

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 2, 2022

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 812 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 40th survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted in March 2022. Top management of 812 SMEs were surveyed to gauge their views on the outlook of the overall business environment and regional economic changes in the Q2 2022.

Key Findings

The Q2 2022 Overall Index of the Standard Chartered SME dropped 12.4 from last quarter's 48.1 to 35.7, the strongest downtrend ever, showing a setback of overall business confidence of local SMEs across industries amid the fifth wave of the COVID-19 pandemic. Key findings of the survey are as follows:

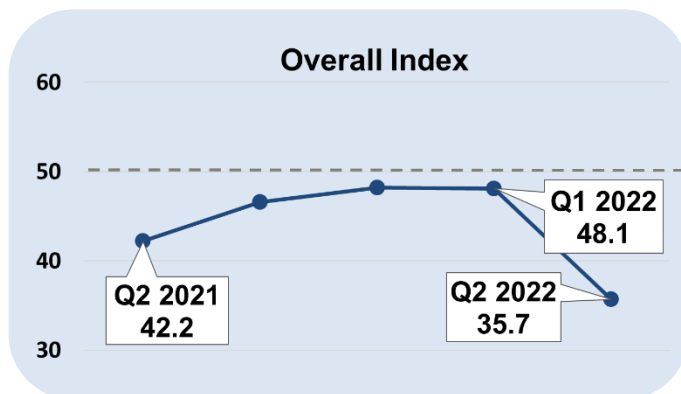
- ⊕ All the five component sub-indices fell below the 50 neutral mark. "Global Economy" recorded the most significant decline, down 20.4 to 23.8;
- ⊕ Of the three major industry indices, compared to last quarter, "Manufacturing" fell by 11.3 to 33.6, "Import / Export Trade & Wholesale" dropped 9.6 to 35.9, and "Retail" suffered the biggest decline of 14.8 to 31.2;
- ⊕ Raw material costs remained at high levels. 74% of SMEs expected raw material costs to rise in the coming quarter, the seventh consecutive quarterly increase. Although most SMEs (86%) expected staff salary to stay unchanged or even decline in the coming quarter; 74% of SMEs expected product/ service price to remain the same or fall in the coming quarter;
- ⊕ For the investment outlook, 18% of SMEs expected a decrease on overall investment in the coming quarter (only 9% previously), 43% of SMEs said they would reduce investment in "Inventory", and 38% said they would reduce investment in "Offline Marketing Promotion". Only 23% and 25% of SMEs indicated that they would cut investment in "Information Technology (IT) (Related to e-commerce)" and "R&D (Research & Development)", respectively;
- ⊕ The survey looked into the planning and actions of Hong Kong SMEs on the fifth wave of the epidemic;
- ⊕ This survey was conducted in March 2022, which was considered the peak of the fifth wave. 46% of the SMEs responded that they had temporarily suspended their businesses or expected their businesses could only last for 6 months at most, should the tightened anti-epidemic measures continue. 70% of SMEs said they needed to cut down on costs, mainly by downsizing business scale, changing suppliers and leveraging technology;
- ⊕ Nearly 80% (76%) of SMEs indicated a decrease in income under the fifth wave of epidemic. The most affected industries were "Social and Personal Services", "Retail" and "Accommodation and Food Services". To overcome the challenges, more than half of the SMEs from "Accommodation and Food Services" (68%) and "Social and Personal Services" (51%) said they would apply for government funding, while SMEs from the "Retail" sector would mainly rely on offering price discount (46%) or expecting to take advantage of the Consumption Voucher Scheme (34%). Among the three industries, more than 60% of the surveyed SMEs from "Retail" and "Accommodation and Food Services" believed that their businesses could benefit from the consumption vouchers, while only 20% of SMEs from "Social and Personal Services" believed it to be helpful.



Standard Chartered SME Index

Q2 2022

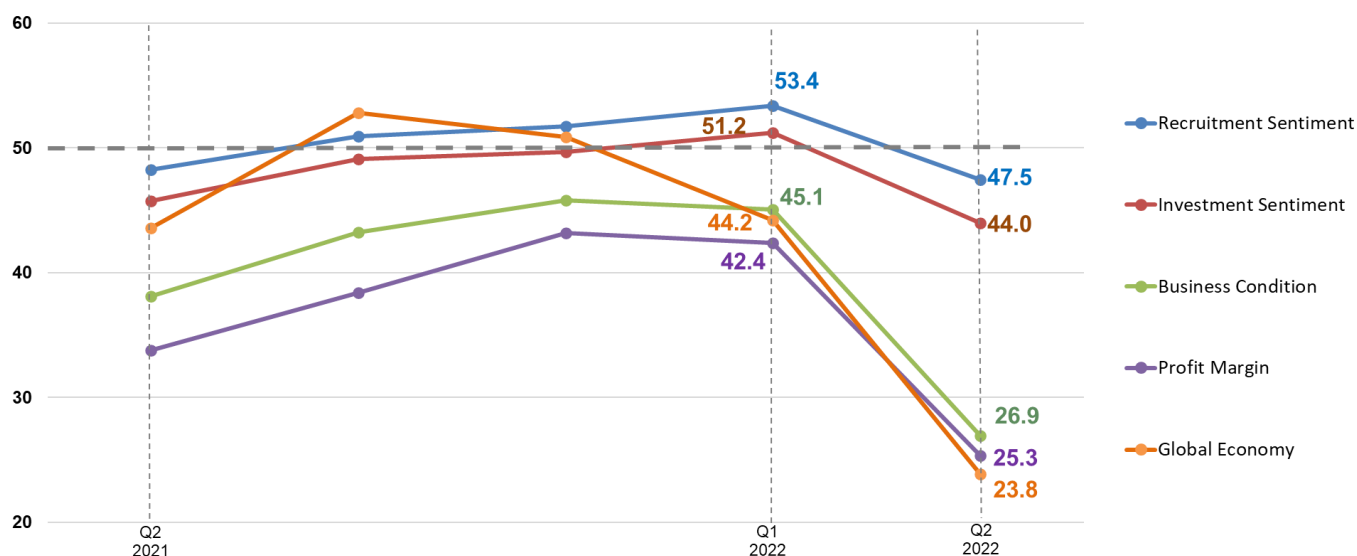
35.7



The Q2 2022 Overall Index recorded as 35.7, dropped 12.4 from last quarter.

All five component sub-indices decreased, among which "Global Economy" (23.8), "Business Condition" (26.9) and "Profit Margin" (25.3) continued the downtrend for two consecutive quarters, with a decrease of 20.4, 18.2 and 17.1 respectively in this quarter. "Investment Sentiment" (44.0) and "Recruitment Sentiment" (47.5) recorded a drop, with a decrease of 7.2 and 5.9 respectively. "Global Economy" recorded the most significant decline.

Five Component Sub-Indices of Overall Index



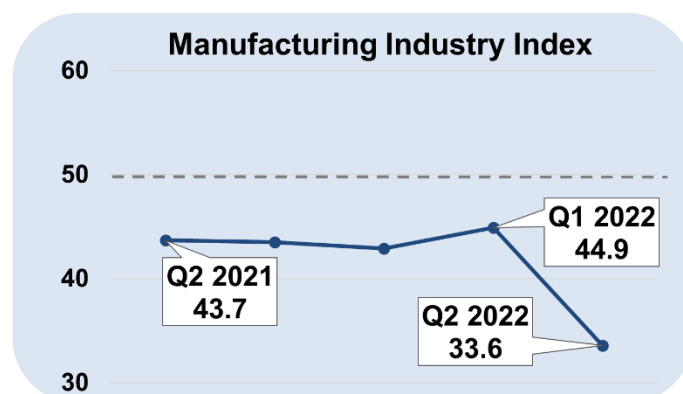
The 3 Key Industry Indices

Manufacturing Industry 33.6

The Manufacturing Industry Index declined by 11.3 to 33.6 compared to last quarter. "Global Economy" component sub-index showed a downturn for four consecutive quarters, dropping to 20.4.



Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	47.7	Down	Down
Investment Sentiment	43.5	Down	Up
Business Condition	25.0	Down	Down
Profit Margin	18.8	Down	Down
Global Economy	20.4	Down	Down



Import / Export Trade and Wholesale Industry 35.9

The Import / Export Trade and Wholesale Industry Index decreased by 9.6 to 35.9. Compared to last quarter, all component sub-indices showed a downturn, among which "Profit Margin" recorded the largest downward trend, dropped by 14.4 to 25.0.

Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	45.7	Down	Down
Investment Sentiment	43.6	Down	Down
Business Condition	29.8	Down	Down
Profit Margin	25.0	Down	Down
Global Economy	26.1	Down	Down

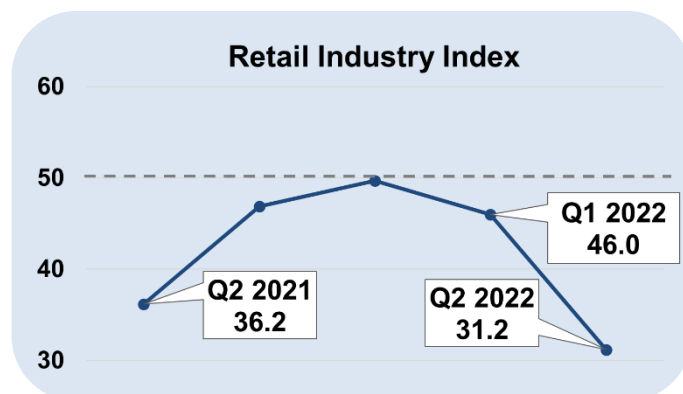


The 3 Key Industry Indices

Retail Industry 31.2

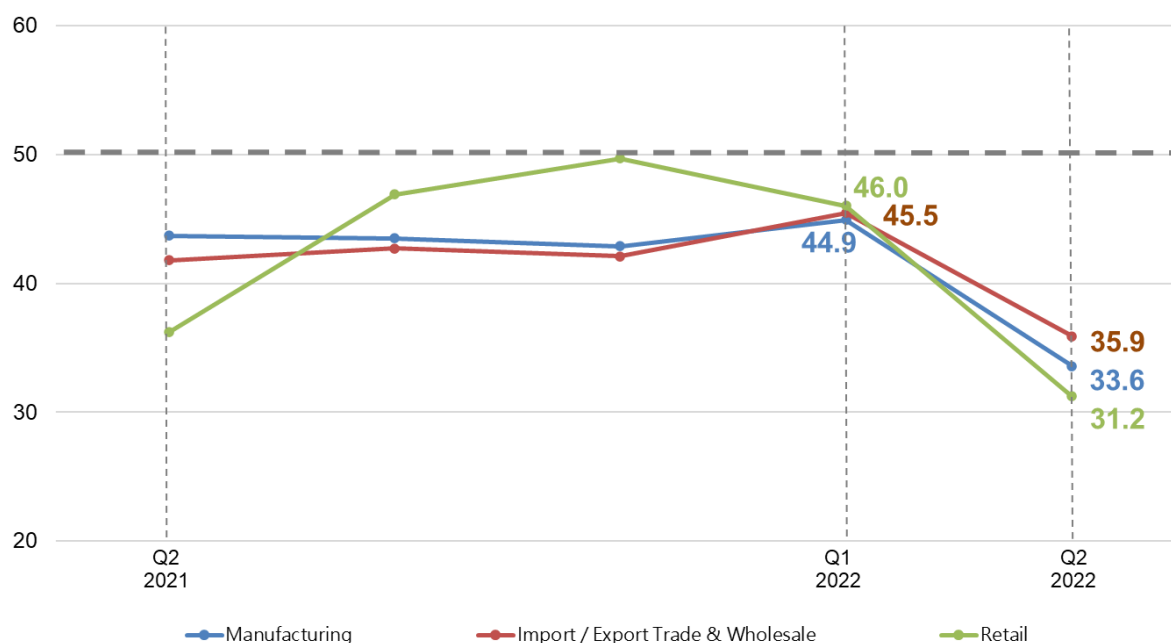
The Retail Industry Index decreased by 14.8 to 31.2. Compared to last quarter, all component sub-indices dropped, among which "Business Condition" recorded largest decline by 28.4 to 19.6.

Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	46.2	Down	Up
Investment Sentiment	38.0	Down	Down
Business Condition	19.6	Down	Down
Profit Margin	20.3	Down	Down
Global Economy	22.2	Down	Down



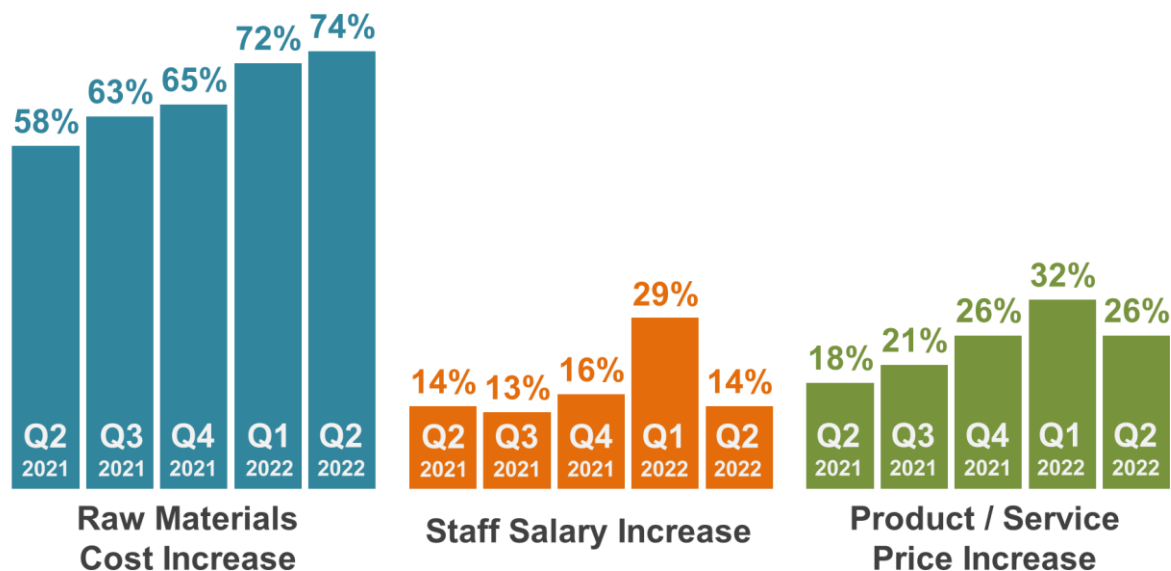
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3 Key-Industry Indices



Market Observations

Raw material costs remained at high levels. 74% of SMEs expected raw material costs to rise in the coming quarter, the seventh consecutive quarterly increase. 14% of SMEs expected “Staff Salary” to rise in the coming quarter, 15% less than the last quarter. 26% of SMEs expected “Product / Service Price” to increase in the coming quarter, 6% less than the last quarter. Although most SMEs (86%) expected “Staff Salary” to stay unchanged or even decline in the coming quarter; 74% of SMEs expected “Product / Service Price” to remain the same or fall in the coming quarter.

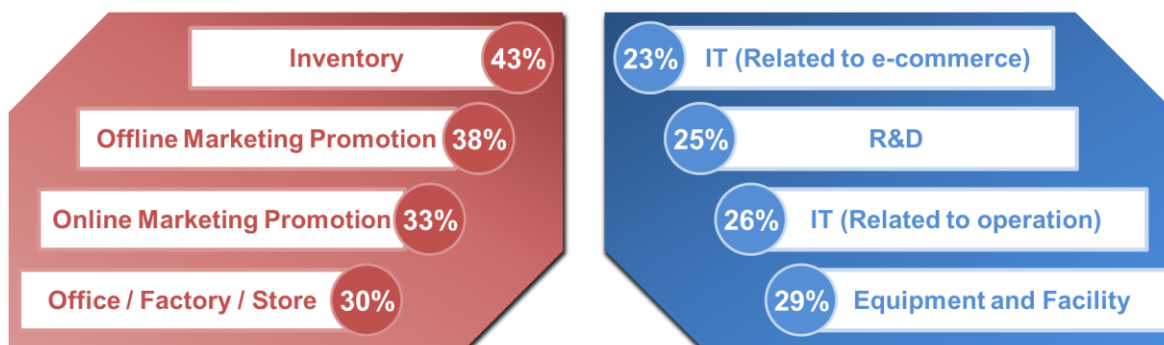


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For the expectation towards changes on investment, 18% of SMEs expected a decrease on overall investment in the coming quarter. Investment items with higher decrease were “Inventory” (43%), followed by “Offline Marketing Promotion” (38%), “Online Marketing Promotion” (33%), and “Office / Factory / Store” (30%). While investment items with less decrease were “IT (Related to e-commerce)” (23%), followed by “R&D” (25%), “IT (Related to operation)” (26%) and “Equipment and Facility” (29%).

18% of SMEs expected a decrease on overall investment

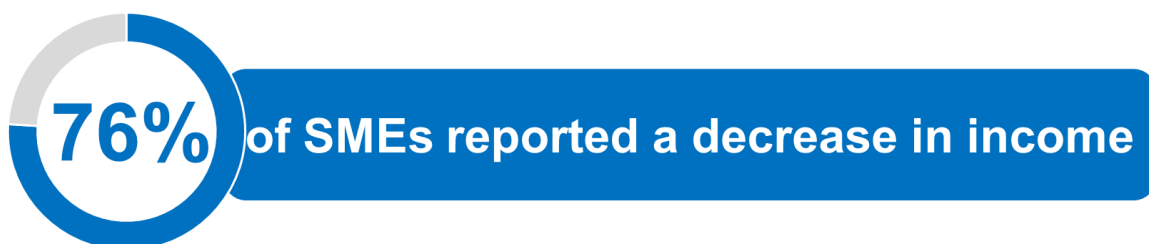
Items that SMEs expect to lower investment (% of SMEs)



Featured Topic

Hong Kong SMEs' Planning and Actions on the Fifth Wave of Epidemic

The thematic survey of this quarter looked into Hong Kong SMEs' planning and actions on the fifth wave of epidemic. It found that with the impact of the fifth wave of epidemic, 76% of SMEs reported a decrease in income. Top 3 industries that reported a decrease in income were "Social and Personal Services" (86%), "Retail" (85%), and "Accommodation and Food Services" (85%).



Top 3 industries that reported a decrease in income:



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The survey revealed that 70% of SMEs needed to cut down on costs. SMEs' measures on cost saving were "Downsize Business Scale" (45%), "Explore Other Suppliers" (35%) and "Leverage on Technology" (23%).



of SMEs needed to cut down on costs

SMEs' Measures on Cost Saving



Featured Topic

Hong Kong SMEs’ Planning and Actions on the Fifth Wave of Epidemic

This survey was conducted in March 2022, which was considered the peak of the fifth wave. 46% of SMEs responded that they had temporarily suspended their businesses or could only last for 6 months at most, should the tightened anti-epidemic measures continue. The top three most affected industries were “Accommodation and Food Services” (63%), “Social and Personal Services” (60%) and “Retail” (59%).



3 Most Affected Industries*



**Survey conducted in March 2022*

The survey revealed the strategy on decrease in income by the three most affected industries. To cope with the decrease in income, strategies of “Accommodation and Food Services” were “Apply for Government Funding” (68%), “Offer Price Discount” (20%) and “Apply for Loan from Bank/ Financial Company” (14%), while strategies of the “Social and Personal Services” were “Apply for Government Funding” (51%), “Provide Digitalised Services” (24%), “Offer Price Discount” (15%) and “Apply for Loan from Bank/ Financial Company” (15%). As for “Retail”, strategies were “Offer Price Discount” (46%), “Benefit from Consumption Vouchers” (34%) and “Apply for Government Funding” (31%).



Featured Topic

Hong Kong SMEs' Planning and Actions on the Fifth Wave of Epidemic

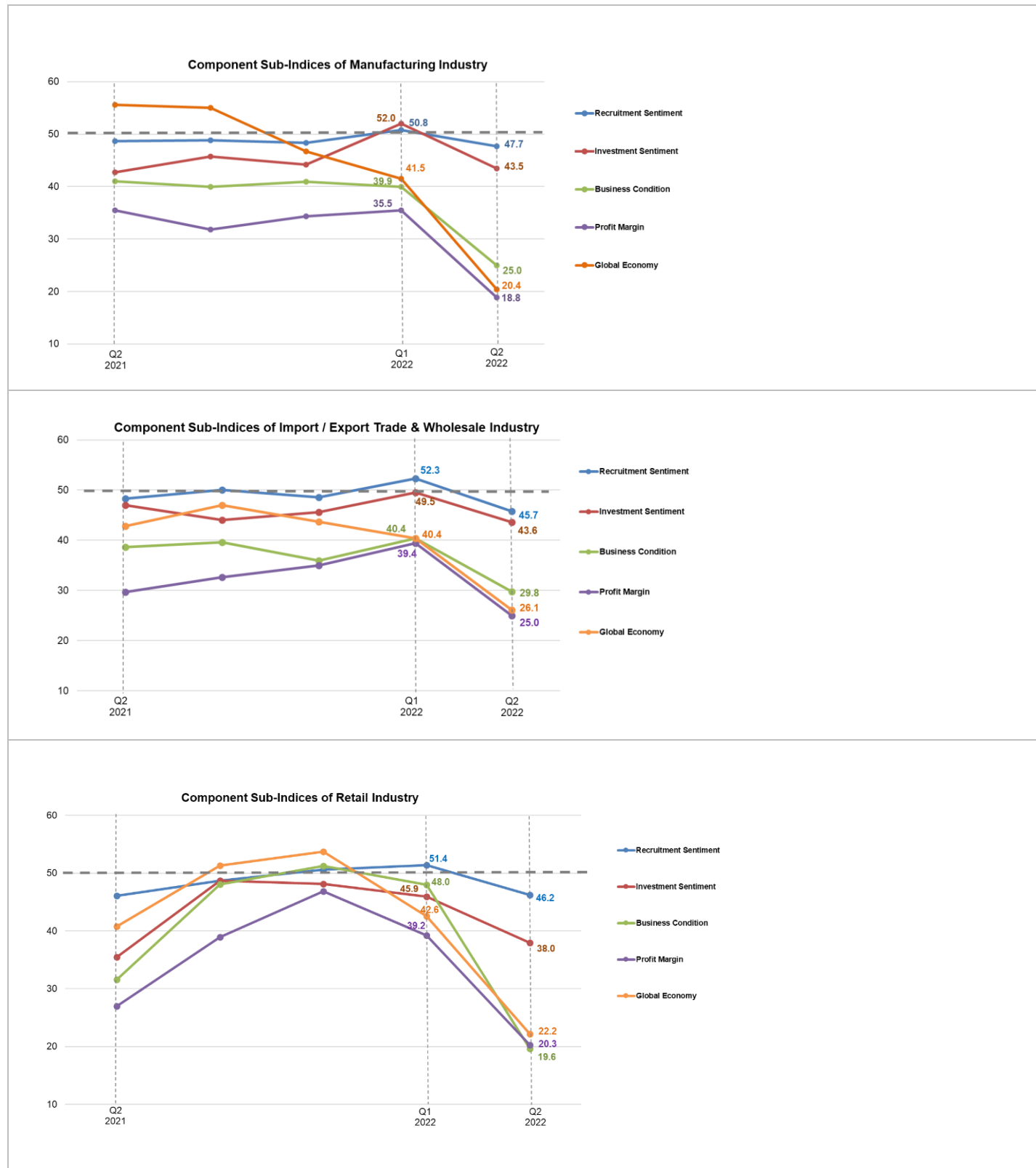
For the views from the three most affected industries on Consumption Voucher Scheme, 67% of SMEs from "Retail" and 65% of SMEs from "Accommodation and Food Services" sectors believed that they could be benefited from it, while only 20% from the "Social and Personal Services" sector said they could be benefited.

% of SMEs believing its business could benefit from the Consumption Voucher Scheme:



Appendix

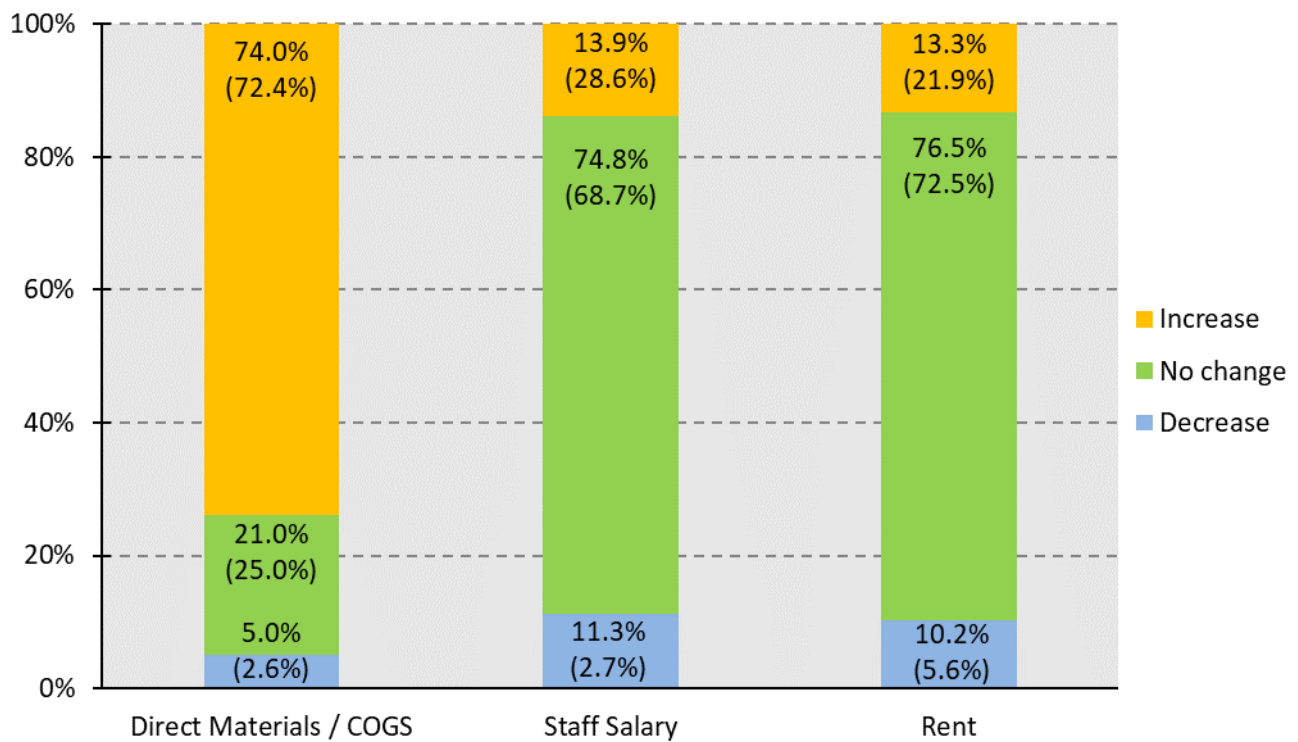
Component Sub-Indices of the 3 Key Industry Indices



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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