Standard Chartered Hong Kong SME Leading Business Index

Quarter 2, 2015

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:

Increase% x 100 + No Change% x 50 + Decline% x 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.

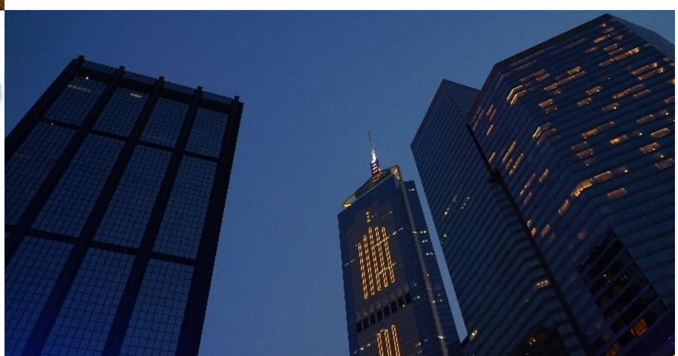
Summary

The twelfth survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted in March 2015. Top management of 803 SMEs were surveyed to gauge their views on the outlook of the overall business environment and regional economic changes in the 2nd quarter of 2015.

Key findings

The Overall Index of the Standard Chartered SME Index has edged down 1.1 points to 49.0, implying a slightly bearish business outlook among local SMEs as the Index drops marginally below the 50 no-change mark. Key findings of the survey are as follows:

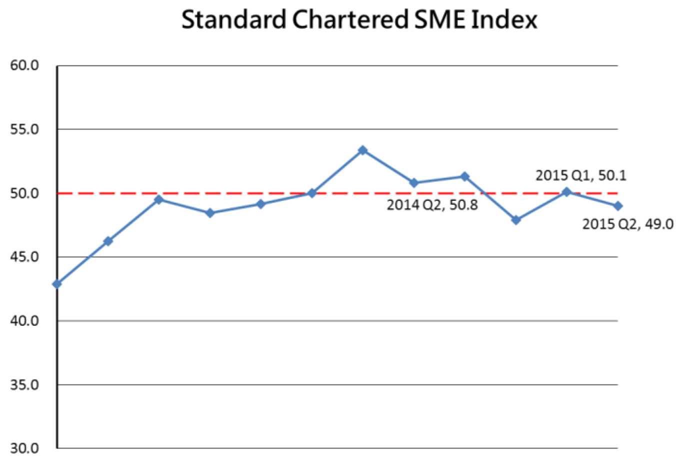
- The Sub-Indices for “Investments”, “Sales Amount”, “Profit Margin” and “Global Economic Growth” all go down, among which the “Sales Amount” shows the largest drop;
- The Sub-Index for “Staff Number” reaches its record high of 55.3, showing a strong recruitment sentiment even into the low season;
- The Retail Sub-Index rebounds to 49.9, very close to the 50 no-change mark;
- Both Manufacturing and Import, Export & Wholesale Sub-Indices decline, implying a pessimistic sentiment about the business prospects for this quarter;
- About 70% of the SMEs surveyed consider their industries relatively less competitive than their Asian counterparts, while the Information and Communications, Financial & Insurance, and Manufacturing sectors rate themselves more competitive in Asia;
- Among those respondents who will engage in e-Commerce in the upcoming year, 64% of them expect a rise in the proportion of e-Commerce sales against the total, with an average increase of 11%.



Standard Chartered SME Index

2015 Q2

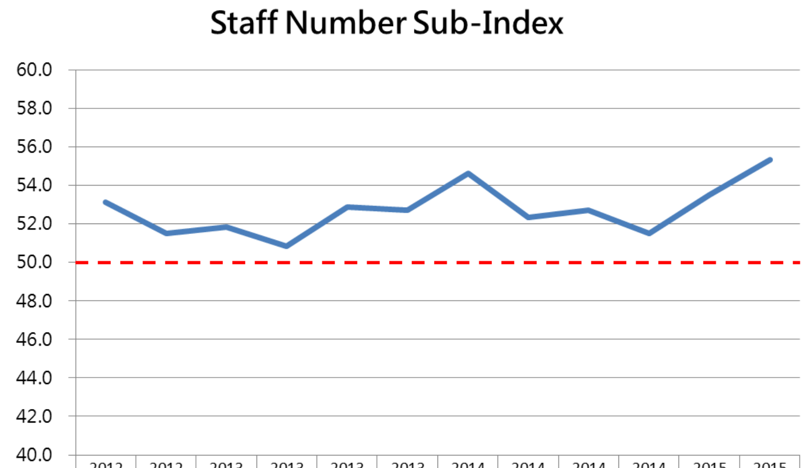
49.0



Standard Chartered SME Index has edged down 1.1 points to 49.0, marginally below the 50 no-change mark, implying a slightly bearish business outlook among local SMEs.

Standard Chartered SME Index is comprised of five sub-indices, namely “Staff Number”, “Investments”, “Sales Amount”, “Profit Margin” and “Global Economic Growth.” In this quarter, the Sub-Index for “Staff Number” reaches its record high of 55.3. This reflects a strong recruitment sentiment even into the low season, particularly in the Retail, Information and Communications, as well as Accommodation and Food sectors. The Sub-Indices for “Investments” (51.3), “Sales Amount” (47.3), “Profit Margin” (44.5) and “Global Economic Growth” (40.1) all go down; among which the “Sales Amount” drops most notably by 4.4 points.

Compared to the second quarter of 2014 (50.8), the Index of this quarter reduced by 1.8. “Investments”, “Sales Amount” and “Global Economic Growth” have dropped, among which, "Investments" has shown the most significant drop. Besides, "Sales Amount" sentiment has changed from positive to negative, "Staff Number" and "Profit Margin" sub-indices slightly increased. In conclusion, the index reflected a slightly bearish business outlook among local SMEs.



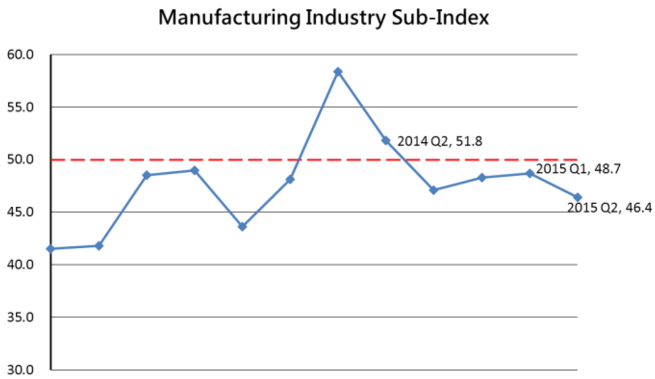
	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2
Staff Number	53.1	51.5	51.9	50.9	52.9	52.7	54.6	52.4	52.7	51.5	53.5	55.3

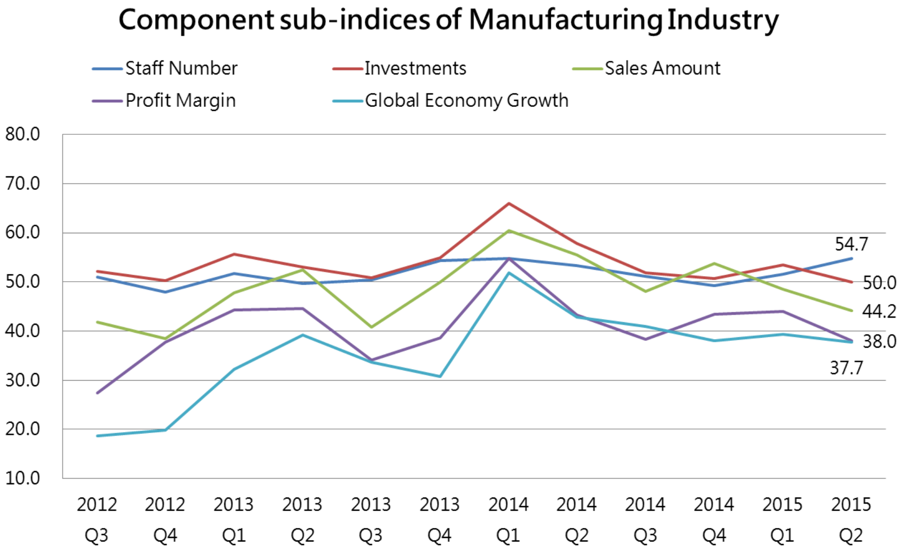
Industry Indices

Manufacturing industry| 46.4

Manufacturing industry sub-index has dropped by 2.3 to 46.4. Since the third quarter of 2014, the sub-index remains below 50 mark for the fourth consecutive quarters and shows a declining trend, implying that the Manufacturing industry does not expect a very significant improvement in business environment in a short time. The readings of "Profit Margin" and "Sales Amount" in the Manufacturing industry sub-index register the biggest drop, while the "Investments" sentiment has changed from positive to neutral. Although the Manufacturing industry is pessimistic about the business prospects for this quarter, "Staff Number" is still increasing, showing a positive recruitment sentiment in this quarter.

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

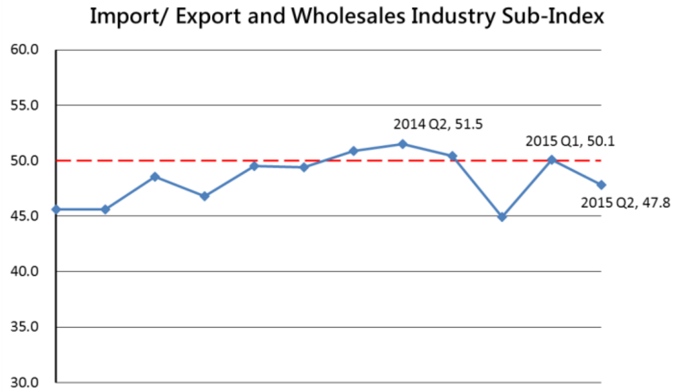




Industry Indices

Import/Export Trade and Wholesale industry | 47.8

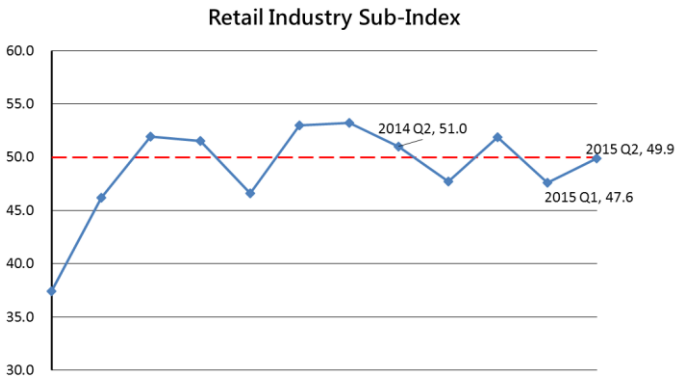
The Import, Export and Wholesale Industry Sub-Index has dropped by 2.3 to 47.8, going back to under the 50 mark, reflecting a pessimistic sentiment in this quarter. "Global Economy Growth", "Sales Amount" and "Investments" register a significant drop. "Investments" is the first time to drop under the 50 mark in three years, stating a conservative attitude towards business development in this period. In addition, "Sales Amount" sub-index has changed from positive to negative, while "Staff Number" has slightly increased. Compared to the second quarter of 2014, all five component sub-indices go down, implying the industry has become more negative towards the business environment is the previous year.



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

Retail industry | 49.9

The Retail Sub-Index rebounds to 49.9, very close to the 50 no-change mark, reflecting a neutral sentiment towards business environment. "Staff Number" continues the climbing trend and the Retail industry is one of the industries which have the strongest recruitment sentiment. "Profit Margin" and "Global Economy Growth" sub-indices have recorded a significant increase. Compared to the 2nd quarter of 2014, "Global Economy Growth" and "Investment" sub-indices have showed a big drop.



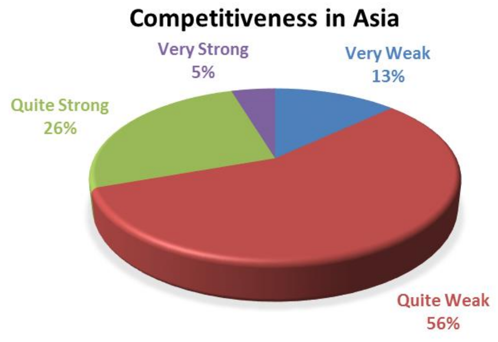
Component	View	Compare to last quarter	Compare to last year
Industry Index	Negative	Up	Down
Staff Number	Positive	Up	Up
Investment	Positive	Up	Down
Sales Amount	Negative	Down	Down
Profit Margin	Negative	Up	Up
Global Economy Growth	Negative	Up	Down

Featured topic

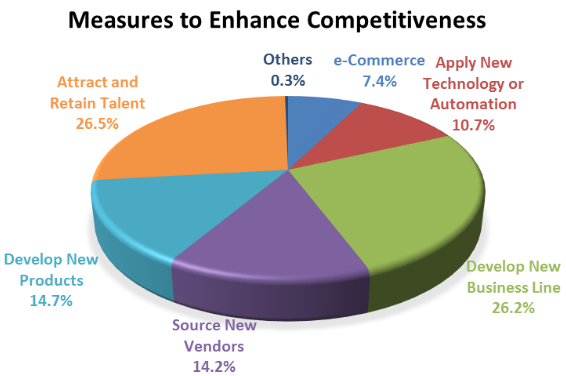
(a) Analysis on Competitiveness

This survey also gauged the views of different industries on their relative competitiveness among rivals in Asia. About 70% of the SMEs surveyed consider their industries relatively less competitive than their Asian counterparts. On the other hand, the Information and Communications, Financial & Insurance, and Manufacturing sectors rate themselves more competitive in Asia.

Manufacturing industry regarded the manufacturers of Mainland China and Taiwan as their major competitors, mainly because of those manufactures have lower operating cost. However, Hong Kong Manufacturing industry is still confident in its competitiveness, as the buyers believe "made in Hong Kong" products have reliable quality. Due to the change in supply chain and the fast growth of neighboring ports and airports, the volume of export goods via Hong Kong has been decreasing in recent years. Therefore, the Import/ Export Trade & Wholesale industry finds themselves less competitive in Asia. Compared to the Information and Communications in Mainland China, Hong Kong companies have higher exposure in the international market, which helps them to develop the capability in system design. For Information and Communications in South Korea, they are stronger in innovation and technology.



	Relative Competitiveness	Major Competitor(s)
Manufacturing	Strong	Mainland China, Taiwan
Import/ Export Trade & Wholesale	Weak	Mainland China, Singapore
Information and Communications	Strong	Mainland China, South Korea
Financial & Insurance	Strong	Mainland China, Singapore



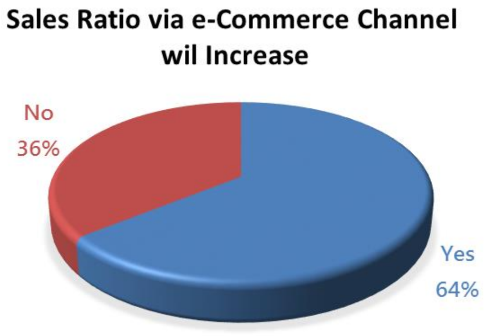
Hong Kong SMEs consider product and service quality, human capital, and market network as the three major factors conducive to maintaining their regional competitive advantages. To maintain and enhance their competitiveness, most SMEs will step up measures in recruitment and retention, followed by business and products development in the upcoming year.

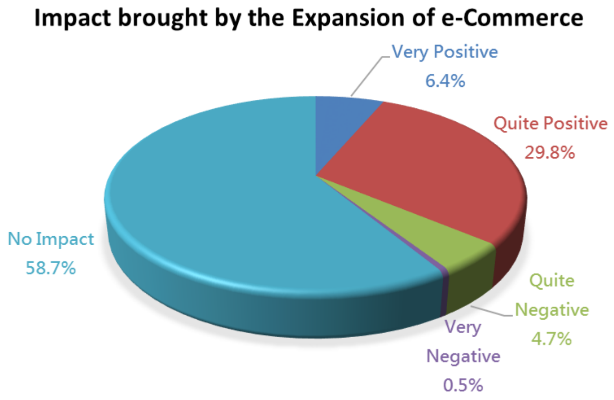
(b) Development plan in e-Commerce

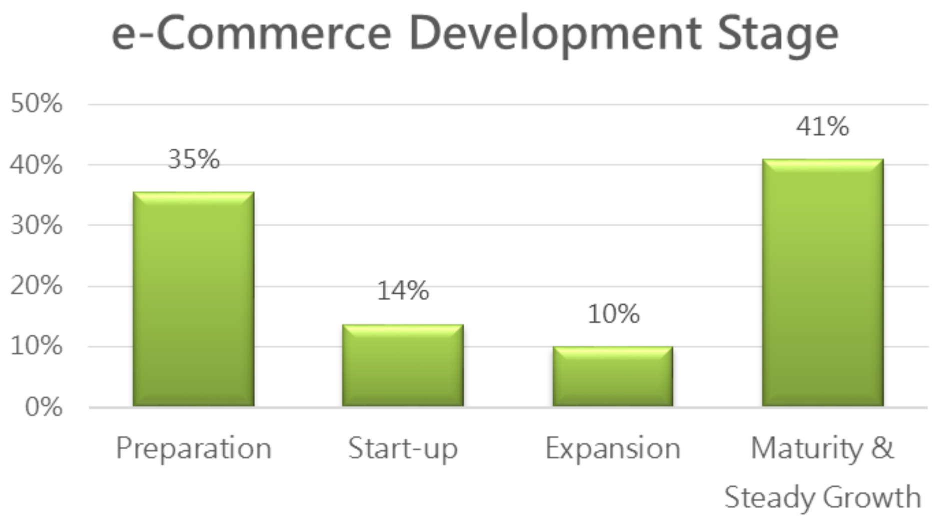
In the meantime, there is a rising trend of SMEs using e-Commerce in their businesses. Among those respondents who will engage in e-Commerce in the upcoming year, 35% have started preparation; 64% of them expect a rise in the proportion of e-Commerce sales against the total, with an average increase of 11%.

36% of the respondents expect the expansion of e-commerce would bring positive impacts, while only 5% of them expect there will be negative impacts.

There are both successful and unsuccessful cases of developing e-commerce. SMEs are advised to generate a corporate development strategic plan, which covers customer relationship management, resources allocation among online and offline shops, inventory management, etc. This enable more effective cost control and enhance customer satisfaction level.

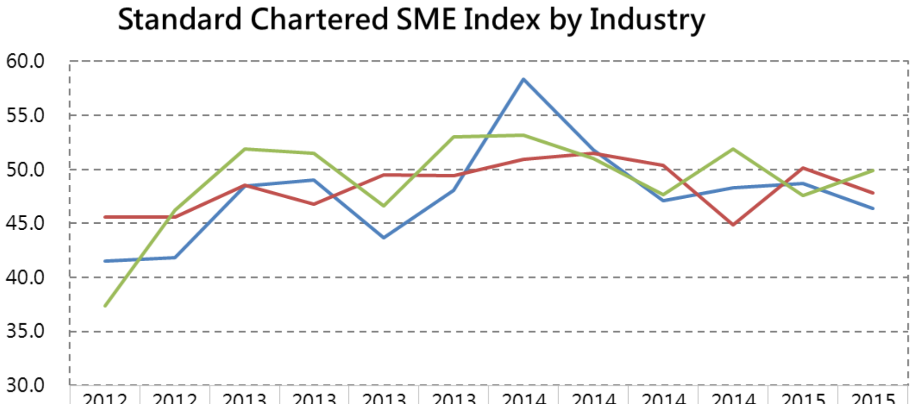






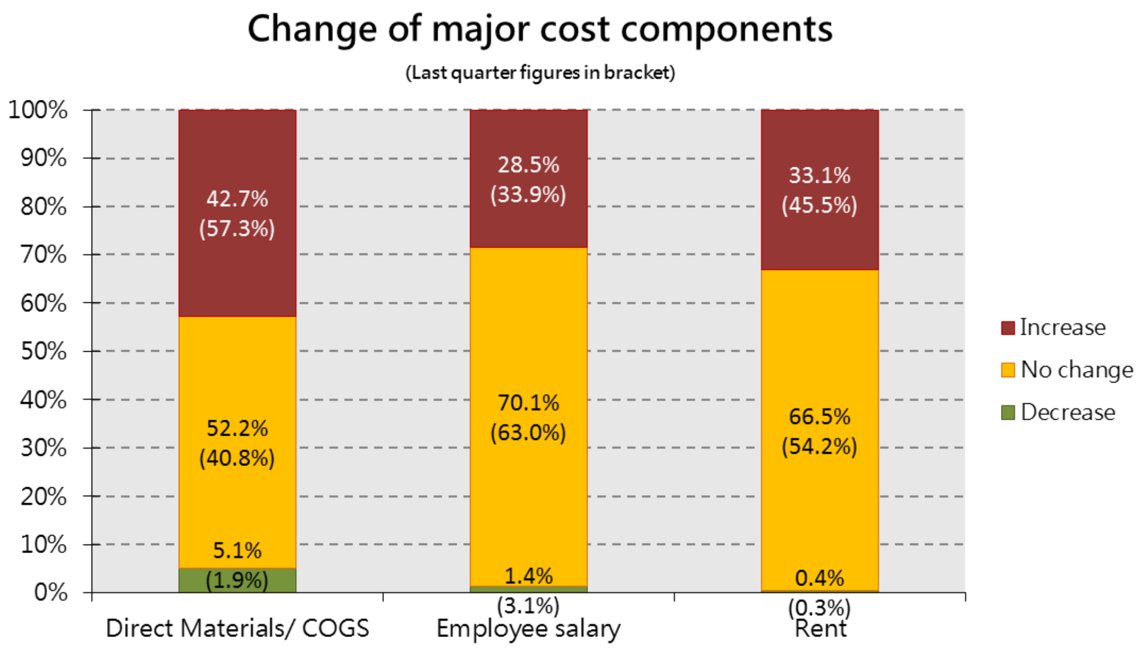
Appendix

Standard Chartered SME Index by Industry



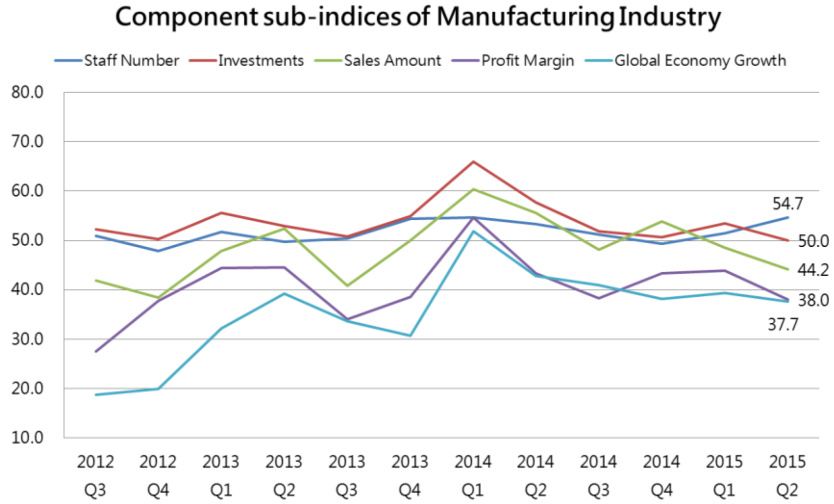
	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2
Manufacturing	41.5	41.8	48.5	49.0	43.6	48.1	58.4	51.8	47.1	48.3	48.7	46.4
Import/Export Trade and Wholesale	45.6	45.6	48.6	46.8	49.5	49.4	50.9	51.5	50.4	44.9	50.1	47.8
Retail	37.4	46.2	51.9	51.5	46.6	53.0	53.2	51.0	47.7	51.9	47.6	49.9

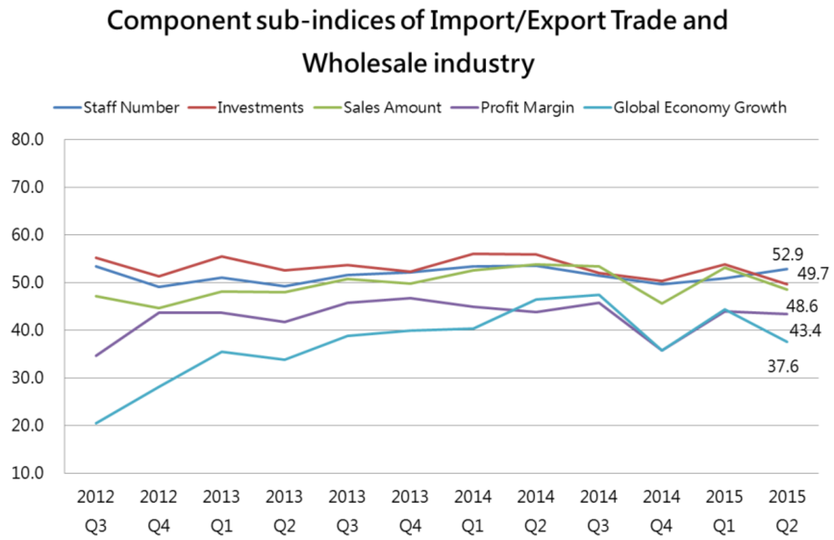
Change of major cost components

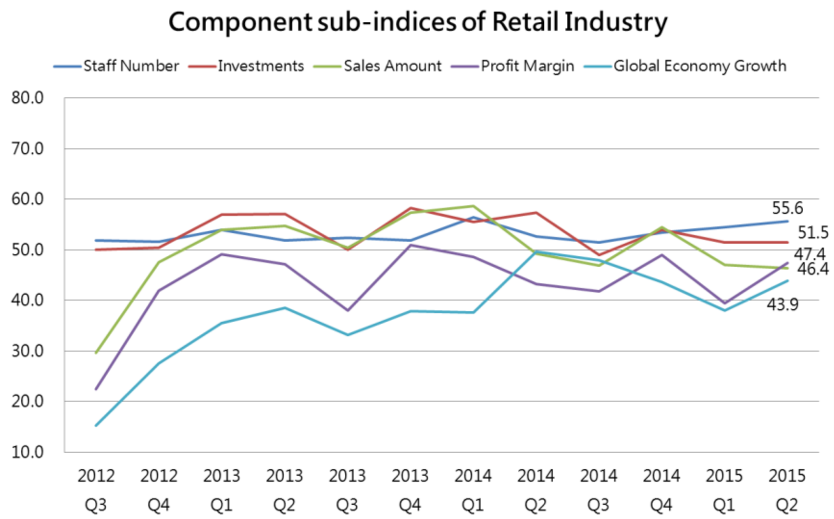


Appendix

Component sub-indices of 3 main industries







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 July 2015.

For more details about the Index, please contact Olivia Mak at tel. (852) 2788 5677 or email: oliviam@hkpc.org. For other media enquiries, please contact Chloe Chau at tel. (852) 2788 6158 or email: chloechau@hkpc.org.