



Standard Chartered Hong Kong SME Leading Business Index

Quarter 1, 2014

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 seventh survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted in December 2013. Top management of 816 SMEs were surveyed to gauge their views on the outlook of the overall business environment and regional economic changes in the 1st quarter of 2014.

Key findings

The Overall Index of the Standard Chartered SME Index has edged up 3.4 points to its new high: 53.4 in the first quarter of 2014. The first time our index exceeds the 50 no-change mark – reflecting more and more local SMEs are optimistic about the overall business environment and regional economies in this quarter. Key findings of the survey are as follows:

- ⊕ The Overall Index registered at its new high 53.4. The first time SMEs feel optimistic about the future, with all component sub-indices showing improvement compare to last quarter;
- ⊕ Manufacturing industry sub-Index has increased to 58.4, with a great improvement in 'Profit Margin' and the first time showing a positive sentiment on 'Global Economic Growth';
- ⊕ Import/Export Trade and Wholesale industry and Retail industry sub-indices both exceeds the 50 no-change mark, and most of the remaining industries are showing a positive sentiment too. Accommodation and Food Services industry sub-index is the highest among all;
- ⊕ SMEs predict both direct material cost and employee salary will go up in this quarter, yet they do not believe this will bring big impact to their 'Profit Margin' ;
- ⊕ Among all policies to support SMEs, financing assistance, funding scheme and tax & registration fee waiver are cited as the most helpful initiatives which should remain in the next financial year.

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Standard Chartered SME Index

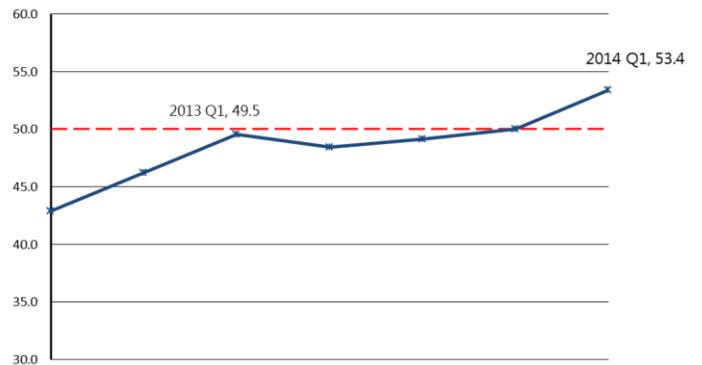
53.4

2014 Q1

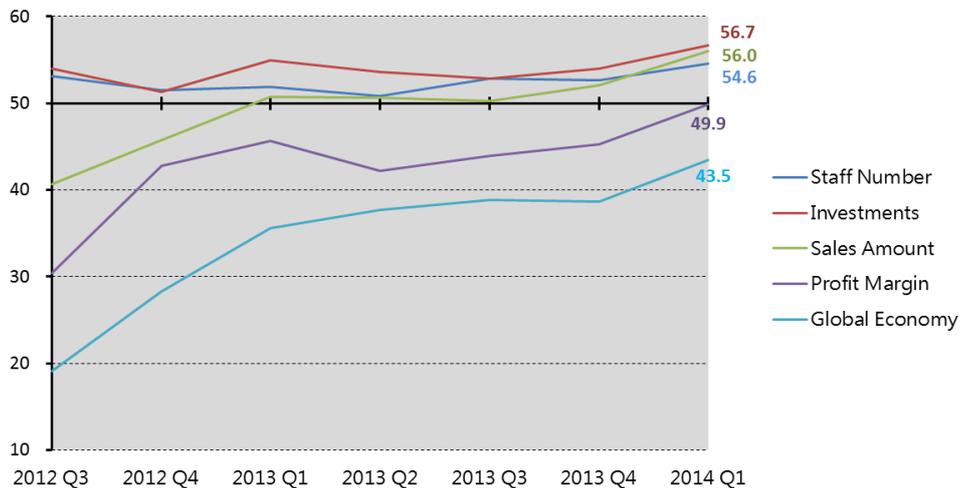
Reading at 53.4, the very first time above the 50.0 no-change mark, local SMEs show a positive business outlook for the first time.

All five component sub-indices, including 'Staff Number', 'Investments', 'Sales Amount', 'Profit Margin' and 'Global Economic Growth', are at their record-high point. 3 of them, including 'Staff Number', 'Investments' and 'Sales Amount', has remained above 50.0 for 5 consecutive quarters, which reflects SMEs are expecting a continuous growth in their business, and they are willing to recruit more staff and expand their business. Although in this quarter, the number of SME expecting a rise in costs has increased, the 'Profit Margin' and "Global economic growth" are able to keep their upwards trend. The 'Profit Margin' sub-index has reached 49.9, which means SMEs is begin to find a balance between prices and operating costs.

SME Index



The five component sub-indices

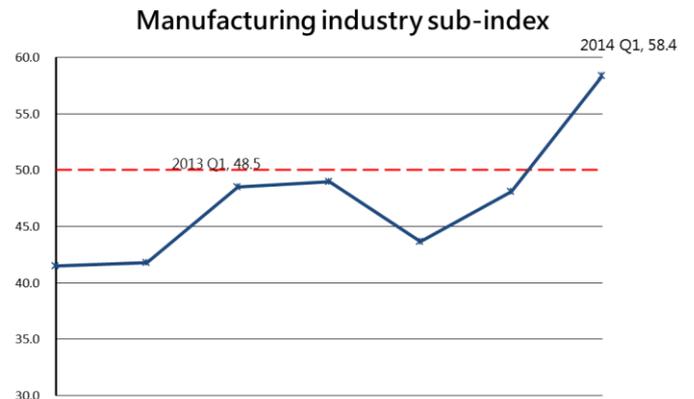


Industry Sub-Indices

Manufacturing industry

All major industry sub-indices are above 50.0 in this quarter. Manufacturing Industry Sub-Index has edged up 10.3 points to 58.4, the first time above 50.0 no-change mark, indicating the confidence of manufacturer has increased a lot.

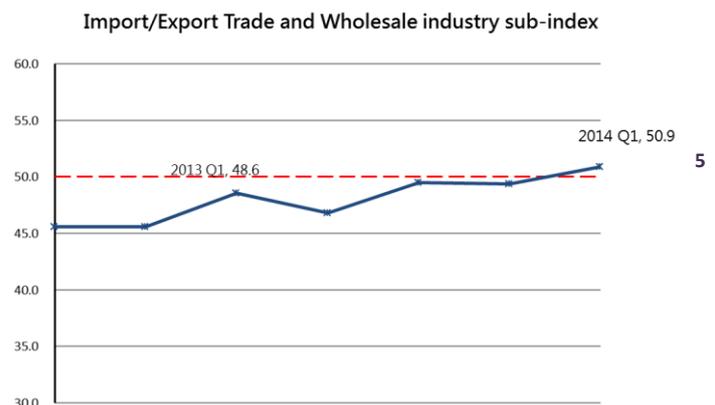
After a rebound in last quarter, the 'Sales amount' sub-index of manufacturing SMEs continues to rise, registered at 60.4 in this quarter. Around 40% of the manufacturing respondents believe their turnover will increase in this quarter. Orders have picked up since December, and their bargaining power has improved, thus allowing them to shift some of the cost increments to the buyers. Therefore they only expect a small impact on their profit margin even though more than 70% of them indicated increase in direct materials cost and staff employee salary.



Import/Export Trade and Wholesale industry

The Import/Export Trade and Wholesale industry index rises 1.5 to 50.9, the first time above 50.0 no-change mark.

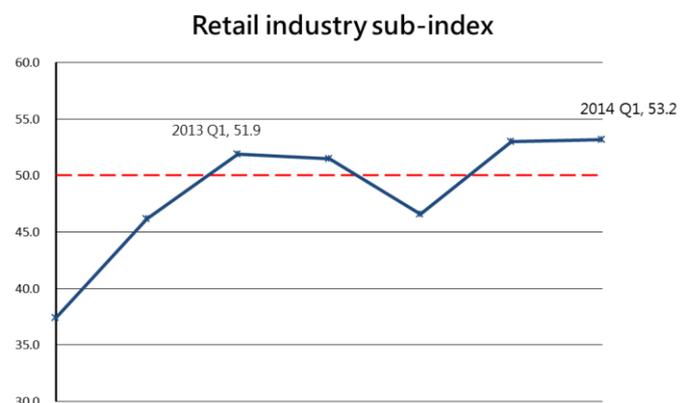
SMEs expect a steady business outlook to continue in this quarter. 'Staff number' sub-index of the industry has remained above 50.0 for 3 consecutive quarters while 'Investment' stayed above 50.0 for 7 consecutive quarters. SMEs are willing to increase their staff number and investment, which means they consider Hong Kong an ideal location for Import/Export Trade and Wholesale industry. Online trading has grown significantly in the past few years as a result of smart devices, this trend can be an opportunity to Hong Kong SMEs. We suggest Hong Kong SMEs make use of the new technologies and platforms to explore new trading opportunities and partner



Retail industry

Retail industry sub-index rises marginally to 53.2, Retail SMEs stay positive in this quarter.

The 'Sales amount' sub-index(2014 Q1: 58.7, 2013 Q4: 57.4) of Retail industry maintain at the level that is close to 60.0, which means Retail SMEs believe the growth in last quarter can sustain in this quarter. The burgeoning travel industry of Hong Kong is one of the key driving forces behind a strong Hong Kong retail industry. Hong Kong retailers are famous for the good shopping experience they bring for the travelers; on the other hand, promoting products and services with local characteristics is also a good way to attract customers, and benefit local industries.



Industry Sub-Indices

Other industries

Apart from Real estate industry, all other industries are equally positive, with Accommodation and Catering Services industry being the most optimistic industry. Over half of the respondents believe the sales amount in this quarter will improve. The industry is quite confident about their performance in this quarter. However, Accommodation and Catering Services industry still need to cope with cost rising.

In the long run, one of the major challenges for SMEs' development is the manpower shortage problem, especially in manufacturing industry and retail industry. They find it very difficult to hire skilled professional and junior staff in the market.



Featured topic

Supports from the Government

With the Government due to announce the Policy Address and Budget, we have gauged the views on the SME supporting-policies

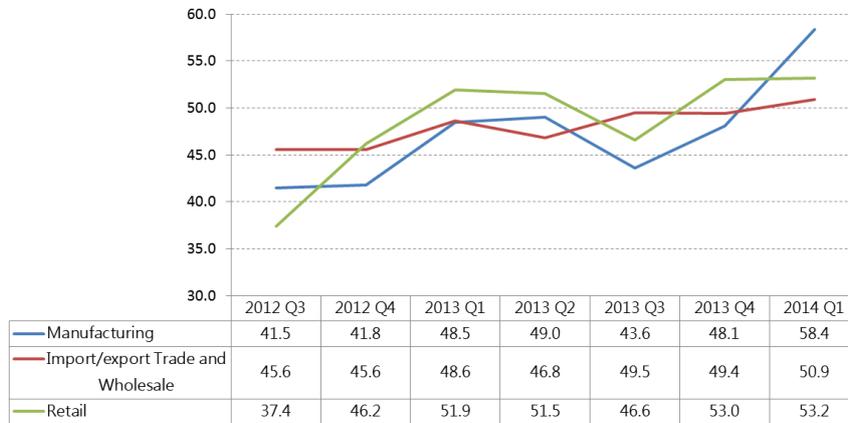
A quarter of the SMEs surveyed agreed that the Government has offered adequate support for them. Tax relief, waiving of business registration fees and the 'Dedicated Fund on Branding, Upgrading and Domestic Sales' are cited as the most helpful initiatives which should remain in the next financial year.



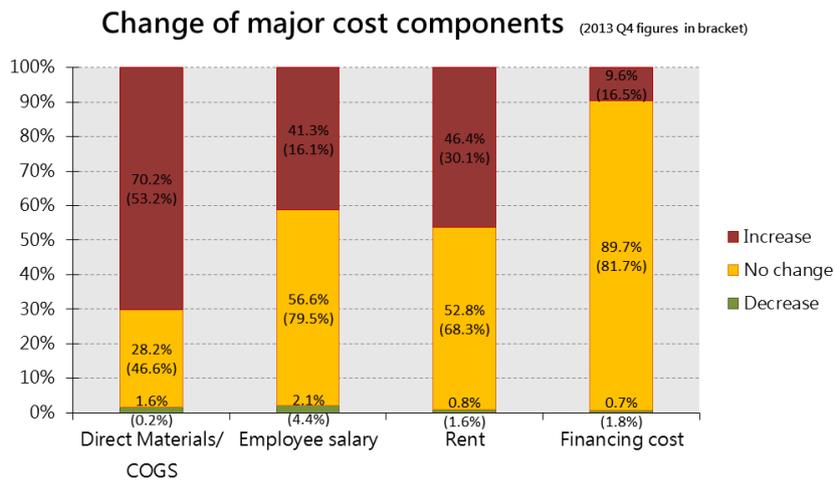
Appendix

Standard Chartered SME Index by Industry in 7 quarters

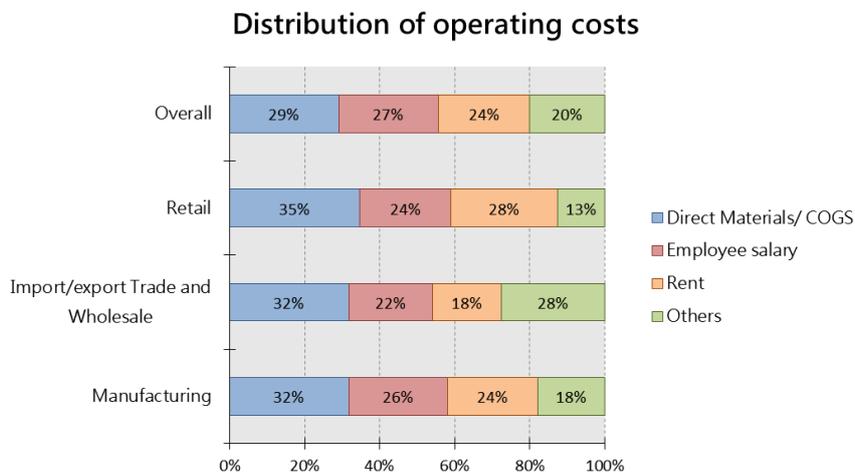
Standard Chartered SME Index by industry



Change of major cost components



Distribution of operating costs



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 April 2014.

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