

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. The skyline includes several prominent skyscrapers, with one featuring a distinctive tiered top. A tall, slender light pole stands on the right side of the road. The overall scene conveys a sense of a modern, well-maintained urban environment.

Standard Chartered Hong Kong SME Leading Business Index

Quarter 3, 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 815 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 37th survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted in June 2021. Top management of 815 SMEs were surveyed to gauge their views on the outlook of the overall business environment and regional economic changes in the Q3 2021.

Key Findings

The Q3 2021 Overall Index of the Standard Chartered SME has risen for three consecutive quarters, this time by 4.4 to 46.6, hitting a three-year high since 2018 Q3. The results show returning business confidence of the local SME community amid the gradual easing of COVID-19 situation in Hong Kong and SMEs' optimism about the global economy. Key findings of the survey are as follows:

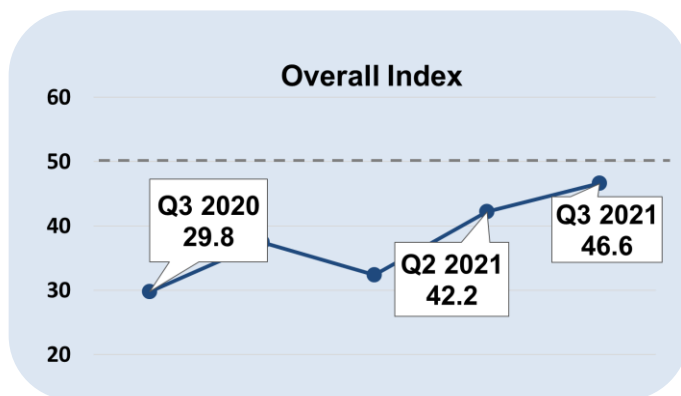
- ⊕ All five component sub-indices went up simultaneously, with "Global Economy" recorded the most significant growth and jumped from 43.6 to 52.8, which made an impressive leap from the low of 7.9 in the same period last year;
- ⊕ Except "Manufacturing Industry" which recorded a slight decrease of 0.2 to 43.5 among the three key industries, the other 2 industries presented an uplift comparing to the last quarter, namely "Import / Export Trade and Wholesale Industry" (42.7) and "Retail Industry" (46.9);
- ⊕ 8 of the 11 surveyed industries have recorded two-year high in their industry indices. "Information and Communications", "Real Estate", and "Social and Personal Services" are the best performing industries, with their respective indices all over 50;
- ⊕ On investment sentiment in the coming quarter, most SMEs are planning to spend more on "Information Technology" and "Product & Marketing Promotion";
- ⊕ 63% of SMEs surveyed expected an upcoming increase of "Raw Material Cost", which is 5% higher than the previous quarter;
- ⊕ The survey looked into SME's perspective and planning in response to the economic recovery in 2021;
- ⊕ Top 3 industries with business back to / exceeding the level before pandemic are ranked as "Information and Communications", "Real Estate" and "Financing and Insurance";
- ⊕ The most popular actions taken proactively by SMEs to achieve business rebound are "Product/service improvement", "Market promotion" and "Online expansion";
- ⊕ Among those SMEs who intend to invest on digitalisation, 56% of them expect to spend more than HK\$50,000 on digital transformation in next 1 year.



Standard Chartered SME Index

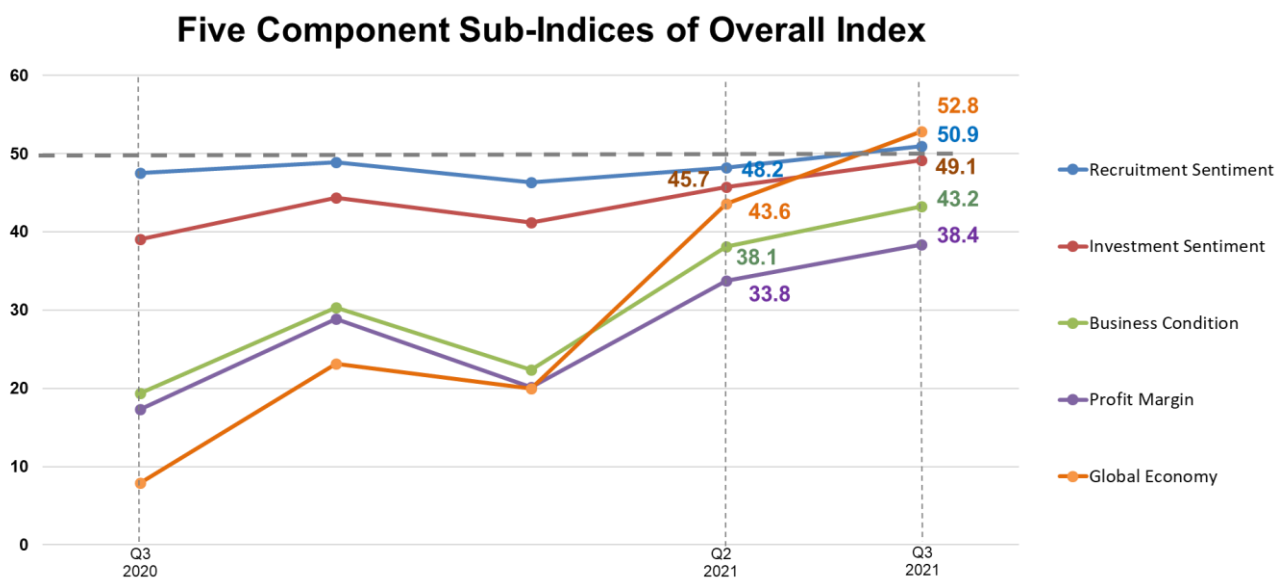
Q3 2021

46.6



The Q3 2021 Overall Index was 46.6, with “Global Economy” recording the most significant growth jumping from 43.6 to 52.8.

All five component sub-indices went up simultaneously, among which “Global Economy” (52.8), “Business Condition” (43.2) and “Profit Margin” (38.4) recorded a rather significant growth, with an increase of 9.2, 5.1 and 4.6 respectively.



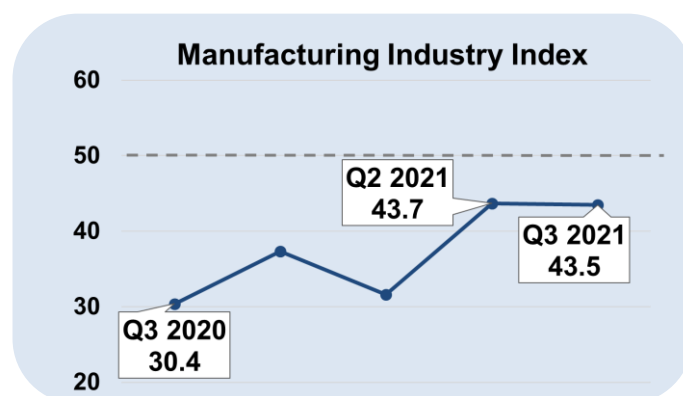
The 3 Key Industry Indices

Manufacturing Industry 43.5

The Manufacturing Industry Index marginally decreased by 0.2 to 43.5. Compared to last quarter, "Investment Sentiment" (45.7) and "Recruitment Sentiment" (48.8) showed a slight uptrend, with increase of 3.0 and 0.1 respectively.



Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	48.8	Up	Up
Investment Sentiment	45.7	Up	Up
Business Condition	39.9	Down	Up
Profit Margin	31.8	Down	Up
Global Economy	55.0	Down	Up

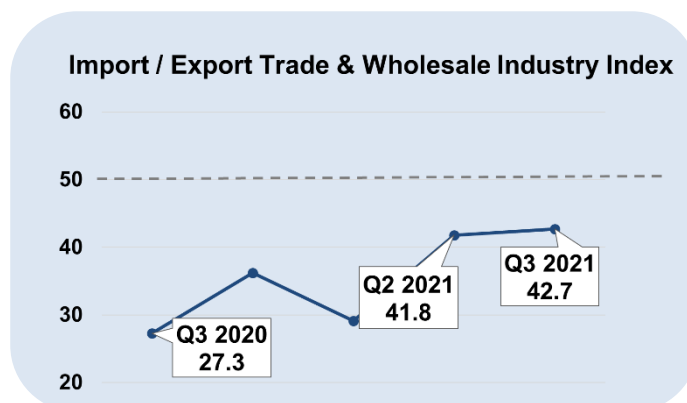


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Import / Export Trade and Wholesale Industry 42.7

The Import / Export Trade and Wholesale Industry Index slightly increased by 0.9 to 42.7. Compared to last quarter, most component sub-indices showed an upturn, except "Investment Sentiment" which presented a drop of 3.0 to 44.1.

Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	50.0	Up	Up
Investment Sentiment	44.1	Down	Up
Business Condition	39.6	Up	Up
Profit Margin	32.7	Up	Up
Global Economy	47.0	Up	Up

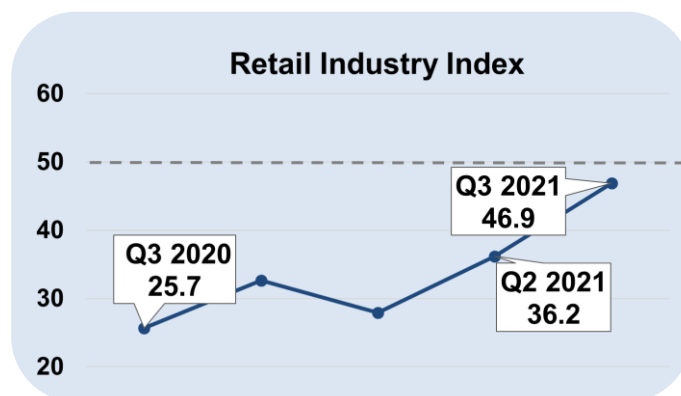


The 3 Key Industry Indices

Retail Industry 46.9

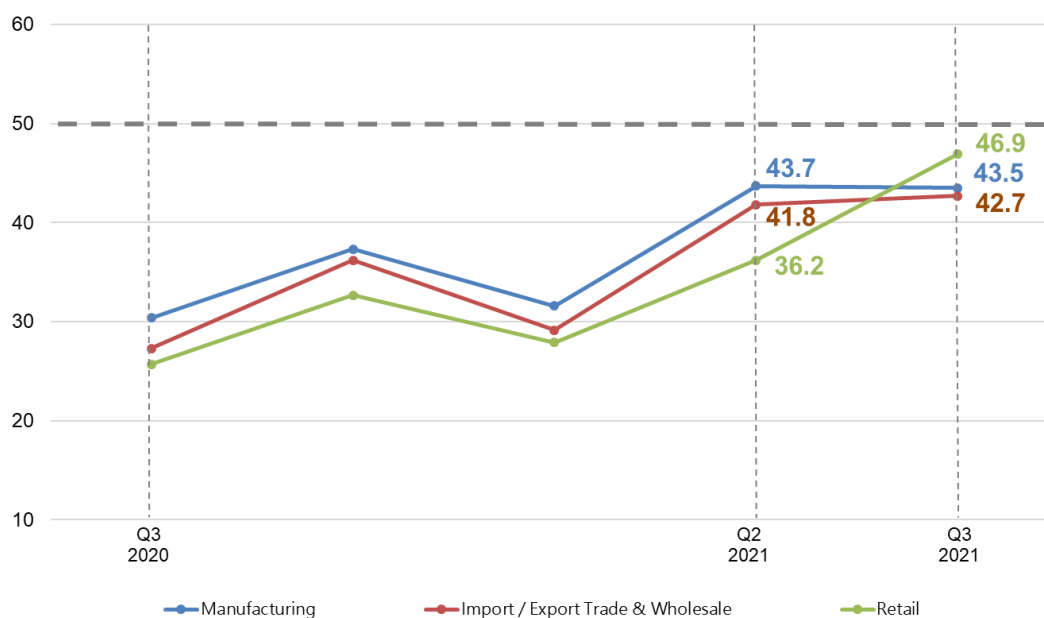
The Retail Industry Index increased strongly by 10.7 to 46.9. 4 out of the 5 component sub-indices recorded a rise of 10 as compared to last quarter.

Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	48.7	Up	Up
Investment Sentiment	48.7	Up	Up
Business Condition	48.1	Up	Up
Profit Margin	39.0	Up	Up
Global Economy	51.3	Up	Up



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3 Key-Industry Indices



Industry Indices

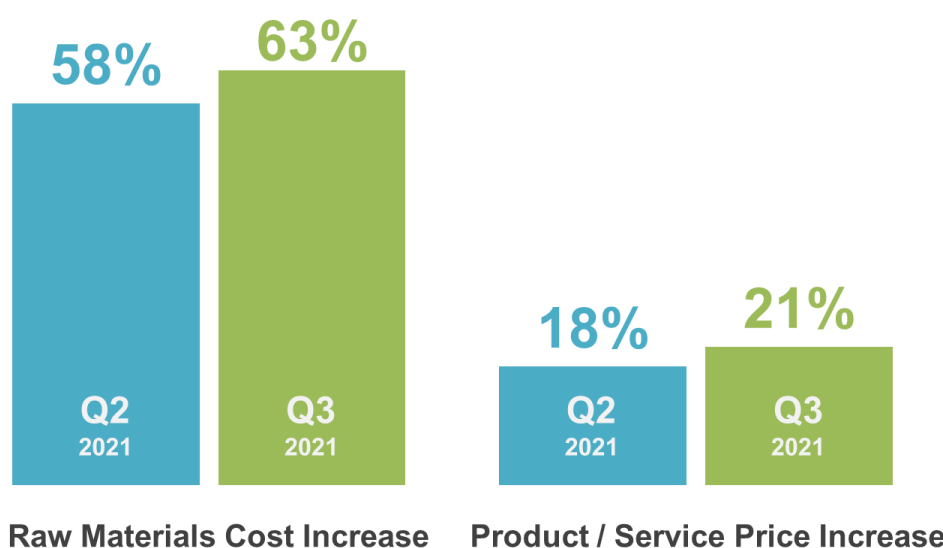
Industries achieved above 50 neutral mark were “Information and Communications”, “Real Estate” and “Social and Personal Services”.



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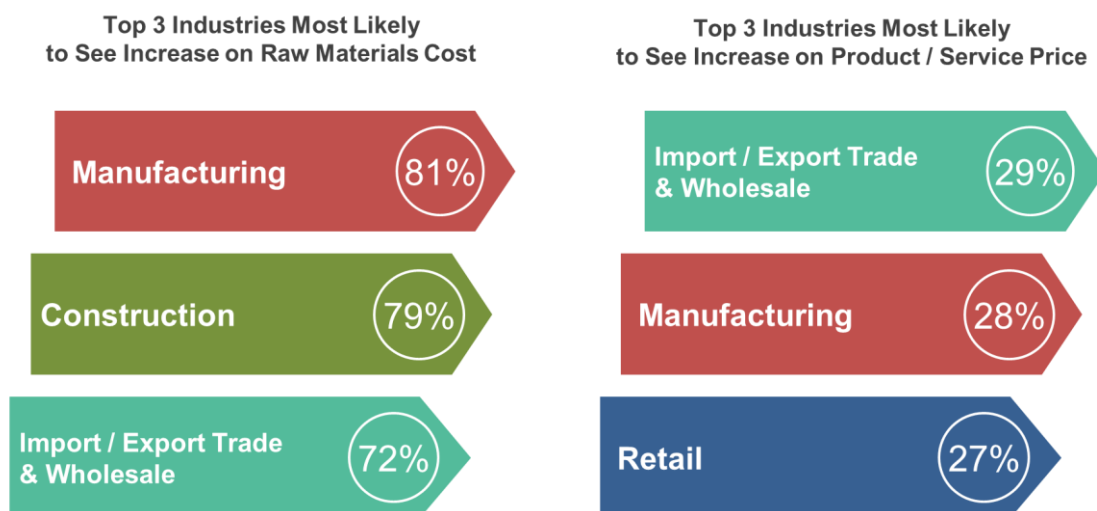
Market Observations

63% of SMEs surveyed expected an upcoming increase of “Raw Material Cost”, which was 5% higher than the previous quarter; while 21% of them expected an increase of “Product / Service Price”, 3% higher as compared to the last quarter.



Market Observations

Regarding the expectation towards increase on raw materials cost and price, top 3 industries most likely to see increase are ranked as “Manufacturing”, “Construction” and “Import / Export Trade & Wholesale”. Top 3 industries most likely to see increase on product / service price are ranked as “Import / Export Trade & Wholesale”, “Manufacturing” and “Retail”.



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On investment sentiment in the coming quarter, most SMEs are planning to spend more on “Information Technology” and “Product & Marketing Promotion”. 24% of SMEs plan to increase investment in “Information Technology”, with top 3 industries ranked as “Information and Communications”, “Professional and Business Services” and “Accommodation and Food Services”; while 20% SMEs would like to boost investment in “Product & Marketing Promotion”, with top 3 industries ranked as “Retail”, “Real Estate” and “Financing and Insurance”. 24% and 20% are one-year highs for “Information Technology” and “Product & Marketing Promotion” respectively.



Featured Topic

Hong Kong SMEs' Perspective and Planning in Response to Economic Recovery in 2021

The survey of this quarter looked into SMEs' perspective and planning in response to the economic recovery in 2021. The survey found that top 3 industries with business back to / exceeding the level before pandemic are ranked as "Information and Communications", "Real Estate" and "Financing and Insurance".



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The most popular actions taken proactively by SMEs to achieve business rebound are ranked as "Product/service improvement", "Market promotion", "Online expansion", "Productivity enhancement" and "Use of digital technology".

1	Product / service improvement	
2	Market promotion	
3	Online expansion	
4	Productivity enhancement	
5	Use of digital technology	



Featured Topic

Hong Kong SMEs' Perspective and Planning in Response to Economic Recovery in 2021

To fully grasp the opportunities from market recovery, the top 3 favourable factors that SMEs most look forward to are ranked as “Global economic recovery”, “Re-opening of cross-boundary travel with the Mainland” and “Relaxation of social distancing measures”.



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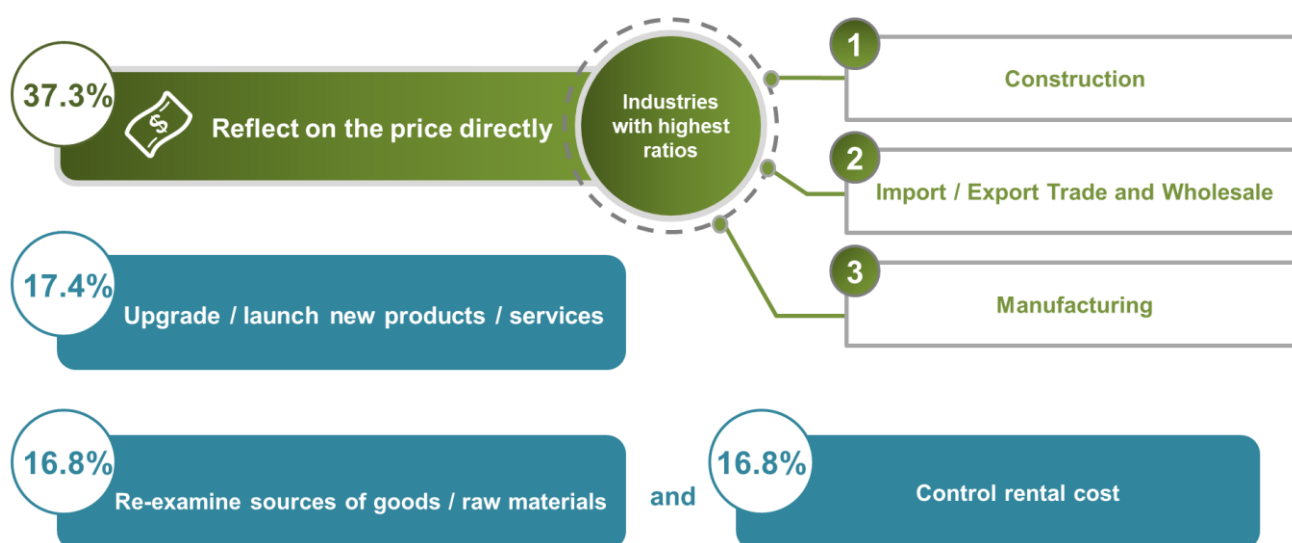
The top 3 most concerned uncertainties that SMEs see constraints are ranked as “Severe epidemic situation worldwide”, “Geopolitical tensions” and “Inflation and soar of raw material prices”.



Featured Topic

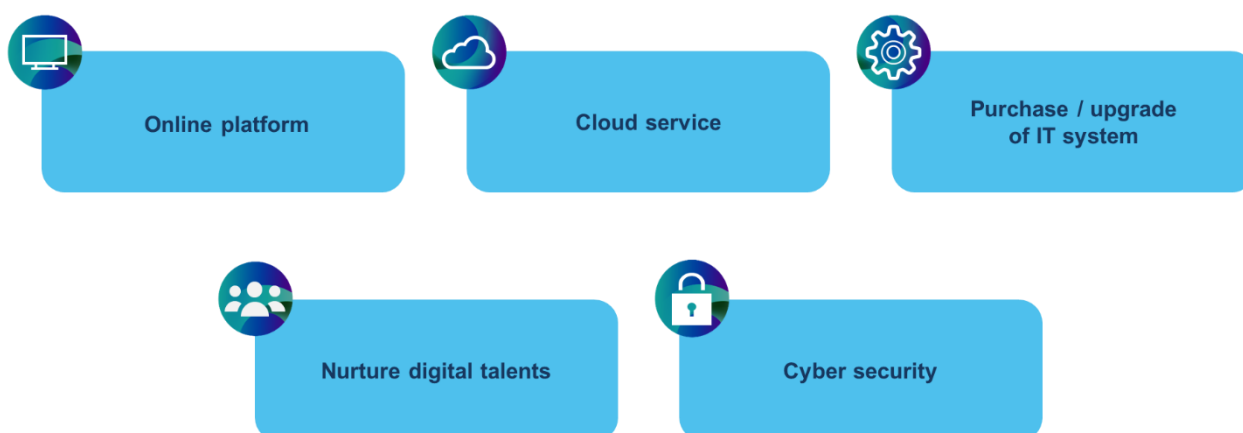
Hong Kong SMEs' Perspective and Planning in Response to Economic Recovery in 2021

37.3% of SMEs surveyed indicated their intentions to raise price to cope with inflation and offset cost pressure, among which industries with highest ratios are ranked as "Construction", "Import / Export Trade and Wholesale" and "Manufacturing". Besides, other approaches taken by SMEs to cope with inflation are "Upgrade / launch new products / services", "Re-examine sources of goods / raw materials" as well as "Control rental cost".



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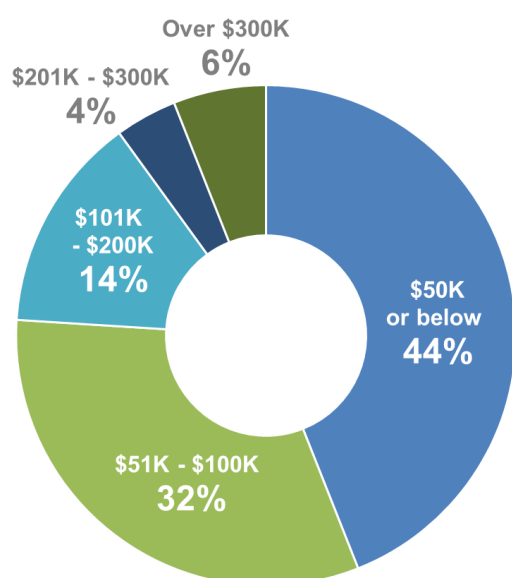
Among those SMEs who intend to invest on digitalisation in next 1 year, "Online platform", "Cloud service", "Purchase/upgrade of IT system", "Nurture digital talents" and "Cyber security" are the top five digitalisation areas.



Featured Topic

Hong Kong SMEs' Perspective and Planning in Response to Economic Recovery in 2021

Digital economy has become a major driving force for economic growth. Many traditional businesses are accelerating their digital transformation process to cater new consumption habits. Among those SMEs who intend to invest on digitalisation, 56% of them expect to spend more than HK\$50,000 on digital transformation in next 1 year. SMEs can achieve digital transformation according to their budgets, leveraging a vast range of technology solutions available in the market.

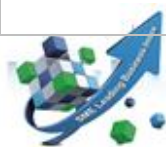
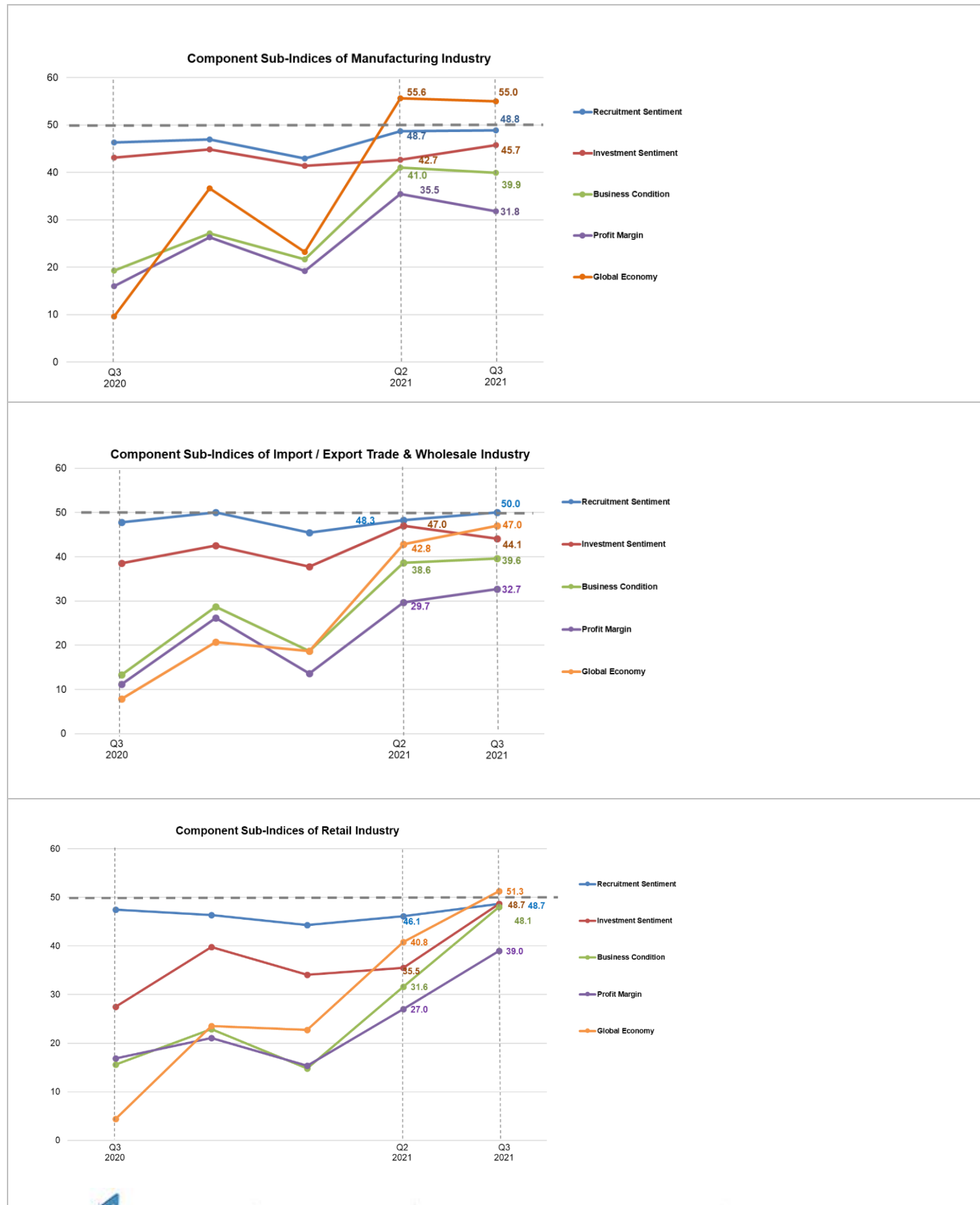


SMEs can achieve digital transformation according to their budgets, leveraging a vast range of technology solutions available in the market.



Appendix

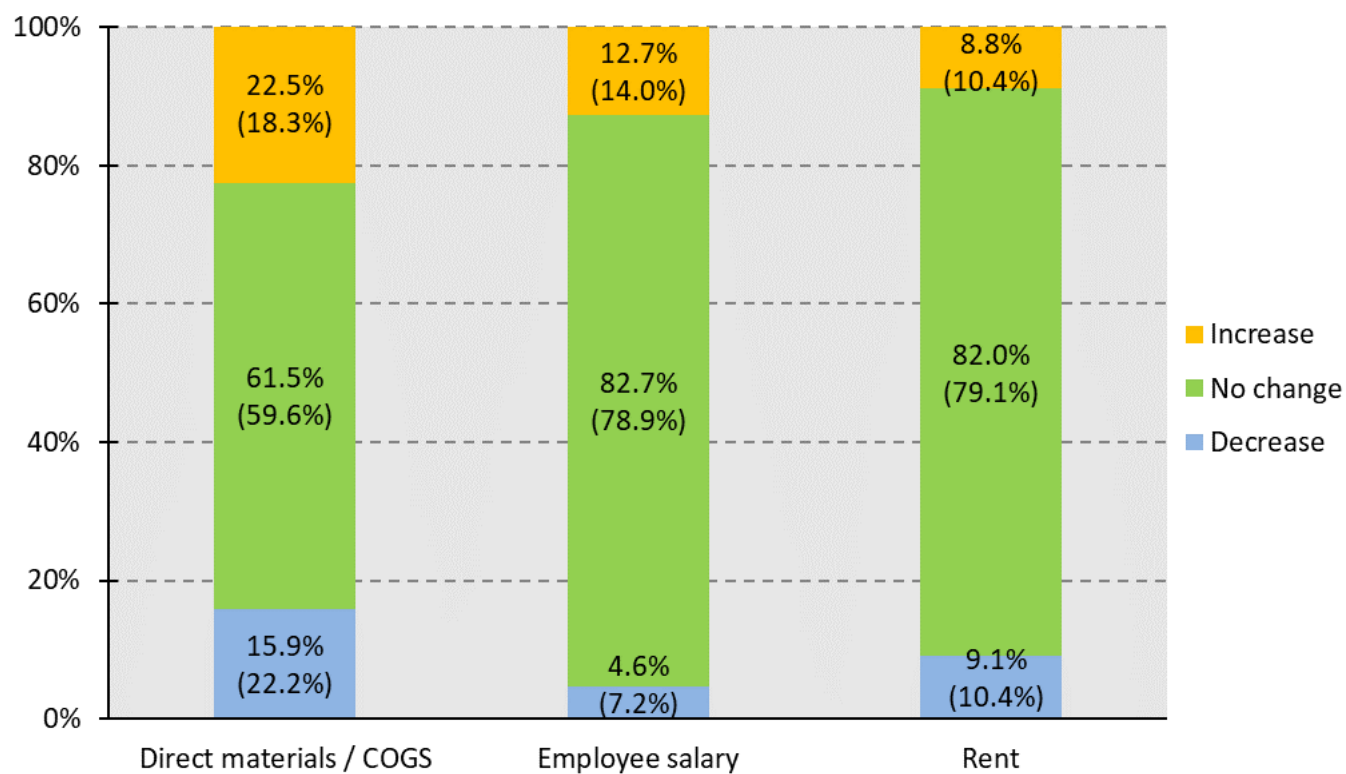
Component Sub-Indices of the 3 Key Industry Indices



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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