

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 depicts a modern, well-maintained urban environment.

Standard Chartered Hong Kong SME Leading Business Index

Quarter 1, 2018

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, import/export trade and wholesale, retail, accommodation and catering services, information and communications, finance and insurance industry, professional services, and real estate industries. It covers SMEs’ outlook on their ‘sales amount’, ‘profit margin’, ‘investments’, ‘staff number’, and ‘global economic growth’ for the next quarter.

Methodology

Sample Distribution

Data are collected from over 800 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 nine categories namely: 1) Manufacturing, 2) Import/Export Trade and Wholesale, 3) Retail, 4) Accommodation and Catering Services, 5) Information and Communications, 6) Finance & Insurance, 7) Professional and Business Services (include Legal, Accounting, Consultancy, Advertising, Interior Design), 8) Real Estate (include Property Agent, Property Management and Maintenance), and 9) Miscellaneous category (include Construction, Transportation, Courier Services, Human Health Activities, Entertainment, and Domestic Personnel such as maids, cooks, gardeners, caretakers; exclude non-commercial activity such as primary school).

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
Staff Number	25%
Investments	25%
Sales Amount	20%
Profit Margin	20%
Global Economic Growth	10%

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

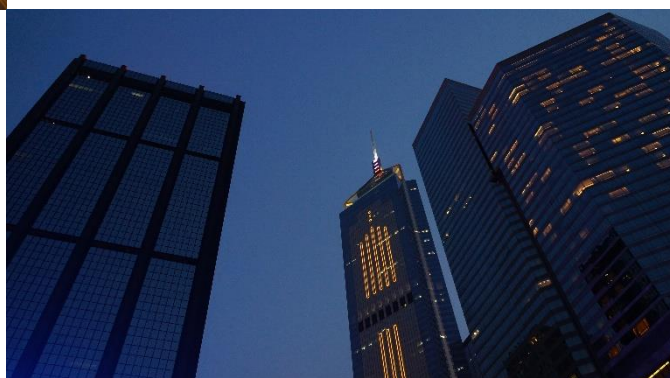
The 23rd survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted from mid to late December 2017. Top management of 854 SMEs were surveyed to gauge their views on the outlook of the overall business environment and regional economic changes in the 1st quarter of 2018.

Key findings

The Overall Index of the Standard Chartered SME Index has increased 2.9 points to 49.4, the highest record since the third quarter of 2015.

Key findings of the survey are as follows:

- ✚ Overall Index comprising five Sub-Indices, all the Sub-indices have gone up. The “Staff Number” Sub-Index remains positive, and the “Investments” Sub-Index has rebounded, both standing at 53.2;
- ✚ The Sub-Indices for “Sales Amount” (48.8), “Profit Margin” (43.7) and “Global Economic Growth” (43.4) have increased 1.7, 2.2 and 7.6 points respectively.
- ✚ All the three major Industry Sub-Indices have moved up;
- ✚ Driven by the higher readings in “Profit Margin” and “Investments”, the Import, Export & Wholesale Sub-Index increases most notably by 4.2 points, reaching 46.2;
- ✚ Both Manufacturing (42.0) and Retail (44.4) Sub-Indices continue the growth momentum of last quarter, with a rise of 0.7 and 1.5 points respectively;
- ✚ Among other industries, the Sub-Indices for “Financial & Insurance” and “Real Estate” reported at 64.3 and 52.2 respectively, the highest records since the launch of the survey;
- ✚ Around 12% surveyed companies expected the staff turnover rate of more than 5% in 2018; while 30% are facing manpower shortages, in particular the “Accommodation and Food Services” (49%), “Retail” (44%) and “Information and Communication” (44%) sectors;
- ✚ Frontline employees (82%) and technical staff (67%) are in shortest supply for the “Accommodation and Food Services” and “Information and Communication” sectors respectively;
- ✚ The major difficulties in staff recruitment are the overtly high wages requested (42%), the lack of suitable candidates in the market (40%), and unappealing working environment/ job nature (19%).

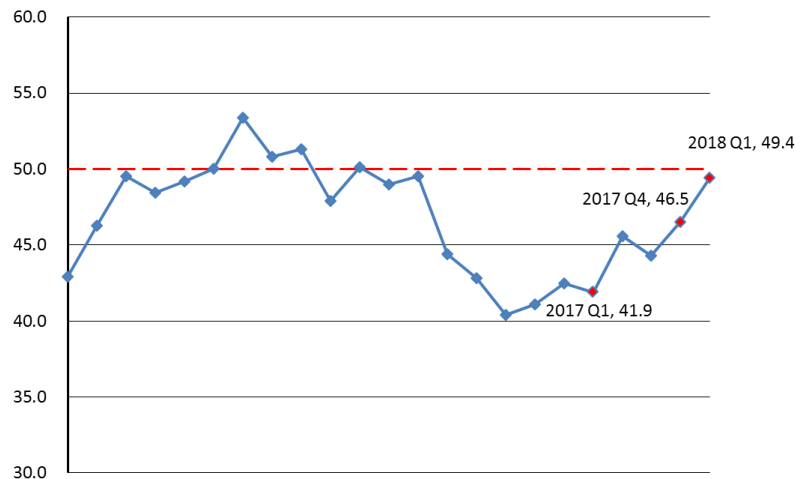


Standard Chartered SME Index

2018 Q1

49.4

Standard Chartered SME Index



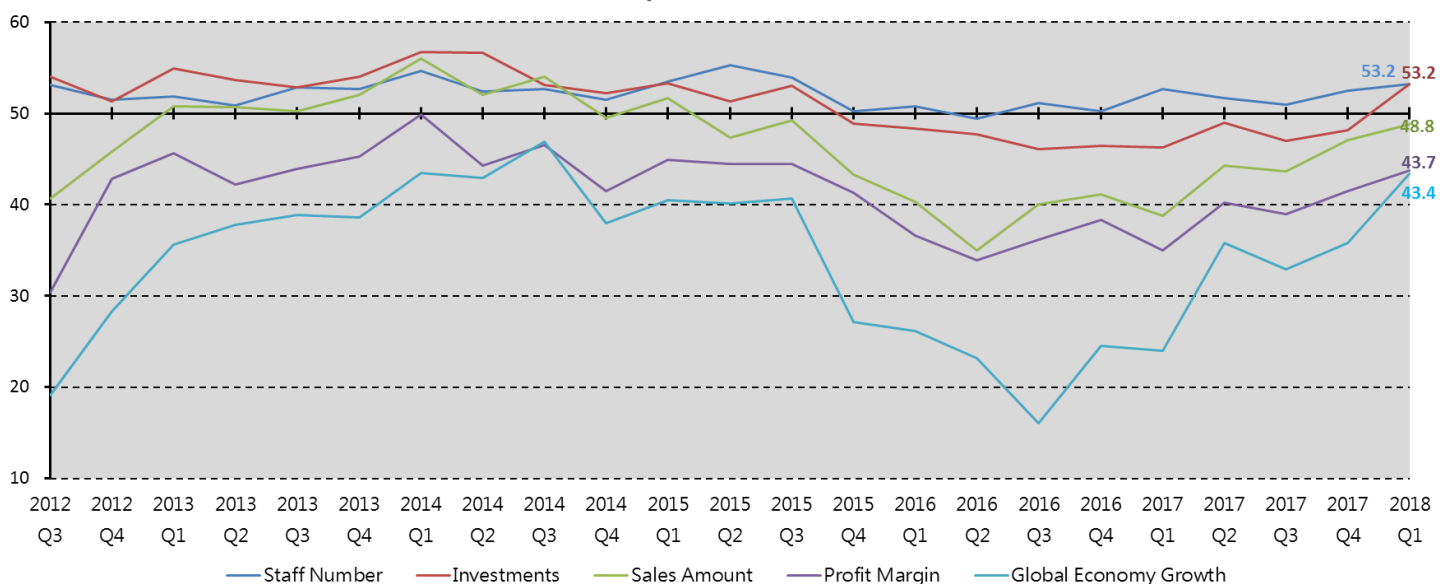
The Overall Index of the Standard Chartered SME Index has increased 2.9 points to 49.4, the highest record since the third quarter of 2015. The “Investments” sentiment has also turned positive for the first time in the past 2.5 years, reflecting business confidence of SMEs.

Overall Index comprising five Sub-Indices. In this quarter, all the Sub-indices have gone up. The “Staff Number” Sub-Index remains positive, and the “Investments” Sub-Index has rebounded, both standing at 53.2. The Sub-Indices for “Sales Amount” (48.8), “Profit Margin” (43.7) and “Global Economic Growth” (43.4) have increased 1.7, 2.2 and 7.6 points respectively.

Compared to the first quarter of 2017 (41.9), the Index of this quarter (49.4) increased by 7.5 points. All the sub-indices were increased simultaneously.

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The five component sub-indices



LB Index Industry Indices

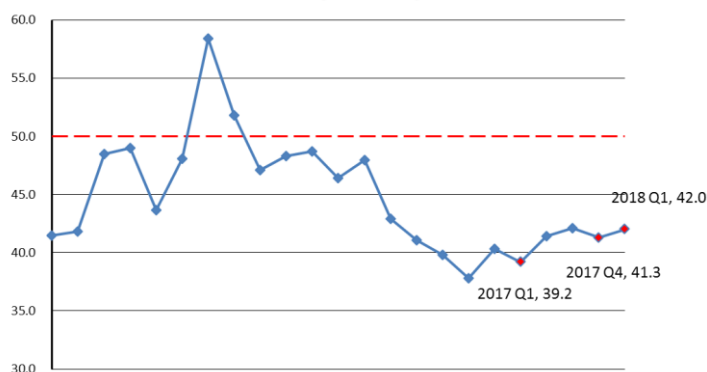
Manufacturing industry| 42.0

Manufacturing industry sub-index has increased by 0.7 points to 42.0, which also increased 2.8 when compared to the same quarter in last year (39.2). Despite the improvement in “Global Economy Growth”, “Sales Amount” dropped significantly. Overall, the manufacturing industry yet to be improved.

Component	View	Compare to last quarter	Compare to last year
Industry Index	Negative	Up	Up
Staff Number	Negative	Down	Down
Investment	Negative	Up	Up
Sales Amount	Negative	Down	Down
Profit Margin	Negative	Up	Up
Global Economy Growth	Negative	Up	Up



Manufacturing Industry Sub-Index

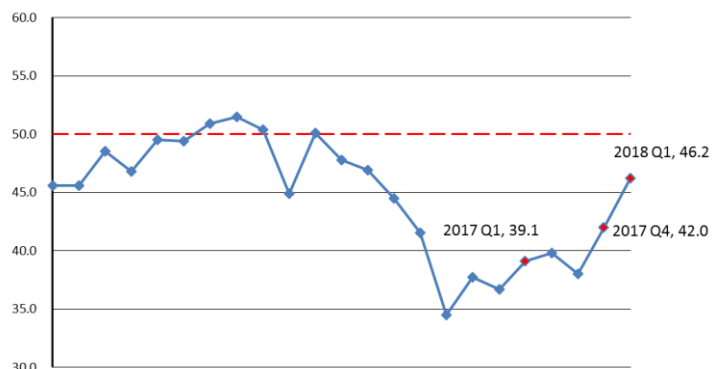


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Import/Export Trade and Wholesale industry| 46.2

The Import, Export and Wholesale Industry Sub-Index has increased by 4.2 points to 46.2. Compared to same period in last year (39.1), the sub-index also increased significantly by 7.1 points. All the sub-indices increased simultaneously for continuous two quarters, the recovery of industry outlook is in progress.

Import/ Export and Wholesales Industry Sub-Index



Component	View	Compare to last quarter	Compare to last year
Industry Index	Negative	Up	Up
Staff Number	Positive	Up	Up
Investment	Positive	Up	Up
Sales Amount	Negative	Up	Up
Profit Margin	Negative	Up	Up
Global Economy Growth	Negative	Up	Up



Retail industry | 44.4

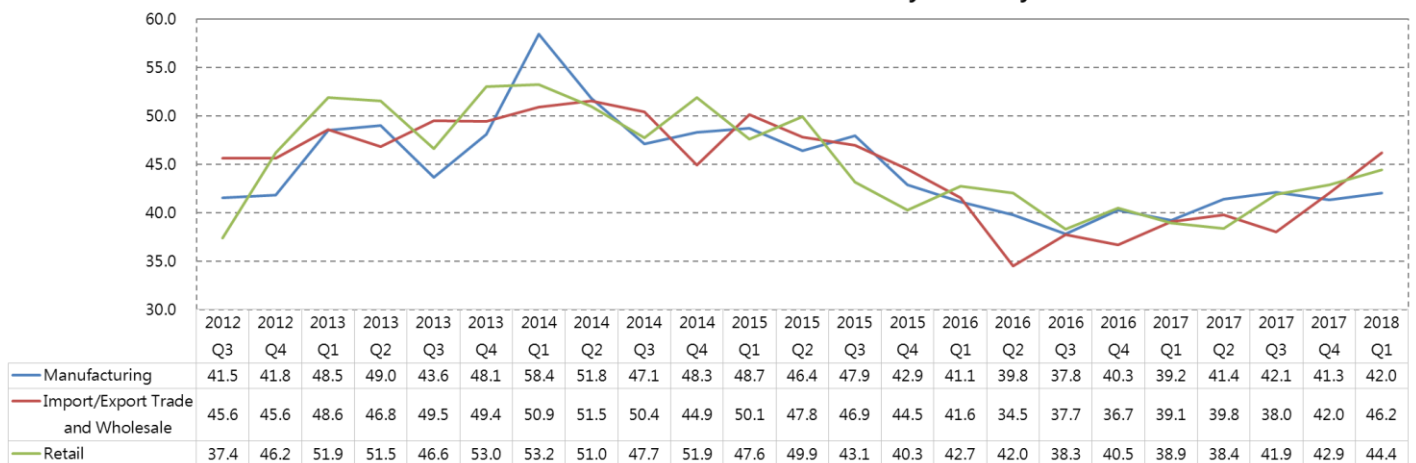
The Retail Sub-Index increased 1.5 points to 44.4, with a more significant increment of 5.5 points when comparing to the same period in last year(38.9). It continues the growth momentum with rises in three consecutive quarters. Overall, the upward trend of business confidence continues among retail industry.

Component	View	Compare to last quarter	Compare to last year
Industry Index	Negative	Up	Up
Staff Number	Positive	Down	Down
Investment	Negative	Up	Up
Sales Amount	Negative	Up	Up
Profit Margin	Negative	Down	Up
Global Economy Growth	Negative	Up	Up



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Standard Chartered SME Index by Industry

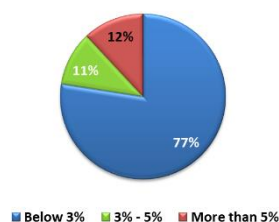


Featured topic

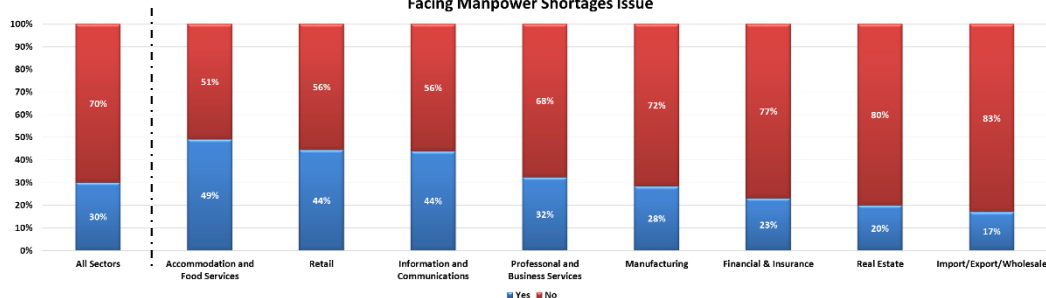
(a) Views of SMEs on Manpower Issue

This survey also gauged the views of SMEs on manpower issue. Around 12% surveyed companies expected the staff turnover rate of more than 5% in 2018; while 30% are facing manpower shortages, in particular the “Accommodation and Food Services” (49%), “Retail” (44%) and “Information and Communication” (44%) sectors.

Expected Staff Turnover Rate in Coming Year

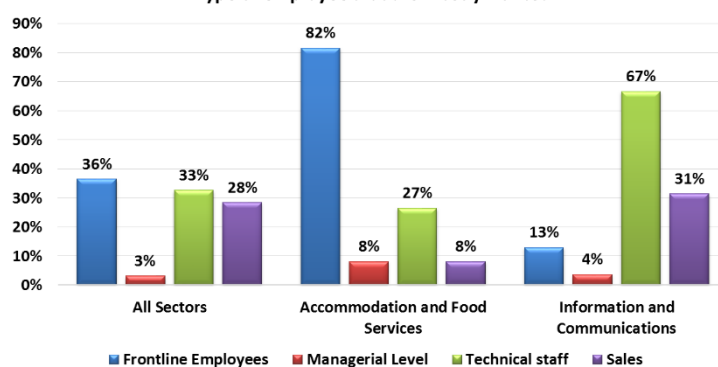


Facing Manpower Shortages Issue

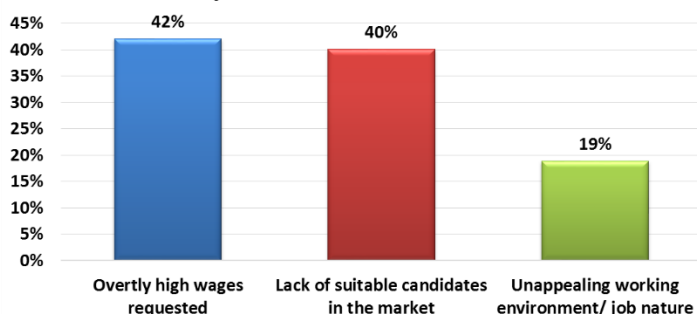


Frontline employees (82%) and technical staff (67%) are in shortest supply for the “Accommodation and Food Services” and “Information and Communication” sectors respectively.

Type of employee that are mostly wanted



Major difficulties in staff recruitment

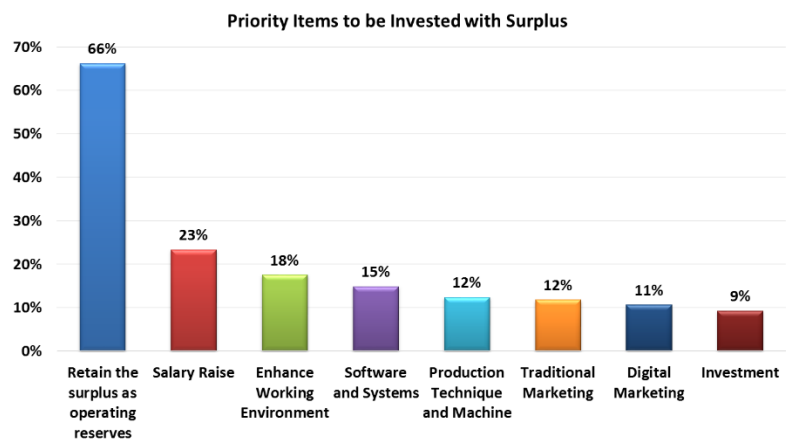


The major difficulties in staff recruitment are the overtly high wages requested (42%), the lack of suitable candidates in the market (40%), and unappealing working environment/ job nature (19%).



(b) Priority Items to be Invested with Surplus

The survey found that on the assumption that SMEs earn an extra surplus (about HKD300,000-500,000), 66% of the SMEs will retain part of their surplus as operating reserves. The remaining priority items include "Salary Raise" (23%), "Enhance Working Environment" (18%) and "Software and Systems" (15%).

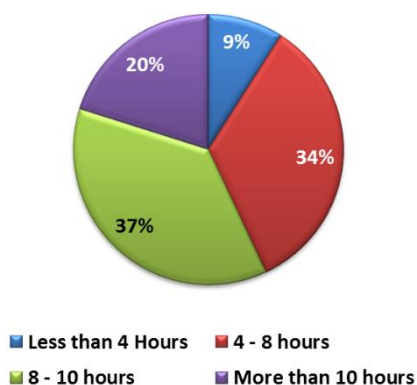


(c) Views of SMEs on the Number of Working Hours

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The survey also gauged the views of SMEs on the number of working hours. Over half of the SME employers work more than eight hours a day on average, with 20% work more than 10 hours. On the other hand, 48% of employers encourage their staff to leave office on time, while some of them consider the reasonable overtime work to be 30 minutes (8%), one hour (15%) and two hours (7%).

Average daily working hours of employer

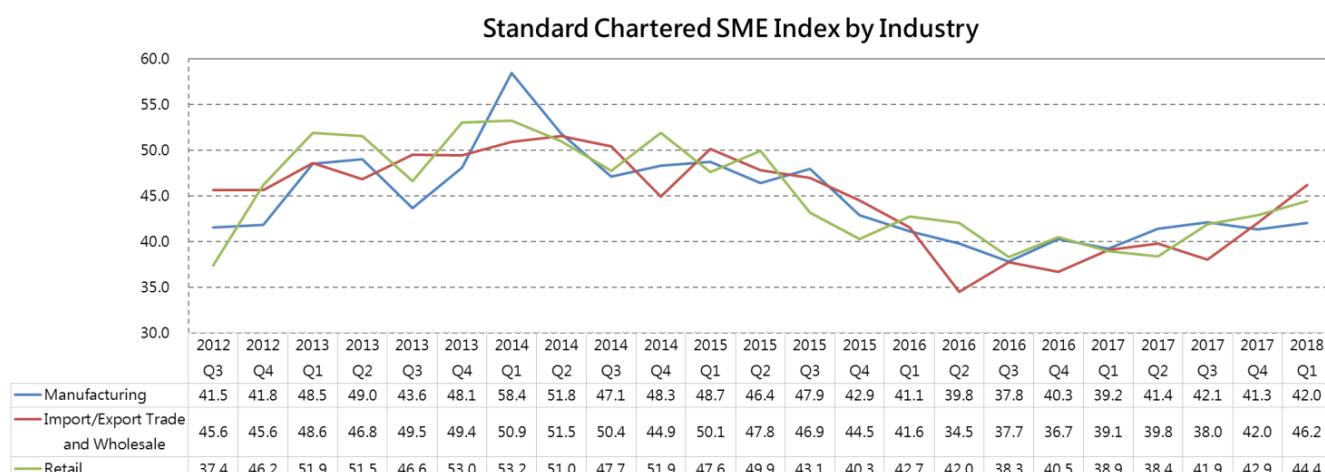


Reasonable OT hours of their employees

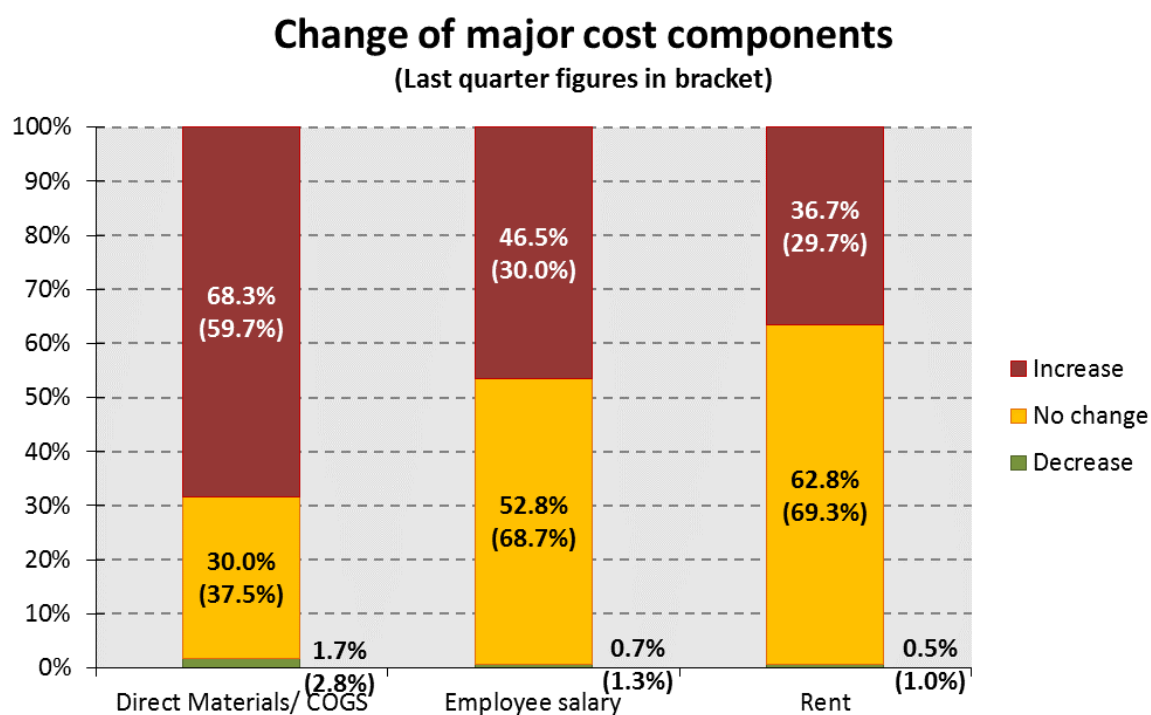


Appendix

Standard Chartered SME Index by Industry

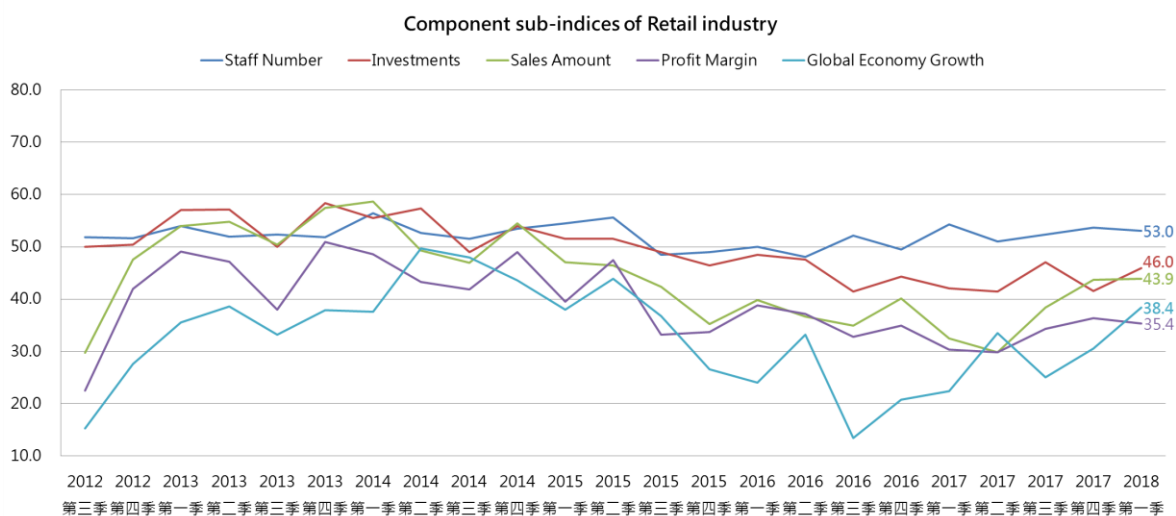
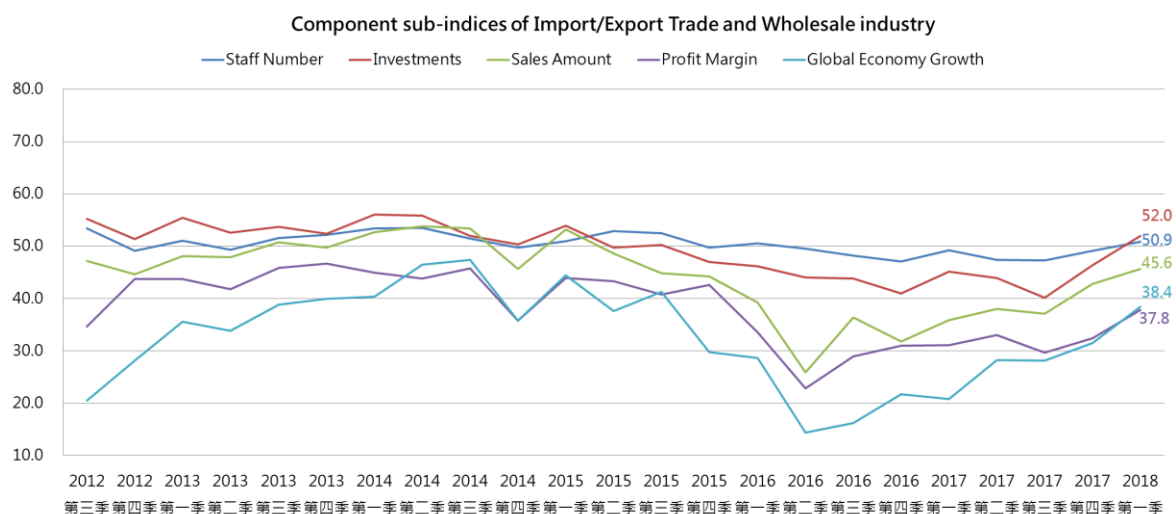
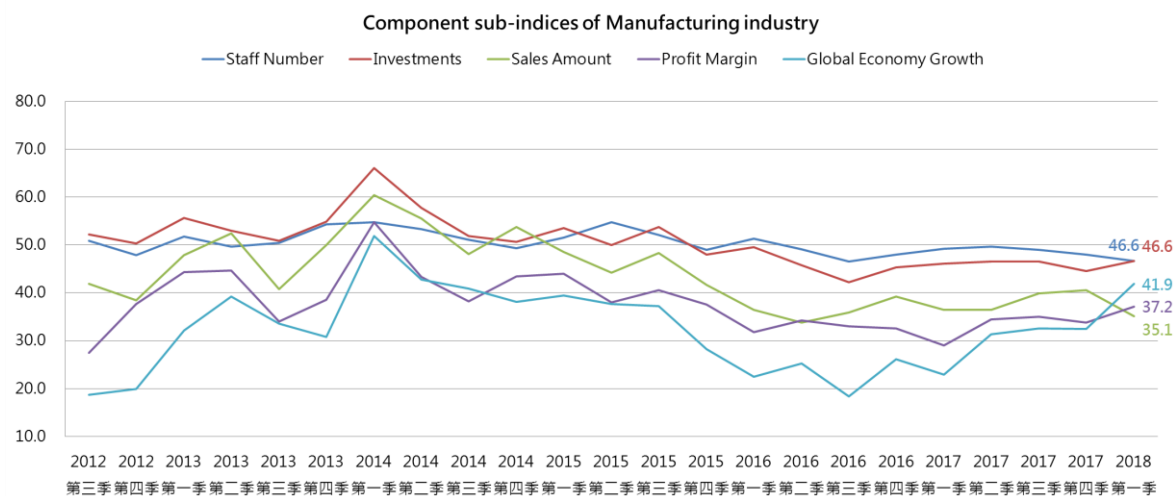


Change of major cost components



Appendix

Component sub-indices of 3 main industries



Report release

The Standard Chartered SME Index is released every quarters. Full reports can be downloaded at www.smeone.org.

For more details about the Index, please contact Kinson Leung at tel. (852) 2788 5795 or email: kinsonleung@hkpc.org.

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