



Standard Chartered Hong Kong SME Leading Business Index

Quarter 4, 2016

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 no less 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 eighteenth survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted from mid-September to early October 2016. Top management of 867 SMEs were surveyed to gauge their views on the outlook of the overall business environment and regional economic changes in the 4th quarter of 2016.

Key findings

The Overall Index of the Standard Chartered SME Index has increased 1.4, reaching 42.5. The business confidence of local SMEs is gradually picking up as the Index continues the growth momentum in last quarter, rebounding almost to the first quarter's reading. Key findings of the survey are as follows:

- ⊕ Overall Index comprising five Sub-Indices. In this quarter, "Staff Number" (50.3) is the only Sub-Index that has dropped, though mildly. Nevertheless, it still stands at the 50-no-change mark - an indication that despite a low recruitment intention, SMEs tend to maintain the current manpower level in this quarter;
- ⊕ The Sub-Indices for "Investments" (46.4), "Sales Amount" (41.1), "Profit Margin" (38.3) and "Global Economic Growth" (24.6) all go up. However, these four Sub-Indices are still far below the 50 threshold, reflecting the prevailing bearish business outlook;
- ⊕ All the three major Industry Sub-Indices are still below the 50 threshold;
- ⊕ With improving confidence towards "Sales Amount" during the Christmas peak season and easing worries over global economic uncertainties, both the Manufacturing (40.3) and Retail (40.5) Sub-Indices have rebounded above 40, with increments of 2.5 and 2.2 respectively;
- ⊕ The Import, Export & Wholesale Sub-Index, however, fails to sustain the growth momentum in last quarter, and has edged down 1.0 to 36.7. The readings on "Staff Number" and "Investments" in this sector even hit the rock bottom since the launch of the Index;
- ⊕ 73% of the respondents agree that Hong Kong is facing an economic downturn, among which 14% may consider winding up their business within one year if the sluggish situation is here to stay;
- ⊕ The sentiment has significantly improved as compared to that of half a year ago. The last survey found that 90% of the surveyed SMEs agreed that the economy was going down, and nearly 20% in this group might consider winding up within one year if the situation dragged on.

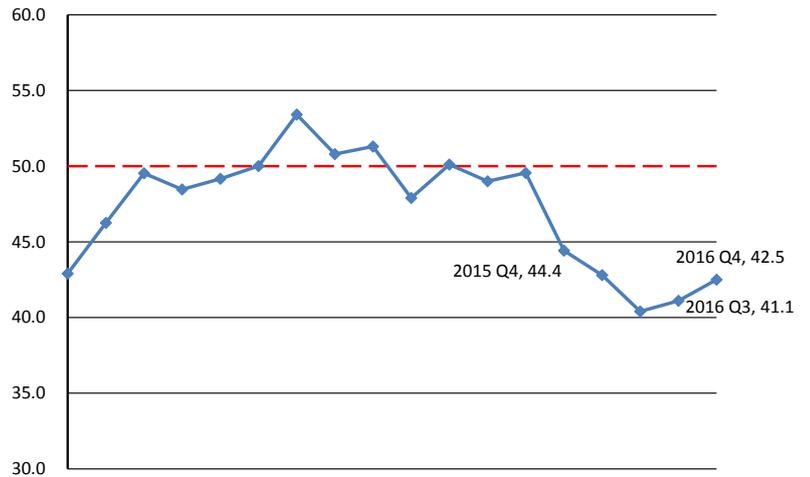


Standard Chartered SME Index

2016 Q4

42.5

Standard Chartered SME Index



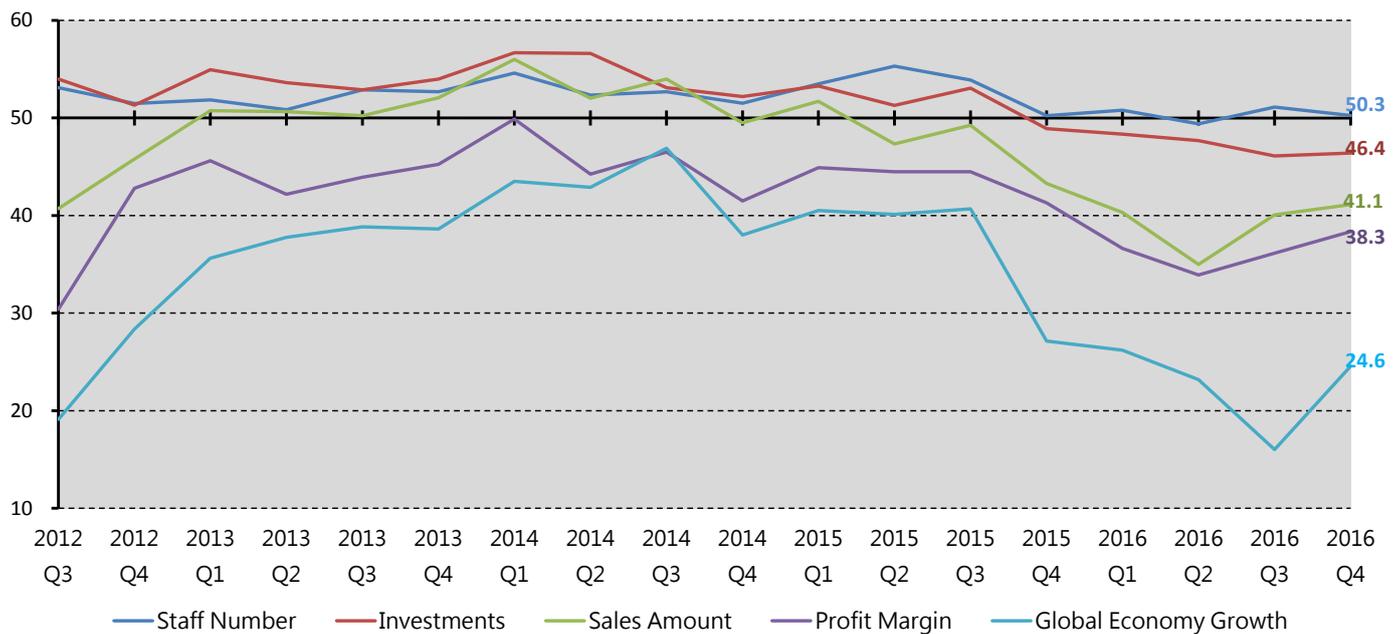
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Compared to the fourth quarter of 2015 (44.4), the Index of this quarter (42.5) reduced by 1.9 points. Despite “Staff Number” increased slightly of 0.1 point, all the other sub-indices were also dropped respectively.

The five component sub-indices



LB Index Industry Indices

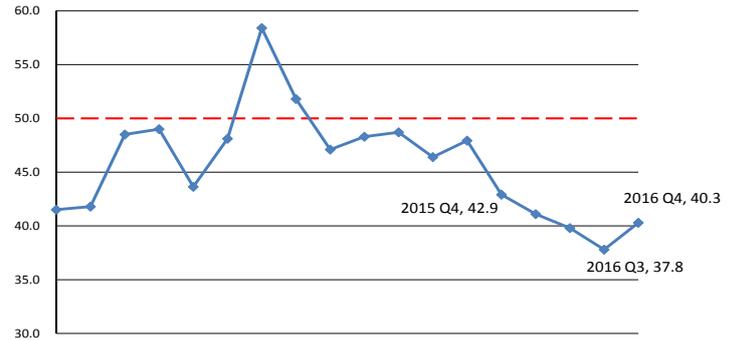
Manufacturing industry| 40.3

Manufacturing industry sub-index has increased by 2.5 points to 40.3. Compared to the same quarter in last year, the sub-index dropped 2.6 points, which rebounded after the drop in 4 consecutive quarters. The increase is contributed to the strengthen confidence in “Sales Amount” and easing worries over global economic uncertainties. Overall, the manufacturing industry yet to be improved.

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



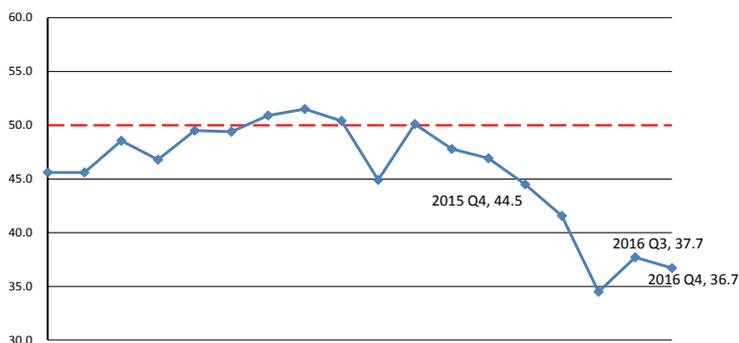
Manufacturing Industry Sub-Index



Import/Export Trade and Wholesale industry| 36.7

The Import, Export and Wholesale Industry Sub-Index has decreased by 1.0 points to 36.7. Compared to same period in last year (44.5), the sub-index dropped notably at 7.8 points. With the sub-indices remain below 40 and readings on “Staff Number” and “Investments” in this sector even hit the rock bottom since the launch of the Index, the industry outlook stays bearish.

Import/ Export and Wholesales Industry Sub-Index



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



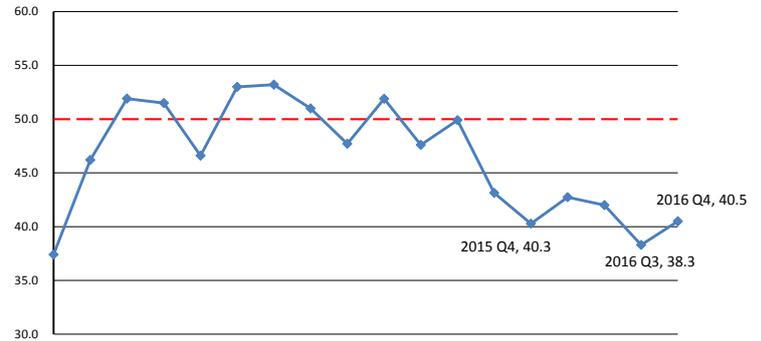
Industry Indices

Retail industry | 40.5

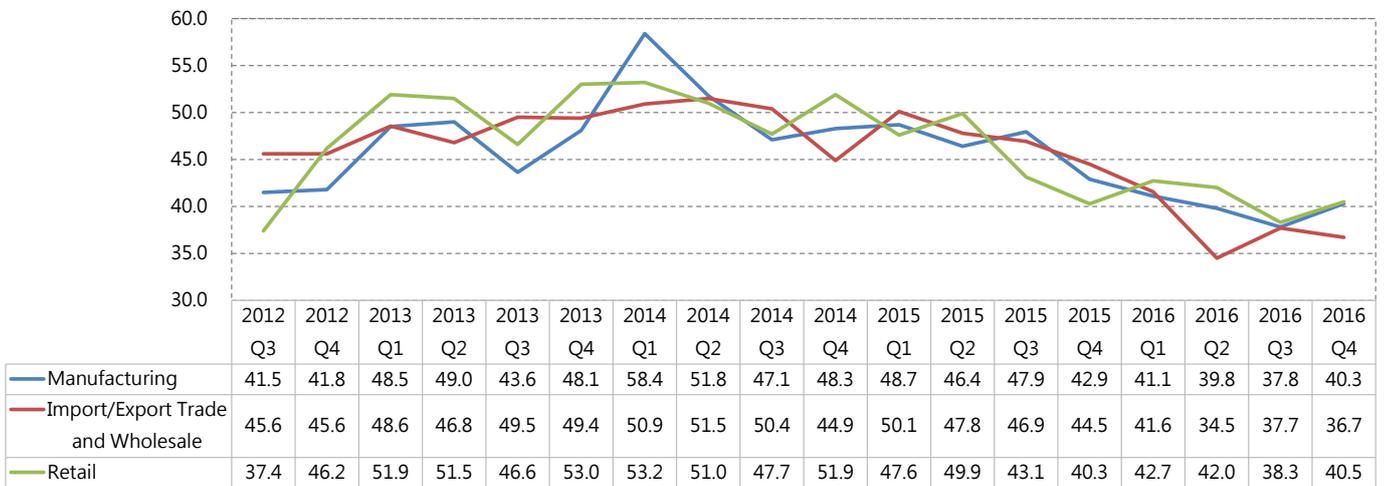
The Retail Sub-Index increased 2.2 points to 40.5, and also increased slightly at 0.2 points when comparing to the same period in last year. With improving confidence towards "Sales Amount" during the Christmas peak season, the confidence level of overall industry back to the status in last year.

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

Retail Industry Sub-Index



Standard Chartered SME Index by Industry

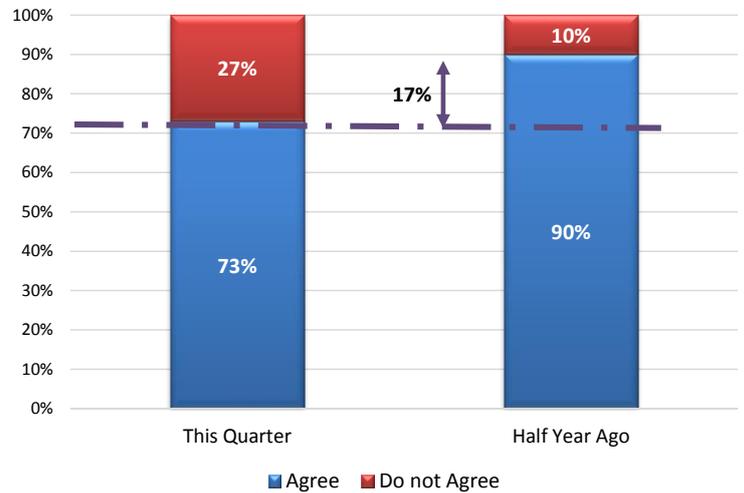


Featured topic

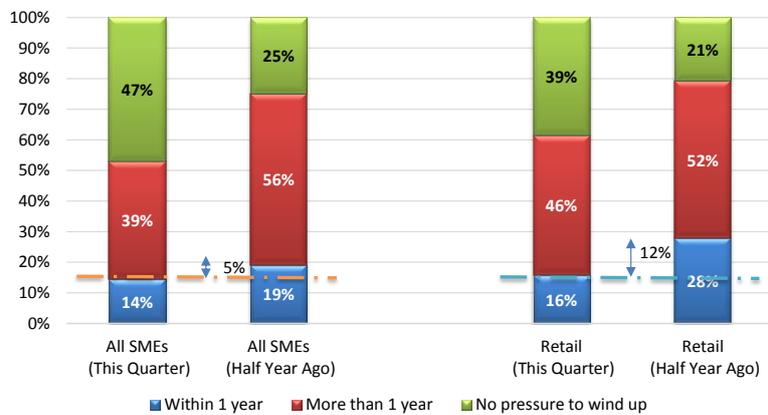
(a) The views of SMEs on the market and economic changes

This survey also gauged the views of SMEs on the market and economic changes. 73% agree that Hong Kong is facing economic downturn. When compare to half year ago, the situation is improved significantly, where 90% of respondents agreed Hong Kong economics is going down at that time.

Economic Downturn during Survey Period



May Consider Winding Up if the Sluggish Situation Stays for (Comparison of Half Year Data)



Among those agreed the economics is going down, 14% may consider winding up their business within one year if the sluggish situation is here to stay. When compare to half year ago, the situation is also improved, where nearly 20% in this group might consider winding up within one year if the situation dragged on.

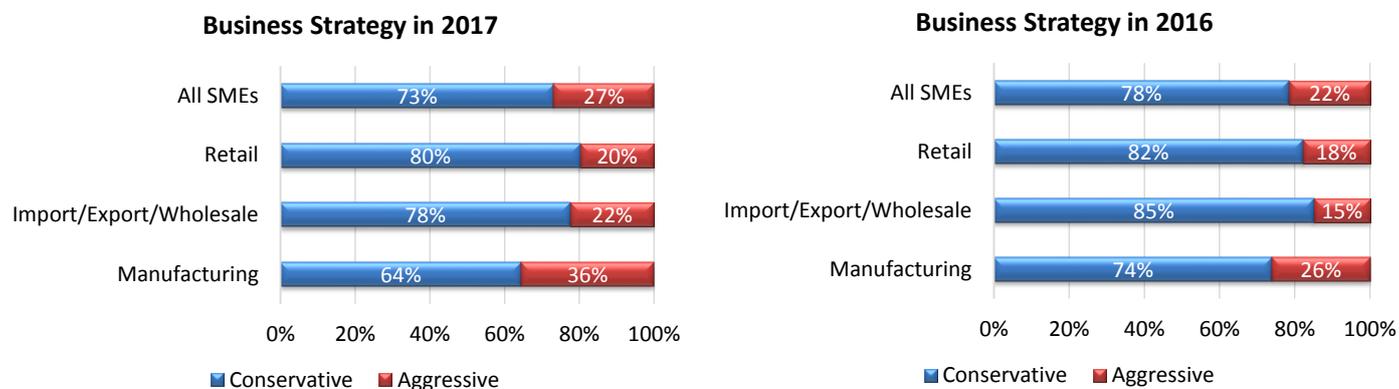
The improvement is even more significant in Retail Industry, in which this quarter results show 16% of them may facing operational crisis, which is far better than the number in half year ago (28%).



(b) 2017 Business Strategy

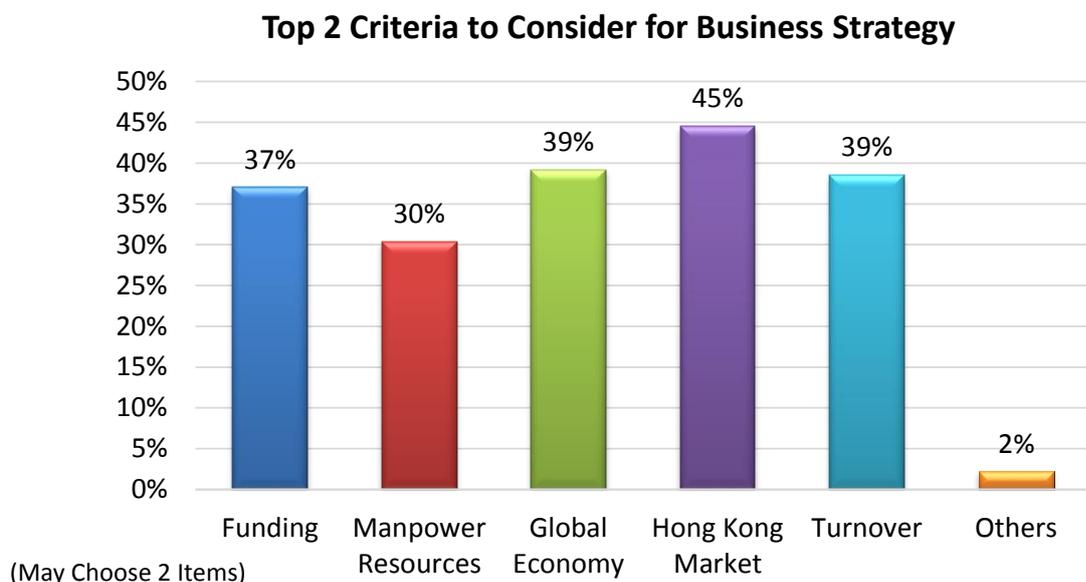
This survey also the views of SMEs on 2017 business strategy. SMEs generally tend to be "conservative" in 2016, but compared with 2016, more SMEs will adopt "aggressive" strategies (2017-27%, 2016-22%).

In term of the three major industries, the change of attitude in the manufacturing sector is more markedly. About 10% of the manufacturing SMEs will be changed from "conservative" to "aggressive".



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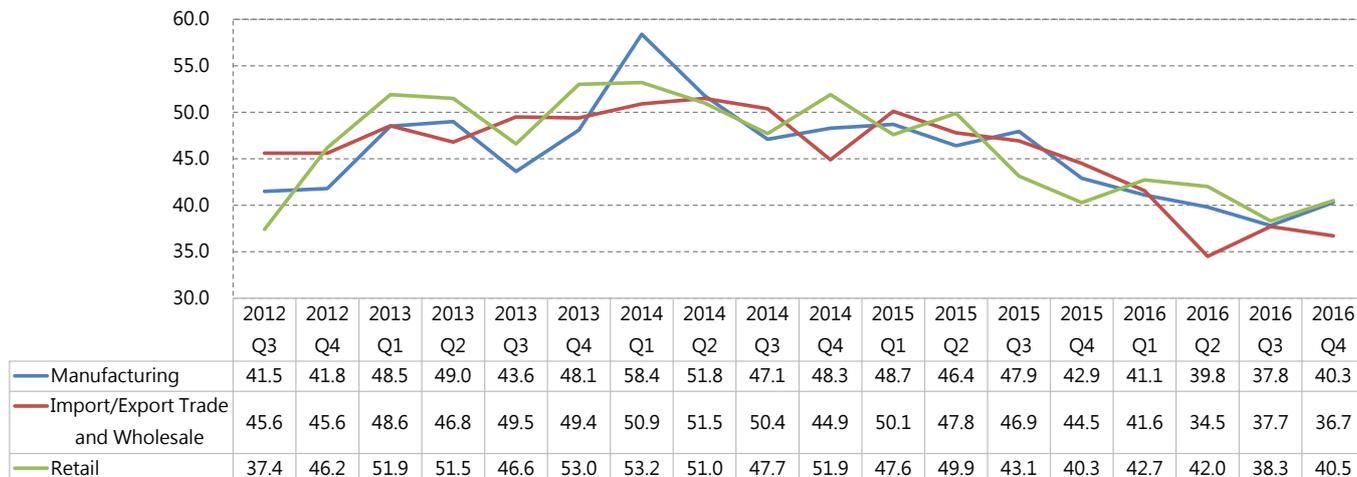
The most important consideration for SME strategies is the "Hong Kong Market" (45%), followed by "Turnover" (39%) and the "Global Economy" (39%). "Funding" and "Manpower Resources" are placed in a relatively low position, with about 37% and 30% of the SMEs taking these two criteria as their priority considerations.



Appendix

Standard Chartered SME Index by Industry

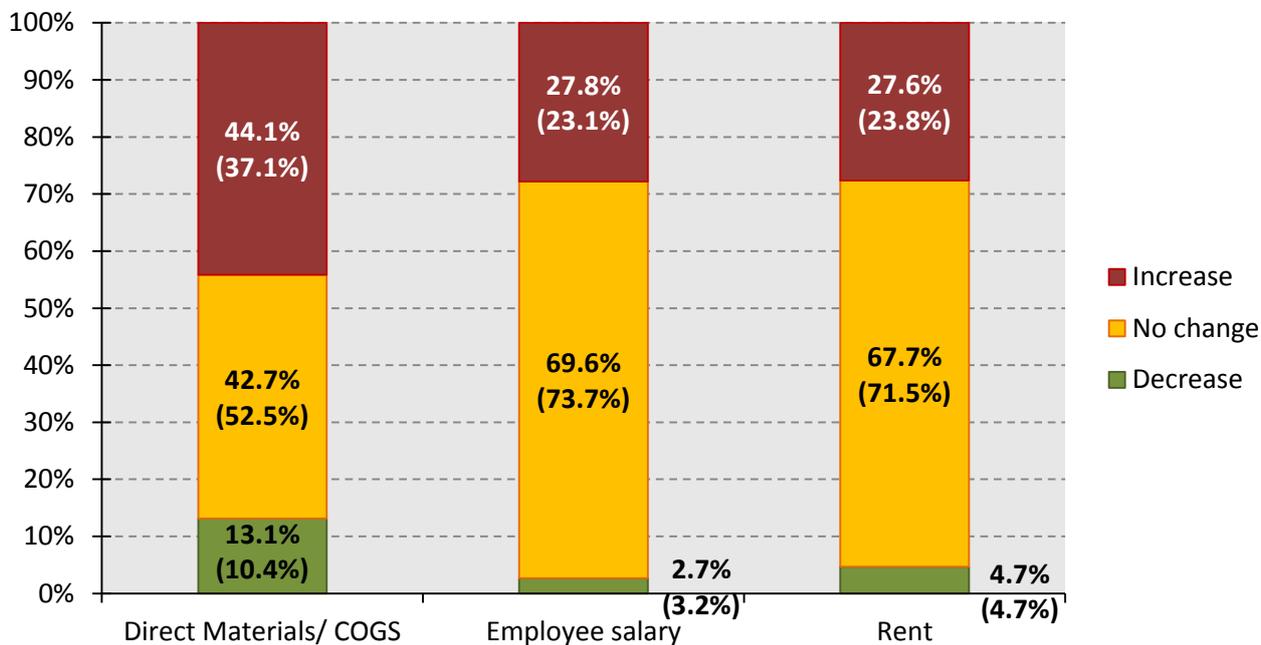
Standard Chartered SME Index by Industry



Change of major cost components

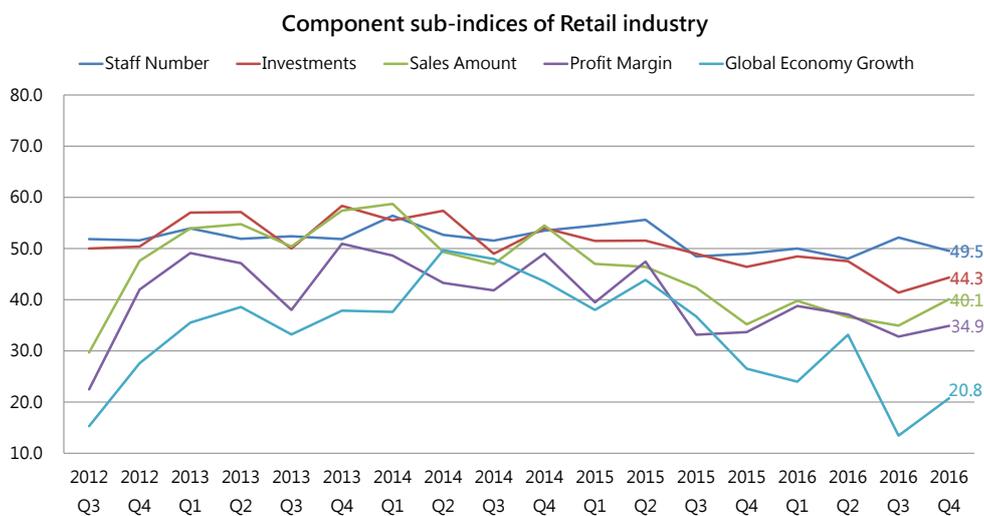
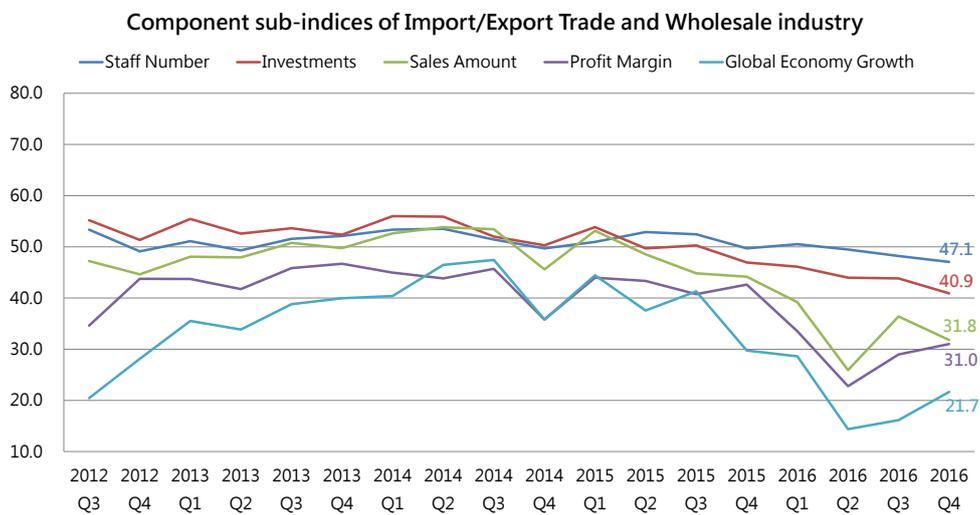
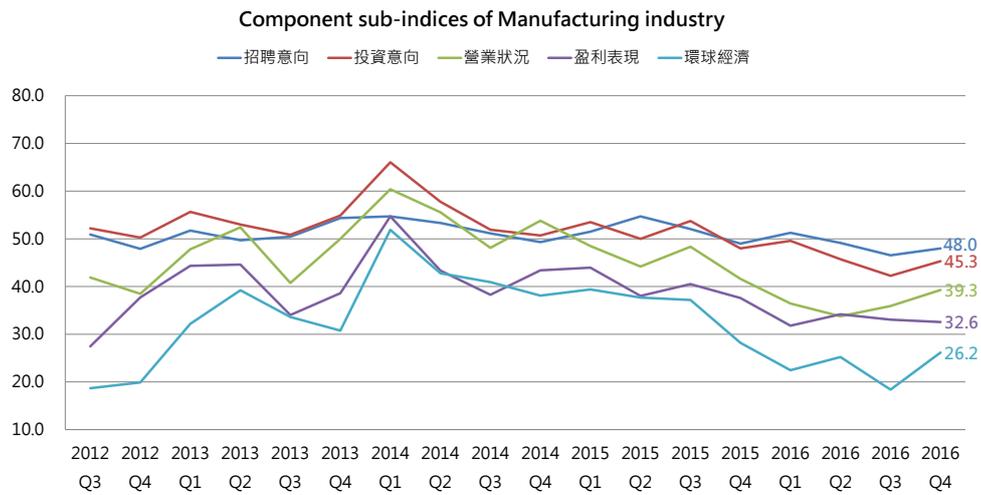
Change of major cost components
(Last quarter figures in bracket)

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Appendix

Component sub-indices of 3 main industries



Report release

The Standard Chartered SME Index is released every quarters. Full reports can be downloaded at www.smeone.org.

For more details about the Index, please contact Kinson Leung at tel. (852) 2788 5795 or email: kinsonleung@hkpc.org.

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