



# Standard Chartered Hong Kong SME Leading Business Index

Quarter 2, 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, as well as 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 805 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 36<sup>th</sup> survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted in March 2021. Top management of 805 SMEs were surveyed to gauge their views on the outlook of the overall business environment and regional economic changes in the Q2 2021.

# Key Findings

The Q2 2021 Overall Index of the Standard Chartered SME Index recorded the largest quarter-over-quarter surge of 9.8, standing at a two-year high of 42.2. It reflected an uptrend of SMEs' business confidence against the backdrop of COVID-19 vaccination programme being launched in various countries, as well as gradual relaxation of social distancing measures in Hong Kong. Key findings of the survey are as follows:

- ⊕ All five component sub-indices went up simultaneously, among which "Global Economy" recorded the most significant surge from 19.9 in last quarter to 43.6;
- ⊕ The three key industry indices recorded an uplift compared to last quarter, namely "Manufacturing Industry" (43.7), "Import / Export Trade and Wholesale Industry" (41.8) and "Retail Industry" (36.2);
- ⊕ With regard to industry indices, "Information and Communications" performed the best among the 11 industries surveyed as it was the first industry sector reaching a level above 50;
- ⊕ 62% of SMEs surveyed expected the sales to increase or remain unchanged in the coming quarter, representing a climb of 25% from the last quarter;
- ⊕ "Information Technology", "R&D" and "Product & Marketing Promotion" were the top 3 categories that most SMEs indicated to increase investment in;
- ⊕ "Recruitment Sentiment" component sub-index of "Information and Communications", "Accommodation and Food Services" and "Financing and Insurance" industries stood above 50;
- ⊕ 59% of SMEs held a positive or neutral perspective over global economy, recording a significant surge of 31% when compared to last quarter;
- ⊕ The survey looked into SMEs' planning in response to HKSAR Government's 2021-22 Budget. The reduction items that most SMEs deemed as beneficial were "Waiver of Business Registration Fees", "Profit Tax Reduction" and "Rates Concession";
- ⊕ 48% of SMEs planned to use the amount saved to enhance company's cash flow;
- ⊕ Nearly half (49%) have applied or interested in applying the loan or funding schemes mentioned in the Budget;
- ⊕ The top 3 digitalisation items that most SMEs wished to develop in the coming year were ranked as "Online businesses", "Online working / conference platform", "Digital payment".

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# Standard Chartered SME Index

Q2 2021

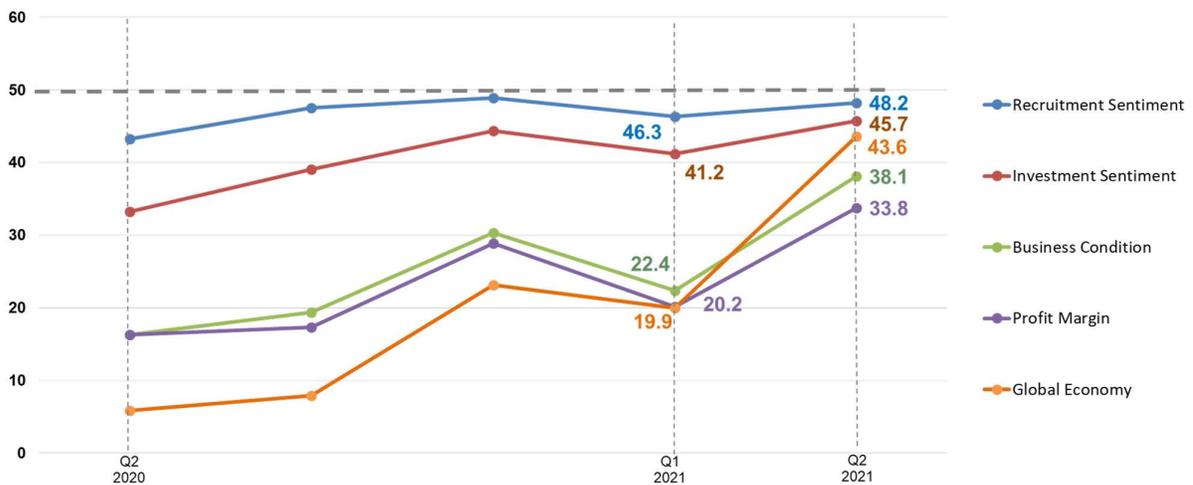
# 42.2



The Q2 2021 Overall Index was 42.2, representing an increase of 9.8 compared to 32.4 of last quarter, with “Global Economy” leading the surge.

All five component sub-indices went up simultaneously, among which “Global Economy” (43.6), “Business Condition” (38.1) and “Profit Margin” (33.8) recorded a rather significant growth, with an increase of 23.7, 15.7 and 13.6 respectively.

## Five Component Sub-Indices of Overall Index



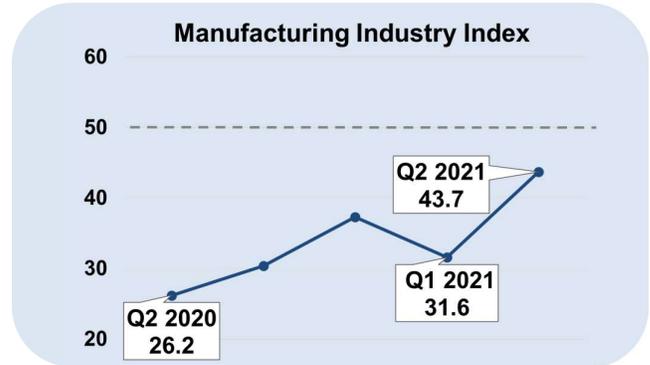
# The 3 Key Industry Indices

## Manufacturing Industry 43.7

The Manufacturing Industry Index increased by 12.1 to 43.7. Compared to last quarter, all sub-indices showed an uptrend, especially “Global Economy” which soared by 32.4 to 55.6.



Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	48.7	Up	Up
Investment Sentiment	42.7	Up	Up
Business Condition	41.0	Up	Up
Profit Margin	35.5	Up	Up
Global Economy	55.6	Up	Up



## Import / Export Trade and Wholesale Industry 41.8

The Import / Export Trade and Wholesale Industry Index increased by 12.7 to 41.8. Compared to last quarter, all component sub-indices recorded an upturn, among which “Global Economy”, “Business Condition” and “Profit Margin” showed a rather significant increase.

Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	48.3	Up	Up
Investment Sentiment	47.0	Up	Up
Business Condition	38.6	Up	Up
Profit Margin	29.7	Up	Up
Global Economy	42.8	Up	Up

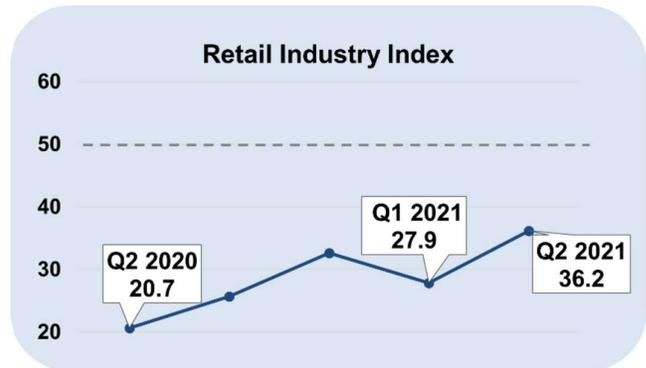


# The 3 Key Industry Indices

## Retail Industry 36.2

The Retail Industry Index increased by 8.3 to 36.2. Compared to last quarter, all component sub-indices recorded a rise. Despite this, the Retail Industry Index remained the lowest among the 11 industries.

Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	46.1	Up	Up
Investment Sentiment	35.5	Up	Up
Business Condition	31.6	Up	Up
Profit Margin	27.0	Up	Up
Global Economy	40.8	Up	Up

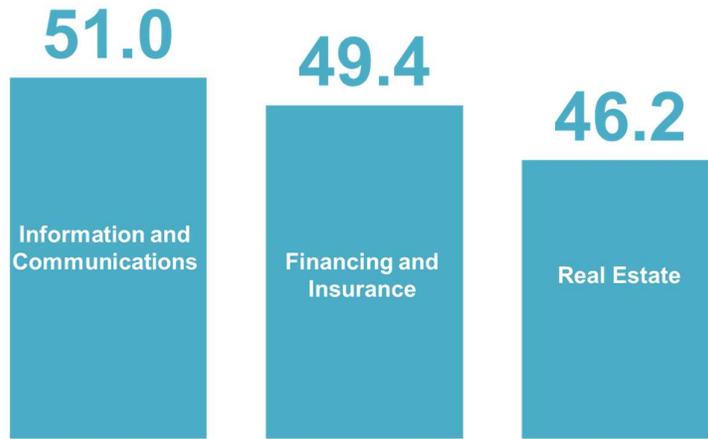


## 3 Key-Industry Indices



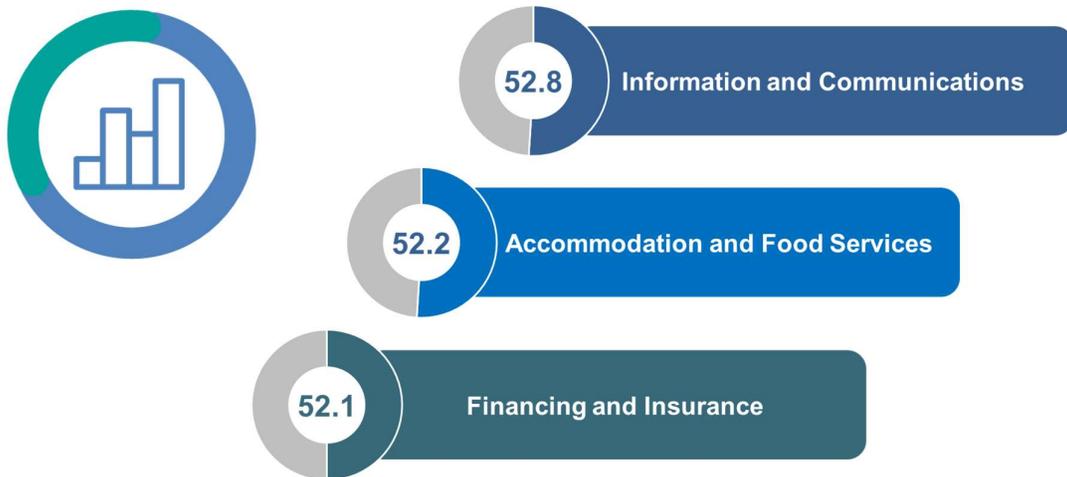
# Industry Indices

The top 3 industries were ranked as “Information and Communications”, “Financing and Insurance” and “Real Estate”.



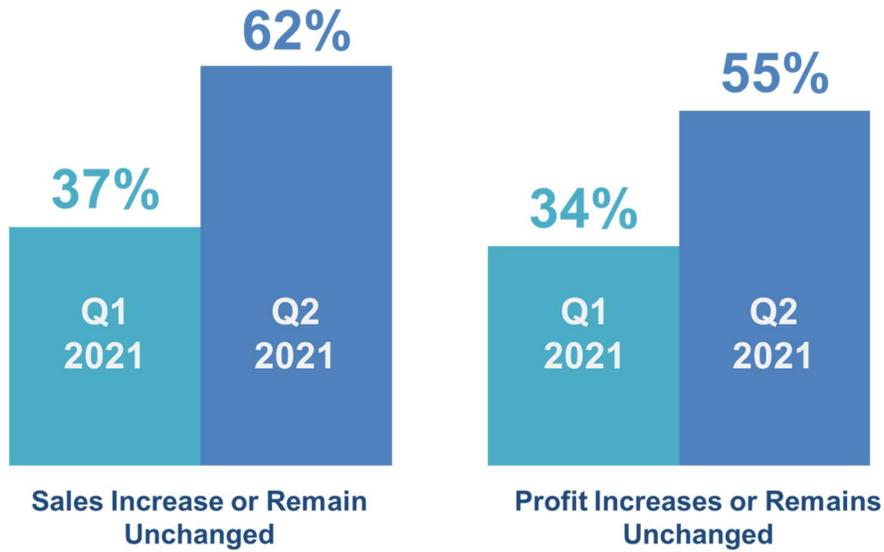
“Recruitment Sentiment” component sub-index of “Information and Communications”, “Accommodation and Food Services” and “Financing and Insurance” industries achieved above 50.

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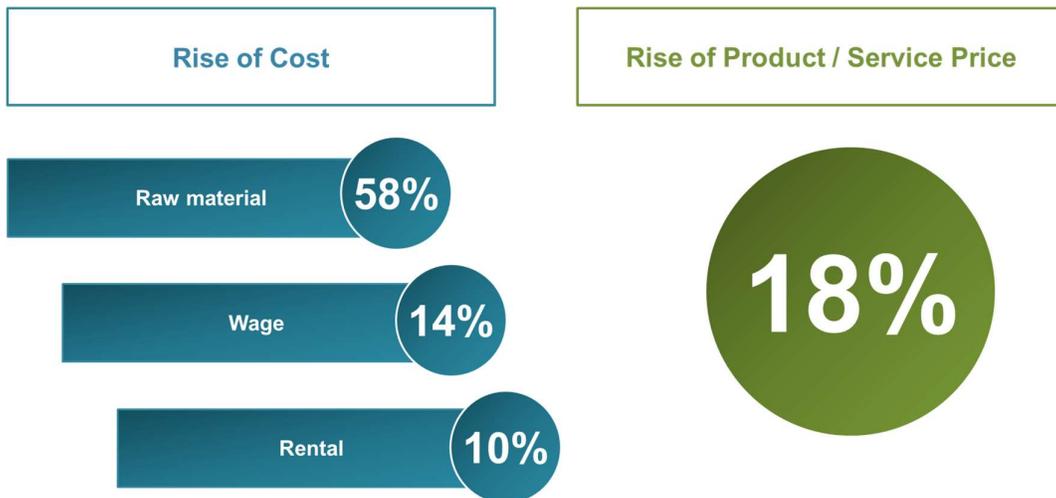


# Market Observations

62% of SMEs expected the sales to increase or remain unchanged in the coming quarter, representing a climb of 25% from the last quarter, while 55% expected the profit to increase or remain unchanged in the next quarter, which saw an increase of 21% compared to last quarter.



The survey interviewed the expectation of SMEs towards changes of cost and price in the coming quarter. The percentage of SMEs expecting a rise in the cost of “raw material”, “wage” and “rental” were recorded as 58%, 14% and 10% respectively. As to the product / service price, 18% of SMEs expected that there will be increase.



# Market Observations

The survey also found that most SMEs indicated to increase investment in “Information Technology,” “R&D,” and “Product & Marketing Promotion”. 44% of SMEs in the “Financing and Insurance” industry indicated they would increase investment in “Information Technology”, while 43% and 36% of SMEs in both “Information and Communications” and “Accommodation and Food Services” expressed respectively that they would increase investment in “R&D” and “Product & Marketing Promotion”.

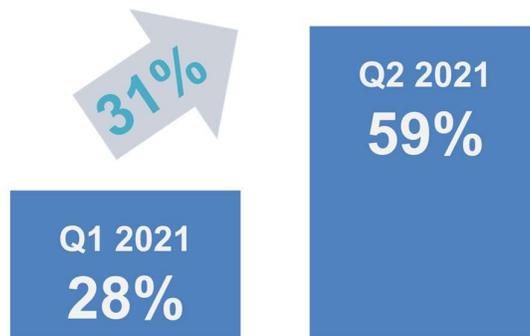
## Key investment areas & major industries



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59% of SMEs held a positive or neutral perspective over the global economy, recording a significant surge of 31% compared to last quarter. It indicated that SMEs were more optimistic over the economic outlook and confidence in business situation.

## Holding a positive or neutral perspective



# Featured Topic

## Hong Kong SMEs’ Planning in Response to 2021-22 Budget

The survey of this quarter looked into SMEs’ planning in response to HKSAR Government’s 2021-22 Budget. The reduction items that most SMEs deemed as beneficial were “Waiver of Business Registration Fees”, “Profit Tax Reduction” and “Rates Concession”.

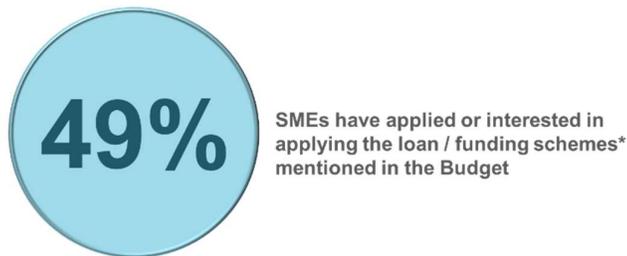
The reduction items that most SMEs deemed as beneficial



48% of surveyed SMEs planned to use the amount saved from the Budget to enhance company’s cash flow.



Nearly half (49%) of SMEs have applied or interested in applying the loan or funding schemes mentioned in the Budget.



\*Note: Loan / funding schemes interviewed in the survey

Loan Schemes
• Special 100% Loan Guarantee
• Pre-approved Principal Payment Holiday
Funding Schemes
• BUD Fund
• Technology Voucher Programme
• Patent Application Grant Scheme
• Re-industrialisation Funding Scheme
• Other Schemes of Innovation and Technology Fund



# Featured Topic

## Hong Kong SMEs' Planning in Response to 2021-22 Budget

Reasons of SMEs not applying loan / funding were "Sufficient capital", "Not meeting the application threshold" and "Limited understanding of the schemes".



The survey also showed that as to loan schemes, "Construction" industry was the most active in making the applications, with "Special 100% Loan Guarantee" being chosen by most of them; while "Manufacturing" was the industry expressing the most interest in filing applications, with "Pre-approved Principal Payment Holiday" being the favourite option.

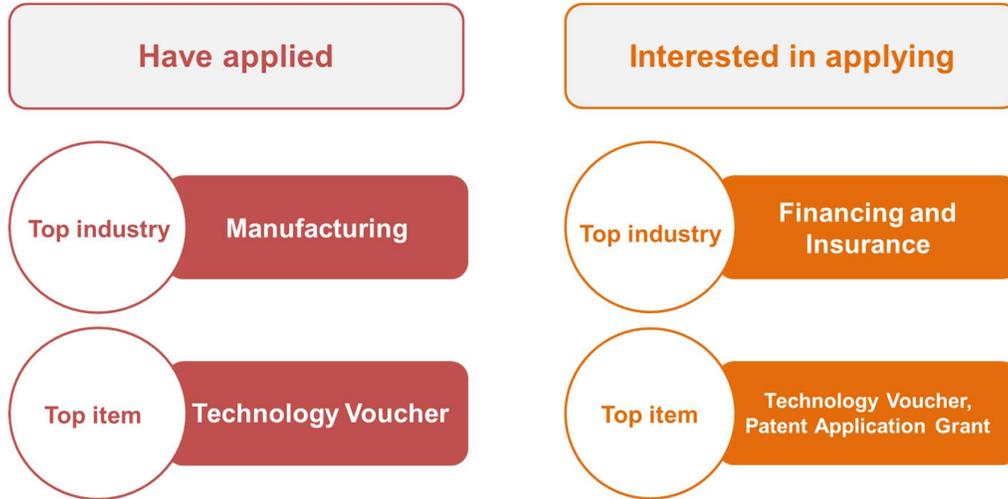
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# Featured Topic

## Hong Kong SMEs' Planning in Response to 2021-22 Budget

As to funding schemes, "Manufacturing" industry came top in the submission of applications, with "Technology Voucher Programme" being the hottest choice; while "Financing and Insurance" was the industry which showed the most interest in filing applications, with "Technology Voucher Programme" and "Patent Application Grant Scheme" being the preferred funding schemes.

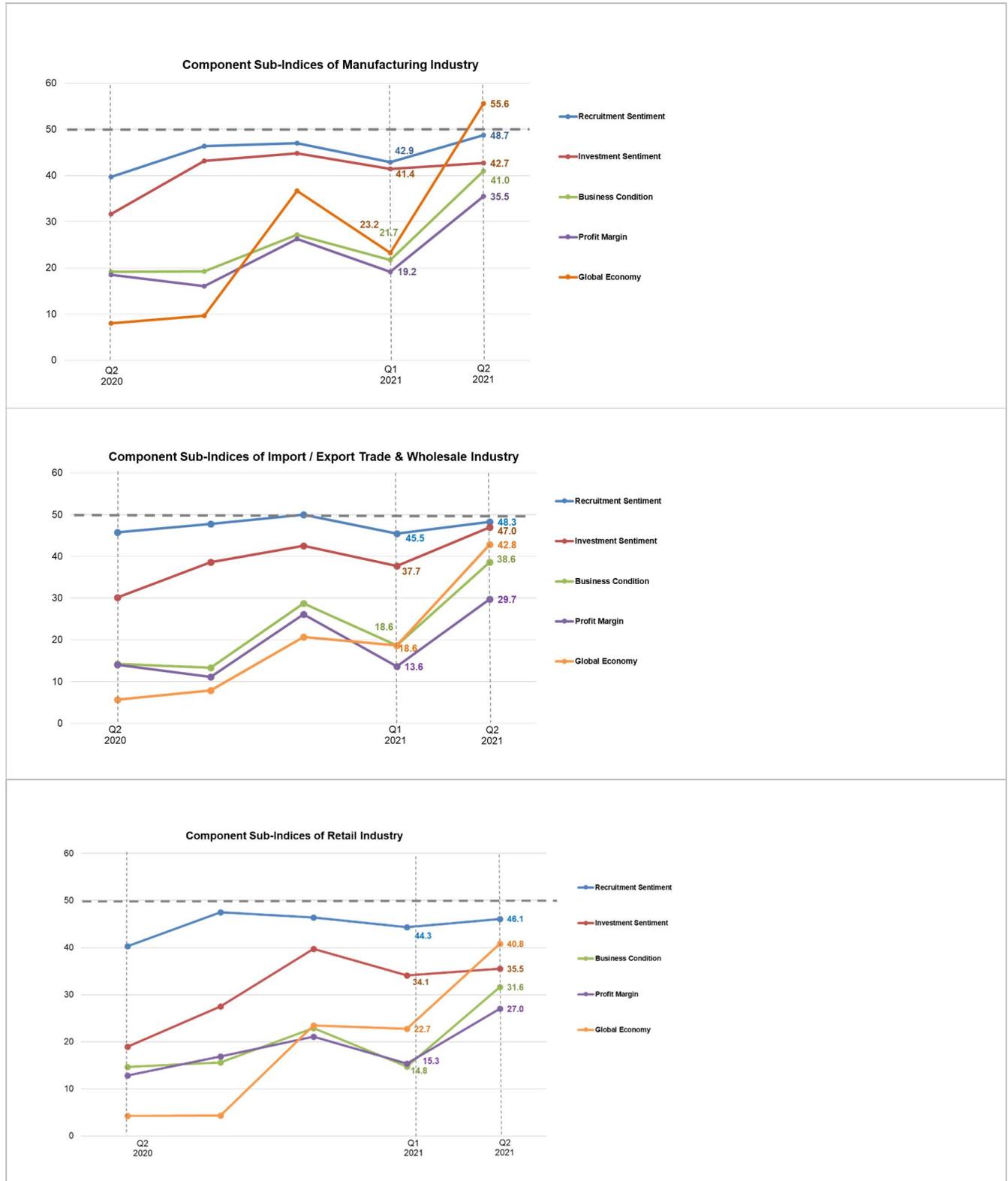


In the coming year, the top 3 digitalisation items that SMEs most wished to develop were ranked as "Online businesses", "Online working / conference platform" and "Digital payment".



# Appendix

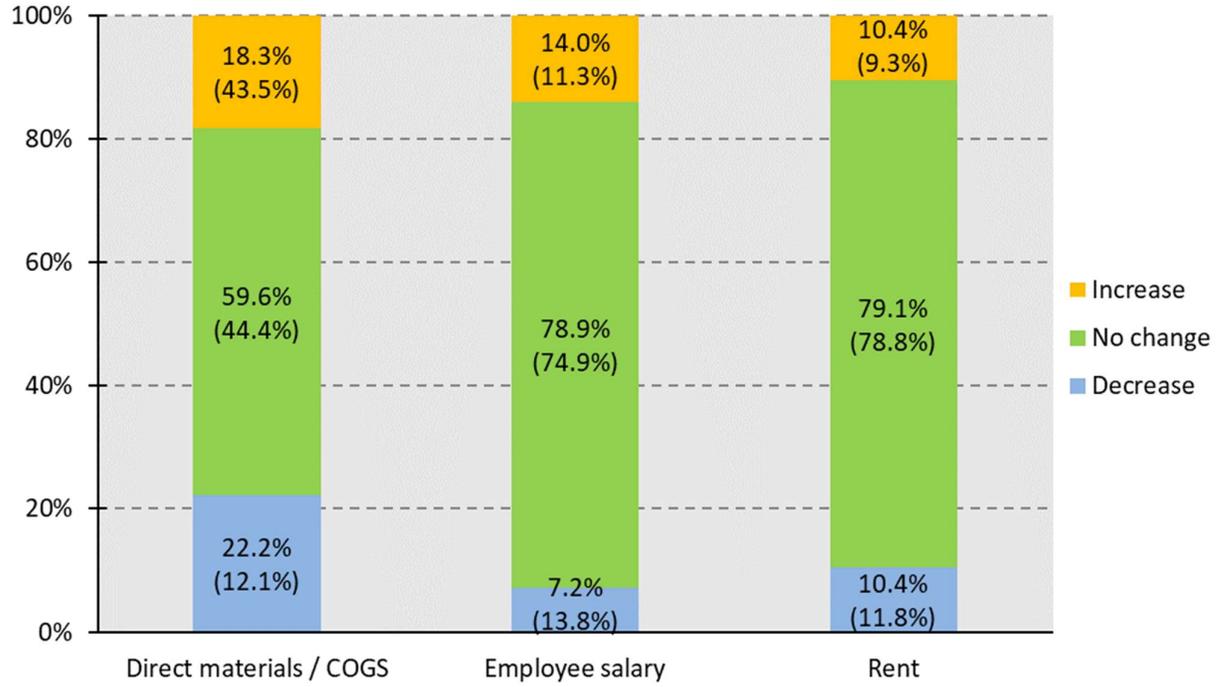
Component Sub-Indices of the 3 Key Industry Indices



# 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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