Standard Chartered Hong Kong SME Leading Business Index

Quarter 3, 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' top management 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 every quarter. The survey covers SMEs' outlook on their "Recruitment Sentiment", "Profit Margin", "Investment Sentiment", "Business Condition", and "Global Economy" for the next quarter.

Methodology

Sample Distribution

Data were collected from 921 SMEs using publicly available SME directories and HKSAR Census database. The sample was 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, and 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%

Respondents indicated the change of business sentiments in three ways: increase, no change or decline. Each diffusion index is calculated using the following formula:

Increase% x 100 + No Change% x 50 + Decline% x 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 50.0 no-change mark generally indicates optimistic business sentiment, while that below 50.0 indicates pessimistic business sentiment. A reading at 50.0 indicates neutral business sentiment.

Summary

The 41st survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted from June to July 2022. Top management of 921 SMEs were surveyed to gauge their views on the outlook of the overall business environment in Q3 2022 and the impacts of cross-border travel restrictions on Hong Kong SMEs.

Key Findings

The Q3 2022 Overall Index of the Standard Chartered SME recorded the biggest increase of 11.4 points ever to 47.1 after suffering from the biggest drop in the last quarter. The results showed an overall steady recovery of business confidence across industries after being severely hit by the fifth wave of the pandemic. Key findings of the survey are as follows:

- All five component sub-indices rebounded simultaneously, among which “Investment Sentiment” (51.1) and “Recruitment Sentiment” (50.5) returned to above 50 neutral level;
- Of the three major industry indices, “Retail”, which was most suffered in the last quarter, rebounded remarkably by 17.4 to 48.6, registering the largest uplift among all industries. “Manufacturing” recovered by 13.2 to 46.8, while “Import / Export Trade and Wholesale” was the industry with the slowest recovery, up only 7.8 to 43.7 compared with the last quarter;
- The proportion of surveyed SMEs expecting an increase in raw material costs in the coming quarter slightly decreased to 70% this quarter, after the consecutive rise over the past seven quarters. More SMEs expected an increase in “Staff Salary” and “Product / Service Price” in the coming quarter when compared with last quarter, accounting for 21% and 28% respectively;
- Regarding the expectation towards overall investment, 92% of SMEs expected overall investment would remain unchanged or increase, up 10%-point from 82% in last quarter. “Training Related to E-commerce or Digital Technology”, “Information Technology (IT) System”, “Research and Development (R&D)” and “Online Marketing Promotion” were the top four items that SMEs expected to maintain the same level of or increase investment in the coming quarter;
- The survey looked into the impacts of cross-border travel restrictions on Hong Kong SMEs:
  - 77% of the surveyed Hong Kong SMEs were impacted by Mainland / international cross-border travel restrictions. Among these impacted SMEs, 67% of them were impacted by both Mainland and international cross-border travel restrictions, while 24% of them were only impacted by Mainland cross-border travel restrictions and 8% of them were only impacted by international cross-border travel restrictions. The top three industries most impacted by cross-border travel restrictions were “Import / Export

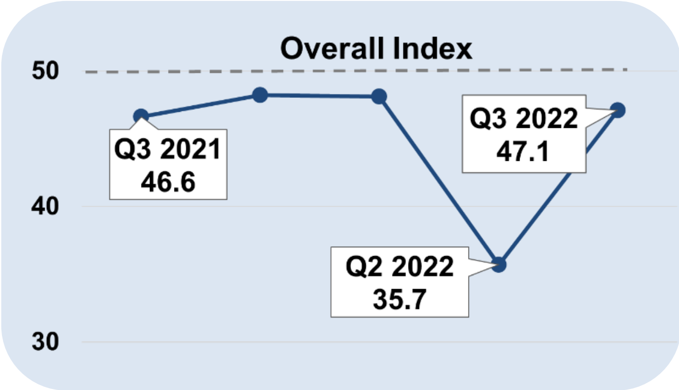
Trade and Wholesale" (88%), "Construction" (86%) and "Retail" (84%);

- Looking at the areas impacted by cross-border travel restrictions, 63% of the surveyed SMEs said that their "Sales" was impacted, while "Business Development and Management" (48% of surveyed SMEs) and "Purchasing" (45% of surveyed SMEs) were other areas severely impacted;
- When asked about how these impacted SMEs would respond to the situation if cross-border travel could not resume normal in this year, about three out of ten impacted SMEs would consider "Increasing usage of digital technology" for both "Business Development and Management" and "Purchasing". For "Sales", about 30% of the impacted SMEs would like to "Enhance e-commerce", yet at the same time another 30% of them said they have no plans.

Standard Chartered SME Index

Q3 2022

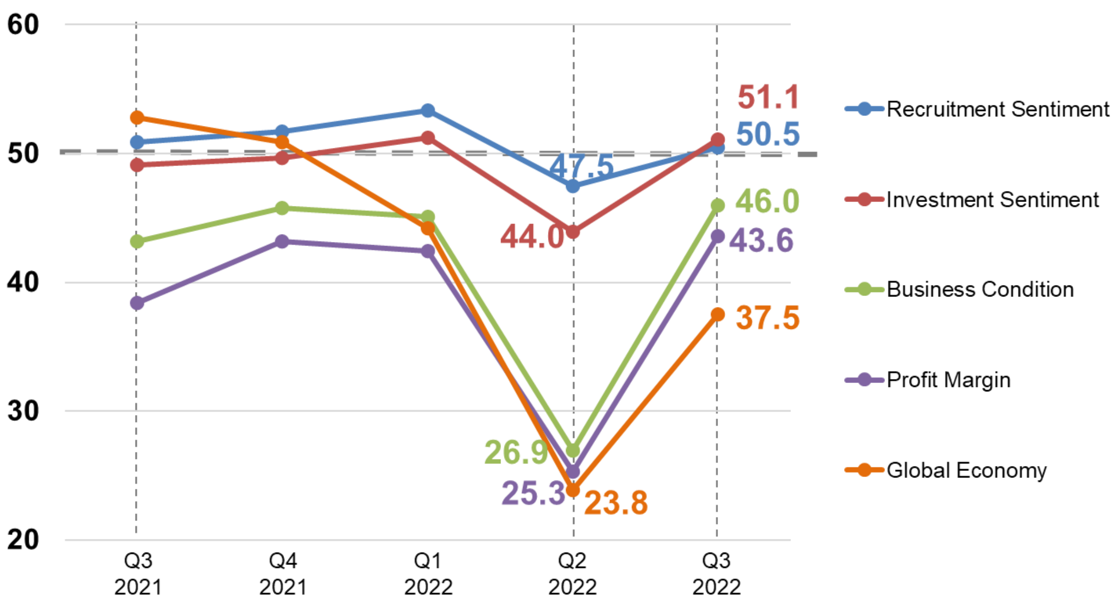
47.1



The Q3 2022 Overall Index recorded as 47.1, a rebound of 11.4 compared to last quarter.

All five component sub-indices rebounded simultaneously, among which "Investment Sentiment" (51.1) and "Recruitment Sentiment" (50.5) returned to above 50 neutral level. Besides, "Business Condition" (up 19.1 to 46.0) and "Profit Margin" (up 18.3 to 43.6) recorded the most significant upturn and exceeded the level prior to the fifth wave of pandemic in Q1 2022. However, "Global Economy" (up 13.7 to 37.5) remained relatively weak and failed to return to the 40 level.

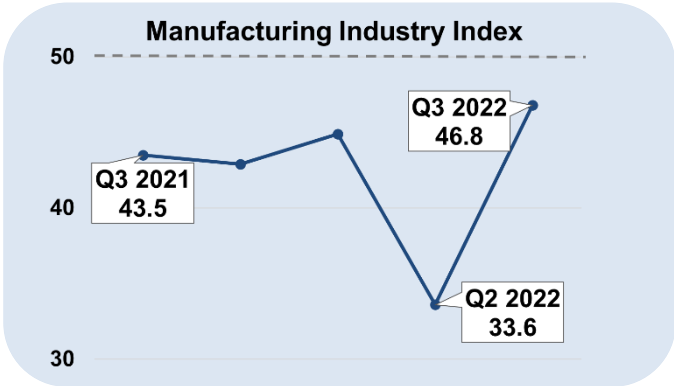
Five Component Sub-Indices of Overall Index



The 3 Key Industry Indices

Manufacturing Industry 46.8

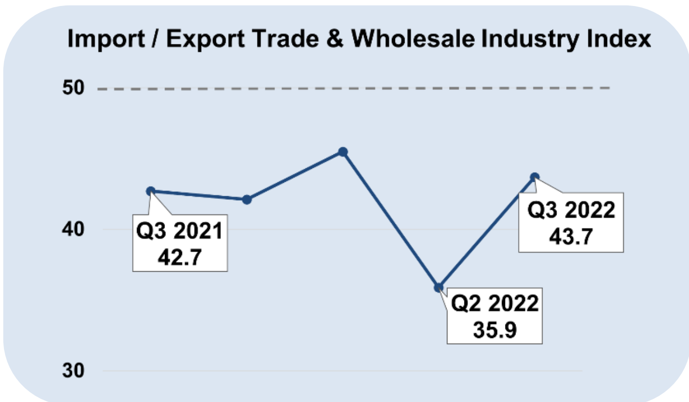
Industry Index of the Manufacturing Industry rebounded by 13.2 to 46.8 in this quarter compared to last quarter. All component sub-indices showed an upturn, of which "Investment Sentiment" exceeded the level in Q1 2022, reaching 52.8.



Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	50.6	Up	Up
Investment Sentiment	52.8	Up	Up
Business Condition	45.0	Up	Up
Profit Margin	43.1	Up	Up
Global Economy	33.6	Up	Down

Import / Export Trade and Wholesale Industry 43.7

Industry Index of the Import / Export Trade and Wholesale Industry increased by 7.8 to 43.7 compared to last quarter, the slowest recovery among all industries. All component sub-indices showed an upturn, of which "Business Condition" recorded the strongest upward trend. However, none returned to 50 neutral level.

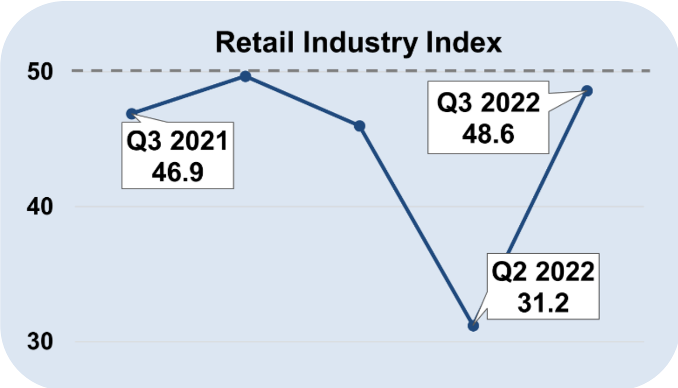


Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	47.9	Up	Down
Investment Sentiment	49.5	Up	Up
Business Condition	43.2	Up	Up
Profit Margin	38.0	Up	Up
Global Economy	30.7	Up	Down

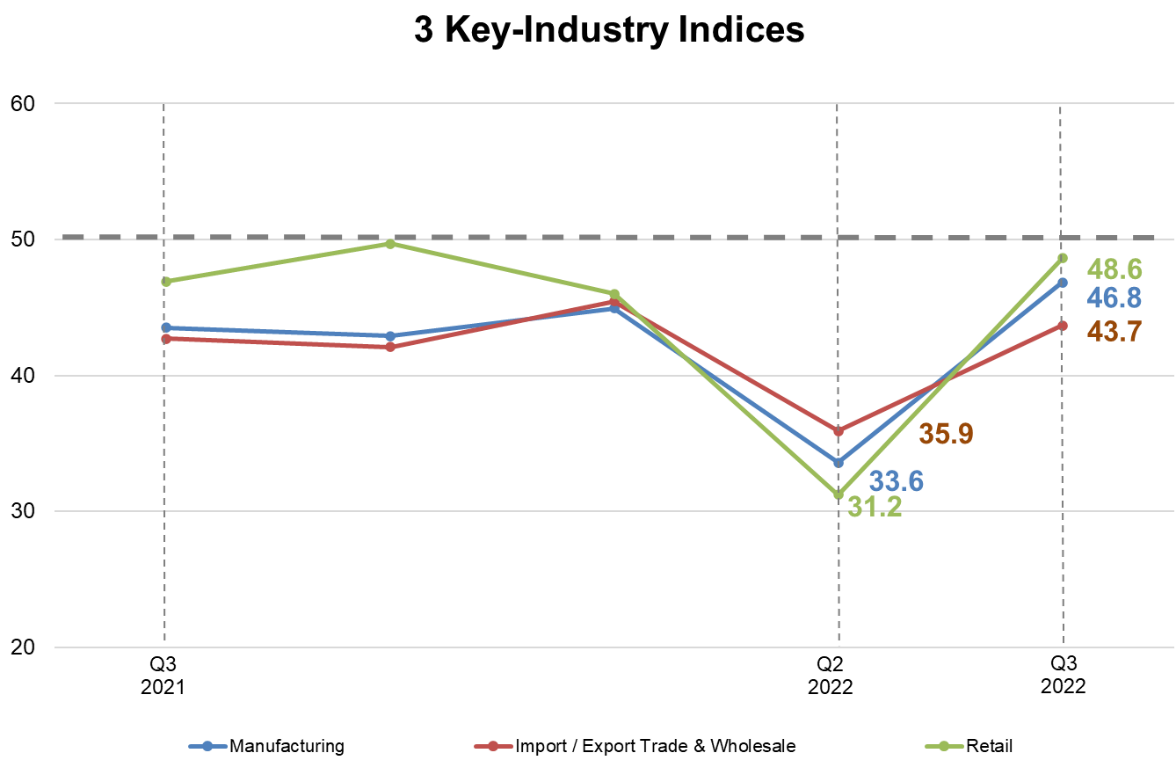
The 3 Key Industry Indices

Retail Industry 48.6

Industry Index of the Retail Industry marked a significant rebound of 17.4 to 48.6 which was close to 50 neutral level, recording the biggest increase among all industries. All component sub-indices showed an upturn, of which "Business Condition" marked the largest rebound, climbing by 32.1 to the highest level in this year (51.7).

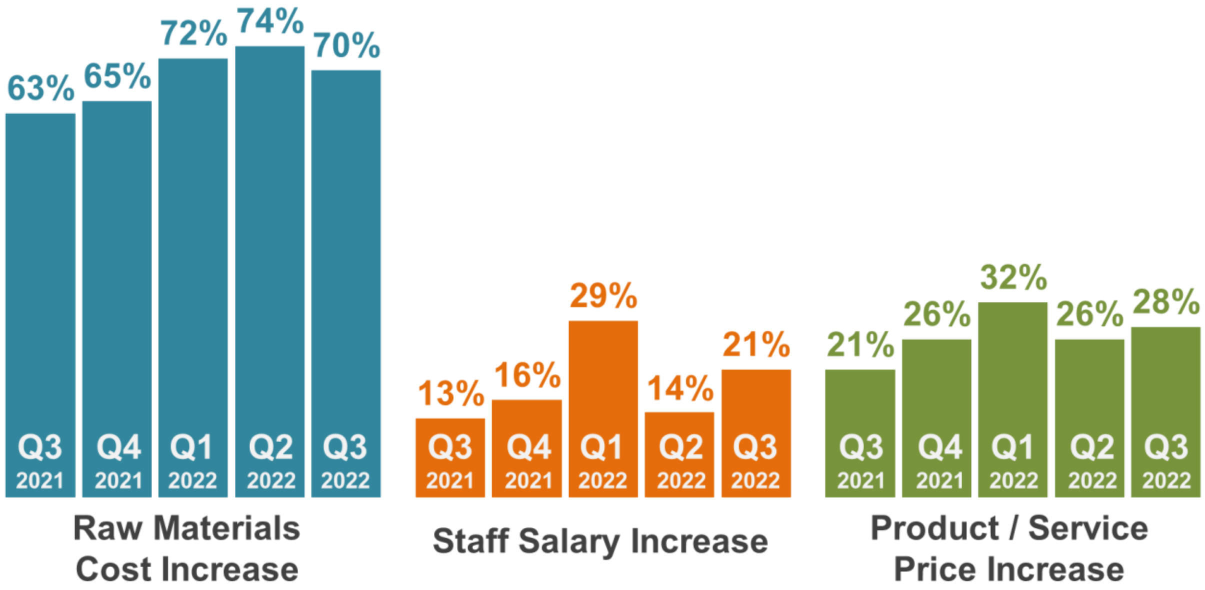


Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	50.6	Up	Up
Investment Sentiment	48.3	Up	Down
Business Condition	51.7	Up	Up
Profit Margin	48.9	Up	Up
Global Economy	37.9	Up	Down



Market Observations

The proportion of surveyed SMEs expecting an increase in “Raw Materials Cost” in the coming quarter slightly decreased to 70% this quarter, after the consecutive rise over the past seven quarters. 21% of SMEs expected “Staff Salary” to increase in the coming quarter, an uplift of 7%-points compared to the last quarter. Meanwhile, 28% of SMEs expected “Product / Service Price” to rise in the coming quarter, a 2%-point increment over last quarter.



Regarding the expectation towards overall investment, 92% of SMEs expected overall investment would remain unchanged or increase, up 10%-point from 82% in the previous quarter. “Training Related to E-commerce or Digital Technology”, “Information Technology (IT) System”, “Research and Development (R&D)” and “Online Marketing Promotion” were the top four items that SMEs expected to maintain the same level of or increase investment in the coming quarter.

92%

SMEs expected no change or even an increase on the overall investment

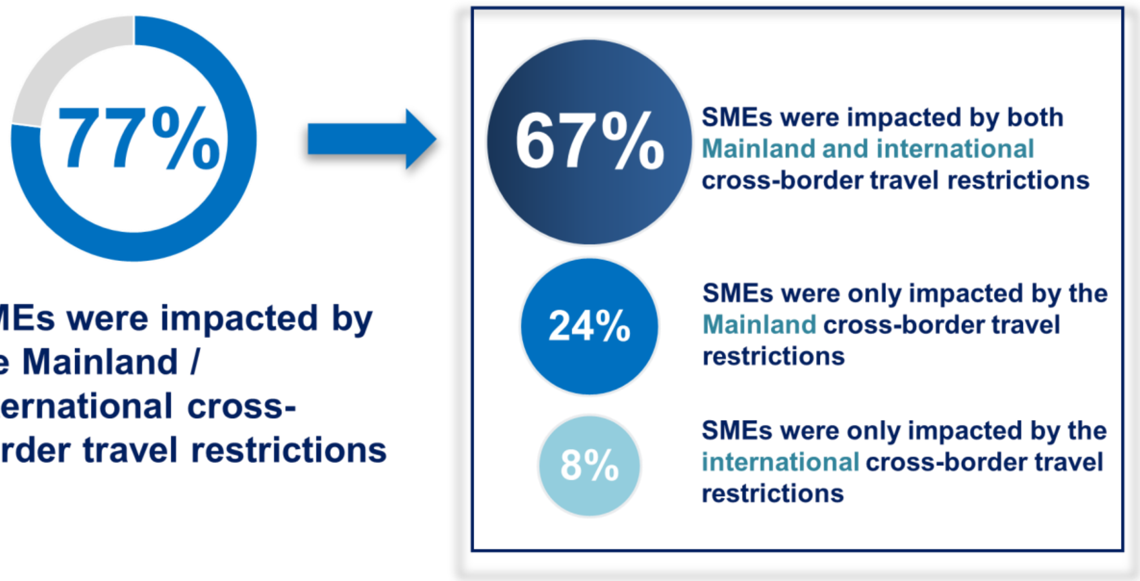
SMEs expected to maintain or increase investment on the following items:

1. Training Related to E-commerce or Digital Technology
2. IT System
3. Research and Development
4. Online Marketing Promotion

Featured Topic

The Impacts of Cross-border Travel Restrictions on Hong Kong SMEs

The featured topic of this quarter's survey looked into the impacts of cross-border travel restrictions on Hong Kong SMEs. The results indicated that 77% of the surveyed Hong Kong SMEs were impacted by Mainland / international cross-border travel restrictions. Among these impcated SMEs, 67% of them were impacted by both Mainland and international cross-border travel restrictions, while 24% of them were only impactedby Mainland cross-border travel restrictions and 8% of them were only impacted by international cross-border travel restrictions.



The top five industries most impacted by cross-border travel restrictions in descending order were "Import / Export Trade and Wholesale", "Construction", "Retail", "Accommodation and Food Services" and "Manufacturing".

Top 5 industries most impacted by cross-border travel restrictions:

Featured Topic

The Impacts of Cross-border Travel Restrictions on Hong Kong SMEs

Looking at the areas impacted by cross-border travel restrictions, 63% of the surveyed SMEs said that their “Sales” was impacted. Besides, “Business Development and Management” (48% of surveyed SMEs) and “Purchasing” (45% of surveyed SMEs) were other areas severely impacted by the cross-border travel restrictions.

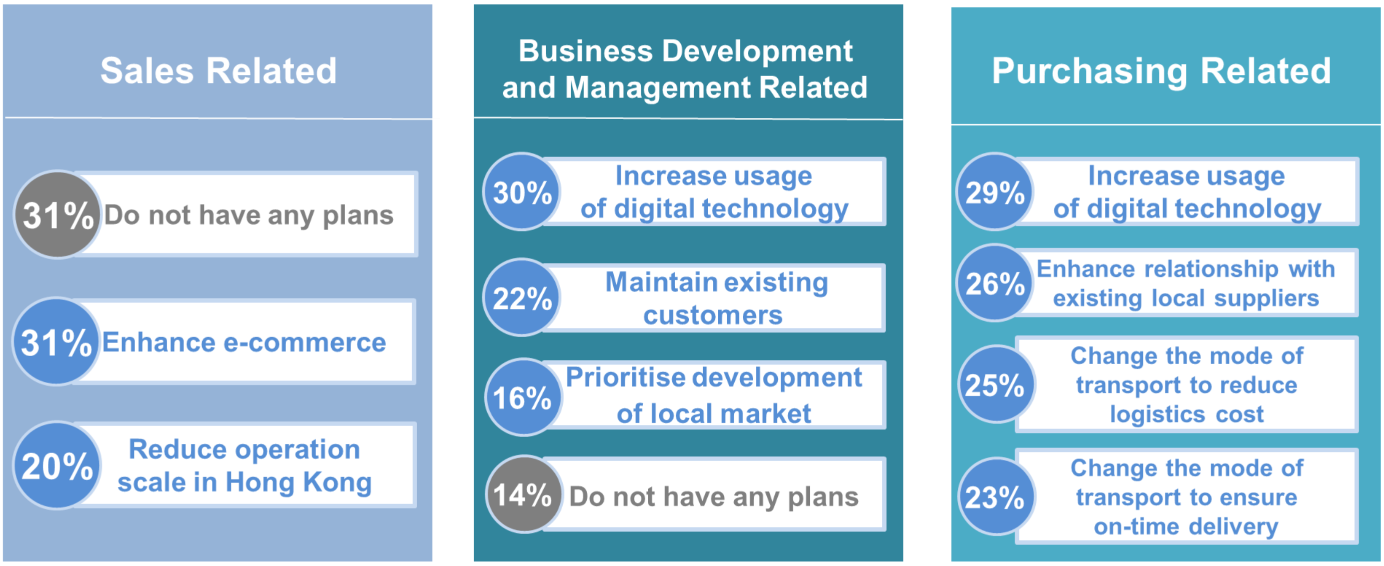
For “Sales”, the top three industries most impacted by cross-border tavel restrictions were “Retail”, “Import / Export Trade and Wholesale” and “Manufacturing”.

Featured Topic

The Impacts of Cross-border Travel Restrictions on Hong Kong SMEs

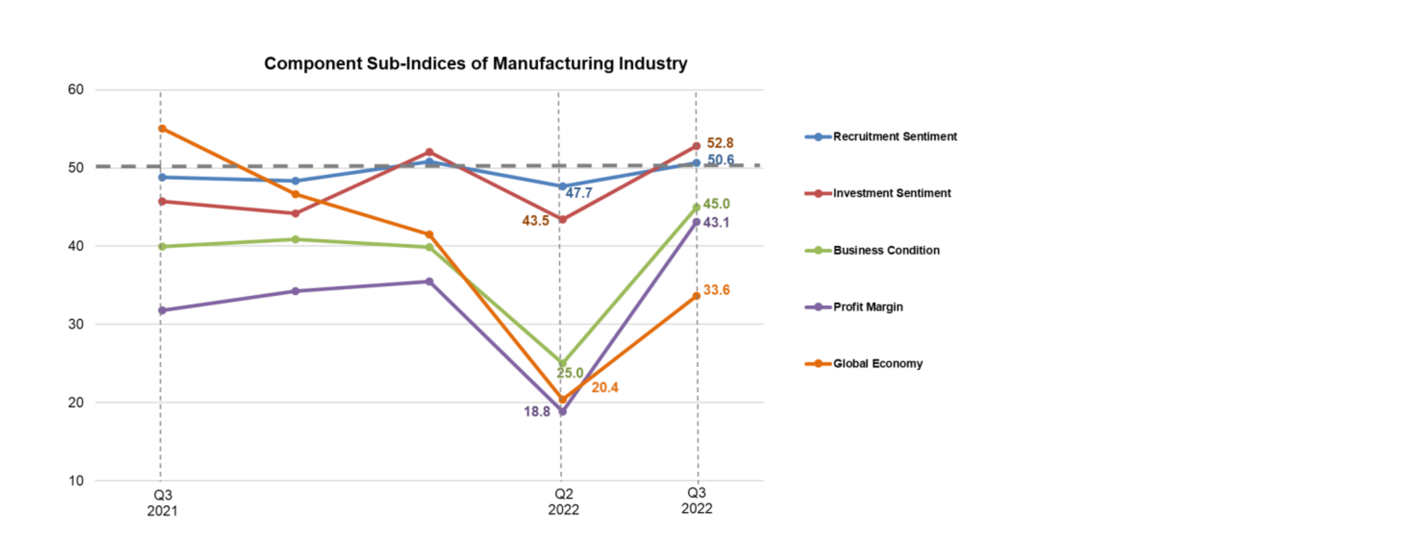
When asked about how these impacted SMEs respond to the situation if cross-border travel could not resume normal in this year, about three out of ten SMEs with “Sales” impacted would consider “Increasing usage of digital technology” while at the same time another 30% of them said they have no plans. Regarding “Business Development and Management” and “Purchasing”, about three out of ten impacted SMEs in each of these areas would consider “Increasing usage of digital technology”; while “Maintaining existing customers” (22%) and “Enhancing relationship with existing local suppliers” (26%) were other key strategies to be adopted respectively for “Business Development and Management” and “Purchasing” if cross-border travel could not resume normal this year.

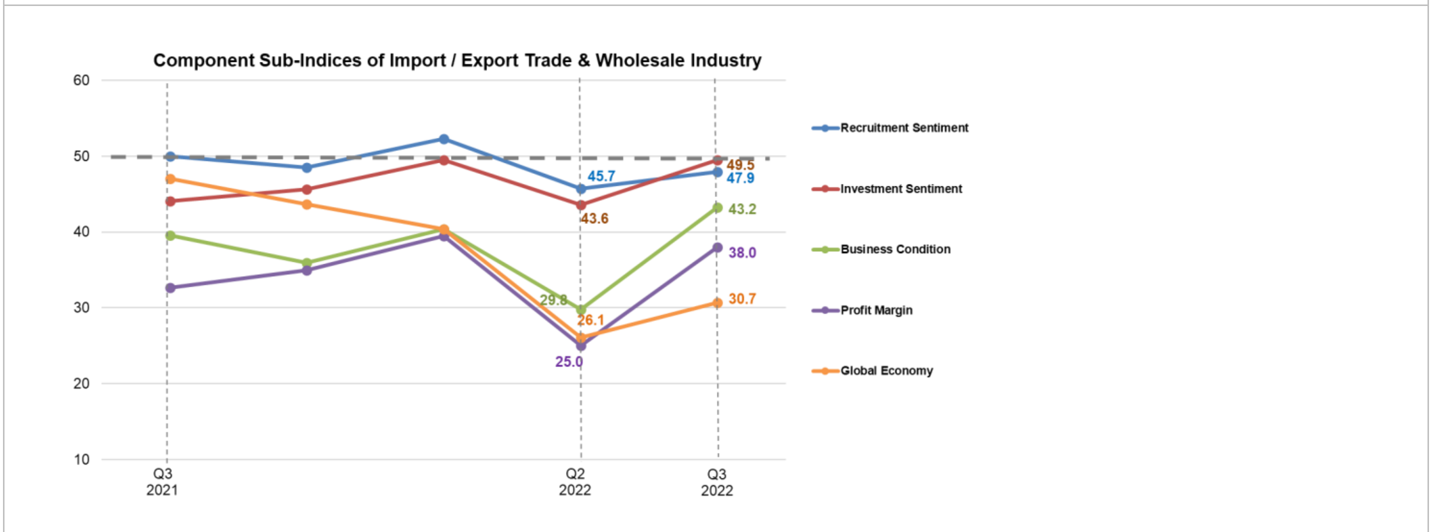
If cross-border travel could not resume normal in this year:

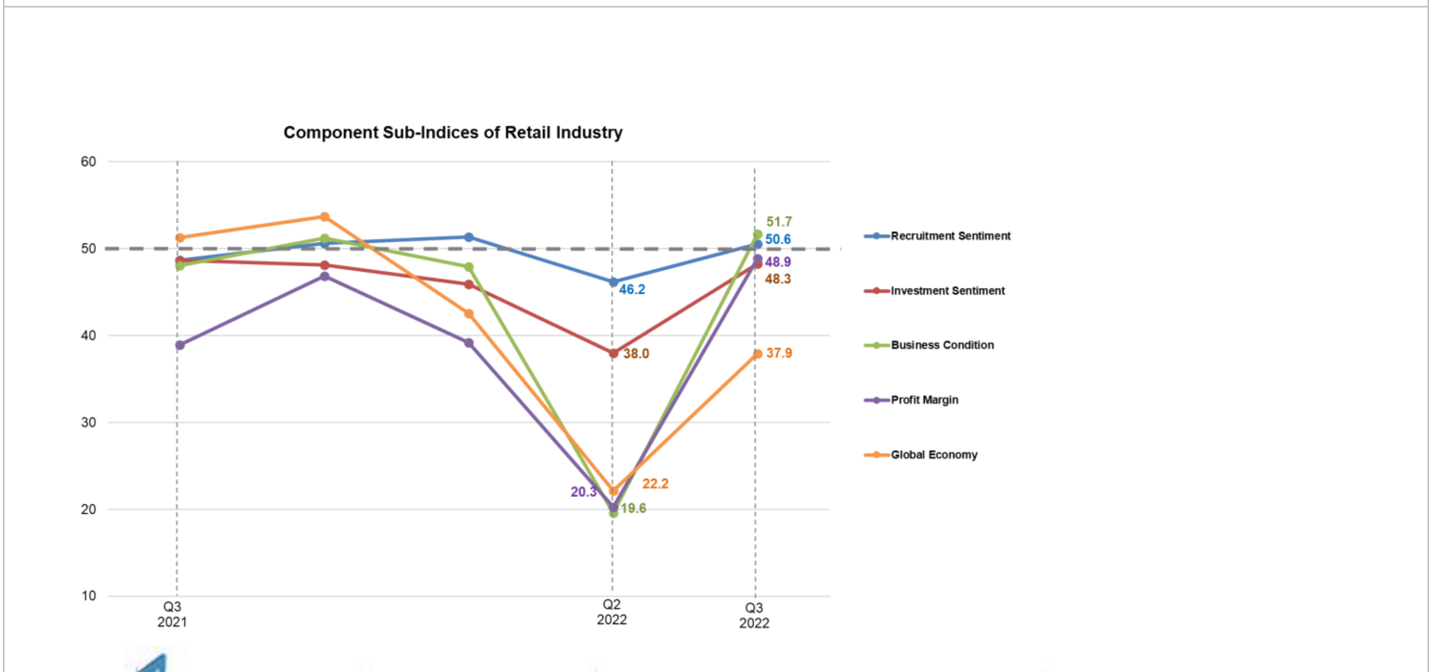


Appendix

Component Sub-Indices of the 3 Key Industry Indices

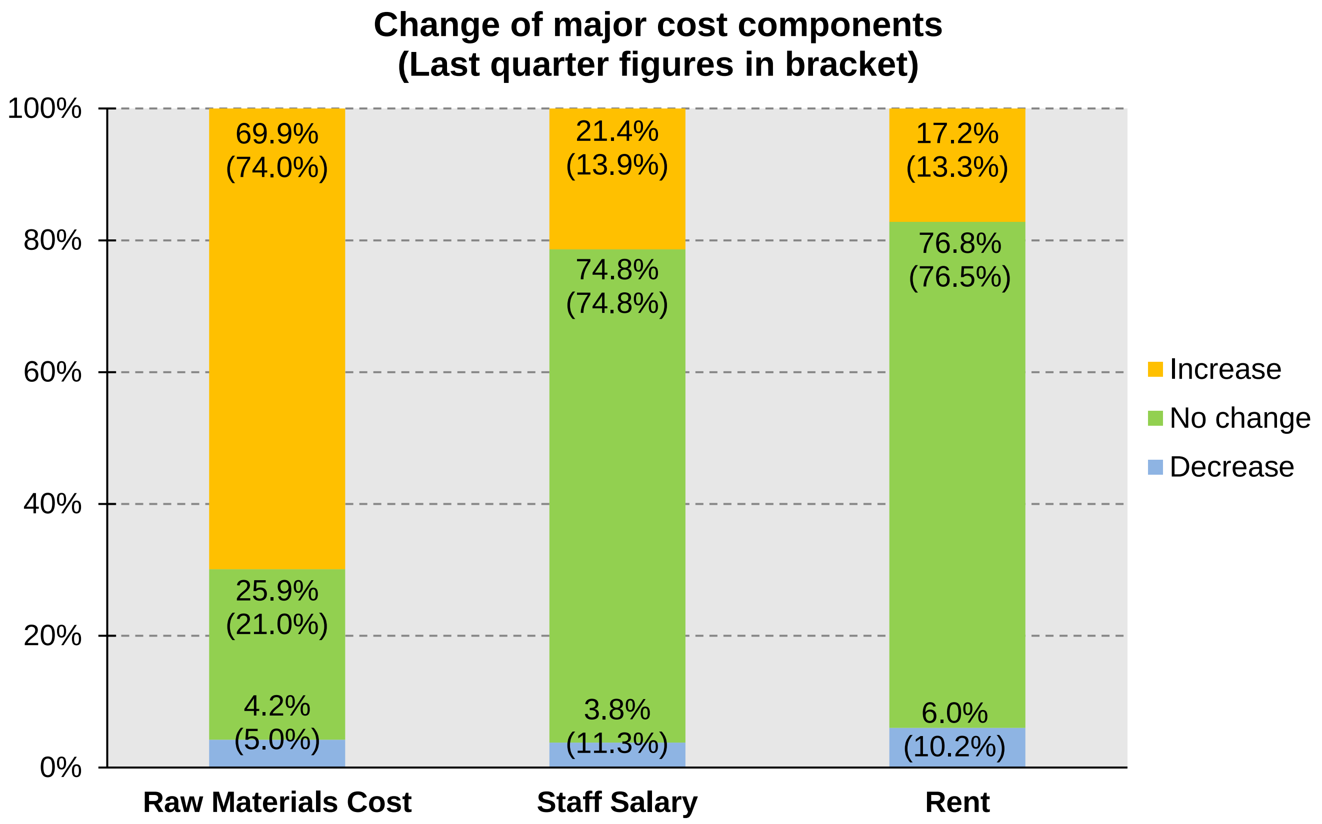






Appendix

Change of Major Cost Components



Report Release

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

Disclaimer: