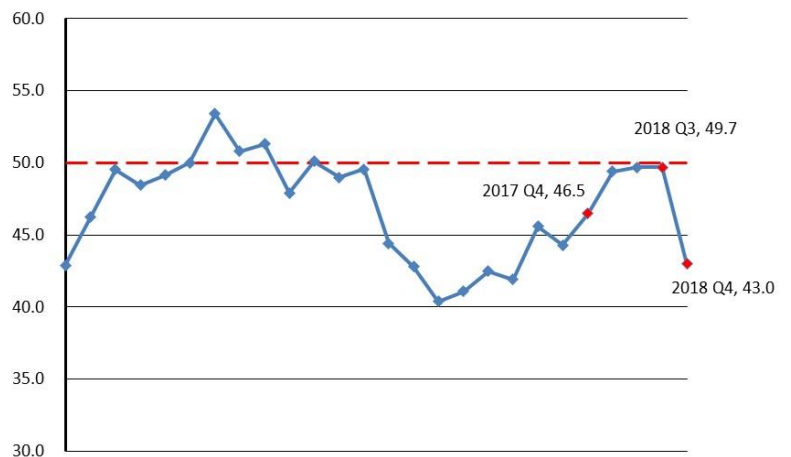


Standard Chartered SME Index

2018 Q4

43.0

Standard Chartered SME Index



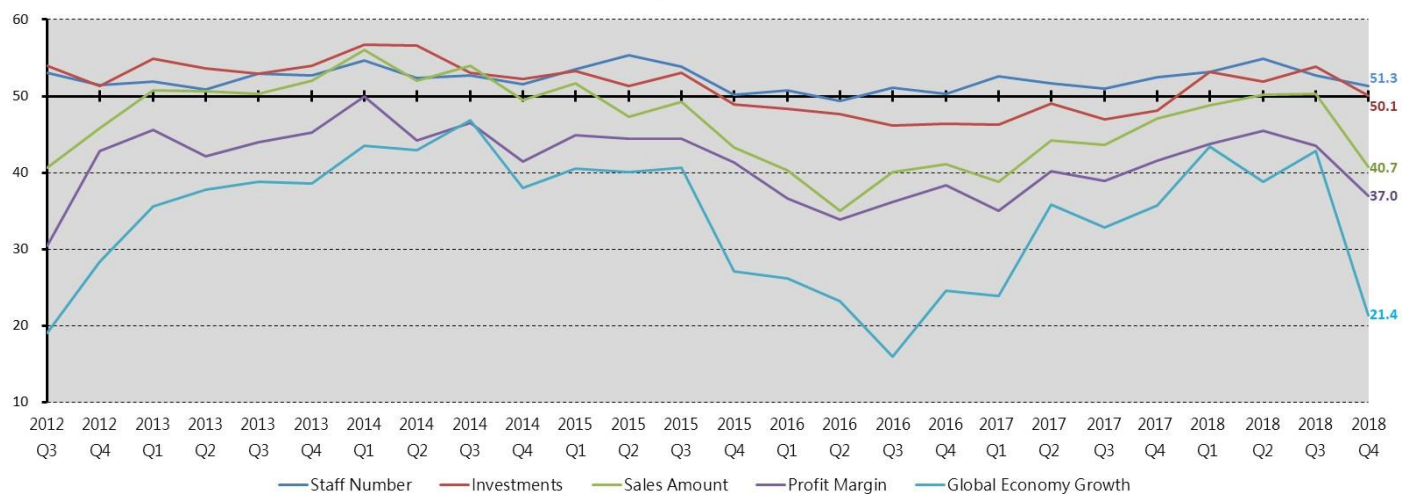
The Overall Index of the Standard Chartered SME Index for the fourth quarter of 2018, recorded a drop of 6.7 points from last quarter's 49.7 to 43.0. "Global Economic Growth" has seen a sweeping decline in sentiment. Enterprises shared a gloomy future business outlook amid rising uncertainty surrounding the global trade tensions.

Overall Index comprising five Sub-Indices. In this quarter, all the Sub-indices dropped in this quarter. The "Global Economic Growth" Sub-Index slid drastically by half from 41.8 last quarter to 21.4. The Sub-indices for "Profit Margin" and "Sales Amount" read at 37.0 and 40.7 respectively, while the Sub-Indices for "Staff Number" (51.3) and "Investments" (50.1) remained positive.

Compared to the fourth quarter of 2017 (46.5), the Index of this quarter (43.0) decreased by 3.4 points. All the sub-indices were dropped simultaneously, except "Investments".

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The five component sub-indices



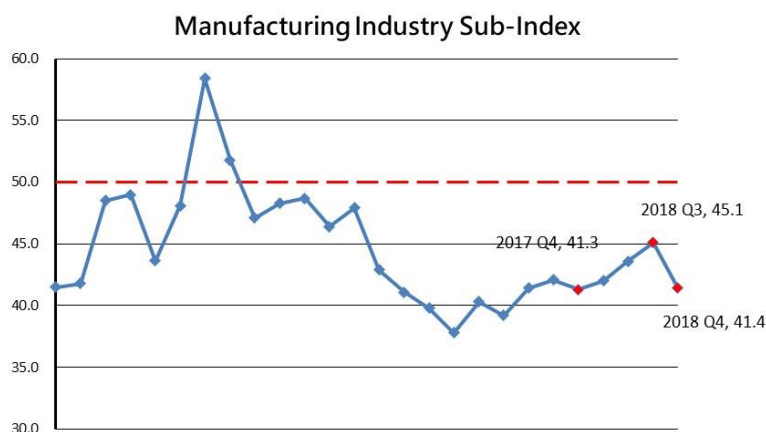
LB Index Industry Indices

Manufacturing industry| 41.4

Manufacturing industry sub-index has dropped by 3.7 points to 41.4, at a similar level when compared to the same quarter in last year (41.3). The sub-index failed to sustain the growth momentum from the past three quarters. Overall, the industry has hidden concerns due to the global economic outlook.



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



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Import/Export Trade and Wholesale industry| 36.8

The Import, Export and Wholesale Industry Sub-Index dropped dramatically by 12.8 points to 36.8, which also dropped 5.2 points when comparing to the same period in last year(42.0). All the components dropped simultaneously, with "Sales Amount" (31.0) and "Profit Margin" (26.3) both at its second recorded low. The industry prospect is still uncertain.



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

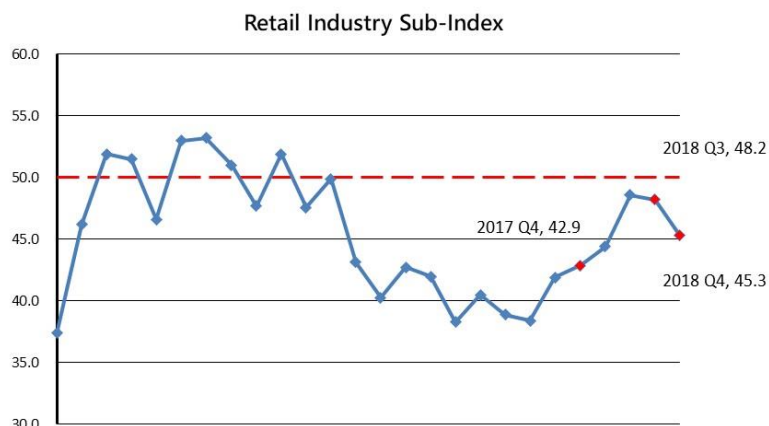


Industry Indices

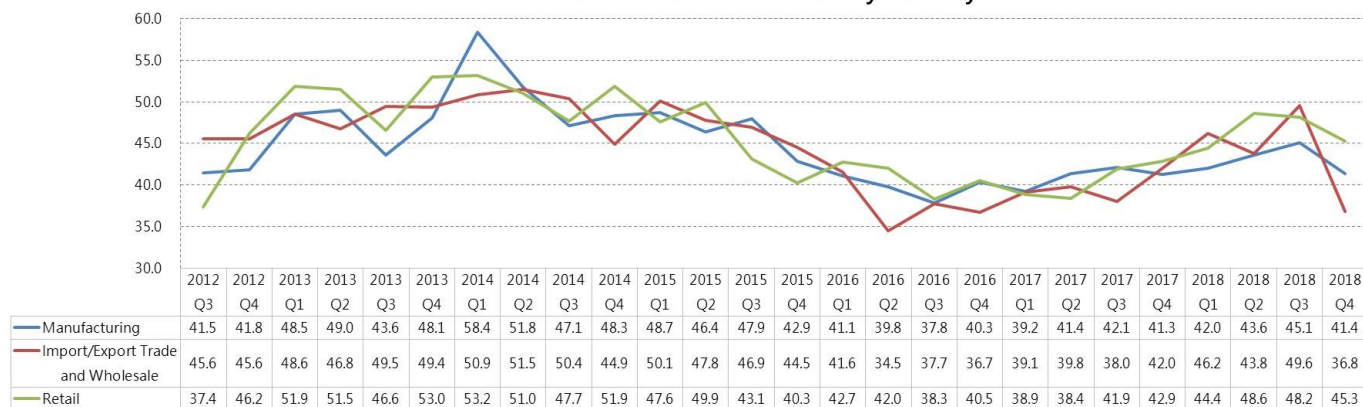
Retail industry | 45.3

The Retail Sub-Index dropped 2.9 points to 45.3, compared with the same period in last year (42.9), the index increased 2.4 points. Despite the drop, positive sentiments of “Staff Number” and “Investments” prevail. Overall, the impact of global economic turmoil on retailers’ confidence is temporarily limited.

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



Standard Chartered SME Index by Industry

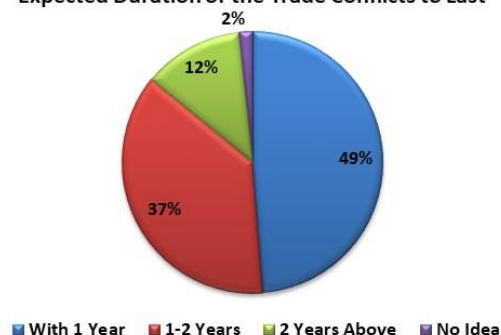


Featured topic

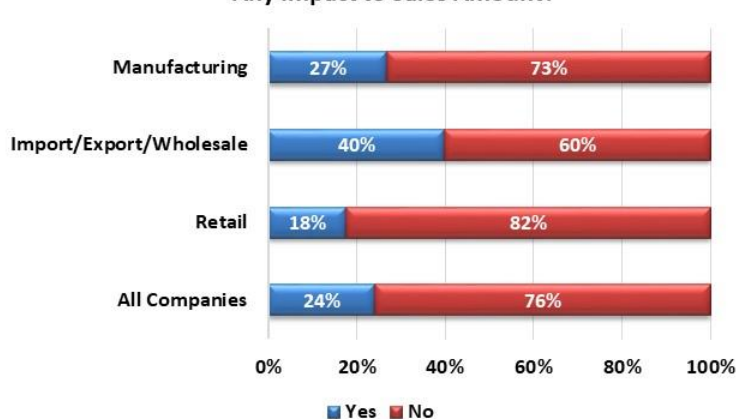
(a) Views of SMEs to the recent global trade tensions

This survey also gauged the views of SMEs to the recent global trade tensions. Nearly half (49%) of the respondents expected the trade conflicts to last more than one year. Among the industries surveyed, the Import, Export & Wholesale sector felt the heat from the trade issue the most, with around 40% of the companies in this sector recorded lowered sales - way higher than the overall industry average of 24%.

Expected Duration of the Trade Conflicts to Last

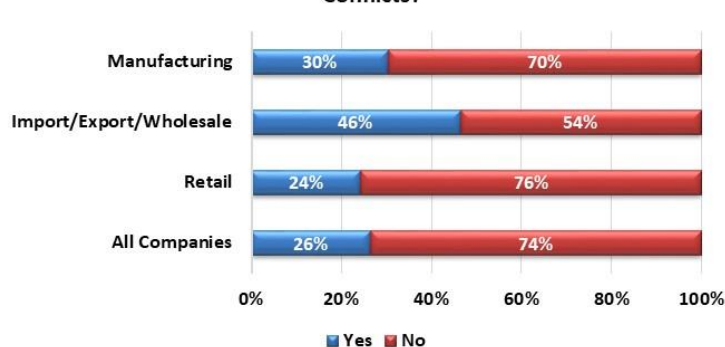


Any Impact to Sales Amount?

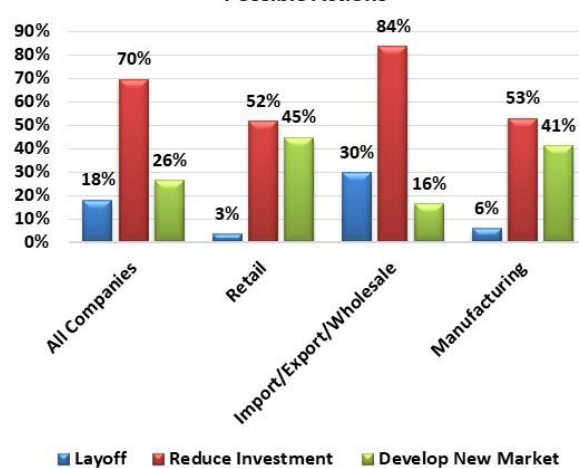


In view of the escalating trade tensions, 46% of the Import, Export & Wholesale SMEs surveyed considered to reduce investment (84%) or layoffs (30%).

Will You Consider any Follow-up Actions due to the Trade Conflicts?

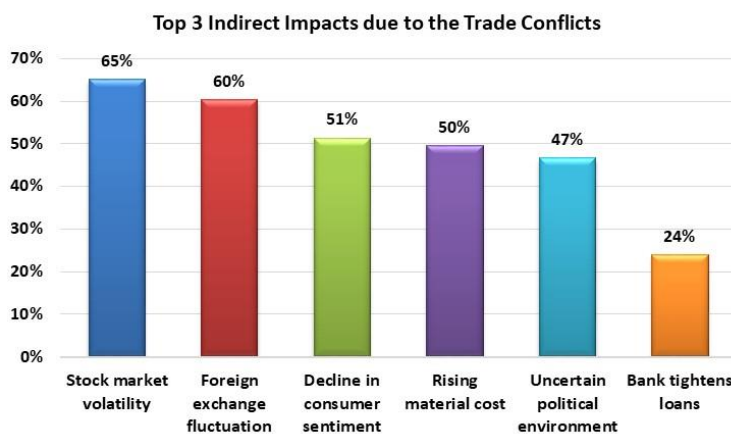


Possible Actions

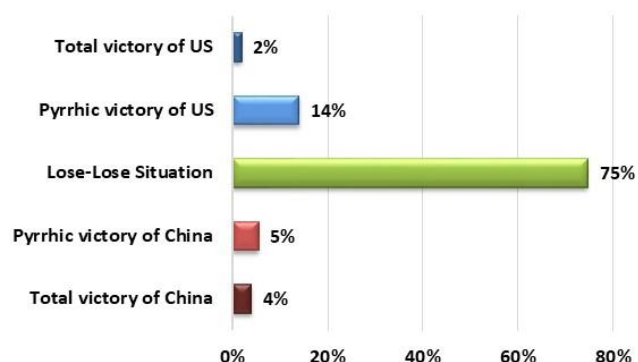


(a) Views of SMEs to the recent global trade tensions (Cont)

SMEs believe that the top three indirect effects of trade friction include “Stock Market Volatility” (65%), “Foreign Exchange Fluctuation” (60%) and “Decline in Consumer Sentiment” (51%).



The Most Possible Ending of the Trade Conflicts

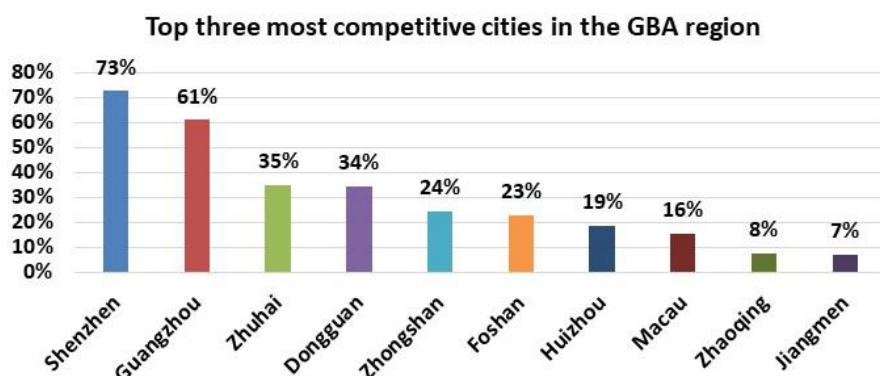


Hong Kong SMEs believe that the most likely outcome of trade friction is “Lose-Lose Situation” (75%).



(b) SMEs' opinions on the "Guangdong-Hong Kong-Macao Greater Bay Area" (GBA)

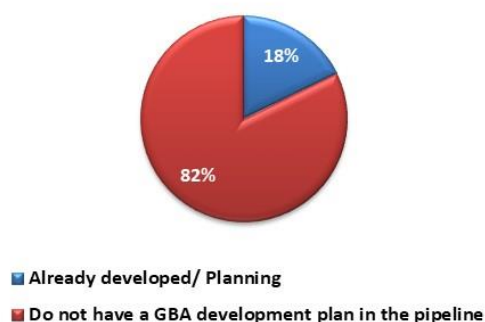
In addition, the survey also explored SMEs' opinions on the "Guangdong-Hong Kong-Macao Greater Bay Area" (GBA). The respondents regarded Shenzhen (73%), Guangzhou (61%) and Zhuhai (35%) as the top three most competitive cities in the region.



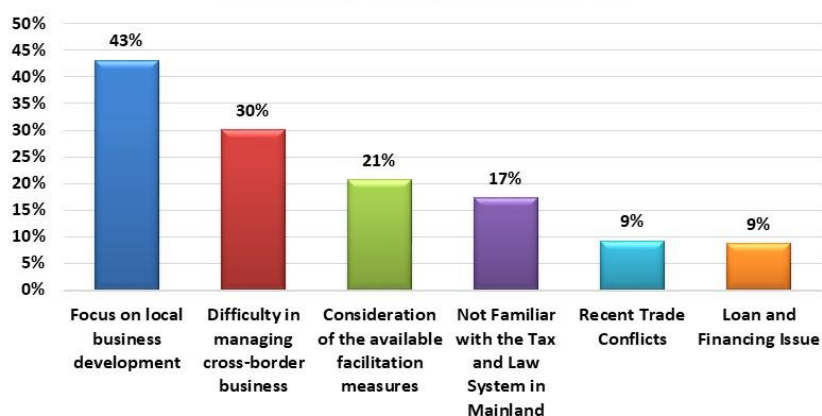
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Most of them (82%) do not have a GBA development plan in the pipeline. The main reasons included "focus on local business development" (43%), "difficulty in managing cross-border business" (30%) and "consideration of the available facilitation measures" (21%).

Any Development Plan in GBA?

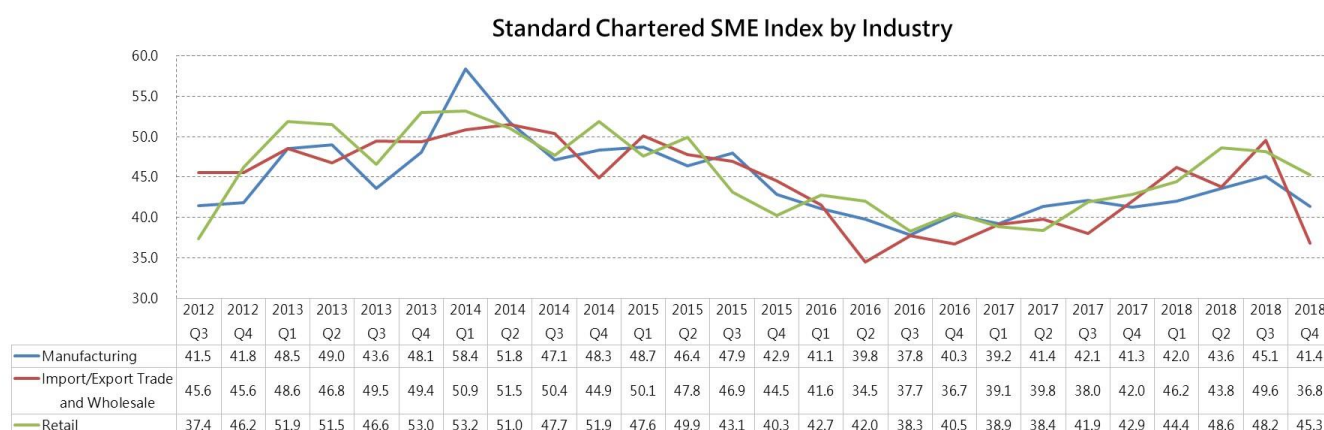


Major Reasons of not Having Relevant Plan



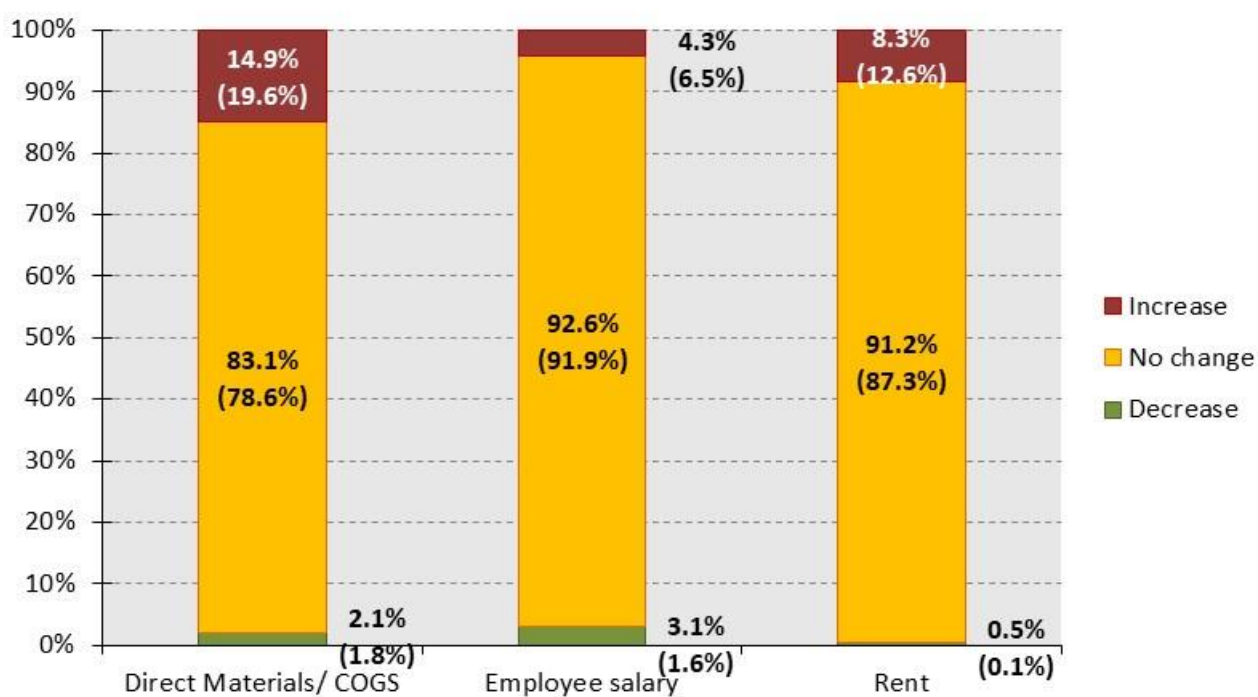
Appendix

Standard Chartered SME Index by Industry



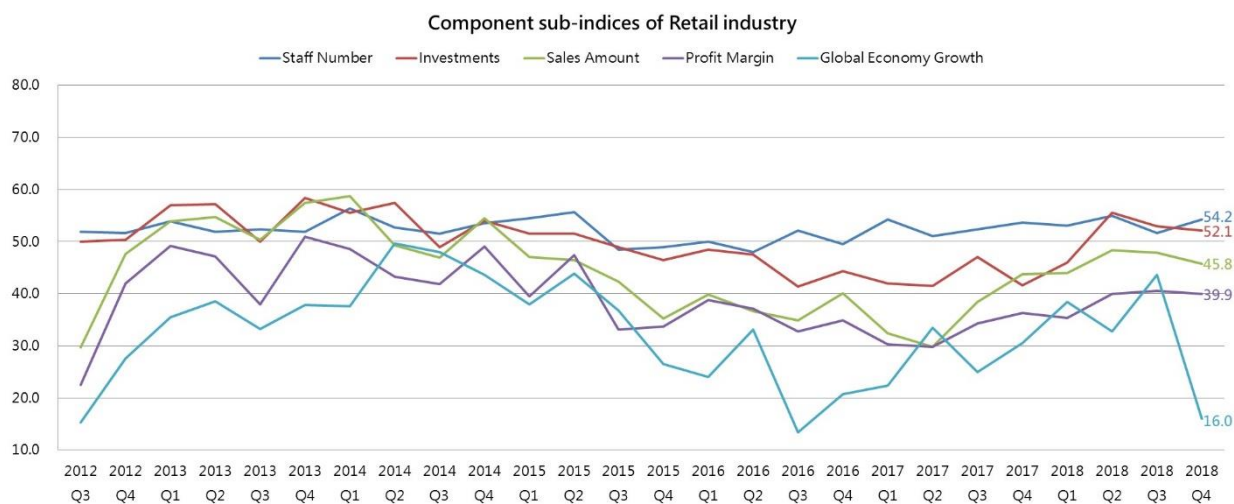
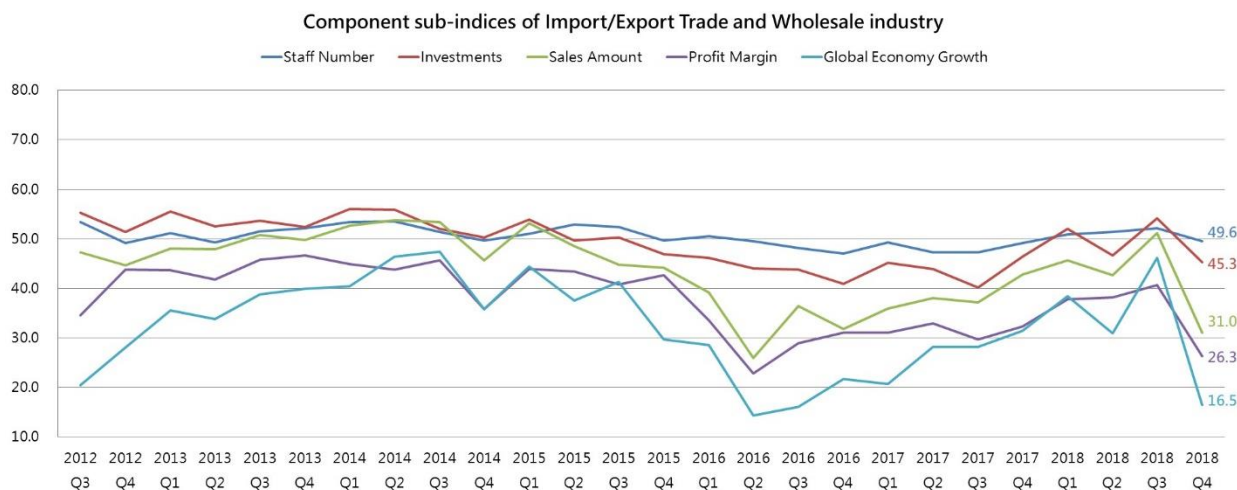
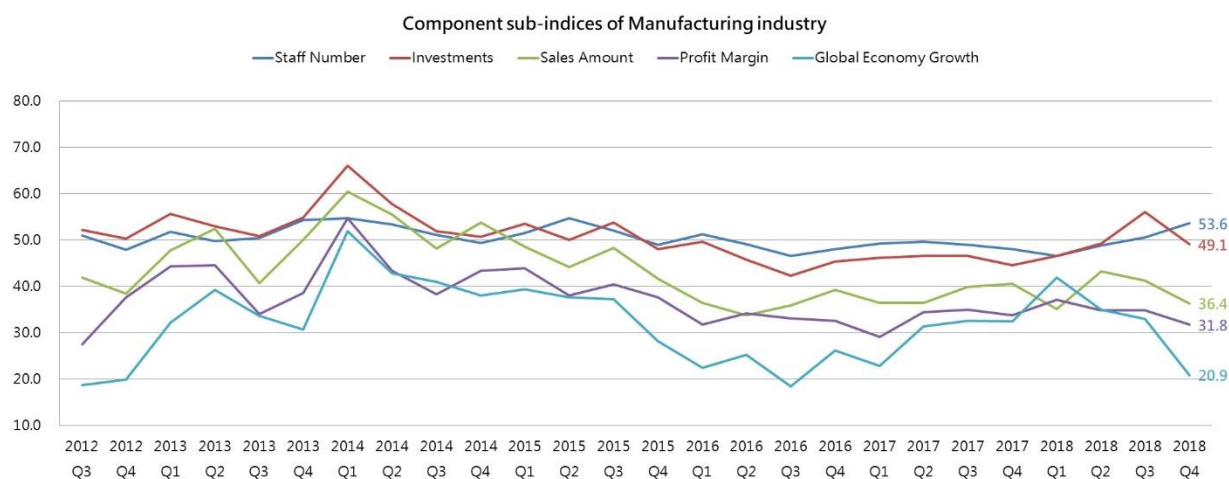
Change of major cost components

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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