



Standard Chartered Hong Kong SME Leading Business Index

Quarter 1, 2021

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, Construction, Import / Export Trade and Wholesale, Retail, Transportation, Storage and Courier Services, Accommodation and Food Services, Information and Communications, Financing and Insurance, Professional and Business Services, Real Estate, and Social and Personal Services. 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 eleven categories namely: 1) Manufacturing, 2) Construction, 3) Import / Export Trade and Wholesale, 4) Retail, 5) Transportation, Storage and Courier Services, 6) Accommodation and Food Services, 7) Information and Communications, 8) Financing and Insurance, 9) Professional and Business Services, 10) Real Estate, 11) Social and Personal Services.

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%

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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.



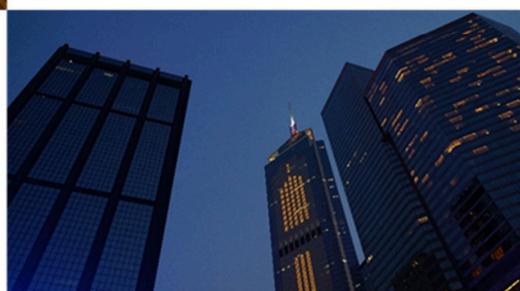
Summary

The 35th survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted in December 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 Q1 2021.

Key Findings

The Q1 2021 Overall Index of the Standard Chartered SME Index recorded a decrease of 5.1 compared to 37.5 of Q4 2020, which was observed to be softened amid the fourth wave of epidemic in Hong Kong. Key findings of the survey are as follows:

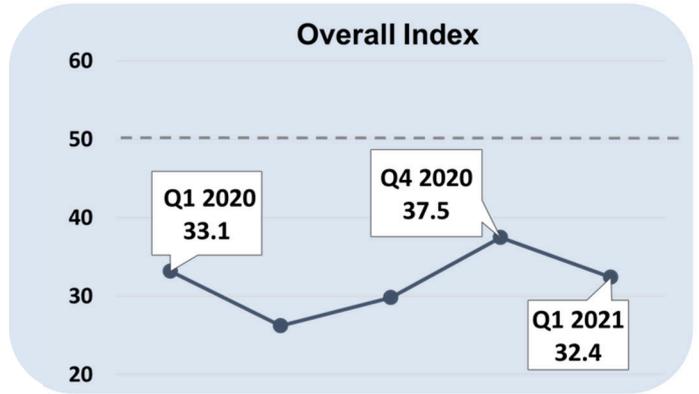
- ⊕ All five component sub-indices went down simultaneously, with “Profit Margin” (20.2) and “Business Condition” (22.4) recorded the most significant drop;
- ⊕ The three key industry indices declined compared to the last quarter, namely “Manufacturing Industry” (31.6), “Import / Export Trade & Wholesale Industry” (29.1) and “Retail Industry” (27.9);
- ⊕ “Recruitment Sentiment” component sub-index of “Social & Personal Services”, “Financing & Insurance” and “Information & Communications” industries stood above 50;
- ⊕ 38% surveyed SMEs expected an increase or unchanged turnover in the coming quarter, showing a decrease of 10% as compared to last quarter;
- ⊕ The featured topic of this survey dived deep into the potential market opportunities for SMEs amid the new development pattern. Over 34% SMEs are interested in or have been entering the Mainland market. However, about 46% said they “have heard but without much understanding” about the Chinese Government’s “Dual Circulation” national policy;
- ⊕ The top five industry sectors that claimed to have relatively more understanding on the “Dual Circulation” policy were ranked as “Information & Communications”, “Financing & Insurance”, “Manufacturing”, “Transportation, Storage and Courier Services” and “Import / Export Trade and Wholesale”;
- ⊕ About 43% surveyed SMEs said they “have heard” of the RCEP agreement. They deemed the positive impact of the agreement on their businesses as including “enhancing liberalisation on trade in services”, “removal of tariff barrier”, “increasing the possibility of trade expansion”, etc.



Standard Chartered SME Index

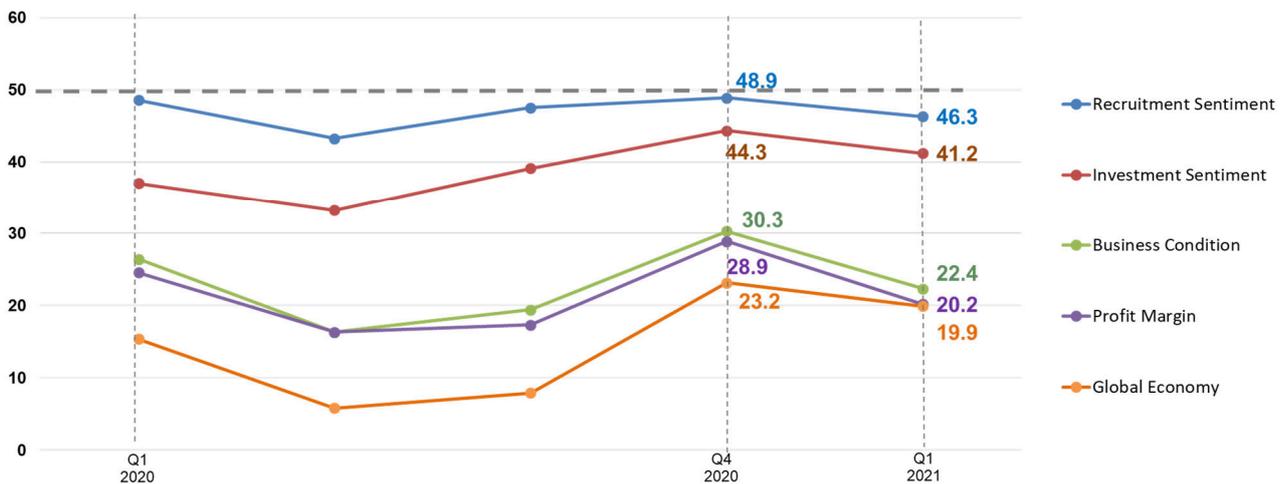
Q1 2021

32.4



The Q1 2021 Overall Index was 32.4, representing a decrease of 5.1 compared to 37.5 of last quarter. The softening was due to the fourth wave of epidemic in Hong Kong. All five component sub-indices went down simultaneously, among which “Profit Margin” (20.2) and “Business Condition” (22.4) recorded the most significant drop, with a decrease of 8.7 and 7.9 respectively. While “Global Economy” (19.9), “Investment Sentiment” (41.2) and “Recruitment Sentiment” (46.3) recorded a decline of 3.3, 3.1 and 2.6 respectively.

Five Component Sub-Indices of Overall Index



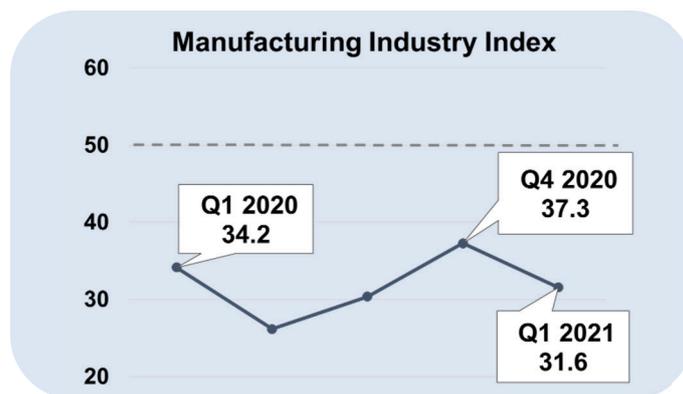
The 3 Key Industry Indices

Manufacturing Industry 31.6

The Manufacturing Industry Index decreased by 5.7 to 31.6. Compared to last quarter, all sub-indices showed downtrend, especially “Global Economy” which decreased by 13.4 to 23.2.



Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	42.9	Down	Down
Investment Sentiment	41.4	Down	Down
Business Condition	21.7	Down	Down
Profit Margin	19.2	Down	Down
Global Economy	23.2	Down	Up



Import / Export Trade and Wholesale Industry 29.1

The Import / Export Trade and Wholesale Industry Index decreased by 7.1 to 29.1. Compared to last quarter, all component sub-indices recorded a downturn, among which “Profit Margin” sub-index is the weakest.

Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	45.5	Down	Down
Investment Sentiment	37.7	Down	Up
Business Condition	18.6	Down	Down
Profit Margin	13.6	Down	Down
Global Economy	18.6	Down	Up



The 3 Key Industry Indices

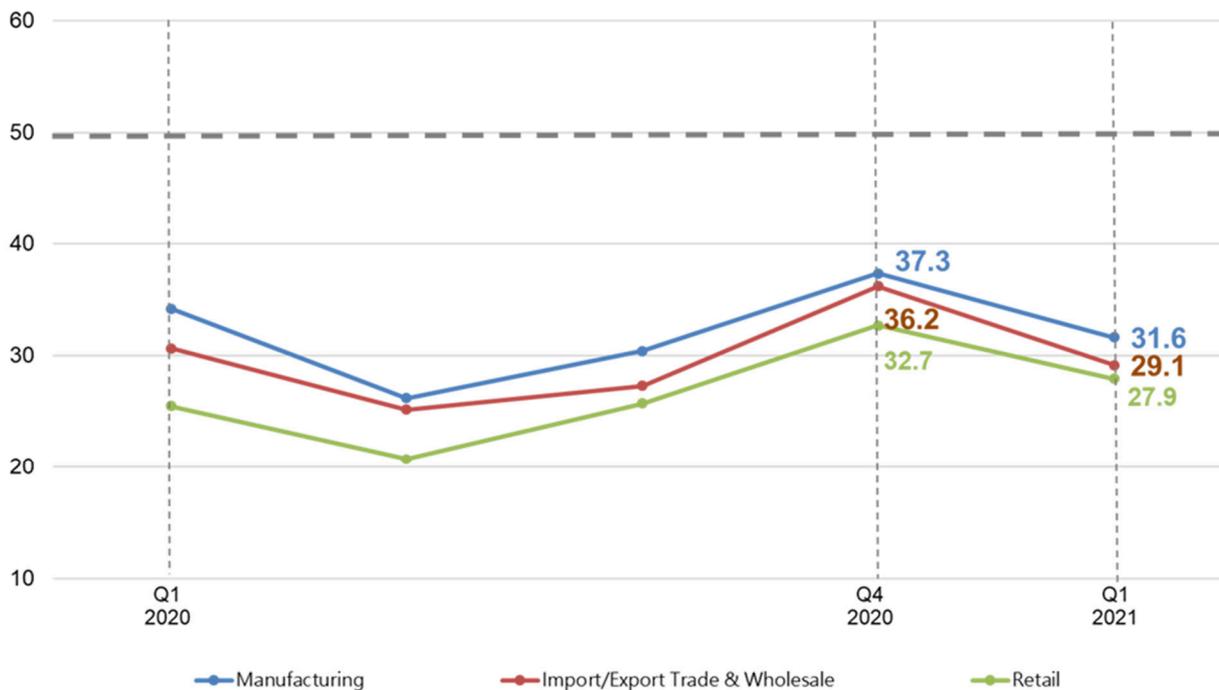
Retail Industry 27.9

The Retail Industry Index decreased by 4.8 to 27.9. Compared to last quarter, all component sub-indices recorded a decline, among which “Business Condition” and “Profit Margin” performed the worst.

Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	44.3	Down	Down
Investment Sentiment	34.1	Down	Up
Business Condition	14.8	Down	Down
Profit Margin	15.3	Down	Up
Global Economy	22.7	Down	Up

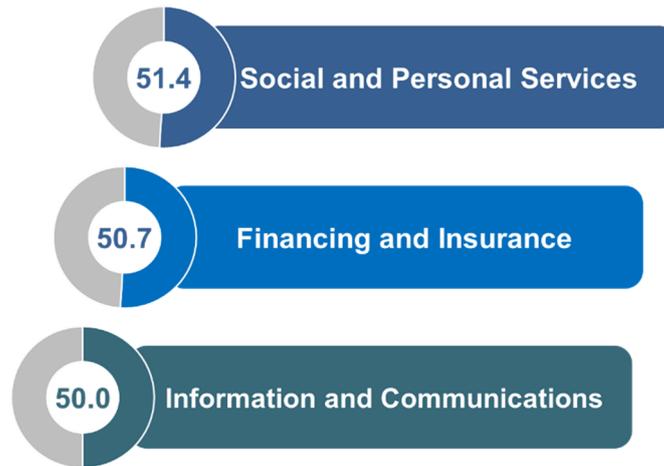


3 Key-Industry Indices



“Recruitment Sentiment” Component Sub-Index of Industry Indices

Despite the downtrend of industry indices, “Recruitment Sentiment” component sub-index of “Social & Personal Services”, “Financing & Insurance” and “Information & Communications” industries achieved above 50.

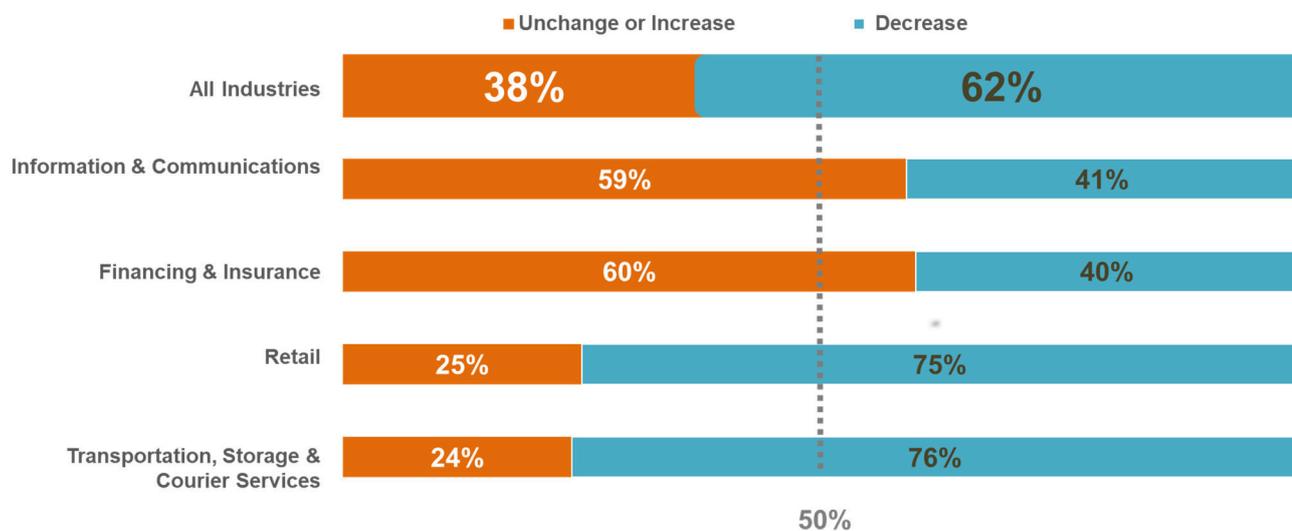


Market Observations

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The survey unveiled that 38% SMEs expected an unchanged or increase turnover in the coming quarter, showing a decrease of 10% as compared to last quarter. “Information & Communications” and “Financing & Insurance” sectors were relatively optimistic about the expected turnover, with 59% and 60% SMEs anticipated an unchanged or increased turnover respectively. While “Retail” and “Transportation, Storage and Courier Services” were relatively pessimistic about the expected turnover, with 75% and 76% SMEs expected the turnover to decrease respectively.

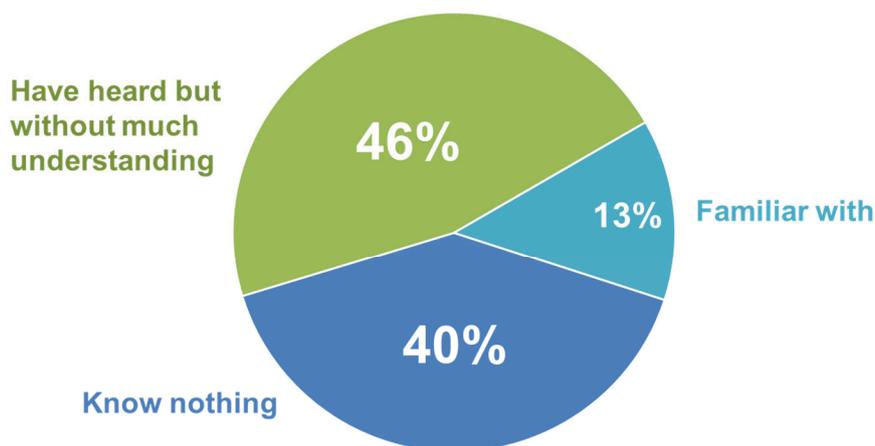
SMEs’ expectation towards change of turnover in next quarter



Featured Topic

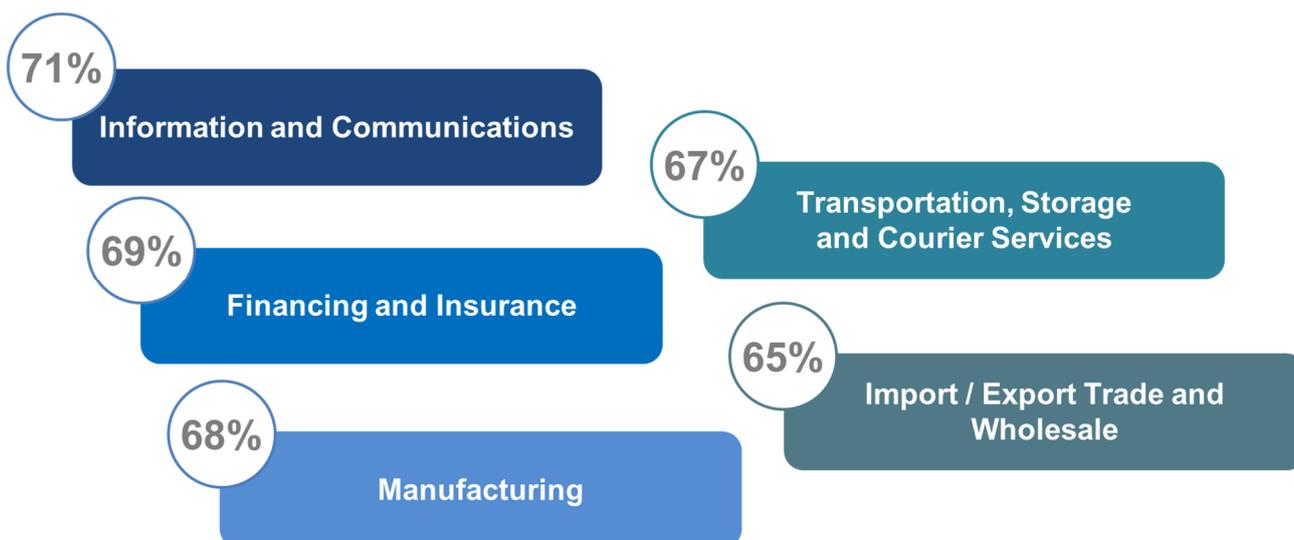
SMEs’ Market Opportunities amid the New Development Pattern

This survey featured a topic on the market opportunities arising for SMEs amid the new development pattern. As to SMEs’ understanding on the Chinese Government’s “Dual Circulation” national policy, about 46% surveyed SMEs said they “have heard but without much understanding”, 40% claimed they “know nothing”, while only 13% of them were familiar with the policy.



Note: Percentage may not add up to 100% due to rounding.

Sectors have relatively more understandings on the “Dual Circulation” policy were ranked as:



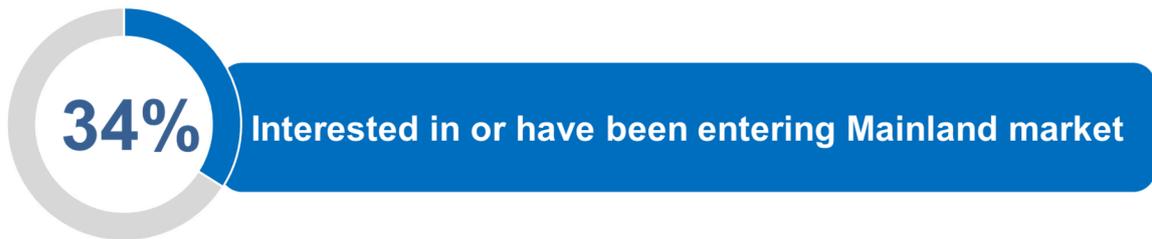
Featured Topic

SMEs’ Market Opportunities amid the New Development Pattern

Major considerations for SMEs to seize opportunities from the “Dual Circulation” policy were ranked as:



The survey also looked into SMEs’ seizing business opportunities in the Mainland market, where 34% are interested in or have been entering the Mainland market.



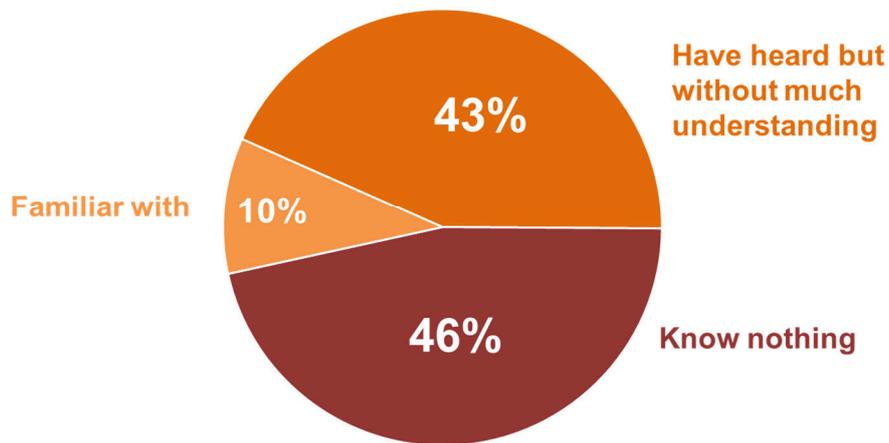
Top 3 Industries that interested in or have been entering Mainland market were:



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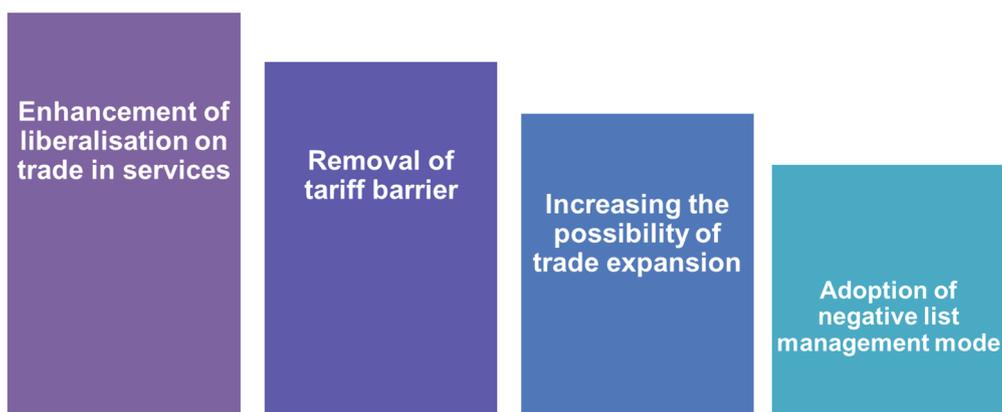
SMEs’ Market Opportunities amid the New Development Pattern

As to SMEs’ understanding on “The Regional Comprehensive Economic Partnership” (RCEP) Agreement, about 43% surveyed SMEs said they “have heard” of it, 46% claimed that they “know nothing”, while only 10% of them were familiar with the agreement.



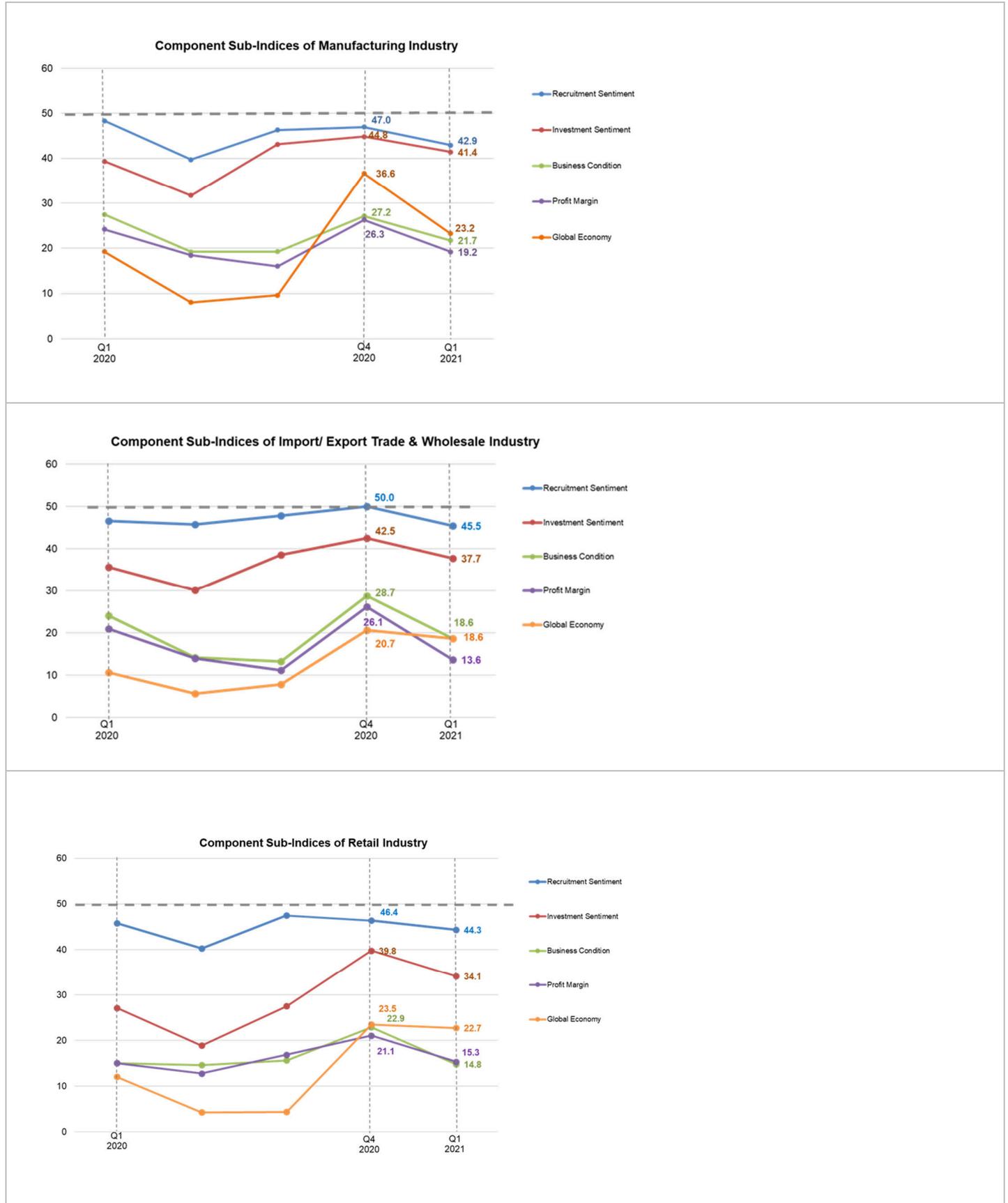
Note: Percentage may not add up to 100% due to rounding.

SMEs expected positive impact of RCEP agreement brought to their business operations were ranked as:



Appendix

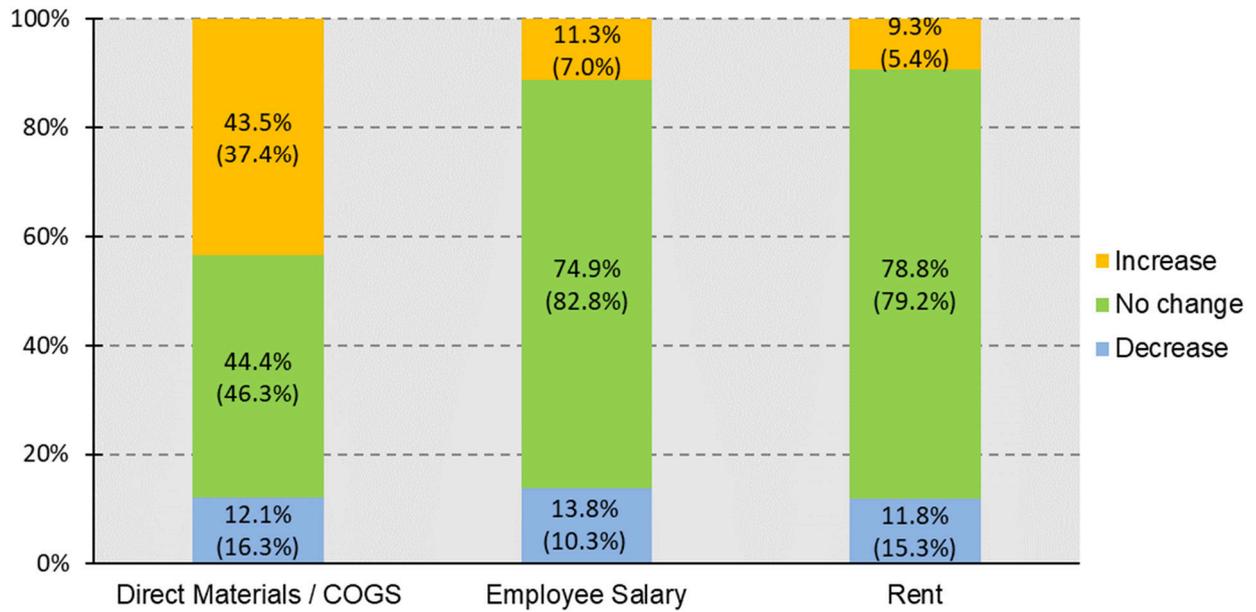
Component Sub-Indices of the 3 Key Industry Indices



Appendix

Change of Major Cost Components

Change of Major Cost Components (Last quarter figures in bracket)



Report Release

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

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