



# Standard Chartered Hong Kong SME Leading Business Index

Quarter 4, 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.



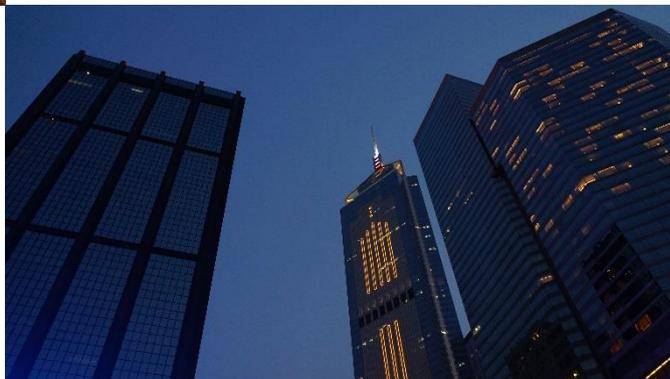
## Summary

The tenth survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted in September and October 2014. Top management of 804 SMEs were surveyed to gauge their views on the outlook of the overall business environment and regional economic changes in the 4<sup>th</sup> quarter of 2014.

## Key findings

The Overall Index of the Standard Chartered SME Index has dropped by 3.4 points to 47.9. Registering below 50.0 no-change mark for the first time in 2014, the index also reached its 2-year low, signaling a turn in Hong Kong business sentiment - from positive to negative. Key findings of the survey are as follows:

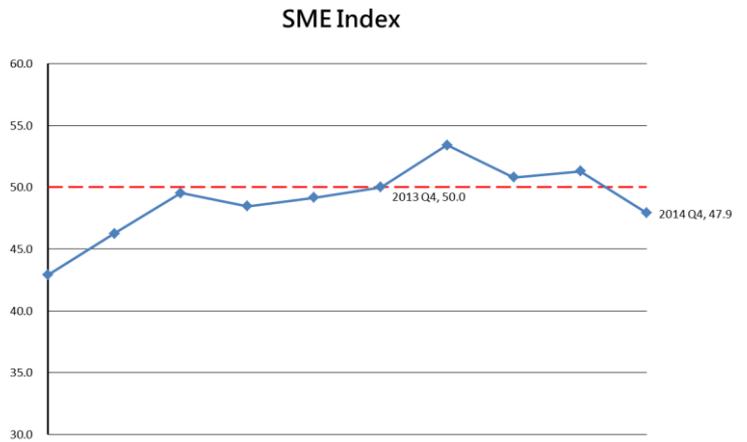
- ⊕ “Global Economic Growth” falling to its lowest for 18 months after rising for two years;
- ⊕ In 3 main industries, Manufacturing and Retail Industry Sub-Indices have risen while the Import, Export and Wholesale Industry Sub-Index has fallen ;
- ⊕ Around one-third of the respondents oppose the creation of Universal retirement protection scheme while 54% says they can bear up to 3% increases in related expenses each month.



# Standard Chartered SME Index

2014 Q4

# 47.9

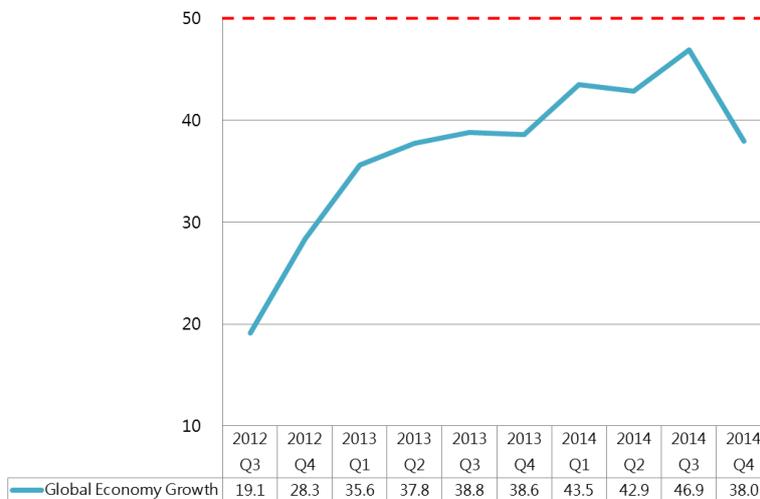


**Standard Chartered SME Index has dropped by 3.4 points to 47.9. Registering below 50.0 no-change mark for the first time in 2014, the index also reached its 2-year low, signaling a turn in business sentiment in Hong Kong SMEs’.**

The Standard Chartered SME Index comprising five component sub-Indices including “Staff Number”, “Investment”, “Sales Amount”, “Profit Margin” and “Global Economy Growth”. All component sub-indices dropped in this quarter. In the areas of “Staff Number” and “Investments”, the sentiments are still positive as the component sub-Indices down marginally at 51.5 and 52.2 respectively - still above the 50 mark. Sales Amount” (49.5), “Profit Margin” (41.5) and “Global Economic Growth” (38.0), however, report significant drops and register below the 50 mark. Compare to 2013 Q4, slightly drops are recorded in all component sub-indices, indicating a cautiously optimistic outlook among Hong Kong SMEs.

“Global Economy Growth” recorded a huge drop in this quarter. After rising for two years, the component sub-index hit its 18-month low, suggesting a frail recovery in the past 2 years. The economic data, and the forecasts and measures by International organizations and Central banks will continue playing an important role in SME’s views on “Global economy Growth”.

## Global economic growth component sub-index

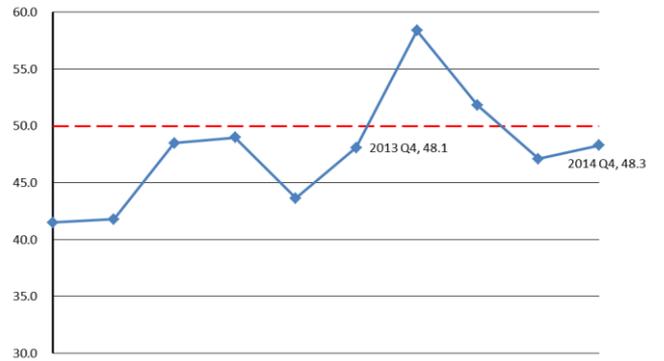


# Industry Indices

## Manufacturing industry| 48.3

Compare to last quarter, Manufacturer’s confidence on “Sales Amount” and “Profit Margin” increased significantly, more than 70% of surveyed SMEs believe their Sales and profit-related performances will improve or no change in this quarter. The findings also shows an improvement when compare to last year’s figures, reflecting a bettering income forecast in the industry. However, worries on costs still exist. Around 60% of respondents expecting a rise in direct material cost in this quarter while 30% and 40% of them expecting a rise in employee salary and rents respectively.

Manufacturing industry Sub-Index



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

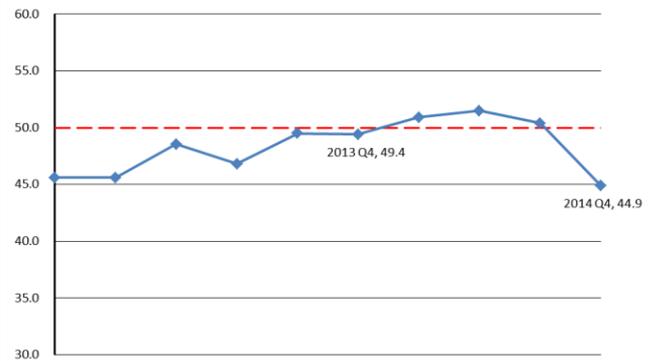


# Industry Indices

## Import/Export Trade and Wholesale industry | 44.9

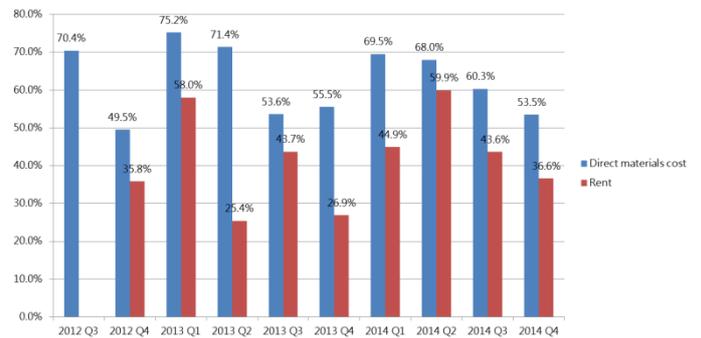
Followed by the fall in Manufacturing Industry Sub-index in the last quarter, the Import, Export and Wholesale Industry Sub-Index has fallen to 44.9. According to the survey, the main causes are the declines in confidence on the “Sales Amount”, “Profit Margin” and “Global economy”. SMEs are pessimistic about the business outlook under the unstable global economy environment. With reference to the past records, not many improvements are seen in the operating costs of SMEs in Import/Export Trade and Wholesale industry. When firms are facing a difficult business environment, more effort should be paid on firm’s internal factors, say cost control, to reduce the risk.

Import/ export and Wholesales industry Sub-Index



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

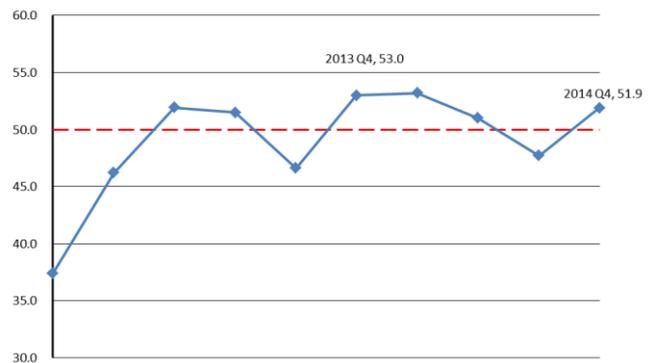
Percentage of I/E SMEs expecting a rise in Direct materials and Rent



## Retail industry | 51.9

The Retail Industry Sub-Index goes above 50 again as the fourth quarter is traditionally a rosy period for retailers. Industry index increases by 4.2 to 51.9. Apart from “Global economy growth”, all retails component sub-indices rise. “Staff Number”, “Investment” and “Sales Amount” stay above 50.0 mark. Retailers are quite positive about the business environment, but not as positive as last year.

Retail industry Sub-Index



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

\*No rent data were collected in 2013 Q1

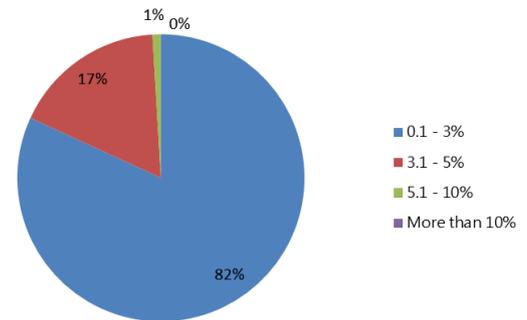


# Featured topic

## (a) Universal retirement protection scheme

The scheme may affect SMEs' operating expense in long run, therefore this survey also gauged the views of SMEs on the scheme. Around one-third of the respondents oppose the creation of such scheme while two-third of SMEs support it. Nearly 80% of supporters say they can bear up to 3% increases in related expenses each month.

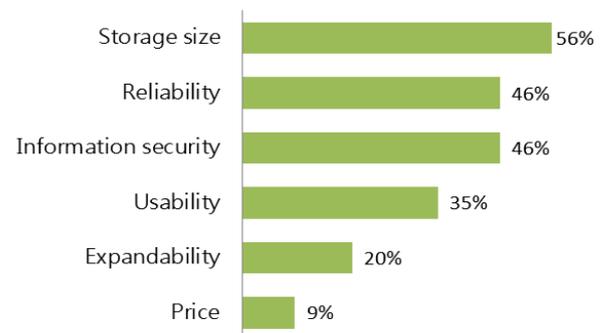
Additional costs SMEs can bear in related expenses



## (b) Cloud computing

The survey also studied SMEs' use of cloud services. Over half of the companies interviewed said they would keep company emails at the servers of email service providers, while about 15% used cloud storage services such as Dropbox, Google Drive, etc. However, when selecting service providers, most of the respondents do not consider data security as the most important criteria. SMEs should pay attention to the network security of service providers to prevent data leakage. They can also make use of the upcoming Retail Technology Adoption Assistance Scheme to upgrade their information systems.

Criteria in selecting service providers



7

# Mass Protests in HK

During the data collection period of the survey, mass protests broke out in Hong Kong. Among 804 sample collected, 327 interviews are conducted before the commencement of mass protests while the remaining 477 interviews are done after the commencement of mass protests. To provide analysis from a different angle, the data collected are divided into "Before the protest starts" (Before) and "After the protest starts" (After) for further analysis. According to the analysis results, Standard Chartered SME Index dropped by 15%, with "Global Economy Growth" recorded the biggest drop, followed by "Sales Amount" and "Profit Margin". Each of the three sub-indices has fallen by approximately 20% or more. Please refer to the Appendix for details.



# Appendix

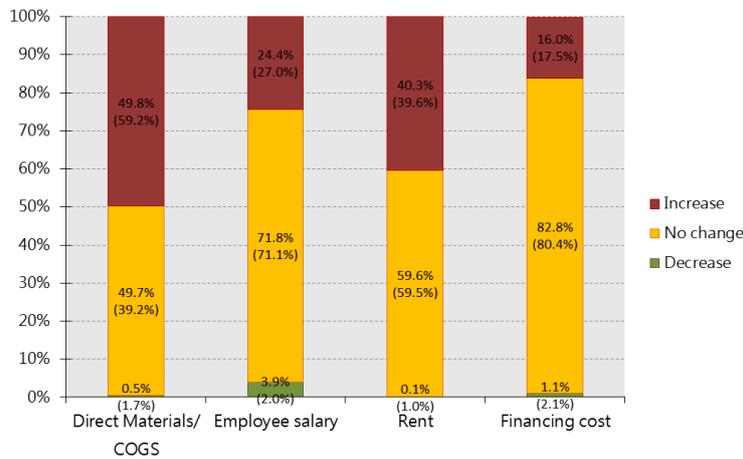
## Standard Chartered SME Index by Industry in 10 quarters

Standard Chartered SME Index by industry



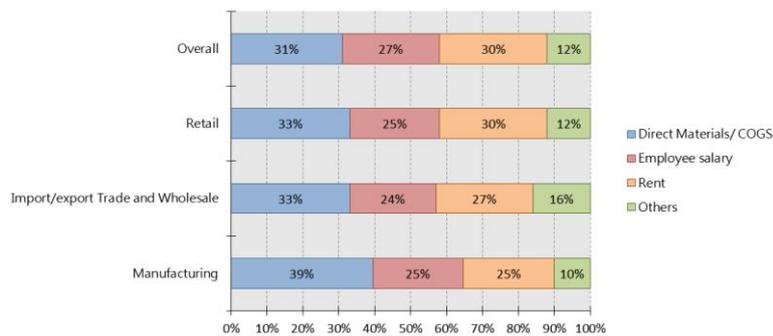
## Change of major cost components

Change of major cost components (Last quarter figures in bracket)



## Distribution of operating costs

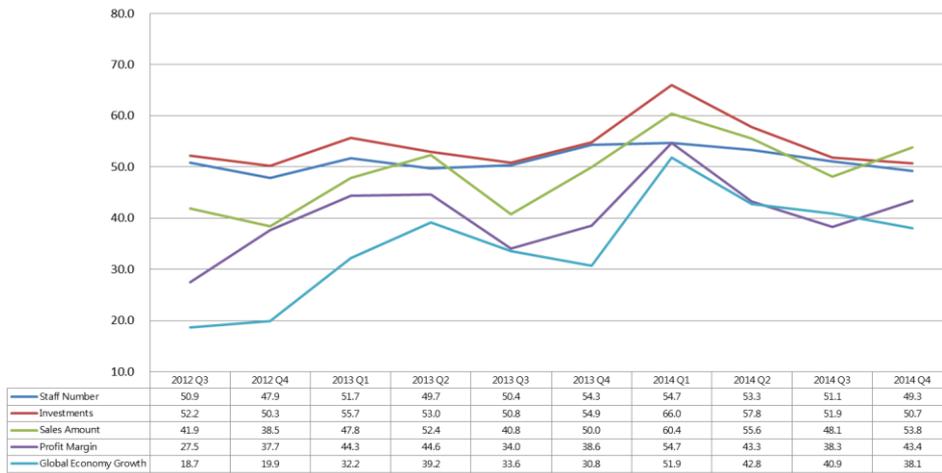
Distribution of operating costs



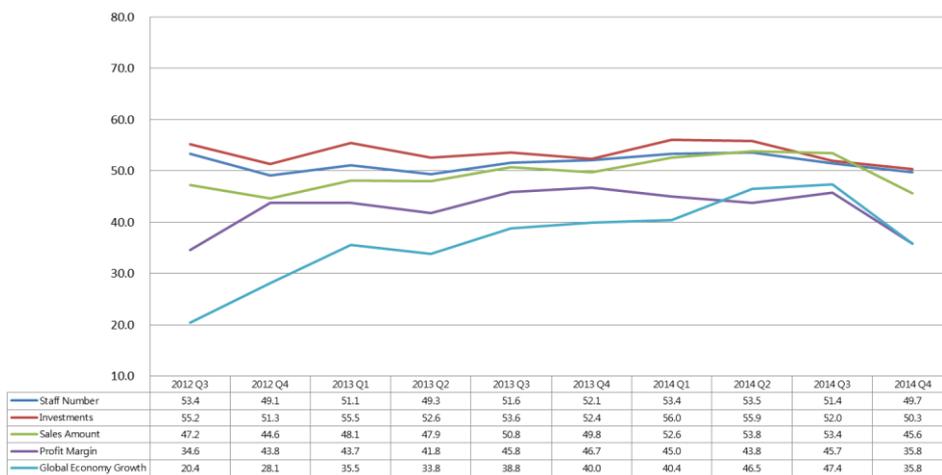
# Appendix

## Component sub-indices of 3 main industries

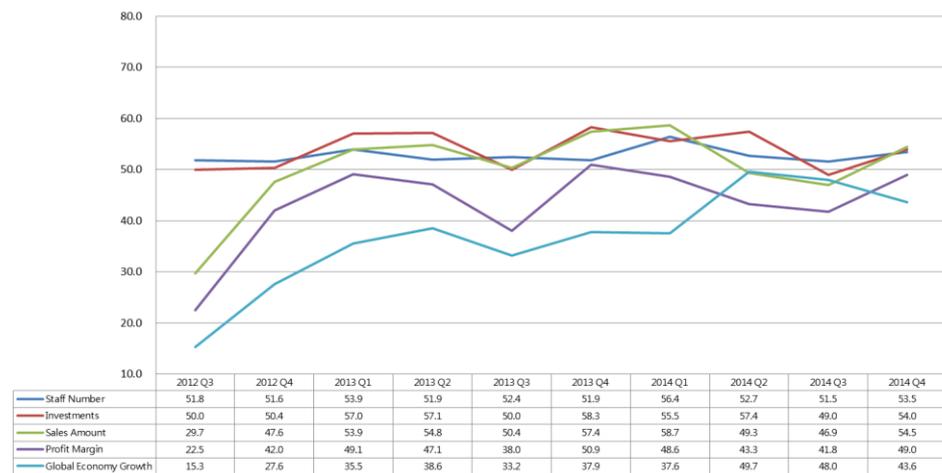
Component sub-indices of Manufacturing industry



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



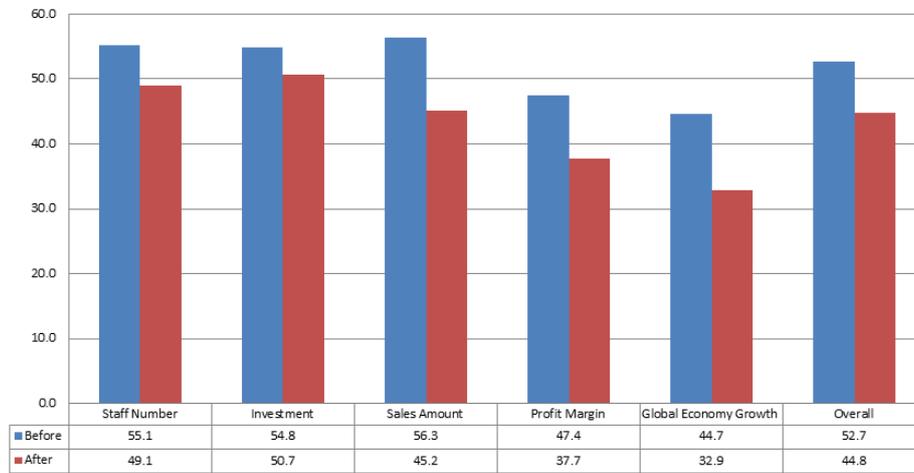
Component sub-indices of Retail industry



# Appendix

## Mass Protests in HK

**Before and After Mass Protests  
Sub-Indices Analysis**



# 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 January 2015.

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