



# Standard Chartered Hong Kong SME Leading Business Index

Quarter 3, 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.



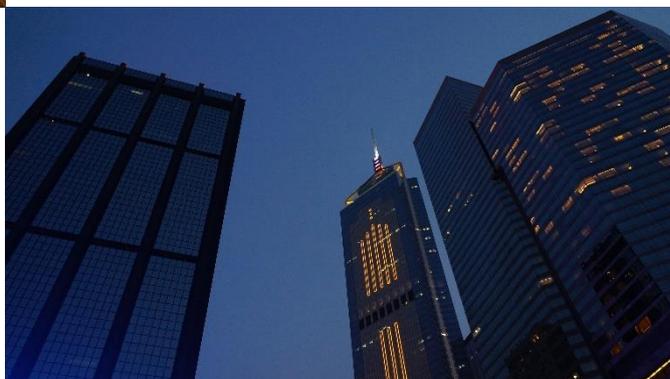
## Summary

The ninth survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted in June 2014. Top management of 819 SMEs were surveyed to gauge their views on the outlook of the overall business environment and regional economic changes in the 3<sup>rd</sup> quarter of 2014.

## Key findings

The Overall Index of the Standard Chartered SME Index has slightly increased by 0.5 points to 51.3. It has stayed above the 50.0 no-change mark for 3 consecutive quarters, reflecting an optimistic business outlook among Hong Kong SMEs. Key findings of the survey are as follows:

- ⊕ All component sub-indices rise, except the 'investment' sub-index, which recorded the most significant drop since year 2012, yet a positive sentiment still prevails in this quarter;
- ⊕ Rent to operating cost ratio rises from 23% to 32% in this quarter, making rent being a big burden to SMEs;
- ⊕ Industry index of the 3 main industries drop, but all of them are higher than last year's figures;
- ⊕ Drops in 'Investment' are noticeable in Manufacturing, Retail and Accommodation and Catering Services industries, indicating a conservative outlook of these industries;
- ⊕ Depreciation of Renminbi only benefit some of the SMEs as it lower the material costs, but most of them do not think there is any positive impact on their business.

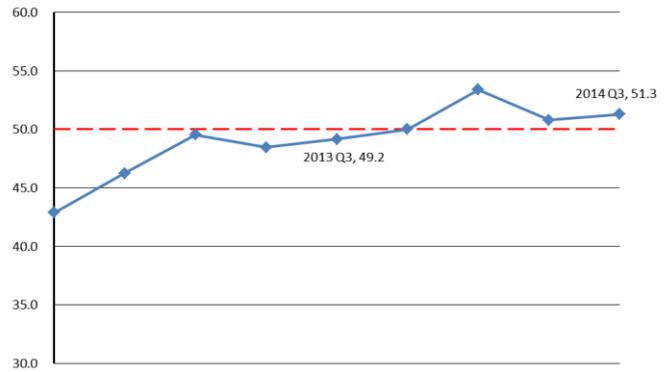


# Standard Chartered SME Index

2014 Q3

# 51.3

SME Index

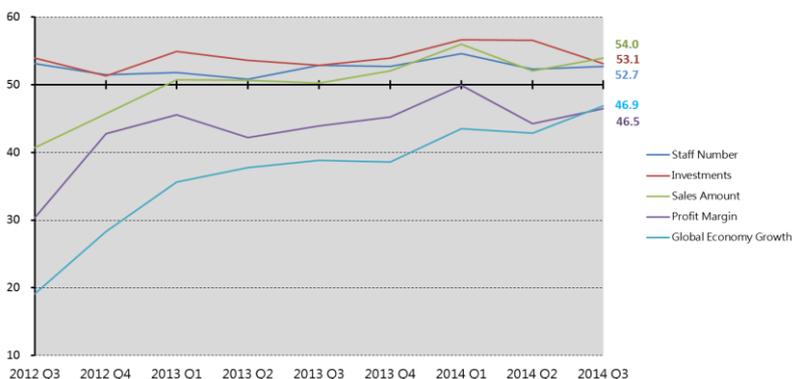


**SME Index has edged up 0.5 points to 51.3, an optimistic business outlook prevails as the Index stays above the 50 no-change mark for three consecutive quarters.**

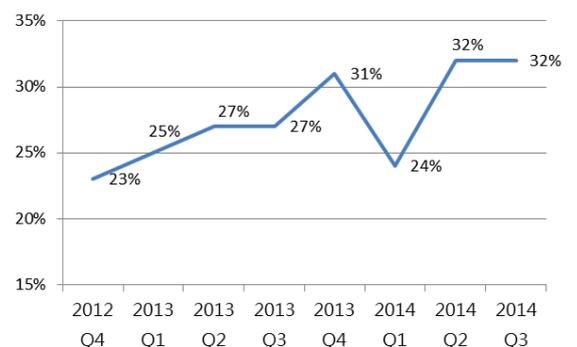
Four of the five component sub-indices recorded a rise in this quarter. The Sub-Indices for “Staff Number” (52.7), “Sales Amount” (54.0), “Profit Margin” (46.5) and “Global Economy” have risen 0.3, 2.0, 2.3 and 4.0 points respectively. Compare to 2013 Q3, improvements are noted in all component sub-indices, “Global economy” improve the most as it jumped 8.1 points from last year figure, indicating SMEs’ confidence in the global economy continues to improve.

“Investment” is the only component sub-index to drop in this quarter. Although it stays above the 50.0 no-change mark, it is rare that a significant drop occurs while all other sub-indices rises. Reaching its one-year low, more attention should be put on SMEs’ eagerness to invest. ‘Sales Amount’ has stayed above the 50.0 no-change mark for 7 consecutive quarters with an upward trend, reflecting an improving market situation. However, challenges from operating cost still torment SMEs. Recently the SMEs spend about 32% of the operating cost on rent, which is far more than 23% in 2012, forcing SMEs to seek new ways to enhance operation and cost efficiency.

The five component sub-indices



Rent-to-Operating cost ratio



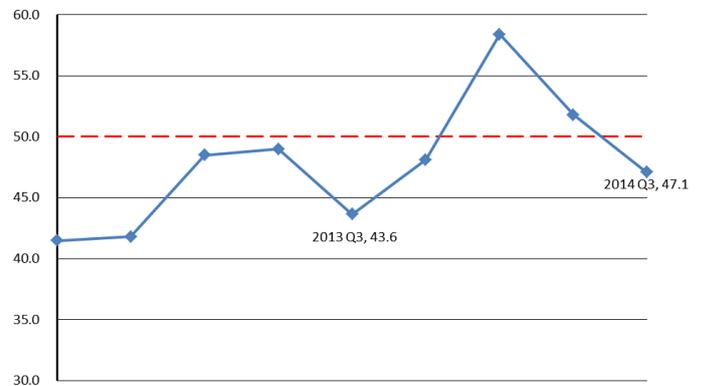
# Industry Indices

## Manufacturing industry | 47.1

All component sub-indices go down when comparing to last quarter. Significant drops in “Investment”, “Sales Amount” and “Profit Margin” components caused the industry index dropped to 47.1, which is below the 50.0 no-change mark. Data suggested that Manufacturing SMEs is adjusting the sales and profit forecast, and the adjustments may lead to a slowdown in investment.

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

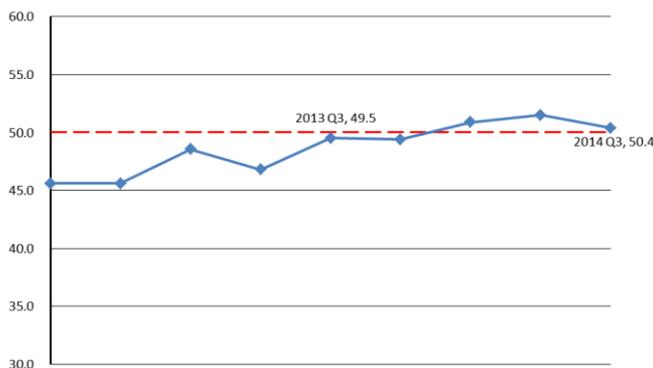
Manufacturing industry Sub-Index



## Import/Export Trade and Wholesale industry | 50.4

Although the Import, Export & Wholesale Industry Index has edged down 1.1 points to 50.4, its upward trend over the past two years shows a cautiously optimistic outlook among SMEs. The slowdown of investment is the main reason of the drop of the index. On the other hand, the increasing confidence on global economy recovery is noted as the related component sub-index rises for 5 consecutive quarters and about to hit the 50.0 no-change mark. Some SMEs feel relieved as the depreciation of Renminbi reduced the materials cost.

Import/ export and Wholesales industry Sub-Index



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



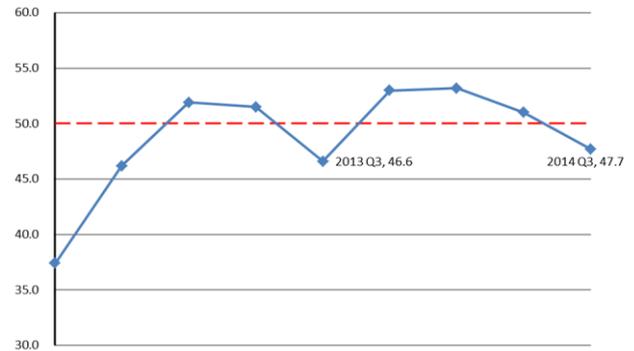
# Industry Indices

## Retail industry | 47.7

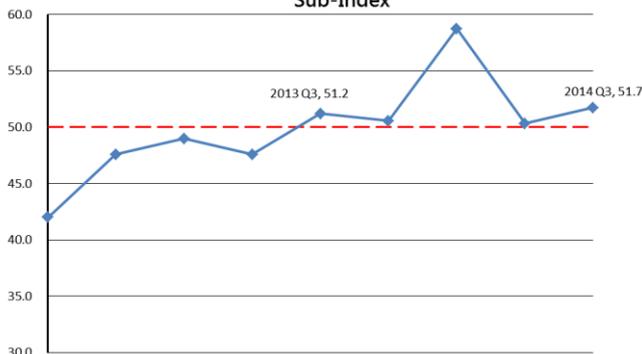
Affected by the “Investment” component and seasonally factors, the Retail industry index falls below 50 for the first time since 2013 Q4. All component sub-indices fall below 50.0 no-change mark except “Staff Number”. “Staff Number” component sub-index remain above the 50.0 no-change mark, indicating a great demand in labour force.

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

Retail industry Sub-Index



Accommodation and Catering Services industry Sub-Index



## Accommodation and Catering Services industry | 51.7

Accommodation and Catering Services industry index edged up 1.4 point to 51.7. Similar to the 3 main industries, significant drop in “Investment” is noted. SMEs are positive about the short-term performance. But comparing against last quarter, they are a little bit more cautious on the long-term outlook of the industry.

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



# Featured topic

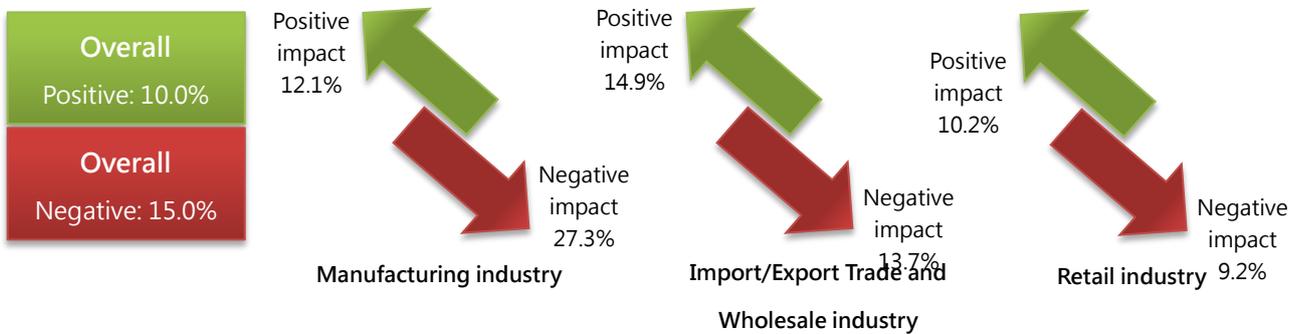


## (a) Renminbi Depreciation

Renminbi drops 3% during the first half of 2014. To understand the impact of the currency fluctuation on SMEs, the survey gauged SMEs' opinion on the unexpected depreciation of Renminbi.

Data shows that the pressure from material cost is slightly improved in the first half of 2014. However when asked to consider overall business performance, only two from the eight surveyed industries indicate positive opinions to the Renminbi depreciation, while other industries think it would bring a negative impact on their business, especially in Professional and Business Services industry.

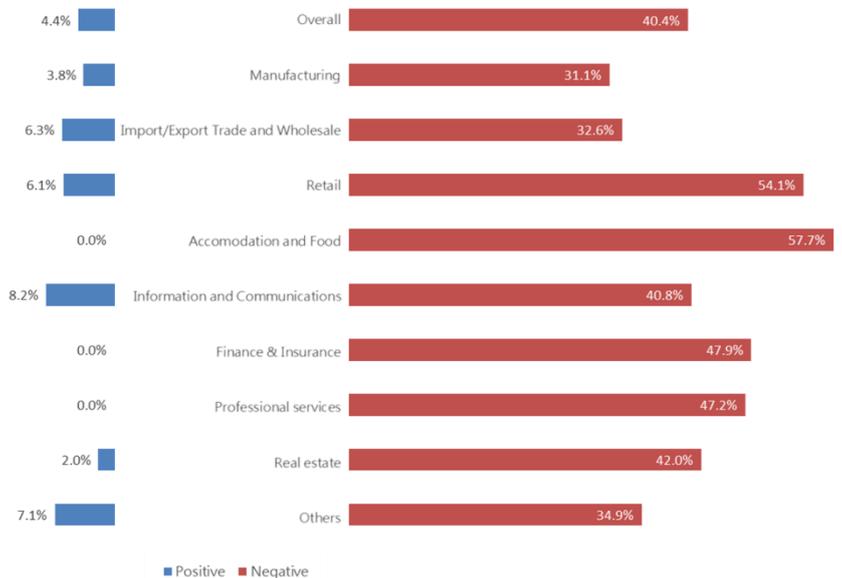
### Impact of Renminbi depreciation



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## (b) Imposing a cap on the number of Mainland visitors under the Individual Visit Scheme

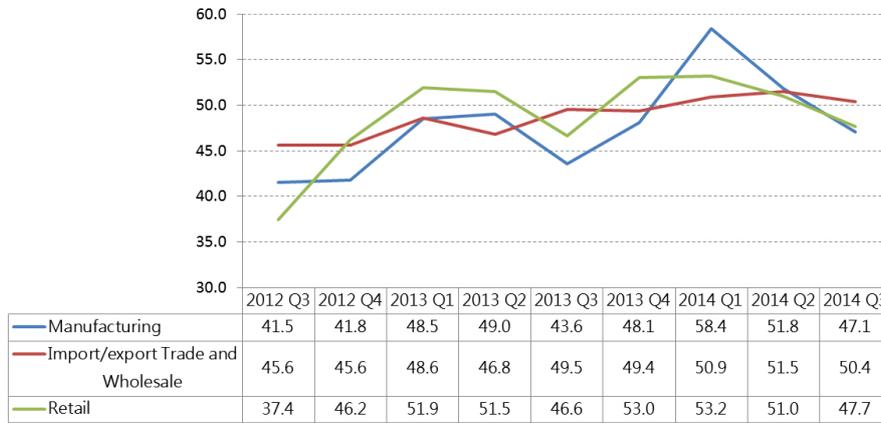
This survey also gauged the views of SMEs on this topic. All industries agreed that the policy will hurt the business environment of Hong Kong. Data suggested that SMEs now view mainland visitors as an important factor that affect Hong Kong business environment.



# Appendix

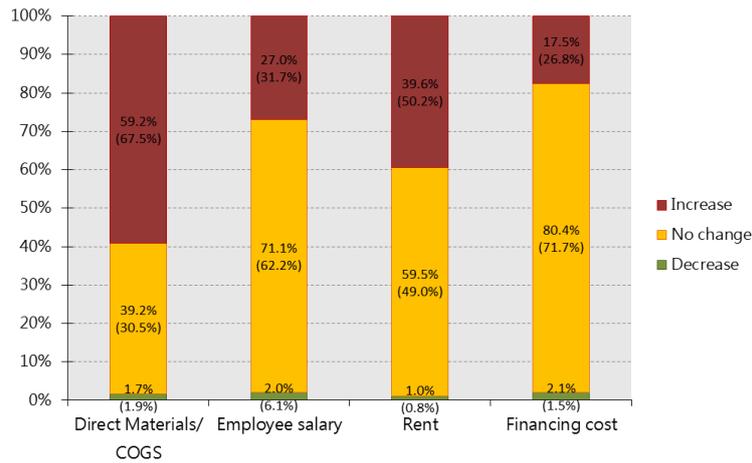
## Standard Chartered SME Index by Industry in 9 quarters

Standard Chartered SME Index by industry



## Change of major cost components

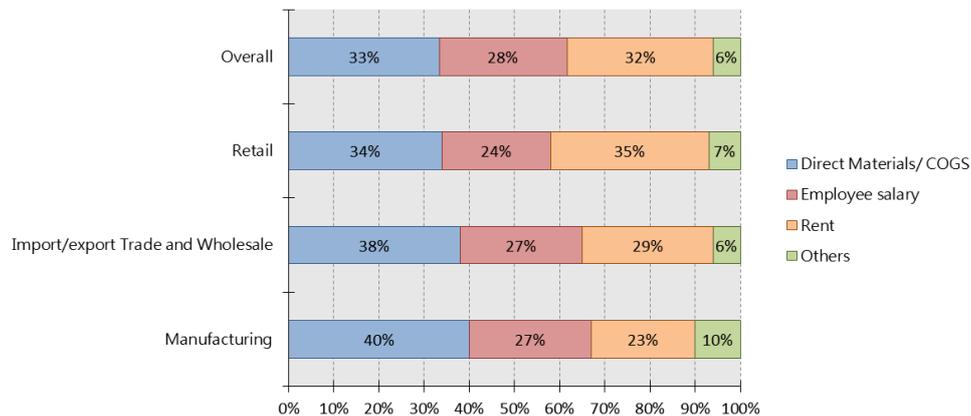
Change of major cost components (2014 Q2 figures in bracket)



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## Distribution of operating costs

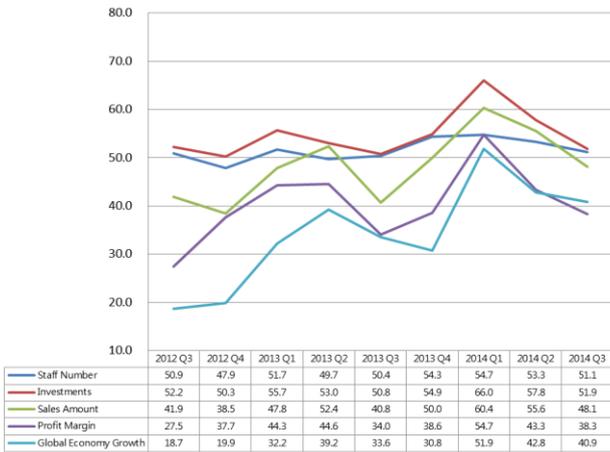
Distribution of operating costs



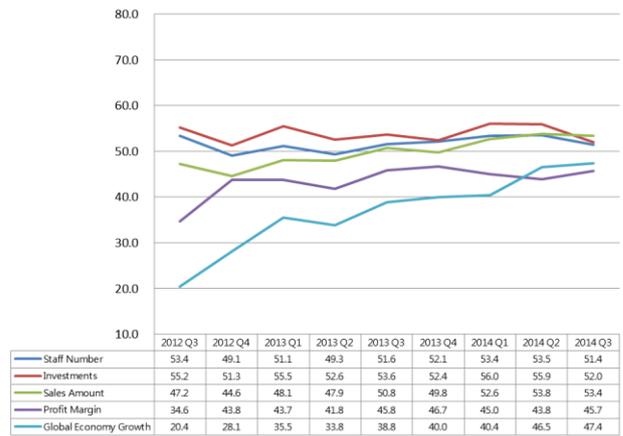
# Appendix

## Component sub-indices of 3 main industries and Accommodation and Catering Services

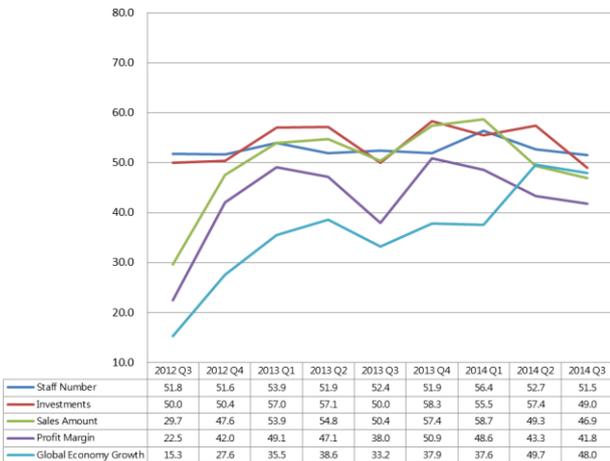
**Component sub-indices of Manufacturing industry**



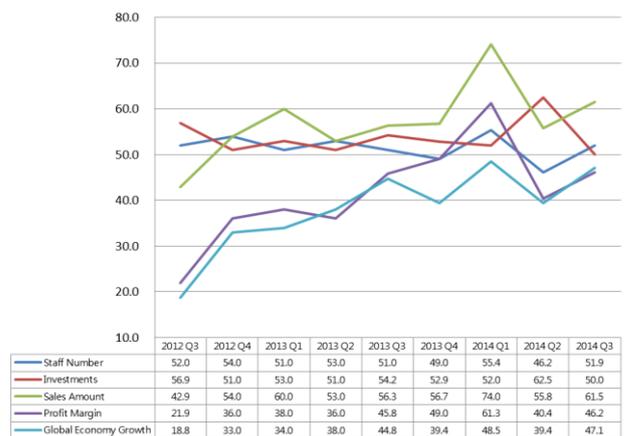
**Component sub-indices of Import/Export Trade and Wholesale industry**



**Component sub-indices of Retail industry**



**Component sub-indices of Accommodation and Catering Services industry**



# 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](http://www.smeone.org), and the next report will be published in early October 2014.

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