



Standard Chartered Hong Kong SME Leading Business Index

Quarter 2, 2013

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 fourth survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted in March 2013. Top management of 939 SMEs were surveyed to gauge their views on the outlook of the overall business environment and regional economic changes in the 2nd quarter of 2013.

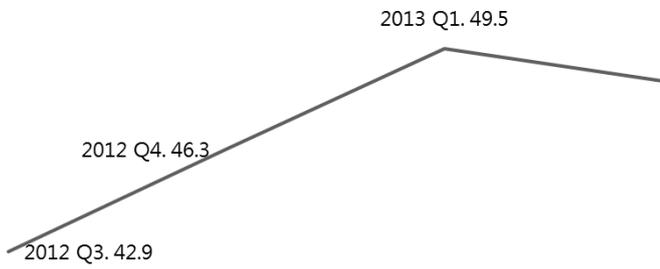
Key findings

Cautious and steady business sentiment will prevail for the second quarter of 2013, as the Overall Index of the Standard Chartered SME Index has edged down 1 point to 48.5, which is still close to the 50 no-change mark. Key findings of the survey are as follows:

- ⊕ There is no significant change in Overall Index, but Profit Margin Sub-index is not being as good as last quarter;
- ⊕ Manufacturing Industry Sub-Index has risen for three consecutive quarters and reached a new high of 49.0. Sales Amount Sub-Index reached above 50 for the first time, however, research shows that labour shortages will become a major challenge of manufacturers;
- ⊕ Both Import/export Trade and Wholesale Industry and Retail Industry Sub-Index are pessimistic in profit margin, which may relate to the fluctuation of exchange rates ;
- ⊕ Only 15% of SMEs which considered the currency market volatile in the past three months took risk-hedging measures.
- ⊕ Only 7.5% SMEs surveyed said they would need to raise workers' pay in order to comply with the new statutory minimum wage which will come into effect on 1 May.



Standard Chartered SME Index



48.5

2013 Q2

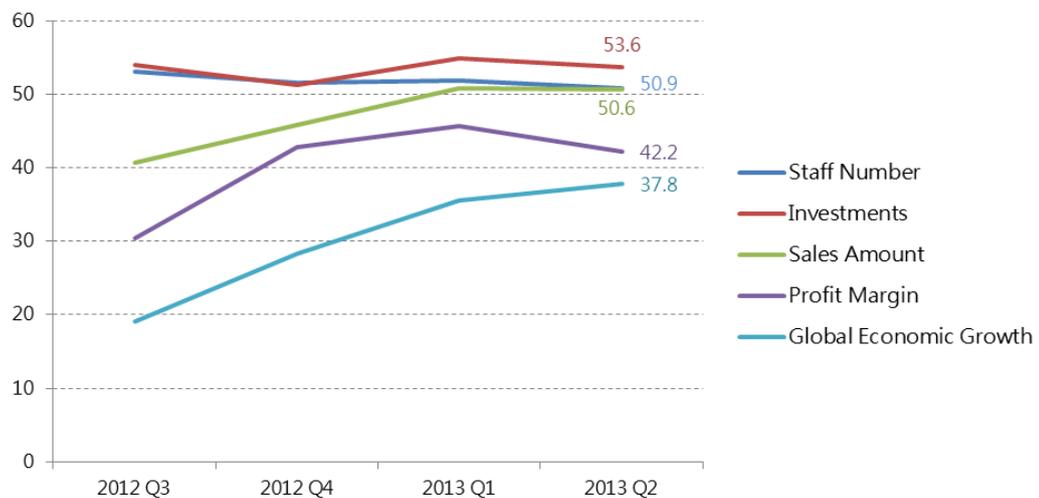


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In this quarter, the Sub-Indices for Investments, Staff Number and Sales Amount report no significant change and remain above 50, indicating continued optimism in all three aspects. For Profit Margin and Global Economic Growth Sub-Indices, both are below 50 with the former registering at 42.2 (down 3.4 points), suggesting a negative outlook over profit margin caused by rising material costs. The Global Economic Growth Sub-Index, on the other hand, has risen for three consecutive quarters, reaching a new high of 37.8. This suggests a gradual stabilization of SMEs' confidence

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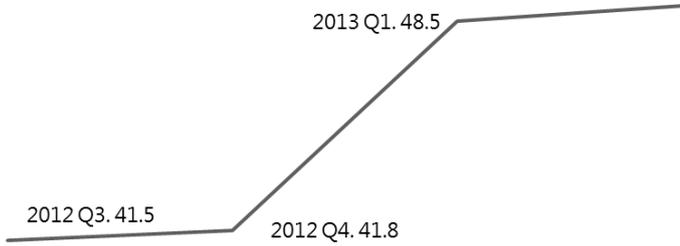
The five component sub-indices



Manufacturing Industry Sub-Index

49.0

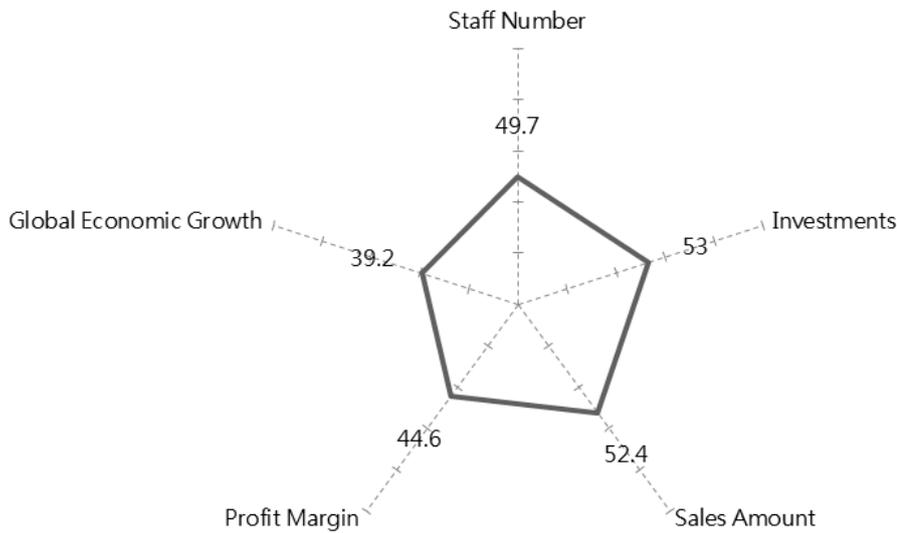
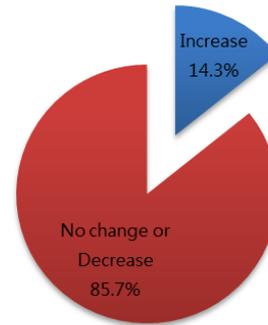
2013 Q2



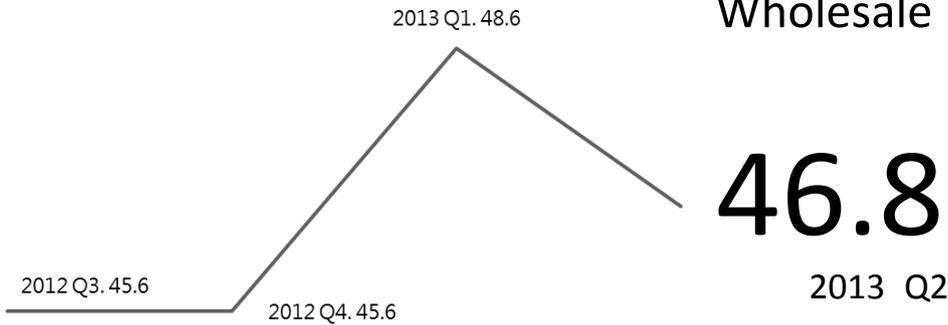
Though holding a negative outlook, Manufacturing Industry Sub-Index has risen for three consecutive quarters and reached a new high of 49.0

Hikes in orders have pushed up the Sales Amount Sub-Index of the manufacturing industry for two successive quarters, reaching above 50 for the first time. On the other hand, with the phenomenon of labour shortages, recruitment and control of salary expenses will become manufacturers' major challenges, which shows a similar conclusion with the recent reports in Guangdong province. °

SMEs that is going to increase employees' salary(Manufacturing) : Change of staff number



Import/export Trade and Wholesale Industry Sub-Index



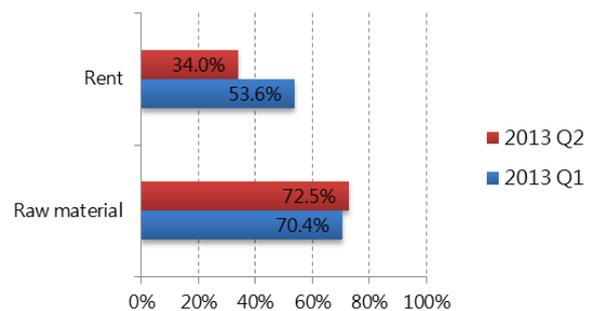
46.8
2013 Q2

Import/export Trade and Wholesale Industry Sub-Index drops slightly by 1.8 points to 46.8. Retailers remain optimistic despite a slight decrease in the Retail Industry Sub-Index (51.5) compared to last quarter.

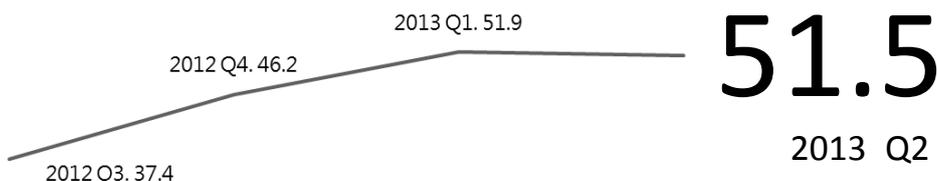
The main reason for the drop of both Sub-indices is their pessimism over the profit margin. The trade between Hong Kong and China keep rising in the past few years, meanwhile the RMB continue to appreciate, which has eaten into the net income from trade with China: In fact, the Japanese yen and Euro have been quite volatile in the first quarter this year. When the currencies are depreciating in major export markets such as Japan and Europe, and at the same time SMEs are paying with the rising RMB in their sourcing market, it is inevitable that their profit margin will decrease. The Retail Industry Sub-Index remains above 50 but a shrinking profit margin is also envisaged as RMB appreciation continues to drive up product costs, however, the concern on rent is abated in Retail Industry in this quarter.

Profit margin of Import/export Trade and Wholesale Industry and Retail Industry in the past 4 quarters				
Industry	2012 Q3	2012 Q4	2013 Q1	2013 Q2
Import/export Trade and Wholesale	34.6	43.8	43.7	41.8
Retail	22.5	42	49.1	47.1

Percentages of Retailers that believe Rent or Raw material will increase



Retail Industry Sub-Index



51.5
2013 Q2



Featured topics

1) Foreign exchange fluctuation risks

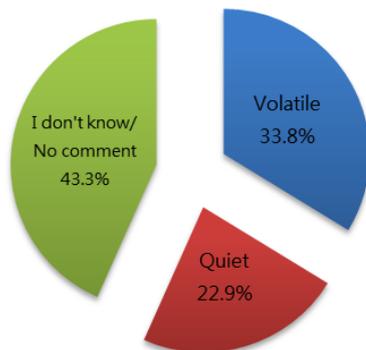
Quantitative easing is used by many central banks to stimulate national economy and export, which increases the instability of currency market, as well as the exchange fluctuation risk SMEs may face. The survey notes that about 33% of the surveyed SMEs considered the currency market volatile in the past three months, yet only 15% of those SMEs facing foreign exchange fluctuation risks would take risk-hedging measures. It shows that SMEs are either not alert to the potential risks caused by currencies volatility, or they lack knowledge on hedging products. SMEs should consider using appropriate hedging products to minimize the impact to profit margin caused by fluctuating currencies.

Exchange rates of HKD and currencies of 6 main trade areas

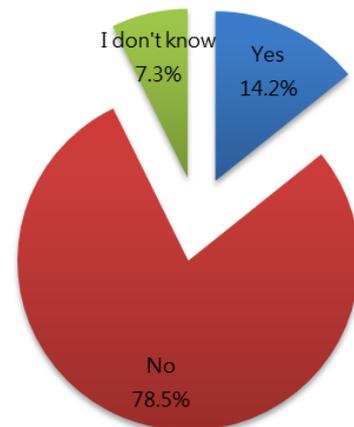
1HKD	1/10/2012	29/3/2013	Volatility
CNY	0.81066	0.79997	3.1%
JPY	10.0513	12.1369	24.3%
EUR	0.1003	0.1005	8.4%
SGD	0.1583	0.1598	3.0%
TWD	3.7805	3.8416	3.4%
KRW	143.3362	143.1564	6.1%

Sources : Bloomberg.com

Views of the currency market in past 3 months



% of SMEs facing foreign exchange fluctuation risks taking risk-hedging measures



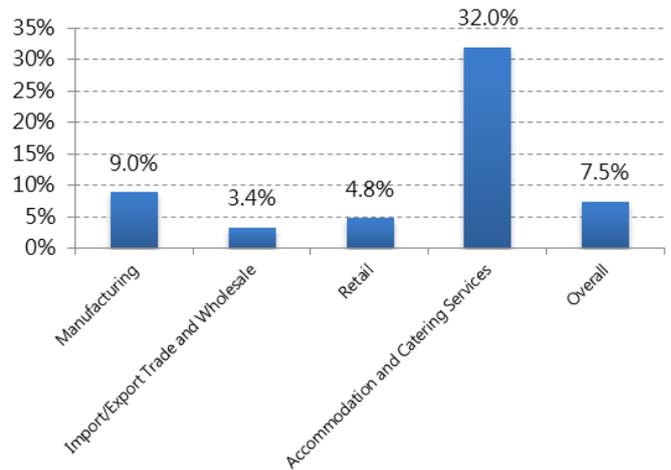


2) New statutory minimum wage

The new statutory minimum wage will take effect on 1 May, the survey results show that it will have minimum impact on SMEs.

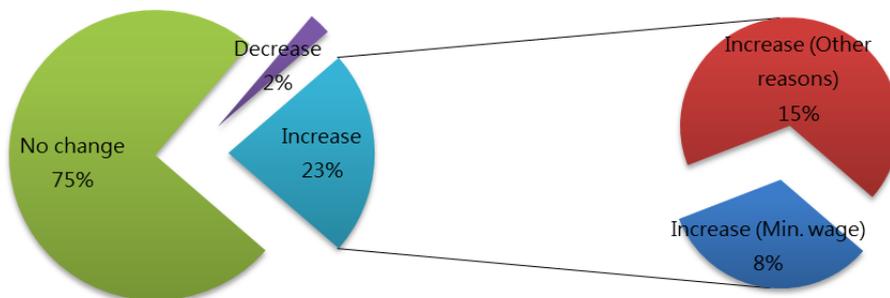
Less than 10% of the SMEs surveyed said they would need to raise workers' pay in order to comply with the new statutory minimum wage which will come into effect soon. While the impact on the hotel and catering industry is the biggest, only 3 to 9% of the three major industries will feel the heat.

Industries that affected by New Min. wage



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Change of salary



Appendix

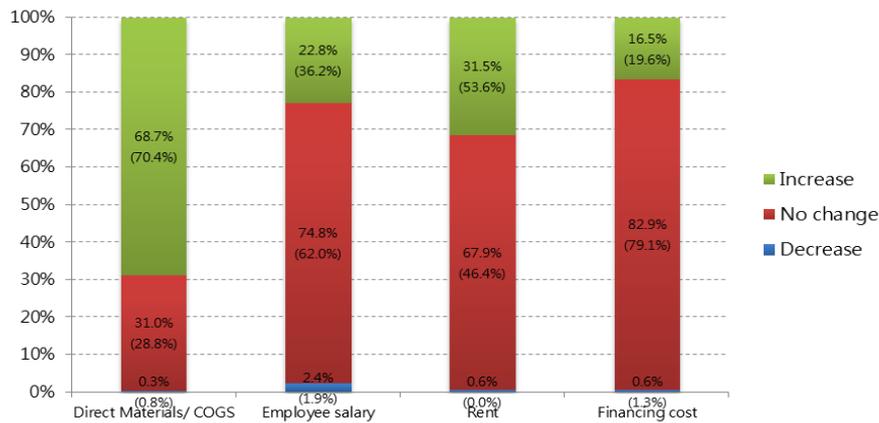
Standard Chartered SME Index by Industry in past 4 quarters

Standard Chartered SME Index by Industry in past 4 quarters



Change of major cost components

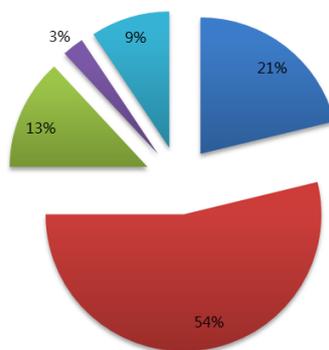
Change of major cost components (2013 Q1 figures)



Change of Employee Salary

Change of Employee Salary

■ + <3% ■ + 3% - 5% ■ + 5.1% - 10% ■ + >10% ■ Decrease



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 early July 2013.

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