

A wide-angle photograph of a multi-lane highway interchange in Hong Kong. The road curves through a landscaped area with green grass, manicured bushes, and several palm trees. In the background, a dense urban skyline is visible under a bright blue sky with scattered white clouds. A tall, slender light pole stands on the right side of the road. The overall scene depicts a modern, well-maintained urban environment.

Standard Chartered Hong Kong SME Leading Business Index

Quarter 3, 2020

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, professional services, and real estate industries. It covers SMEs’ outlook on their “Recruitment Sentiment”, “Profit Margin”, “Investment Sentiment”, “Business Condition”, and “Global Economy” for the next quarter.

Methodology

Sample Distribution

Data are collected from 814 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.

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
Recruitment Sentiment	25%
Investment Sentiment	25%
Business Condition	20%
Profit Margin	20%
Global Economy	10%

2

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 33rd survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted in July 2020. Top management of 814 SMEs were surveyed to gauge their views on the outlook of the overall business environment and regional economic changes in the 2020 Q3.

Key Findings

The 2020 Q3 Overall Index of the Standard Chartered SME Index recorded a slight increase of 3.6 to 29.8, yet remaining at low level, reflecting SMEs' tremendous challenges under the prevailing COVID-19 epidemic. Key findings of the survey are as follows:

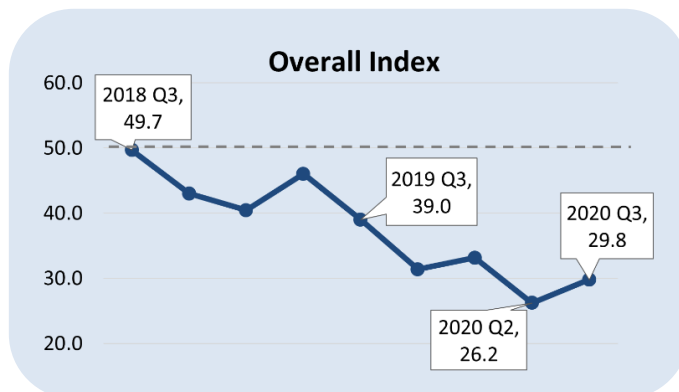
- ⊕ All five component sub-indices slightly went up, with the "Investment Sentiment" (39.1) and the "Recruitment Sentiment" (47.5) as a major component of the rise;
- ⊕ The 3 key-industry index, namely the "Manufacturing Industry" (30.4), the "Import/Export Trade & Wholesale Industry" (27.3) and the "Retail Industries" (25.7) rose slightly when compared to last quarter;
- ⊕ 69% SMEs expected a decrease in turnover in Q3. Among those indicated a change on investment categories, 77% and 76% respondents indicated relative increase or remain investment in R&D projects (e.g. product development/improving productivity) and information technology system respectively, while 46% and 40% tended to reduce investment in inventory (including raw materials or products) and office/factory/shop;
- ⊕ The survey explored SMEs' development blueprint amid uncertain global economy. 39% SMEs would focus on current market or explore new market in the coming 12 months; 35% SMEs had no game plan despite an expectation in deteriorating turnover;
- ⊕ For SMEs which do not have any game plan, they estimated the impacted time to their business as 10 months on average;
- ⊕ For SMEs planning to expand into new markets in the next 12 months, the Mainland China, ASEAN and European markets have been their most desired choices;
- ⊕ 77% surveyed SMEs indicated that they would leverage the HKSAR Government's support programmes for blueprint implementation.



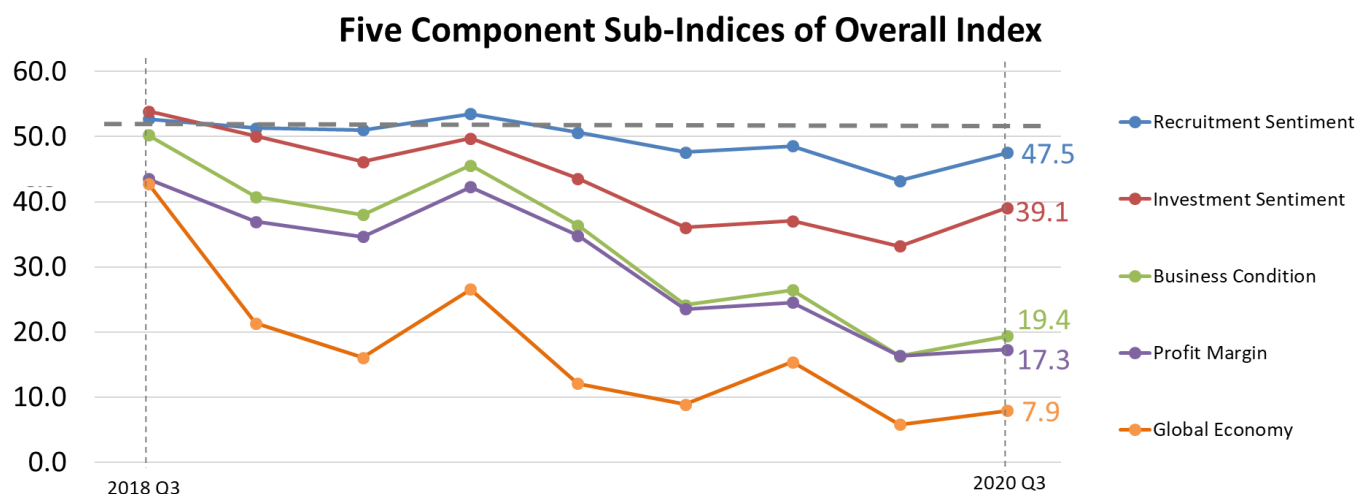
Standard Chartered SME Index

2020 Q3

29.8



Compared with last quarter, the Overall Index increased to 29.8, reflecting SMEs' tremendous challenges under the prevailing COVID-19 epidemic. This quarter, all the five Component Sub-Indices of the Overall Index slightly increased. Among which, the "Investment Sentiment" recorded a relatively larger rise to 39.1. The "Recruitment Sentiment" increased from 43.2 to 47.5, while the "Business Condition" (19.4) and the "Profit Margin" (17.3) increased by 3.1 and 1.0 points respectively, and that the "Global Economy" rose to 7.9.



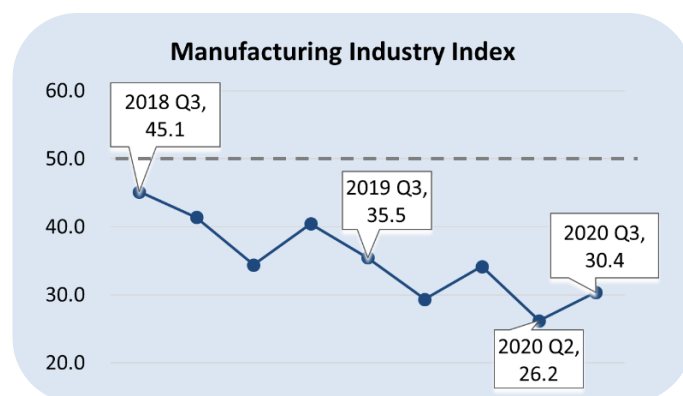
The 3 Key-Industry Index

Manufacturing Industry 30.4

The Manufacturing Industry Index increased by 4.2 points to 30.4. Compared to last quarter, the “Investment Sentiment”, the “Recruitment Sentiment” and the “Global Economy” sub-indices recorded growth and the “Investment Sentiment” recorded an increase from 31.7 points to 43.1.



Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	46.3	Up	Down
Investment Sentiment	43.1	Up	Down
Business Condition	19.3	Up	Down
Profit Margin	16.1	Down	Down
Global Economy	9.6	Up	Up

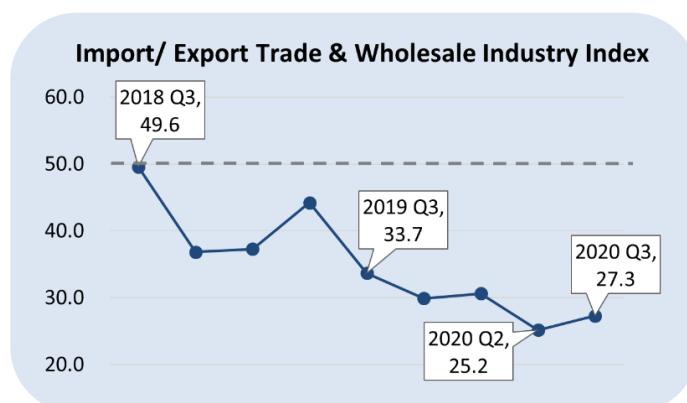


5

Import/Export Trade and Wholesale Industry 27.3

The Import/Export Trade and Wholesale Industry Index slightly increased by 2.1 points to 27.3. Compared to last quarter, all sub-indices increased except “Business Condition” and “Profit Margin”. The “Investment Sentiment” recorded an increase from 30.1 points to 38.6.

Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	47.8	Up	Up
Investment Sentiment	38.6	Up	Up
Business Condition	13.3	Down	Down
Profit Margin	11.1	Down	Down
Global Economy	7.9	Up	Down

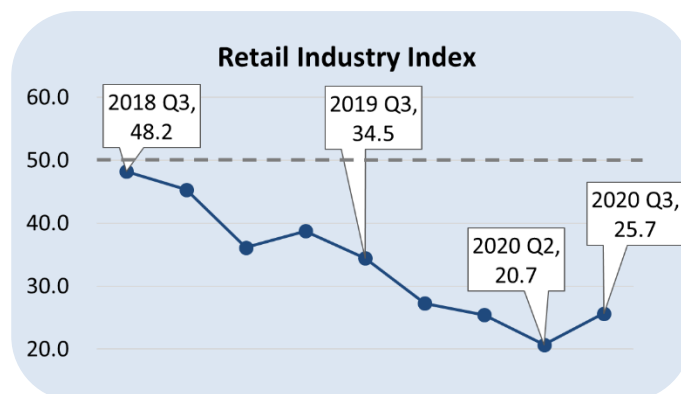


The 3 Key-Industry Index

Retail Industry 25.7

The Retail Industry Index increased by 5.0 points to 25.7. Compared to last quarter, all sub-indices increased and the "Investment Sentiment" recorded an increase from 18.9 points to 27.5.

Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	47.5	Up	Down
Investment Sentiment	27.5	Up	Down
Business Condition	15.6	Up	Down
Profit Margin	16.9	Up	Down
Global Economy	4.4	Up	Down



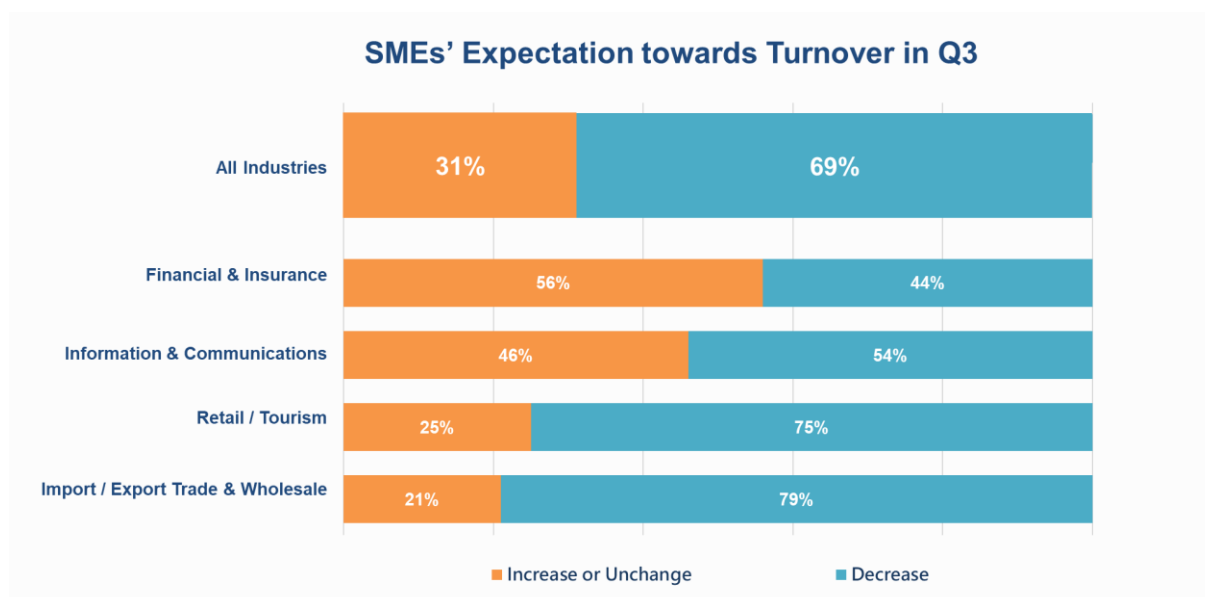
3 Key-Industry Index

6



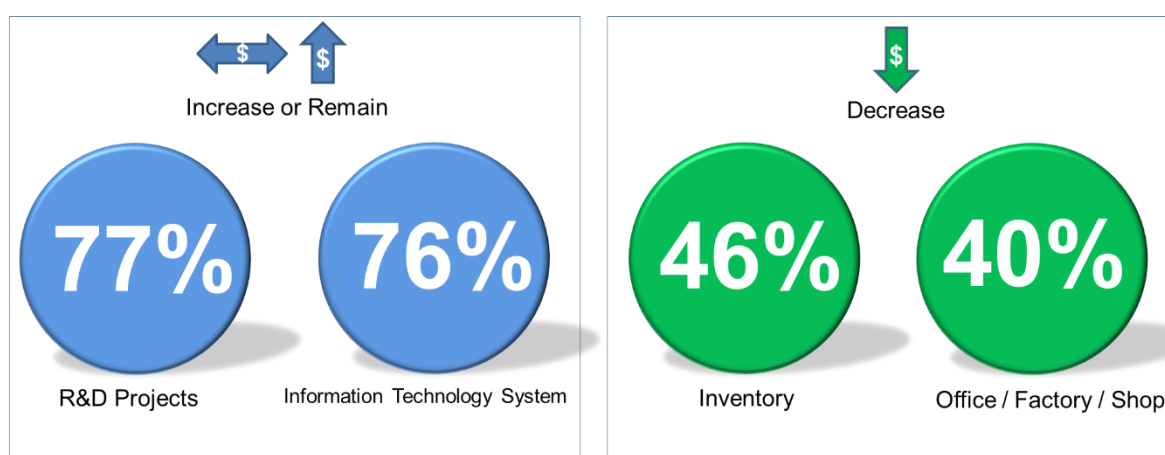
Market Observations

69% SMEs indicated a decrease in Q3 turnover. However, Financial & Insurance and Information & Communications were relatively optimistic, expecting an increase or unchange in turnover, accounting for 56% and 46% respectively. Meanwhile, Retail / Tourism and Import/Export Trade & Wholesale were relatively pessimistic about the turnover, accounting for 25% and 21% respectively.



7

For SMEs indicating an adjustment on their investment in Q3, about 77% and 76% indicated an increase or unchange in R&D Projects investment (e.g. product development/improving productivity) and Information & Technology System respectively. Meanwhile, about 46% and 40% said they would reduce investment in inventory (including raw materials or products) and in office/factory/shop respectively.



Featured Topic

SMEs’ Game Plan amid Uncertain Global Economy

39% SMEs would focus on current market or explore new market in the coming 12 months.



35% SMEs indicated no game plan despite an expectation in deteriorating turnover, among which Event Planning & Exhibition, Tourism and Construction/Engineering & Others ranked top three industries.



8

For those SMEs which had no game plan yet, they estimated the impacted time to their business as 10 months on average.

Impacted time estimated by SMEs currently with no game plan



Featured Topic

SMEs' Game Plan amid Uncertain Global Economy

The Mainland China, ASEAN and European markets were the most desired choices to SMEs who planned for new market expansion in the next 12 months.



More market opportunities, local partnerships and suitable business environment were most popular reasons for SMEs' new market expansion in the next 12 months.



9

For SMEs planning to expand into new markets, the most desired approaches were engaging local agent partner, using online store/e-commerce (no local investment) and forming a local partnership (e.g. Joint Venture).



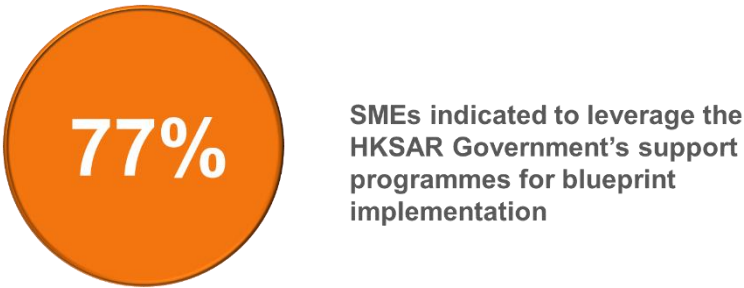
Featured Topic

SMEs’ Game Plan amid Uncertain Global Economy

For SMEs who planned for market expansion, the top three required support were funding, information/digital technology and relevant talents.



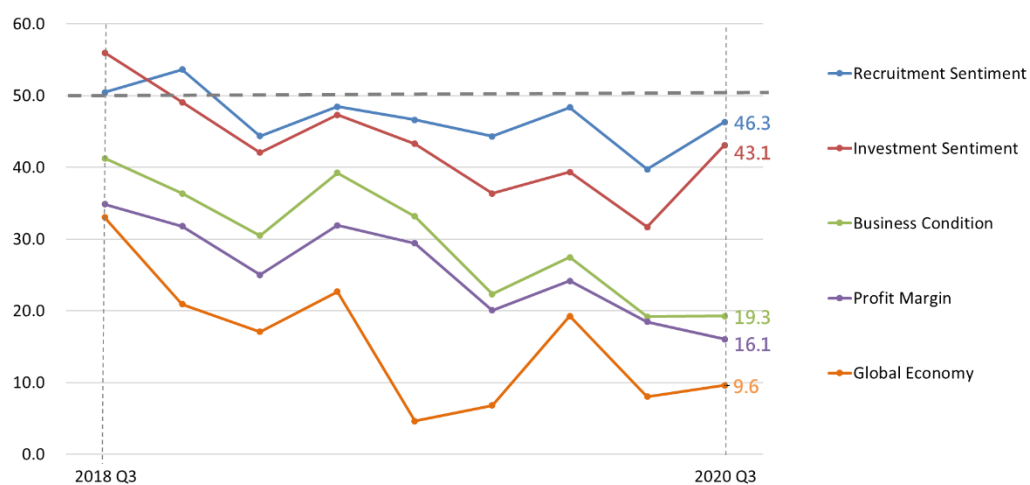
77% SMEs indicated to leverage the HKSAR Government’s support programmes to implement their blueprint.



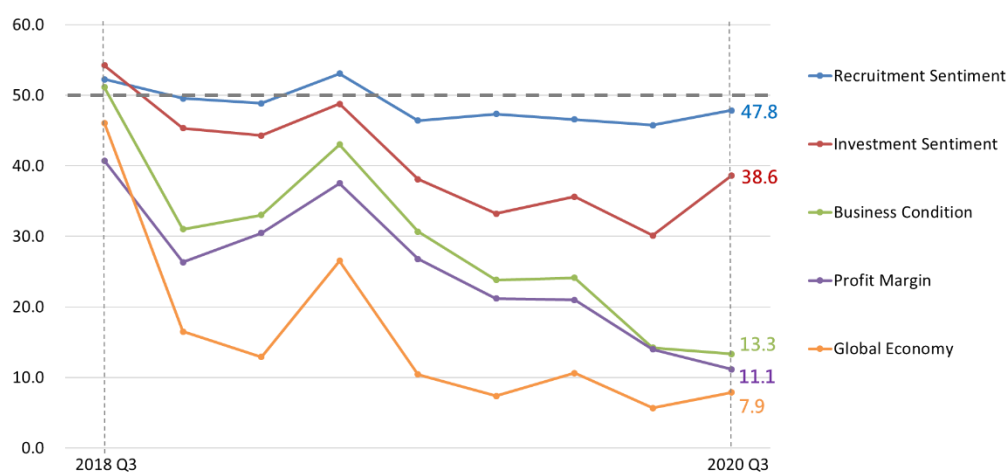
Appendix

Component Sub-Indices of 3 Key-Industry Index

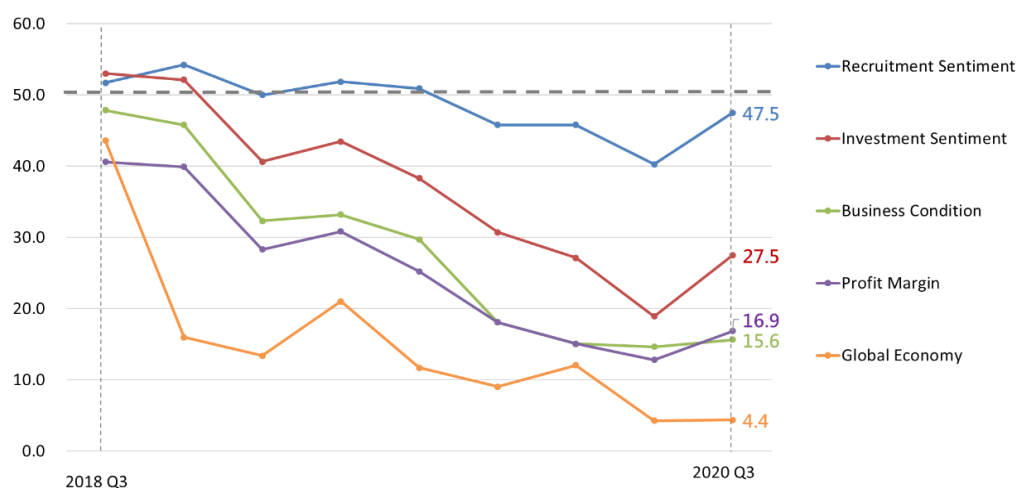
Component Sub-Indices of Manufacturing Industry



Component Sub-Indices of Import/ Export Trade & Wholesale Industry

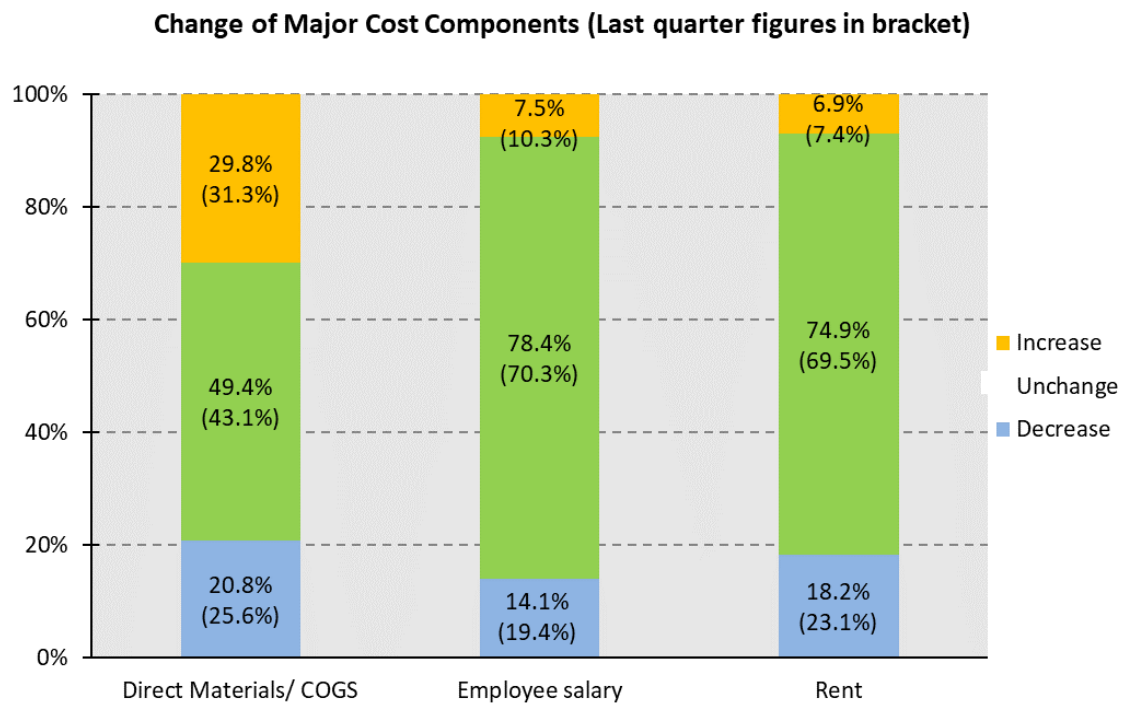


Component Sub-Indices of Retail Industry



Appendix

Change of Major Cost Components



Report Release

The Standard Chartered SME Index is released every quarter. Full reports can be downloaded at <https://u.hkpc.org/scbi-en>.

Disclaimer:

The content and data in this report is owned by Hong Kong Productivity Council (HKPC). Without the authorisation of HKPC, any changes to the report content and data, as well as selling of the report, are not permitted. HKPC shall not have any liability, duty or obligation for or relating to the content and data contained herein, any errors, inaccuracies, omissions or delays in the content and data, or for any actions taken in reliance thereon. In no event shall HKPC be liable for any special, incidental or consequential damages, arising out of the use of the content and data.

