

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 most prominent building is a tall, modern skyscraper with a distinctive spire. Other buildings of varying heights and architectural styles fill the rest of the skyline. The highway is busy with traffic, including cars, vans, and a bus. A tall, slender light pole stands on the right side of the road. The overall scene conveys a sense of a modern, bustling city.

Standard Chartered Hong Kong SME Leading Business Index

Quarter 4, 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 930 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:

$$\text{Increase\%} \times 100 + \text{No Change\%} \times 50 + \text{Decline\%} \times 0$$

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 50.0 neutral level 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 42nd survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted in September 2022. Top management of 930 SMEs were surveyed to gauge their views on the outlook of the overall business environment in Q4 2022, the current situation of e-commerce adoption and the talent demand among Hong Kong SMEs.

Key Findings

The Q4 2022 Overall Index of the Standard Chartered SME decreased by 2.9 points to 44.2, decreasing by 4.0 points compared to the same quarter last year. The latest result reflects that the overall business confidence of local SMEs becomes conservative due to the deterioration of global economic outlook. Key findings of the survey are as follows:

- ⊕ Among the five major sub-indices, only “Recruitment Sentiment” recorded slight improvement of 0.7 points to 51.2 and it was the only sub-index above the 50 neutral mark. All other sub-indices declined;
- ⊕ In terms of the industry indices, all industry indices showed a downturn except “Social and Personal Service”, which has uplifted by 6.3 points to 49.5 compared to the last quarter;
- ⊕ Of the three major industry indices, “Manufacturing” saw the largest drop of 6.0 points to 40.8. “Retail” dropped by 4.7 points to 43.9, and “Import / Export Trade & Wholesale” fell by 3.3 points to 40.4;
- ⊕ The proportion of surveyed SMEs expecting an increase in “Raw Material Cost” fell by 2%-point to 68% while the proportion of SMEs expecting an increase in “Staff Salary” grew by 1%-point to 22%. However, only 23% of SMEs expected their “Product / Service Price” to increase in the coming quarter recorded a decrease, a decrease of 5%-points compared to the last quarter;
- ⊕ Regarding the “Investment Sentiment” in the coming quarter, 89% of SMEs expected to maintain the same level of or increase their overall investment, a decrease of 3%-point from 92% in the last quarter. “Training Related to E-commerce or Digital Technology”, “Information Technology (IT) System” and “Overall Staff Training” were the top three items that SMEs expected to maintain the same level of or increase investment in the coming quarter;
- ⊕ In terms of “E-commerce adoption”, the survey found that one-third (34%) of the surveyed SMEs are currently running e-commerce business, of which “Accommodation and Food Services” (58%), “Manufacturing” (49%), “Information and Communications” (40%) and “Retail” (40%) were the industries with largest proportion of e-commerce adoption. Among those SMEs which are currently running e-commerce business, 20% projected a rise in revenue from e-commerce in this quarter.
- ⊕ The survey looked into the views of Hong Kong SMEs on talent demand:

- The average turnover rate among the surveyed SMEs was 14%; where staff turnover were mainly from



“Frontline Sales” (24%), “Frontline Service” (23%) and “Administration and Office support” (17%).

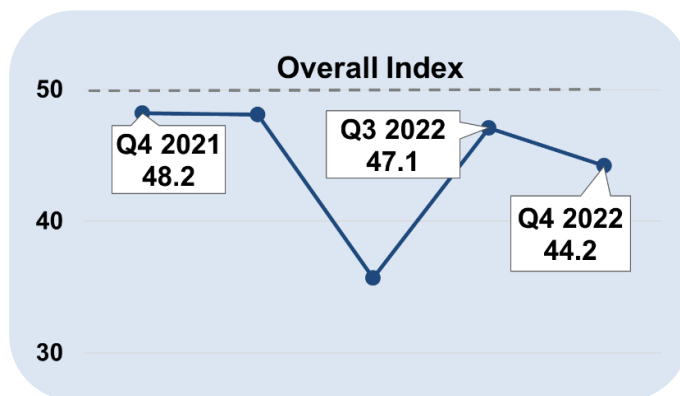
- Regarding the measures adopted by SMEs in handling job vacancies, 42% of SMEs with staff turnover claimed they would only fill up part of the staff vacancies or would not fill up any of the staff vacancies. The main reason behind was downsizing / workload being shared by other staff (57%);
- 41% of SMEs had encountered difficulties in recruiting local talents in the past 12 months. To tackle talent shortage, 15% of the surveyed SMEs had recruited non-local talents, among which 61% had recruited from mainland China and 39% had recruited from overseas.



Standard Chartered SME Index

Q4 2022

44.2

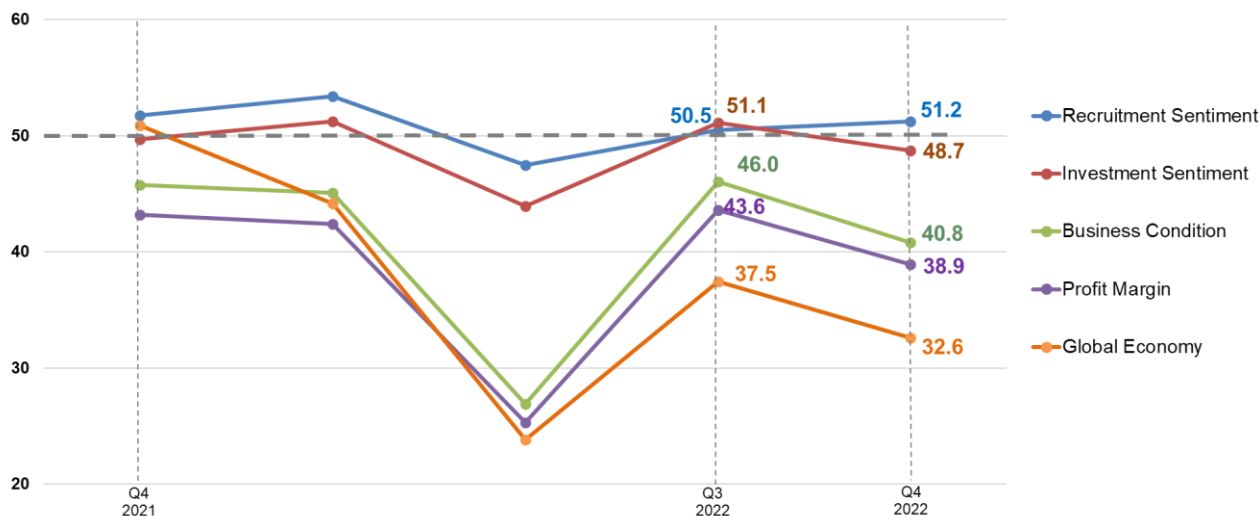


The Q4 2022 Overall Index was 44.2, down by 2.9 points compared to last quarter.

Among all five component sub-indices, except "Recruitment Sentiment" (51.2) which marked further increase of 0.7 points, all other sub-indices dropped simultaneously, of which "Investment Sentiment" (48.7) retreated again to below 50 neutral level. The drops in "Business Condition" (40.8), "Global Economy" (32.6) and "Profit Margin" (38.9) were more significant. All of them were down by over 4.0 points.

Five Component Sub-Indices of Overall Index

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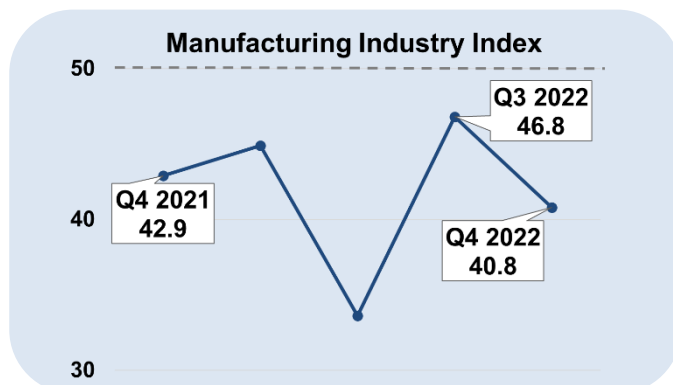


The 3 Key Industry Indices

Manufacturing Industry 40.8

Industry Index of the Manufacturing Industry dropped by 6.0 points to 40.8 compared to last quarter. All component sub-indices showed a downturn, among which the drop in "Profit Margin" was the most significant, down by 11.0 points.

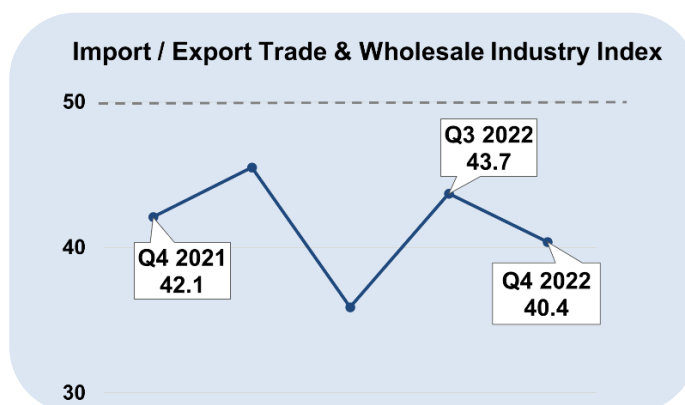
Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	48.7	Down	Up
Investment Sentiment	45.8	Down	Up
Business Condition	38.1	Down	Down
Profit Margin	32.1	Down	Down
Global Economy	30.8	Down	Down



Import / Export Trade and Wholesale Industry 40.4

Industry Index of the Import / Export Trade and Wholesale Industry decreased by 3.3 points to 40.4 compared to last quarter. Except that "Recruitment Sentiment" which returned to 50 neutral level, all component sub-indices fell, with "Business Condition" recording the biggest dip of 9.4 points.

Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	50.0	Up	Up
Investment Sentiment	47.7	Down	Up
Business Condition	33.8	Down	Down
Profit Margin	32.4	Down	Down
Global Economy	27.0	Down	Down

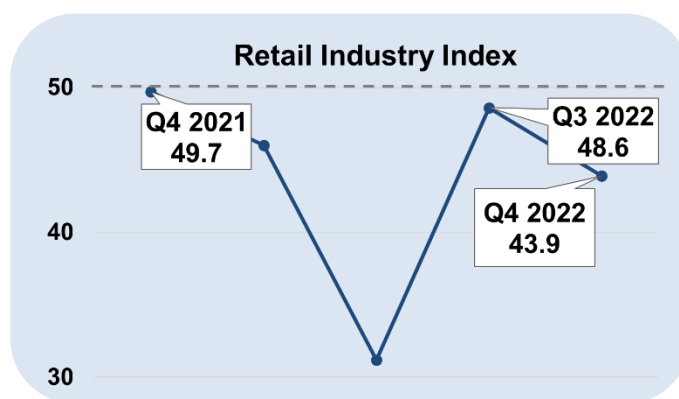


The 3 Key Industry Indices

Retail Industry 43.9

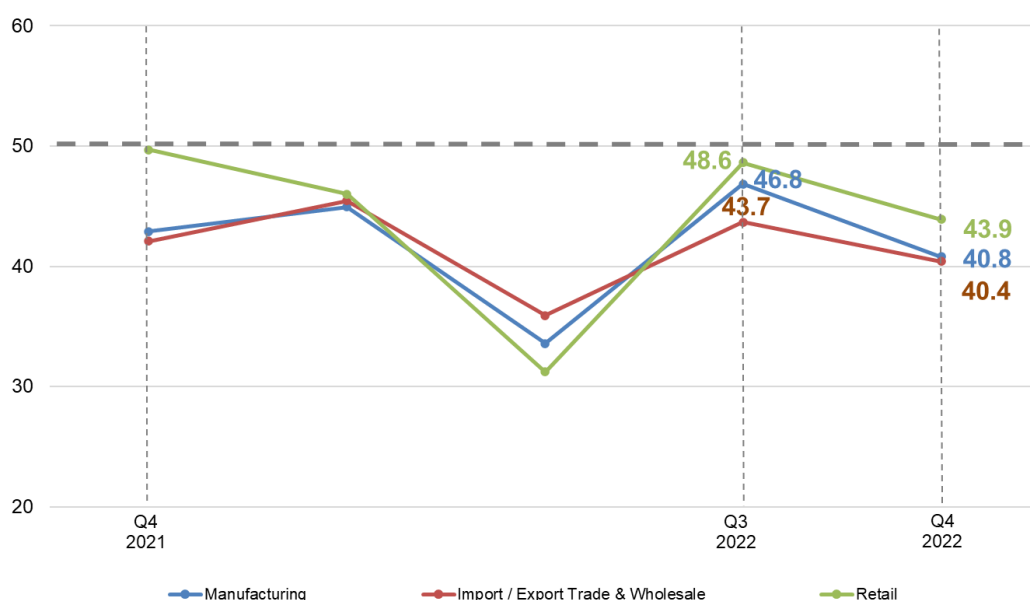
Industry Index of the Retail Industry was down by 4.7 points to 43.9 compared to last quarter. Except "Global Economy" which remained stable, other component sub-indices retreated simultaneously, of which "Business Condition" marked the largest drop of 9.2 points. "Profit Margin" also dropped significantly by 7.5 points.

Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	48.3	Down	Down
Investment Sentiment	44.8	Down	Down
Business Condition	42.5	Down	Down
Profit Margin	41.4	Down	Down
Global Economy	37.9	Unchanged	Down



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3 Key-Industry Indices



Top 5 Industries with the Largest Changes on Industry Index

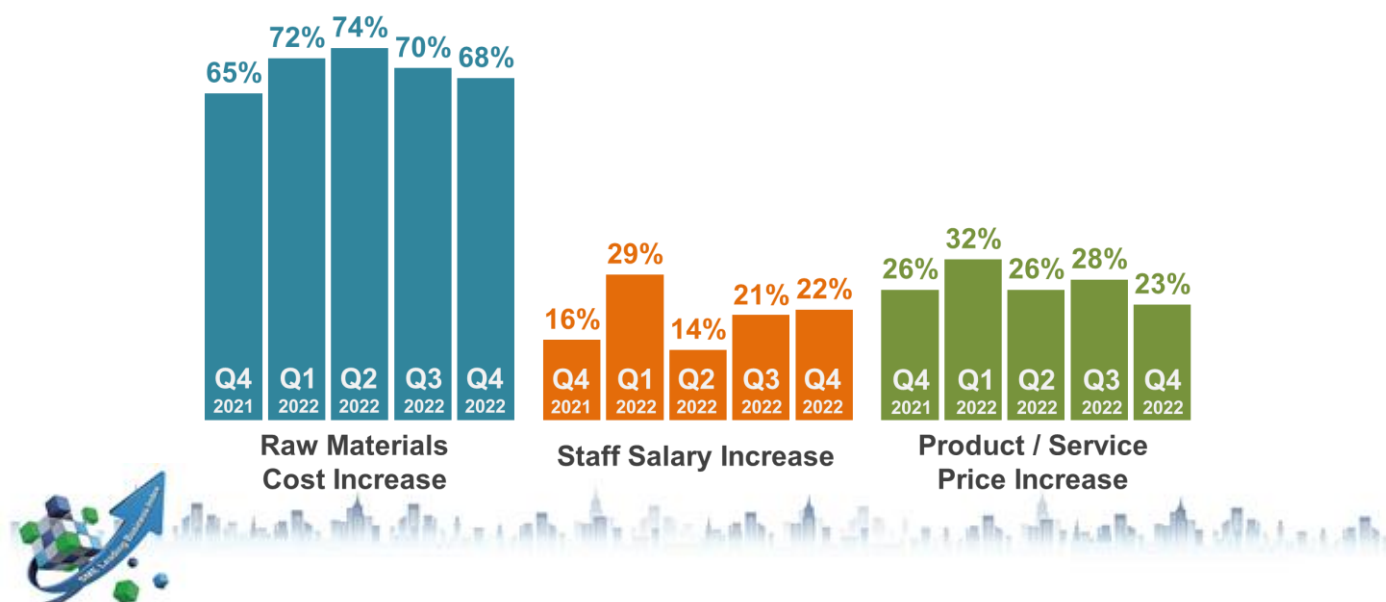
Looking at the Industry Index, “Social and Personal Services” was the only industry with increment in index, climbed by 6.3 points to 49.5 compared to last quarter. On the other hand, the industries with largest drops were “Real Estate” (39.1), “Accommodation and Food Services” (51.9), “Manufacturing” (40.8) and “Professional and Business Services” (46.4), with a decrease of 6.7 points, 6.1 points, 6.0 points and 5.5 points respectively.



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Market Observations

In terms of the changes in cost components, the proportion of SMEs expecting an increase in raw material cost decreased by 2%-point to 68%, while the proportion of SMEs expecting an increase in staff salary increased by 1%-point to 22%, implying SMEs are still under pressure from cost increase. However, 23% expected an increase in product / service price in the coming quarter, a decrease of 5%-point compared to the last quarter, indicating that SMEs have to absorb the cost increase on their own.



Market Observations

Regarding the “Investment Sentiment” in the coming quarter, 89% SMEs expected to maintain the same level of or increase in their overall investment, decreasing by 3%-point from 92% in the last quarter. “Training Related to E-commerce or Digital Technology”, “IT System” and “Overall Staff Training” were the top three items that SMEs expected to maintain the same level of or increase investment in the coming quarter.

89%

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 Overall Staff Training
- 4 Offline Marketing Promotion Facilities and Equipment
- 5 Online Marketing Promotion



Digital Economy

In terms of “E-commerce adoption”, the survey found that one-third (34%) of the surveyed SMEs are currently running e-commerce business, of which “Accommodation and Food Services” (58%), “Manufacturing” (49%), “Information and Communications” (40%) and “Retail” (40%) were the industries with largest proportion of e-commerce adoption.

34%



SMEs claimed that they were running e-commerce

Top industries:

1 Accommodation and Food Services 58%

2 Manufacturing 49%

3 Information and Communications Retail 40%

Among those SMEs which are currently running e-commerce business, 20% expected an increase in revenue from e-commerce in this quarter. The top 3 industries expecting an increase on e-commerce revenue in descending order were “Information and Communications”, “Financing and Insurance” and “Manufacturing”.



One-fifth of SMEs running e-commerce business expected an increase on revenue from e-commerce

Top 3 industries expecting an increase on e-commerce revenue:

1 Information and Communications

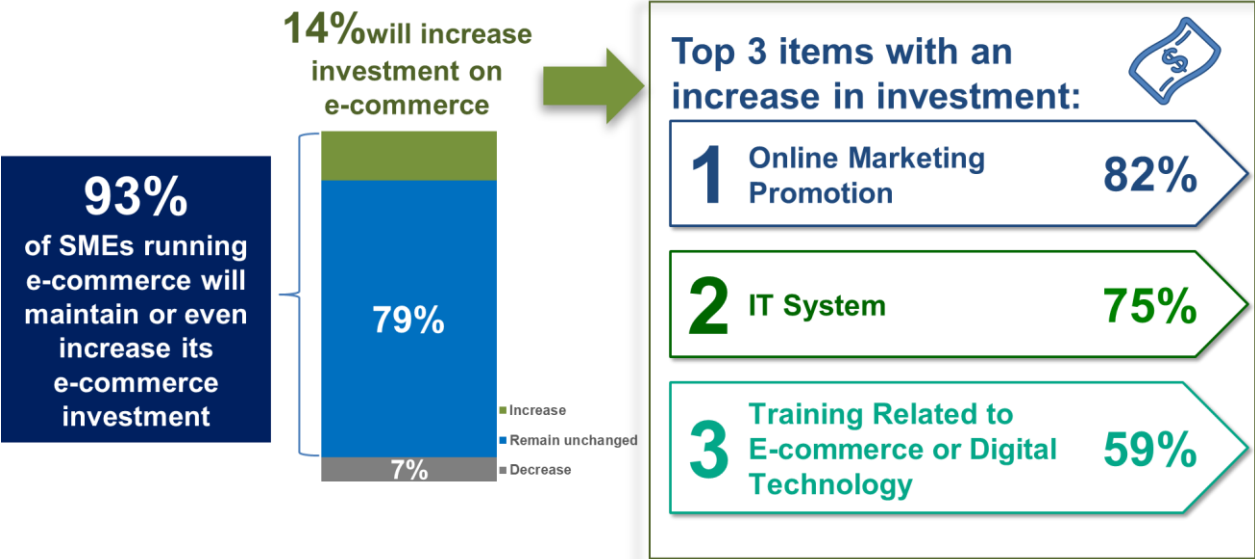
2 Financing and Insurance

3 Manufacturing



Digital Economy

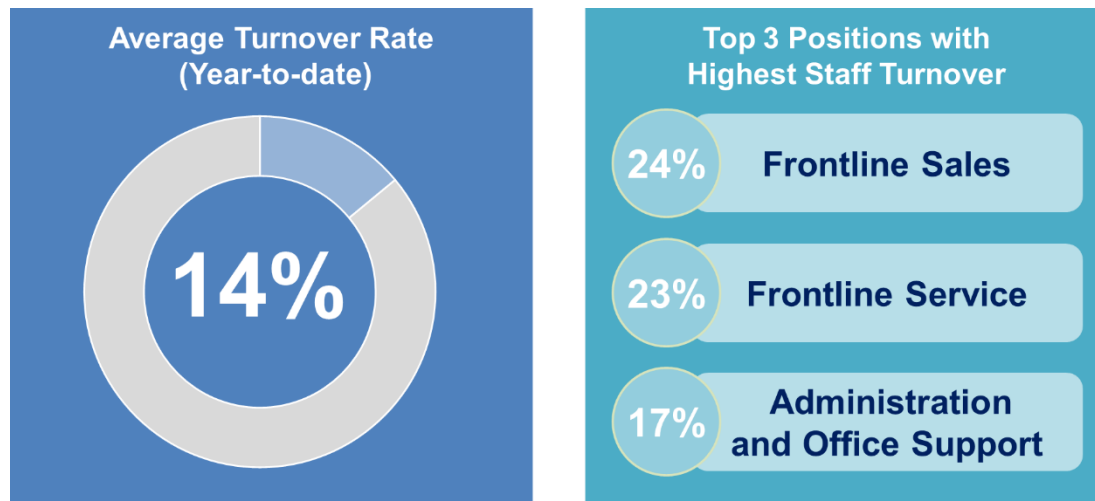
Looking at SMEs’ outlook on e-commerce, 93% of SMEs running e-commerce will maintain the same level of or even increase its e-commerce investment. Among them, 14% expected to increase investment on e-commerce, with “Online Marketing Promotion” (82%), “IT System” (75%) and “Training Related to E-commerce or Digital Technology” (59%) being their top three areas earmarked for more investment.



Featured Topic

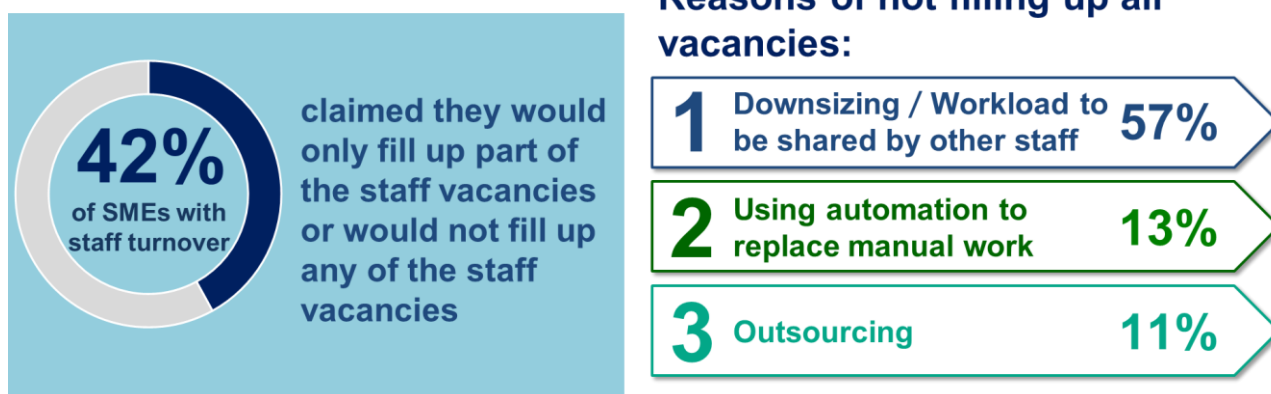
Hong Kong SMEs' Outlook on Talent Demand

The thematic survey for this quarter explored the views of SMEs on talent demand. In particular, the average turnover rate among the surveyed SMEs was 14%; where staff turnover were mainly from "Frontline Sales" (24%), "Frontline Service" (23%) and "Administration and Office support" (17%).



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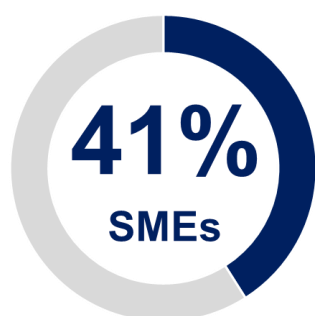
When asked about how SMEs tackled staff vacancies, 42% of SMEs with staff turnover claimed they would only fill up part of the staff vacancies or would not fill up any of the staff vacancies. The main reason behind was downsizing / workload being shared by other staff (57%).



Featured Topic

Hong Kong SMEs' Outlook on Talent Demand

Besides, 41% of the SMEs claimed to have encountered difficulties in recruiting local talents in the past 12 months, with "Frontline Sales", "Frontline Service" and "IT and Digital Technology" being the top 3 positions with difficulties in recruitment.



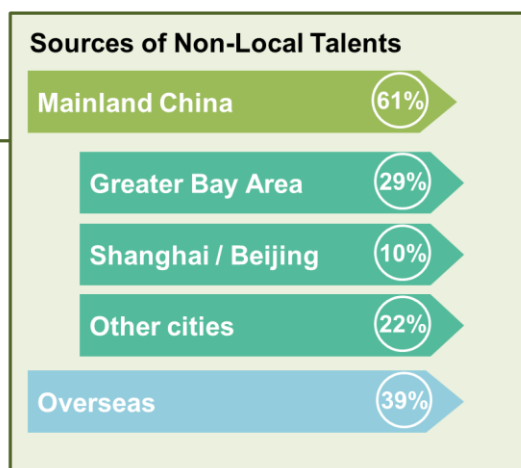
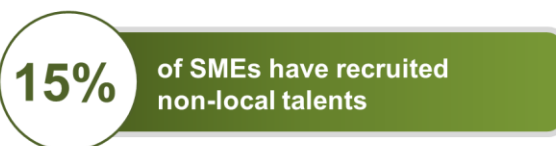
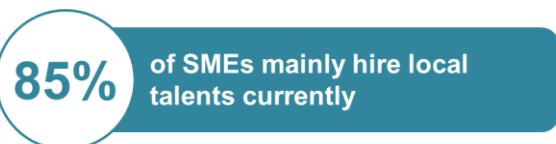
claimed to have encountered difficulties in recruiting local talents in the past 12 months

Positions with difficulties in recruitment in the past 12 months



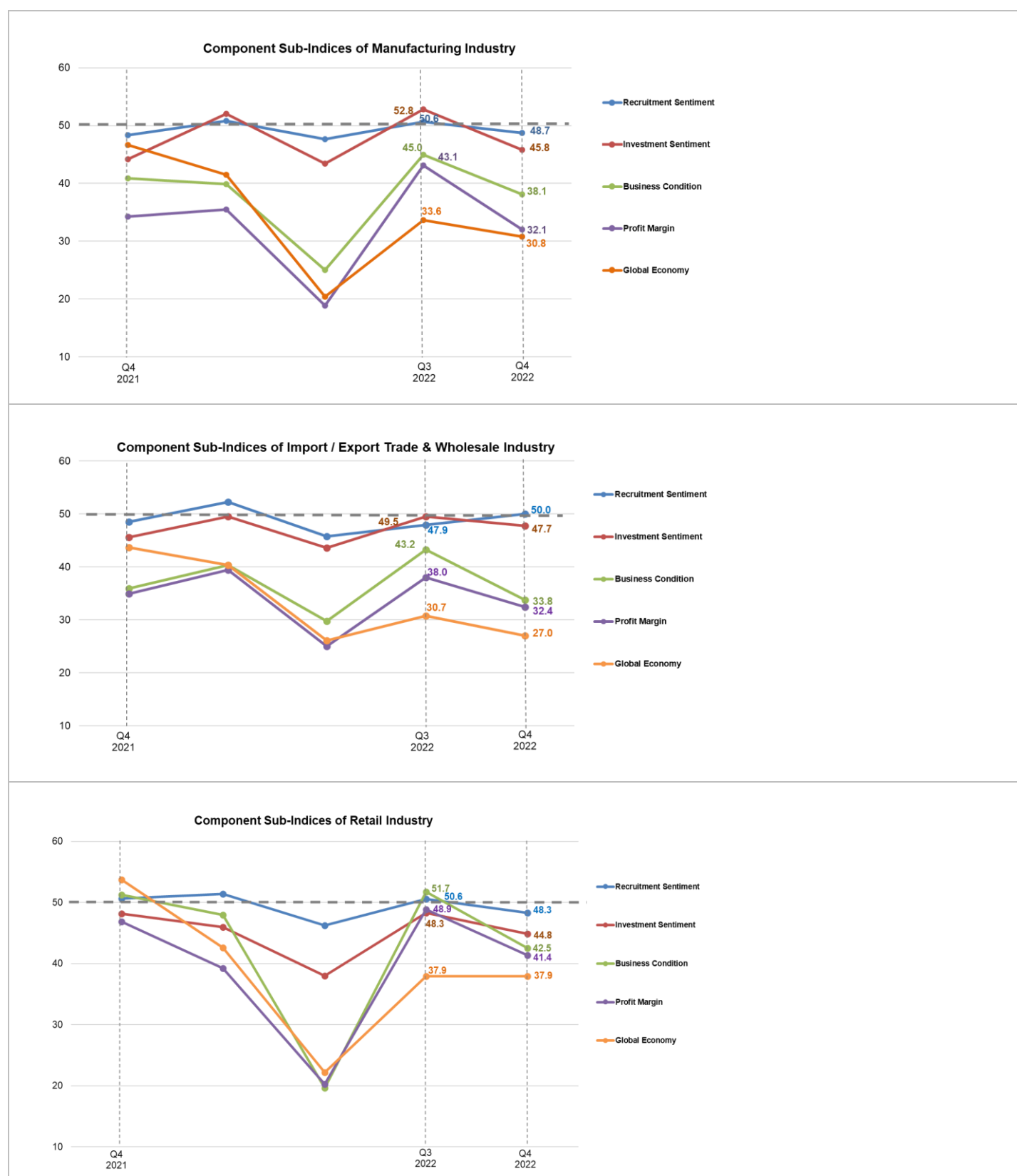
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Regarding the talent recruitment, 85% of the SMEs mainly hire local talents currently; while 15% of the surveyed SMEs had recruited non-local talents for filling up the vacancies, among which 61% had recruited from mainland China and 39% had recruited from overseas.



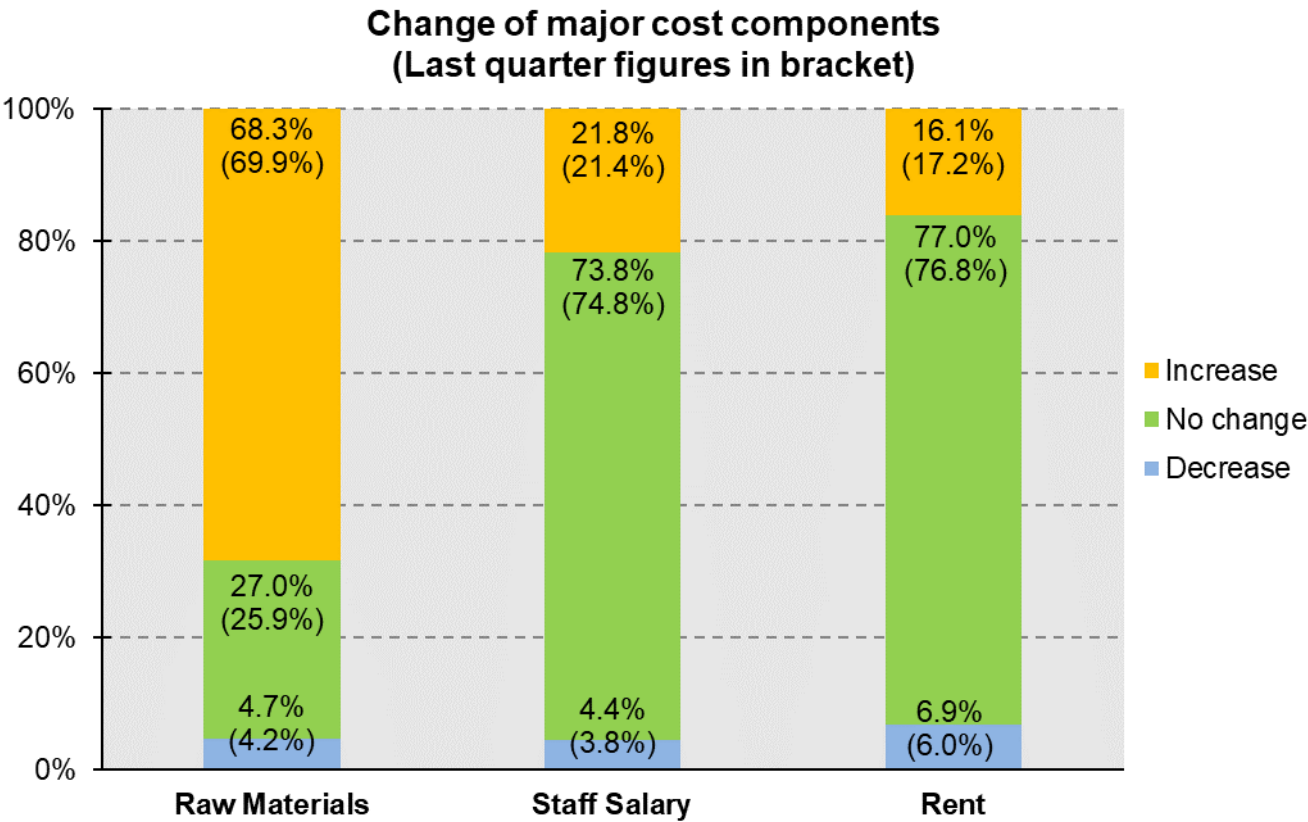
Appendix

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>.

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