

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 conveys a sense of a modern, well-maintained city environment.

# Standard Chartered Hong Kong SME Leading Business Index

Quarter 4, 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 817 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 38<sup>th</sup> survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted in September 2021. Top management of 817 SMEs were surveyed to gauge their views on the outlook of the overall business environment and regional economic changes in the Q4 2021.

# Key Findings

The Q4 2021 Overall Index of the Standard Chartered SME rose by 1.6 to 48.2, hitting a three-year high once again. Gradually climbing up towards the 50 neutral level, the latest result reflects that despite the slowing down of the COVID-19 pandemic, local SMEs are still moving sluggishly forward in the recovery of business confidence. Key findings of the survey are as follows:

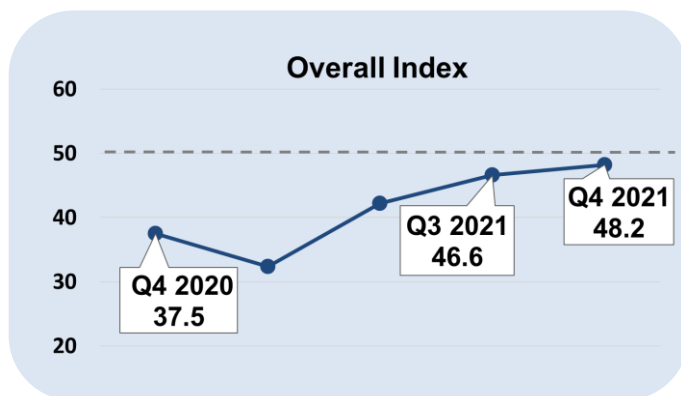
- ✚ Four of the five major sub-indices reported an increase, two of which above 50 indicating optimistic sentiment. "Recruitment Sentiment" fared the best with 51.7, a two-and-half-year high. Among them, 16% of the SME respondents expect salary to increase in the coming quarter. "Accommodation and Food Services", "Information and Communications" and "Social and Personal Services" industries had the strongest hiring intention;
- ✚ Except "Retail Industry" which continually recorded an increase of 2.8 to 49.7 among the three key industries, the other 2 industries presented a minor decline comparing to the last quarter, namely "Import / Export Trade and Wholesale Industry" (42.1) and "Manufacturing Industry" (42.9);
- ✚ In terms of "Investment Sentiment" in the coming quarter, the SME respondents expect to increase investment on "Product and Marketing Promotion" only. Investment sentiments in all other areas decreased, with that of inventory (including raw materials and products) being the lowest;
- ✚ As many as 65% of SMEs expect the cost of raw materials to rise, the highest among the survey in the four quarters of this year;
- ✚ The thematic survey for this quarter explored SMEs' direction of development in 2022 and planning on innovation;
- ✚ "Product / Service Development or Enhancement", "Operational Cost Reduction" and "Staff Competitiveness Enhancement / People Management" would be the top three areas where the surveyed SMEs plan to direct their resources for 2022; while "Environmental and Green Sustainability" and "Innovation" would be the areas with the least resources for investment;
- ✚ With the most wanting to achieve "Reduce Cost" and "Improve Efficiency" through innovation, the biggest obstacles encountered by SMEs when trying to innovate include difficulty in predicting the benefits, worries about the innovation costs being too high or a lack of funding, and thinking that innovation does not meet the nature of the company's business.



# Standard Chartered SME Index

Q4 2021

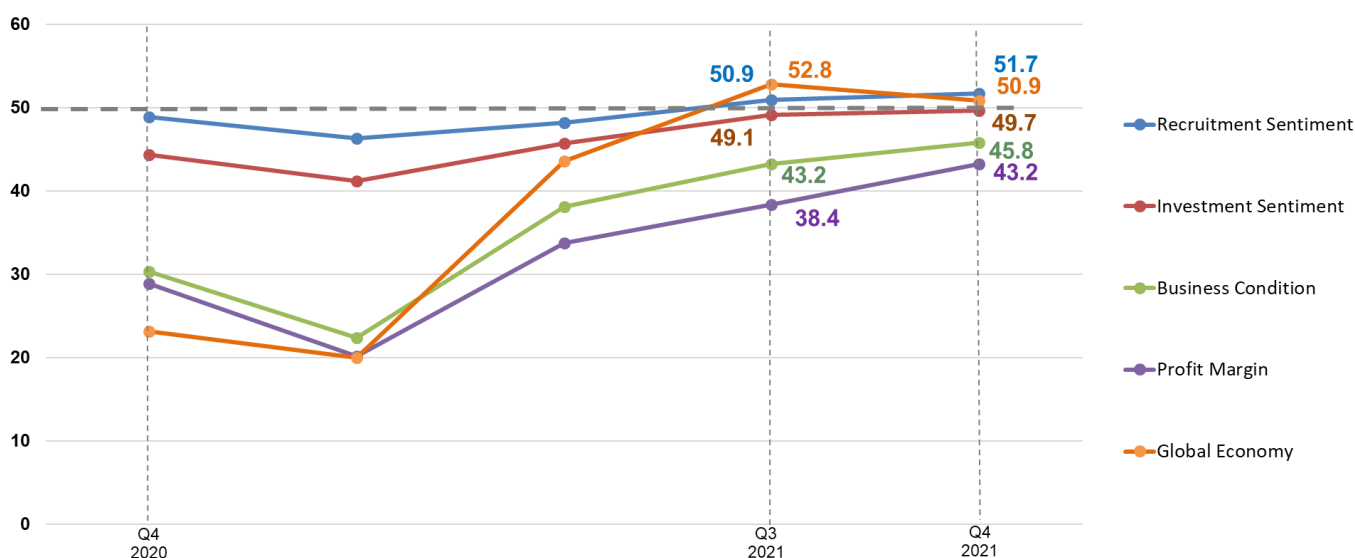
# 48.2



The Q4 2021 Overall Index was 48.2, a three-year-high once again.

Four of the five major sub-indices reported an increase, including "Profit Margin" (43.2), "Business Condition" (45.8) and "Investment Sentiment" (49.7) and "Recruitment Sentiment" (51.7), with an increase of 4.8, 2.6, 0.6 and 0.8 respectively. Of them, "Recruitment Sentiment" reached a two-and-half-year high.

## Five Component Sub-Indices of Overall Index



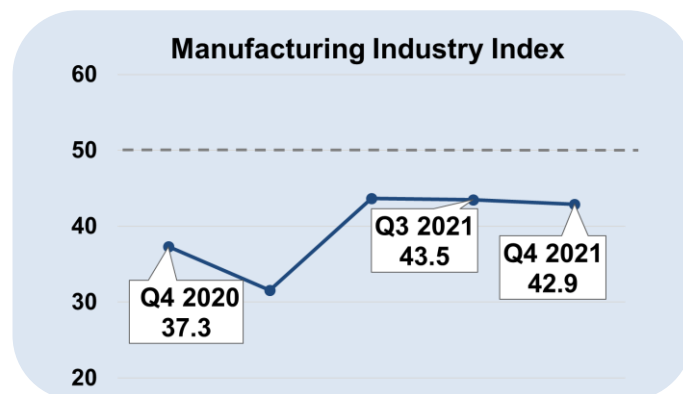
# The 3 Key Industry Indices

## Manufacturing Industry 42.9

The Manufacturing Industry Index maintained flat with marginal decrease by 0.6 to 42.9 compared to last quarter. "Global Economy" component sub-index showed a visible downturn, decreased by 8.3 to 46.7.



| Component Indices     | Index | Compared to last quarter | Compared to same period of last year |
|-----------------------|-------|--------------------------|--------------------------------------|
| Recruitment Sentiment | 48.3  | Down                     | Up                                   |
| Investment Sentiment  | 44.2  | Down                     | Down                                 |
| Business Condition    | 40.9  | Up                       | Up                                   |
| Profit Margin         | 34.3  | Up                       | Up                                   |
| Global Economy        | 46.7  | Down                     | Up                                   |



## Import / Export Trade and Wholesale Industry 42.1

The Import / Export Trade and Wholesale Industry Index slightly decreased by 0.6 to 42.1. Compared to last quarter, three of its component sub-indices showed a decline, except "Investment Sentiment" and "Profit Margin" which presented an upturn.

| Component Indices     | Index | Compared to last quarter | Compared to same period of last year |
|-----------------------|-------|--------------------------|--------------------------------------|
| Recruitment Sentiment | 48.5  | Down                     | Down                                 |
| Investment Sentiment  | 45.6  | Up                       | Up                                   |
| Business Condition    | 35.9  | Down                     | Up                                   |
| Profit Margin         | 35.0  | Up                       | Up                                   |
| Global Economy        | 43.7  | Down                     | Up                                   |

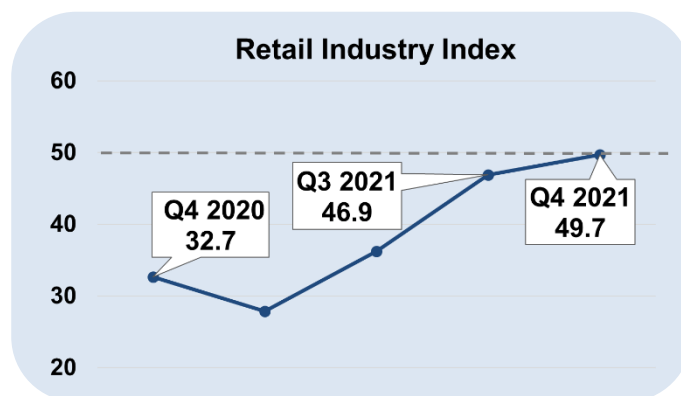


# The 3 Key Industry Indices

## Retail Industry 49.7

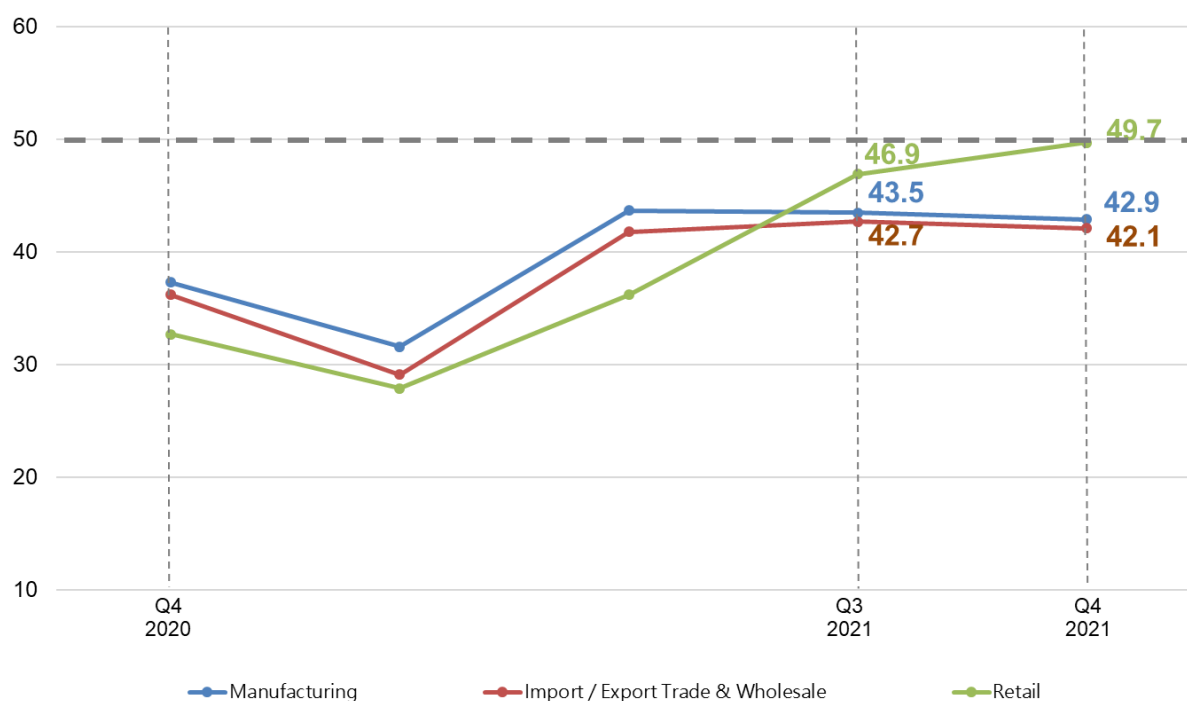
The Retail Industry Index increased continually by 2.8 to 49.7. 3 out of the 5 component sub-indices recorded above 50 neutral level.

| Component Indices     | Index | Compared to last quarter | Compared to same period of last year |
|-----------------------|-------|--------------------------|--------------------------------------|
| Recruitment Sentiment | 50.6  | Up                       | Up                                   |
| Investment Sentiment  | 48.1  | Down                     | Up                                   |
| Business Condition    | 51.3  | Up                       | Up                                   |
| Profit Margin         | 46.9  | Up                       | Up                                   |
| Global Economy        | 53.8  | Up                       | Up                                   |



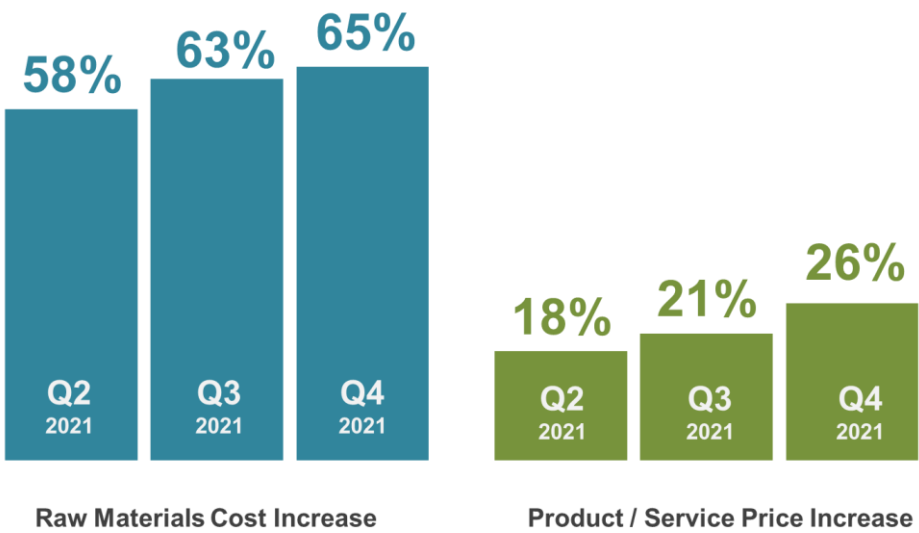
## 3 Key-Industry Indices

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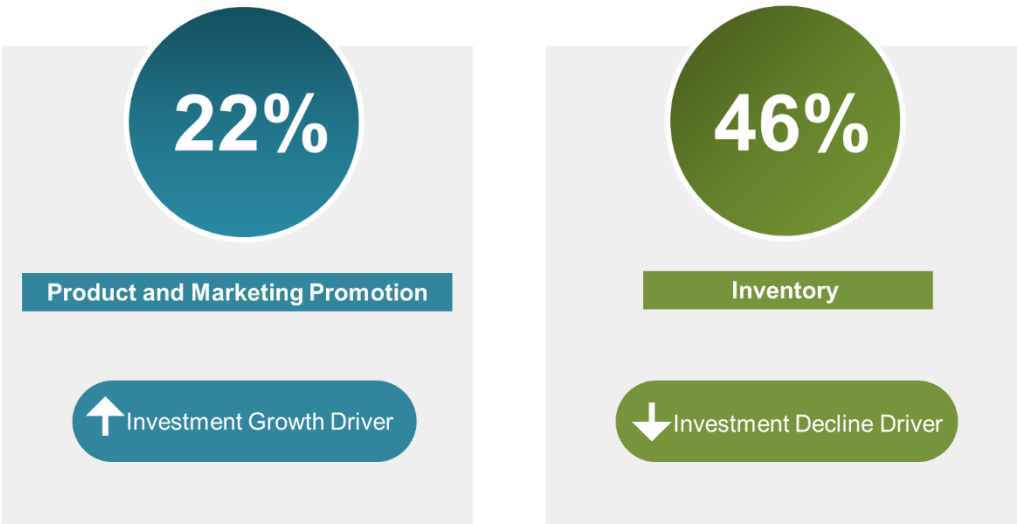


# Market Observations

65% of surveyed SMEs expected an upcoming increase of “Raw Material Cost” continually, which was 2% higher than the previous quarter; meanwhile 26% of surveyed SMEs also expected an increase of “Product / Service Price”, 5% higher as compared to last quarter.



In terms of “Investment Sentiment” in the coming quarter, 22% of surveyed SMEs expected to increase on “Product and Marketing Promotion”, being as the main driver of growth; while 46% of surveyed SMEs expected to decrease investment on “inventory”, being as the main driver of decline.



# Recruitment Sentiment

“Recruitment Sentiment” fared the best with 51.7, a two-and-half-year high. “Accommodation and Food Services”, “Information and Communications” and “Social and Personal Services” industries had the strongest hiring intention.

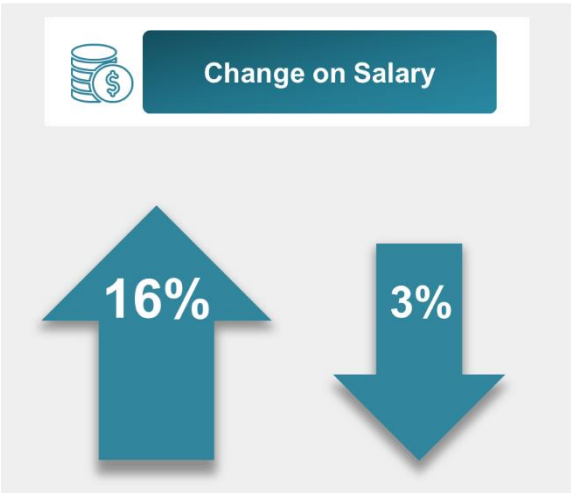
Recruitment Sentiment Component Sub-Index



Industry with Strong Hiring Intention

- 1 Accommodation and Food Services
- 2 Information and Communications
- 3 Social and Personal Services

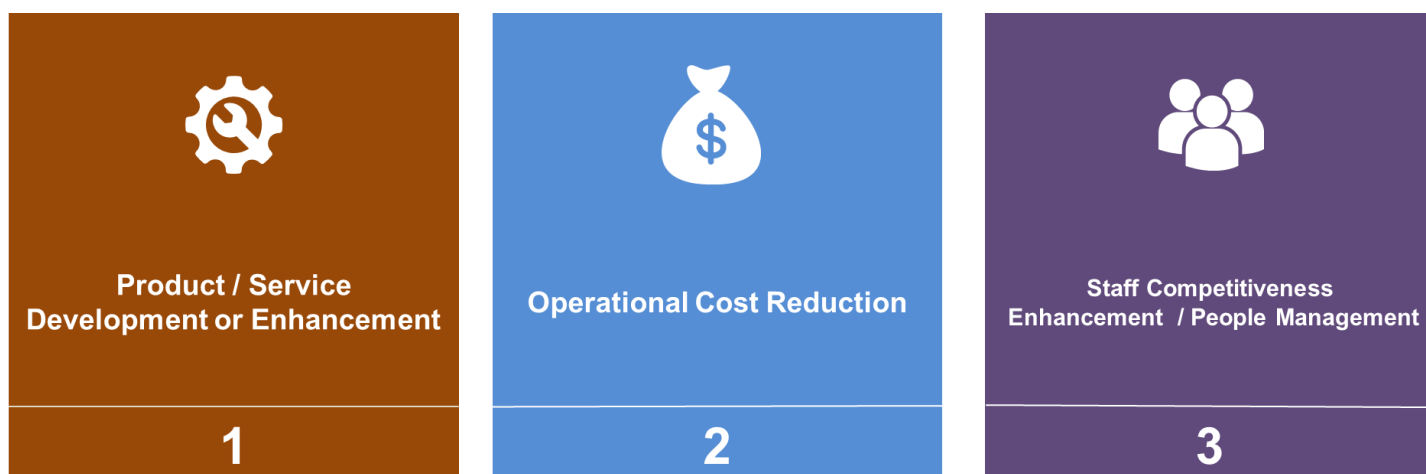
In terms of staff management, 16% of the SME respondents expected salary to increase in the coming quarter while 3% of them intended to decrease; meanwhile 9% of the SME respondents expected number of staff to increase in the coming quarter while 6% of them intended to decrease.



# Featured Topic

## Hong Kong SMEs' Direction of Development in 2022 and Planning on Innovation

The thematic survey of this quarter looked into Hong Kong SMEs' direction of development in 2022 and planning on innovation. It found that "Product / Service Development or Enhancement", "Operational Cost Reduction" and "Staff Competitiveness Enhancement / People Management" would be the top three areas where the surveyed SMEs plan to direct their resources for 2022.



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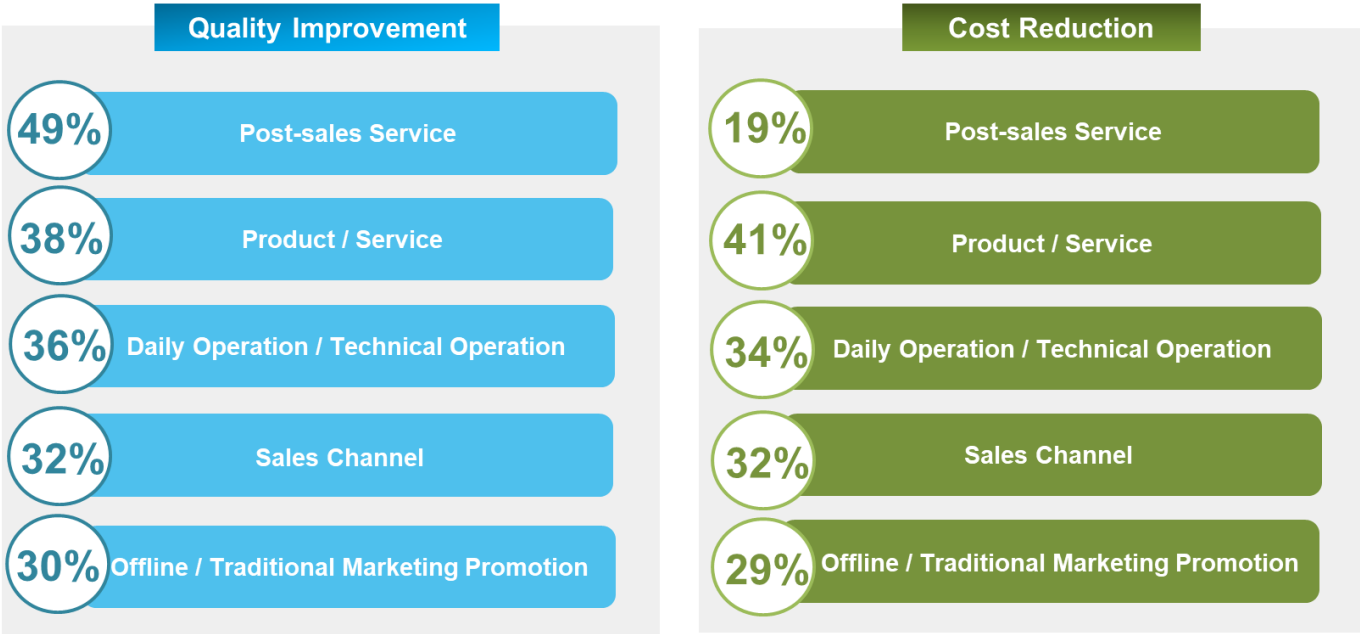
On the other hand, "Environmental and Green Sustainability" and "Innovation" would be the areas with the least resources for investment.



# Featured Topic

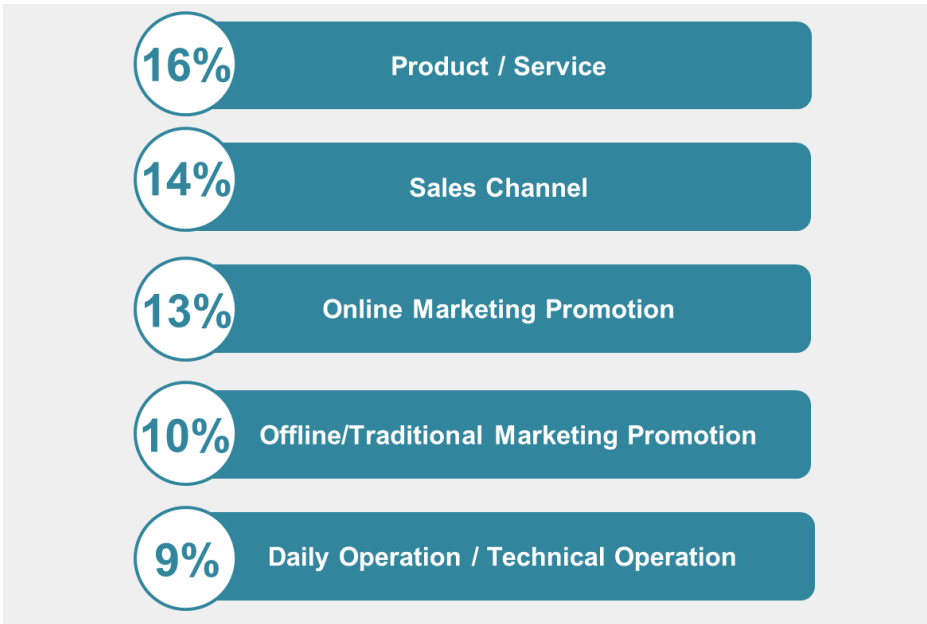
## Hong Kong SMEs’ Direction of Development in 2022 and Planning on Innovation

As expressed by surveyed SMEs, “Quality Improvement” and “Cost Reduction” are the top 2 strategic focus among various functions.



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“Innovation” is ranked low as a strategic focus in 2022 by surveyed SMEs, with various functions ranked as:



# Featured Topic

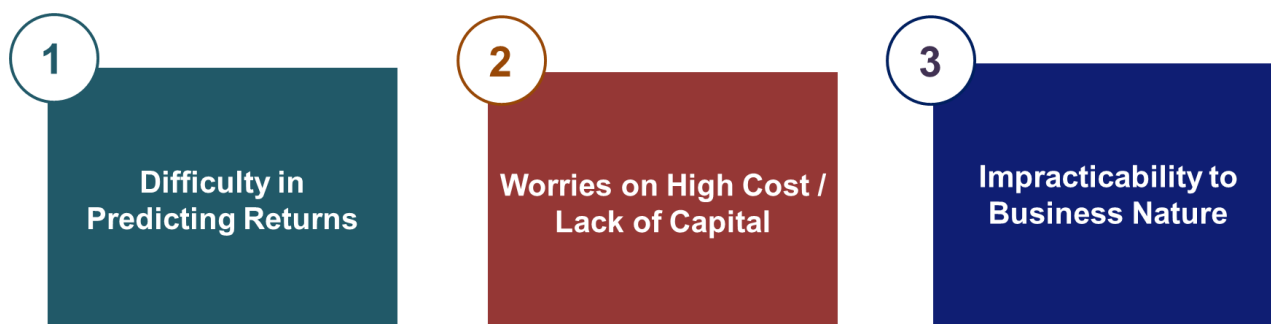
## Hong Kong SMEs' Direction of Development in 2022 and Planning on Innovation

The survey found that most expected results through innovation are ranked as “Reduce Cost”, “Improve Efficiency”, “Develop New Sales / Promotion Channels”, and “Enhance Business Agility”.

|   |                                        |                                                                                      |
|---|----------------------------------------|--------------------------------------------------------------------------------------|
| 1 | Reduce Cost                            |   |
| 2 | Improve Efficiency                     |   |
| 3 | Develop New Sales / Promotion Channels |   |
| 4 | Enhance Business Agility               |  |

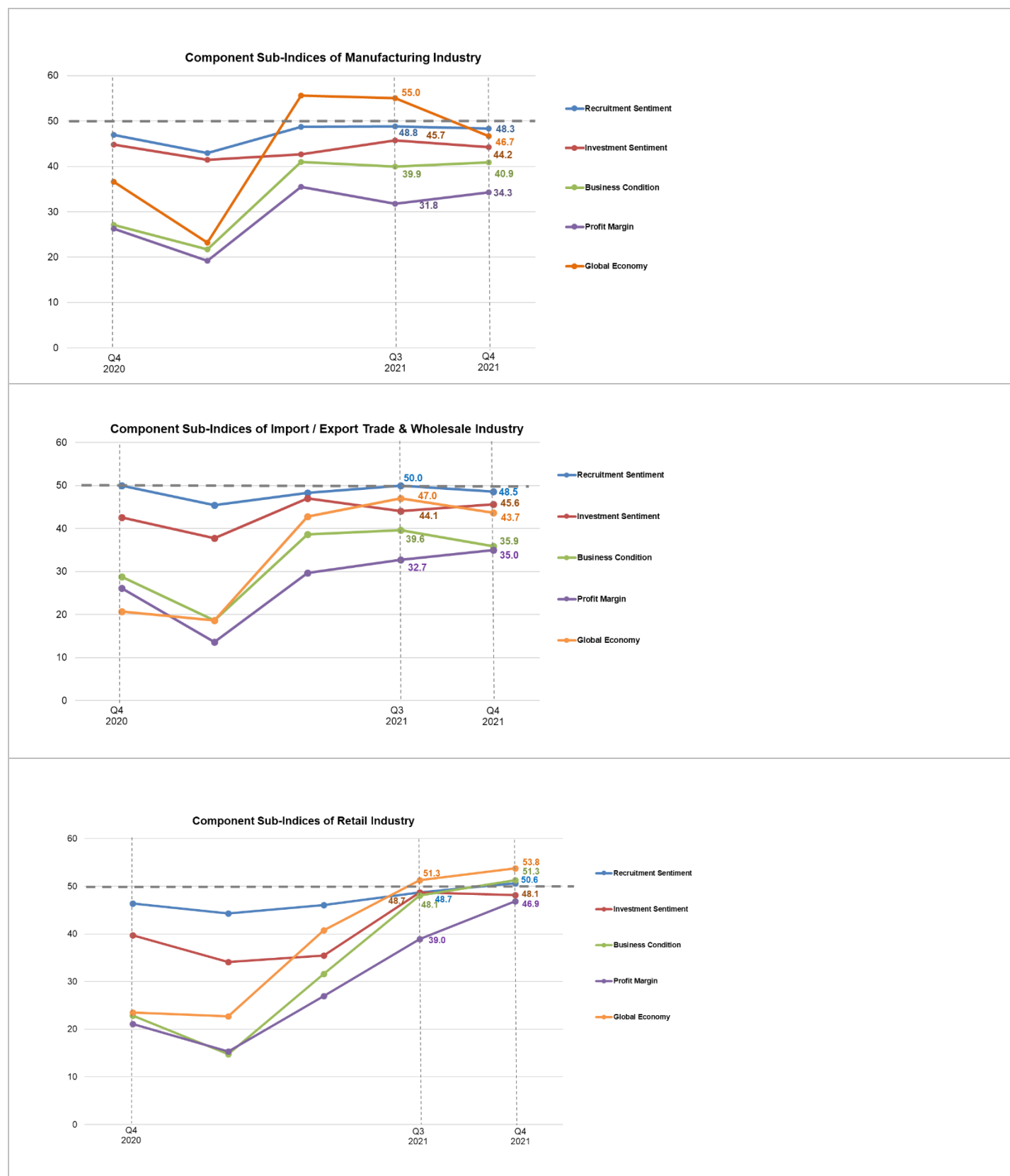
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The biggest challenges encountered by SMEs when trying to innovate include “Difficulty in Predicting Returns”, “Worries on High Cost / Lack of Capital” and “Impracticability to Business Nature”.



# Appendix

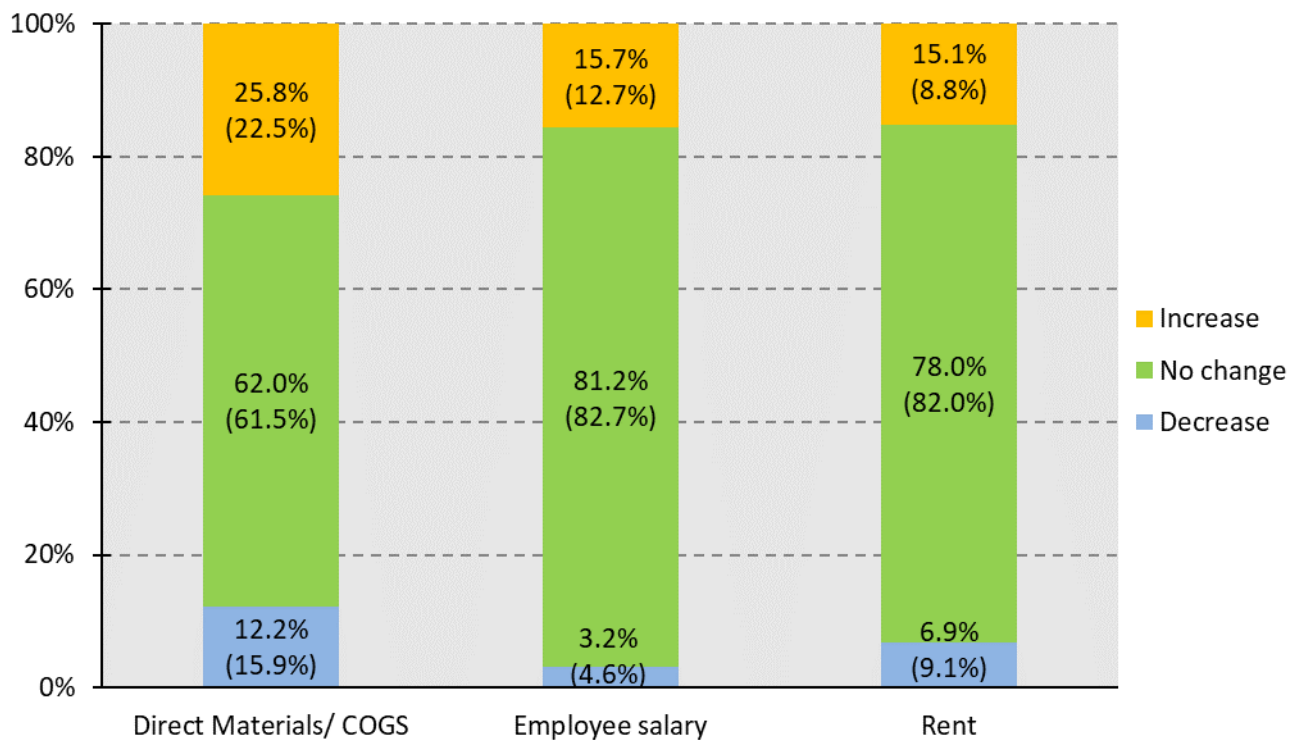
## Component Sub-Indices of the 3 Key Industry Indices



# 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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