

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 modern infrastructure and urban development.

# Standard Chartered Hong Kong SME Leading Business Index

Quarter 2, 2016



# 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 more 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.



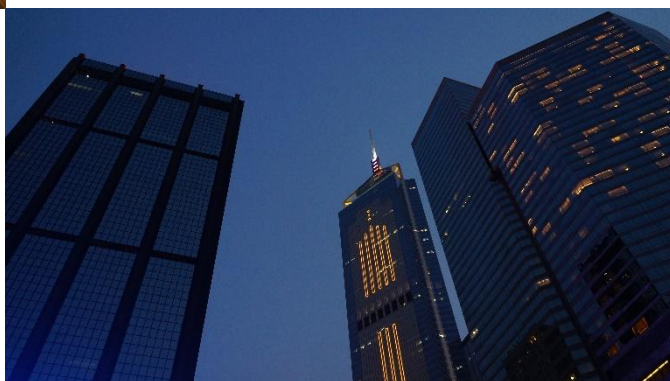
# Summary

The fourteenth survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted from late March to early April 2016. Top management of 806 SMEs were surveyed to gauge their views on the outlook of the overall business environment and regional economic changes in the 2<sup>nd</sup> quarter of 2016.

# Key findings

The Overall Index of the Standard Chartered SME Index reported a further drop of 2.4 points to 40.4. A negative business outlook among SMEs is noted as the Index has been declining for three consecutive quarters. Key findings of the survey are as follows:

- ⊕ Overall Index comprising five Sub-Indices. In this quarter, all the sub-indices have dropped, among which the “Sales Amount” Sub-Index slid markedly to 35.0;
- ⊕ The Sub-Index for “Staff Number” (49.4) has gone below the 50 no-change mark for the first time, reflecting that SMEs may freeze hiring in this quarter;
- ⊕ The Sub-Indices for “Investments”, “Profit Margin” and “Global Economic Growth” registered at 47.7, 33.9 and 23.2 respectively;
- ⊕ All the three major Industry Sub-Indices are still below the 50 threshold;
- ⊕ The Manufacturing (39.8) and Import, Export & Wholesale (34.5) industries show no signs of recovery with both Sub-Indices falling below 40 for the first time;
- ⊕ The Retail Sub-Index fails to keep up the growth momentum in the last quarter and edged down 0.7 points to 42.0, a reflection of their prevailing bearish outlook;
- ⊕ About 67% of respondents expect the economy to improve within two years, while 23% forecast the economic downturn to last for more than two years. If the sluggish situation is here to stay, around 20% of SMEs may consider winding up within one year, among which 5% may even close down within three months

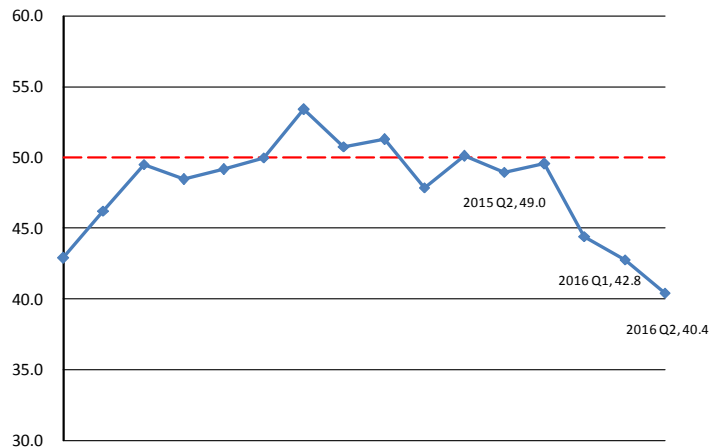


# Standard Chartered SME Index

2016 Q2

# 40.4

Standard Chartered SME Index



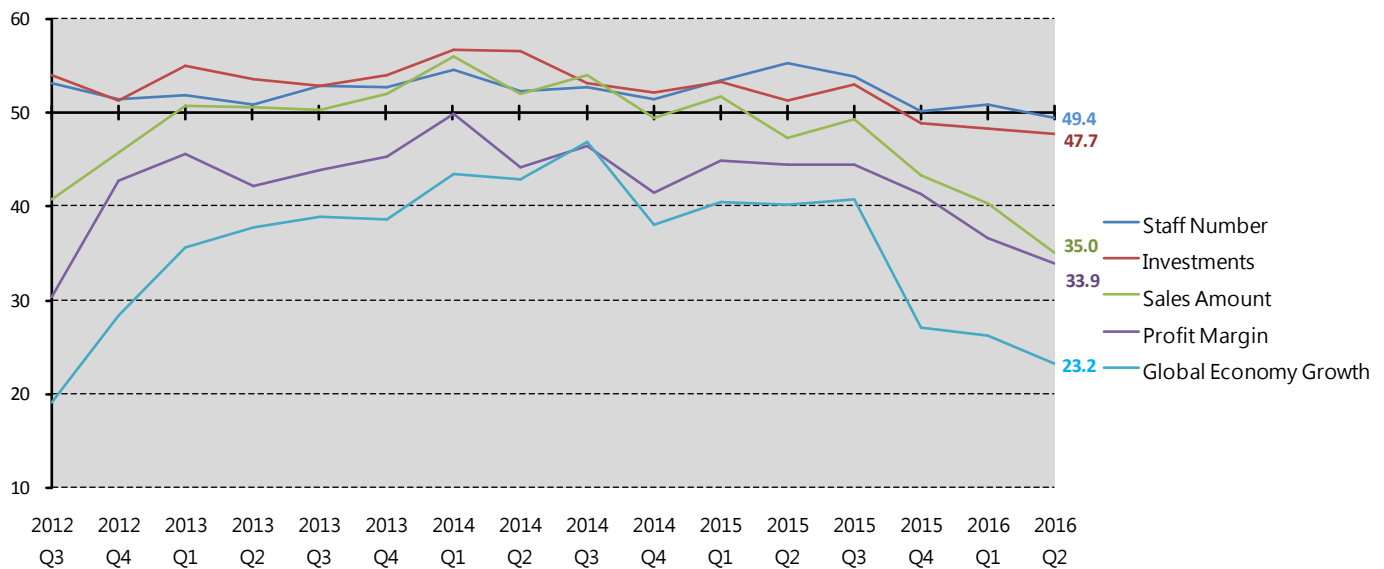
The Overall Index of the Standard Chartered SME Index reported a further drop of 2.4 points to 40.4, which has been declining for three consecutive quarters.

Standard Chartered SME Index is comprised of five sub-indices. In this quarter, all the sub-indices have dropped, among which the “Sales Amount” Sub-Index slid markedly to 35.0. The Sub-Index for “Staff Number” (49.4) has gone below the 50 no-change mark for the first time, reflecting that SMEs may freeze hiring in this quarter. The Sub-Indices for “Investments”, “Profit Margin” and “Global Economic Growth” registered at 47.7, 33.9 and 23.2 respectively.

Compared to the second quarter of 2015 (49.0), the Index of this quarter (40.4) reduced by 8.6 points. All five sub-indices were also dropped respectively.

4

The five component sub-indices

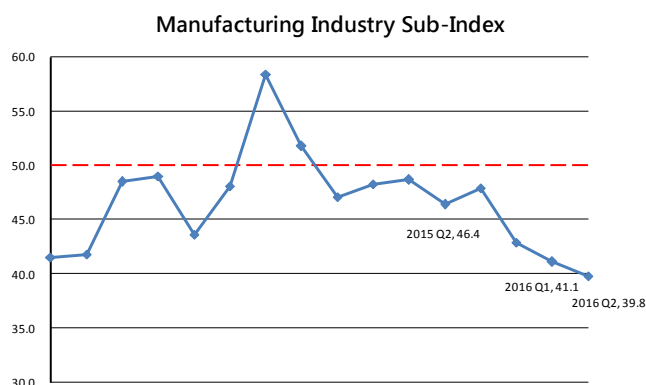


# LB Index Industry Indices

## Manufacturing industry| 39.8

Manufacturing industry sub-index has decreased by 1.3 points to 39.8, falling below 40 for the first time. Compared to the same quarter in last year, the sub-index dropped notably at 6.6 points. The decline in Manufacturing industry is mainly affected by "Investment" and "Sales Amount". Although "Profit Margin" and "Global Economy Growth" are slightly improved when comparing to the previous quarter, the situation was still far below the same period in the previous year. Overall, the manufacturing industry shows no signs of recovery.

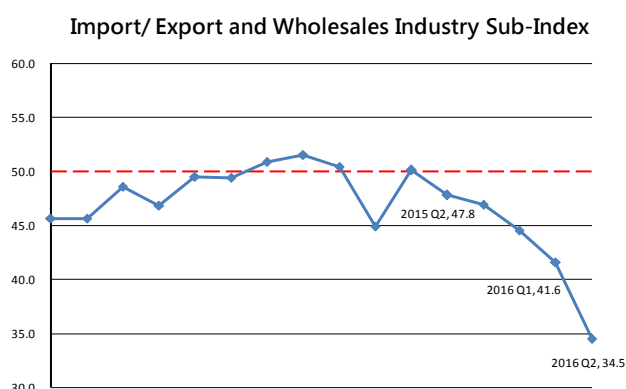
Component	View	Compare to last quarter	Compare to last year
Industry Index	Negative	Down	Down
Staff Number	Negative	Down	Down
Investment	Negative	Down	Down
Sales Amount	Negative	Down	Down
Profit Margin	Negative	Up	Down
Global Economy Growth	Negative	Up	Down



5

## Import/Export Trade and Wholesale industry| 34.5

The Import, Export and Wholesale Industry Sub-Index has dropped notably by 7.1 points to 34.5, kept the downward trend as in last quarter and fall below 40 for the first time. Compared to same period in last year (47.8), the decline is even greater at 13.3 points. All five sub-indices dropped, among which "Sales Amount", "Profit Margin" and "Global Economic Growth" all fell from 32% to 50%. As a result of the strong US dollar and unstable global economy, pessimistic sentiment towards business prospect is noted in the Import, Export & Wholesale sector.



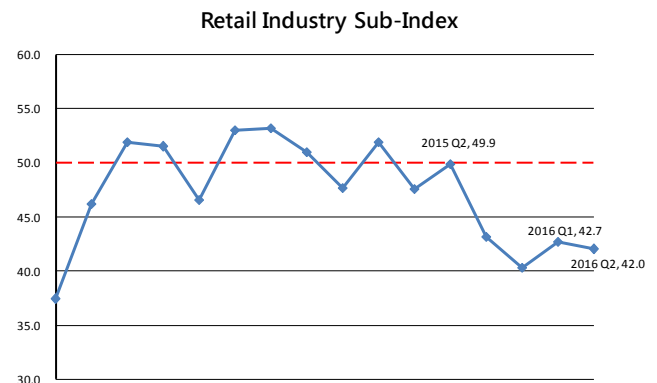
Component	View	Compare to last quarter	Compare to last year
Industry Index	Negative	Down	Down
Staff Number	Negative	Down	Down
Investment	Negative	Down	Down
Sales Amount	Negative	Down	Down
Profit Margin	Negative	Down	Down
Global Economy Growth	Negative	Down	Down



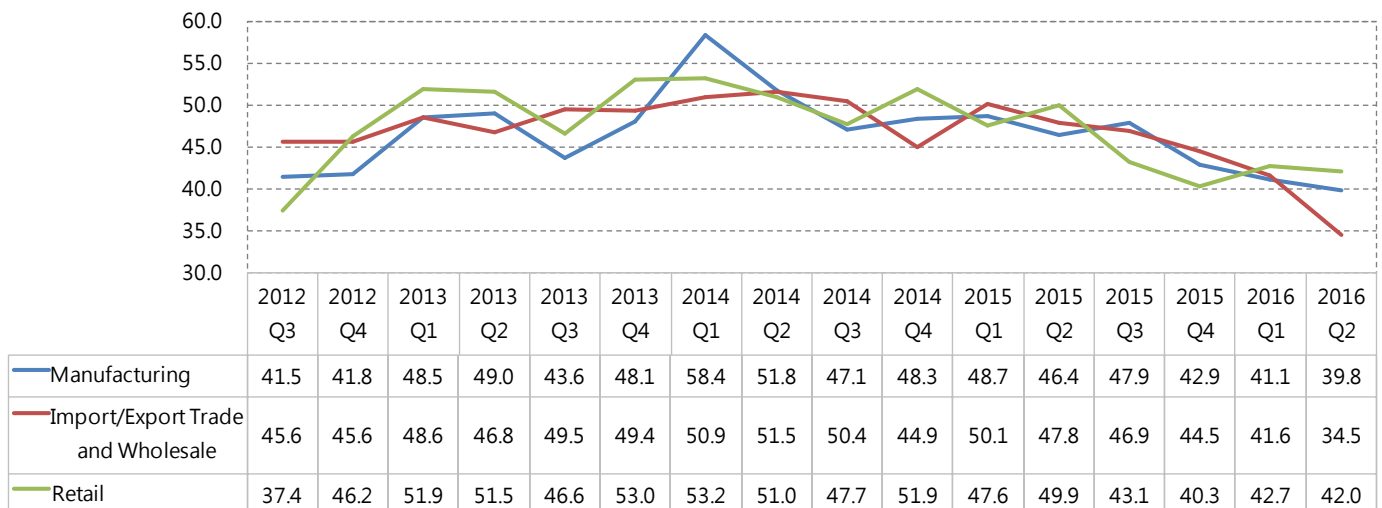
## Retail industry | 42.0

The Retail Sub-Index fails to keep up the growth momentum in the last quarter and edged down 0.7 points to 42.0, and dropped markedly when comparing to the same period in last year at 7.9 points. Compared with the previous quarter, only prospect of "Global Economy Growth" is improved in this quarter, a reflection of their prevailing bearish outlook.

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



## Standard Chartered SME Index by Industry

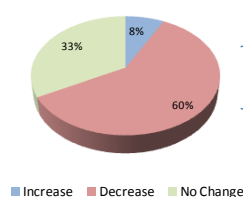


# Featured topic

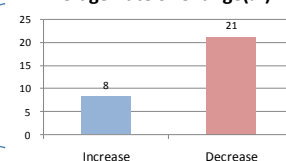
## ( a ) Impact of the Economic Downturn

The featured topic in this quarter discussed the views of SMEs on the impact of the economic downturn. When compared to the previous year, 60% of the SMEs surveyed noticed a decline in revenue, with an average drop of 21%. For profits, there are 65% of them recorded a decline when comparing to previous year, with an average drop of 18%.

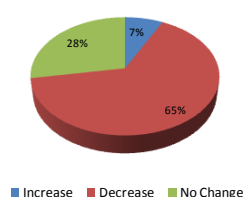
Change in Annual Revenue



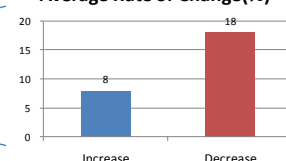
Average Rate of Change(%)



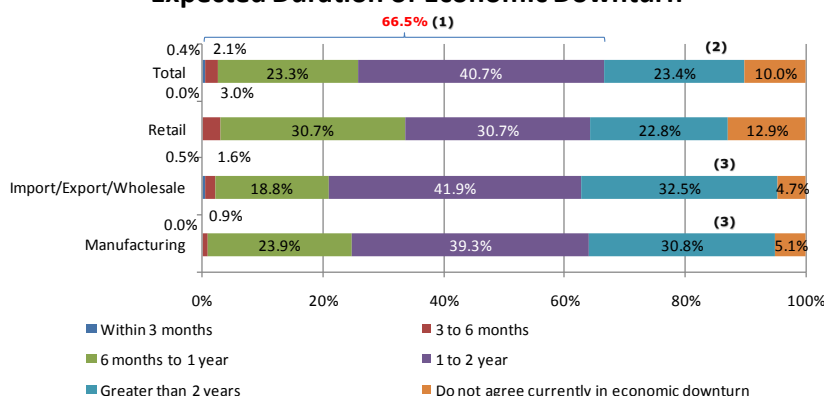
Change in Annual Profit



Average Rate of Change(%)



Expected Duration of Economic Downturn



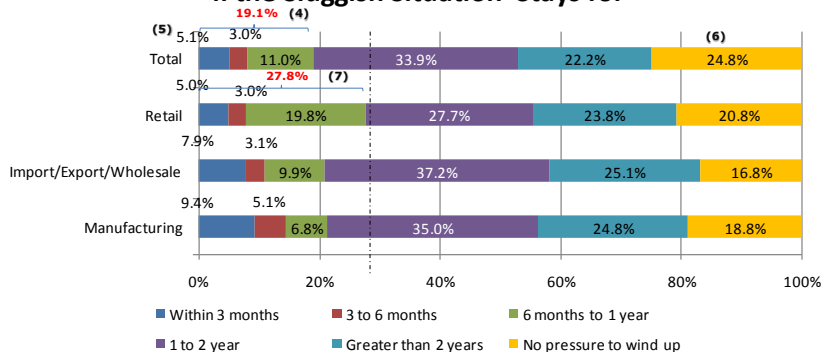
The survey also found that:

- (1) 66.5% of the respondents expect the economy to improve within two years
- (2) 23.4% forecast the economic downturn to last for more than two years
- (3) Among the three major industries, Manufacturing industry and the Import, Export & Wholesale sector are having less confidence in business outlook, with 30.8% and 32.5% of enterprises forecast that the economic downturn will last for more than two years respectively

If the sluggish situation is here to stay

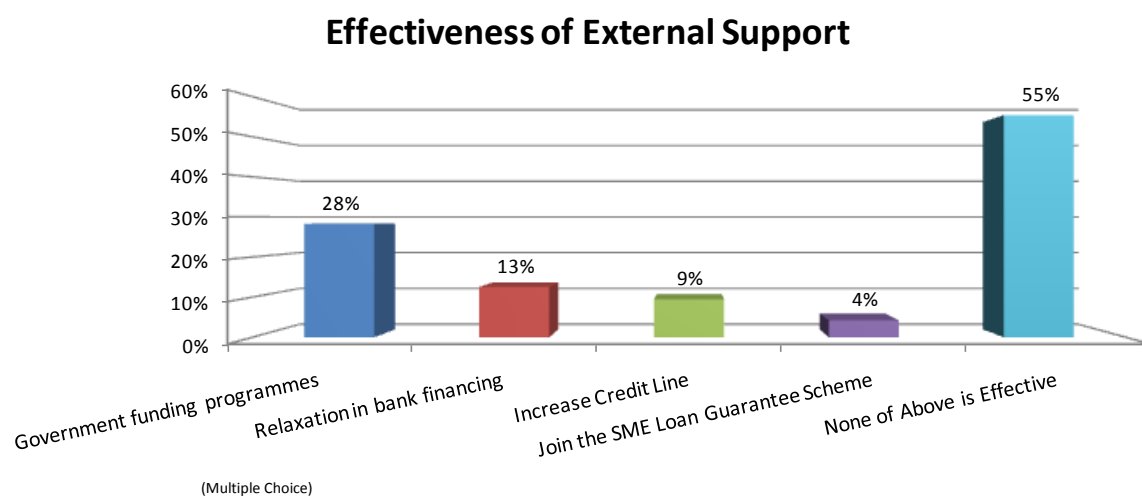
- (4) Around 19.1% of SMEs may consider winding up within one year
- (5) Among which 5.1% may even close down within three months
- (6) Only 24.8% of SMEs remain very solid no matter how the economic environment change
- (7) Among the three major industries, Retail Industry was being affected the most, with 27.8% of enterprises may consider winding up within one year

May Consider Winding Up if the Sluggish Situation Stays for



## ( a ) Impact of the Economic Downturn (Con't)

Regarding the effectiveness of external support to their business, 28% of the respondents opt for Government funding programmes, followed by the relaxation in bank financing (13%). 55% of them doubt about the effectiveness of the four external supports.

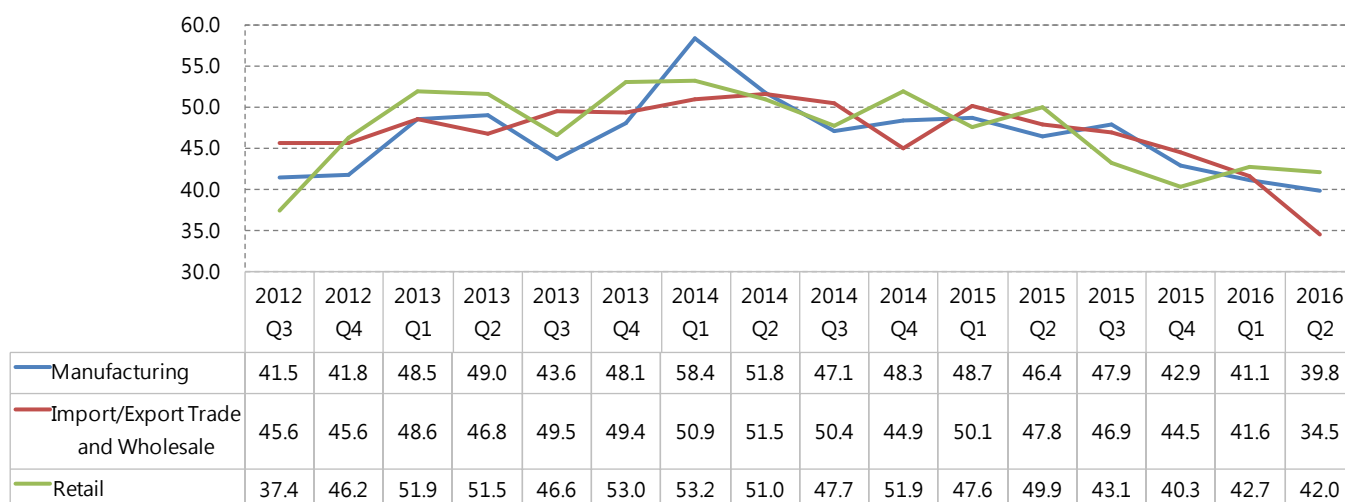




# Appendix

## Standard Chartered SME Index by Industry

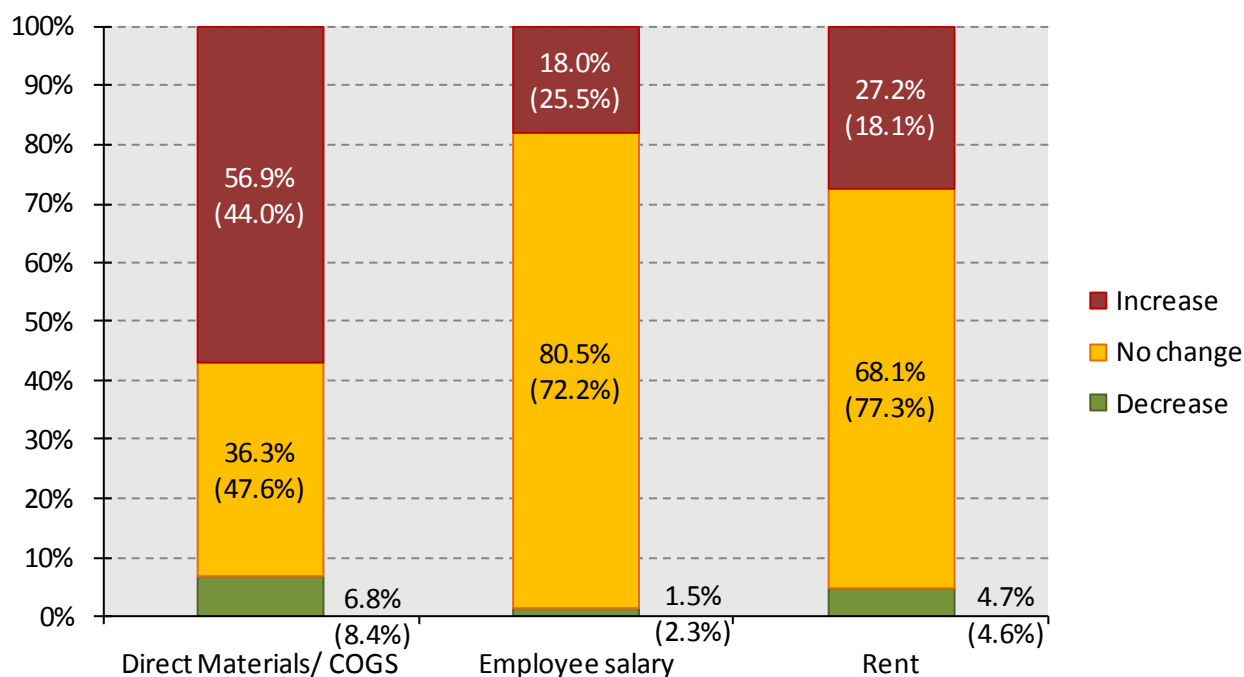
Standard Chartered SME Index by Industry



## Change of major cost components

Change of major cost components

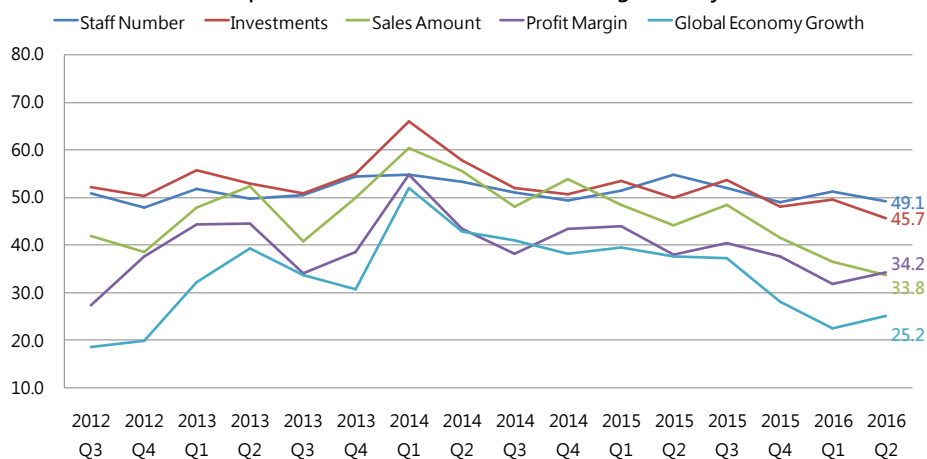
(Last quarter figures in bracket)



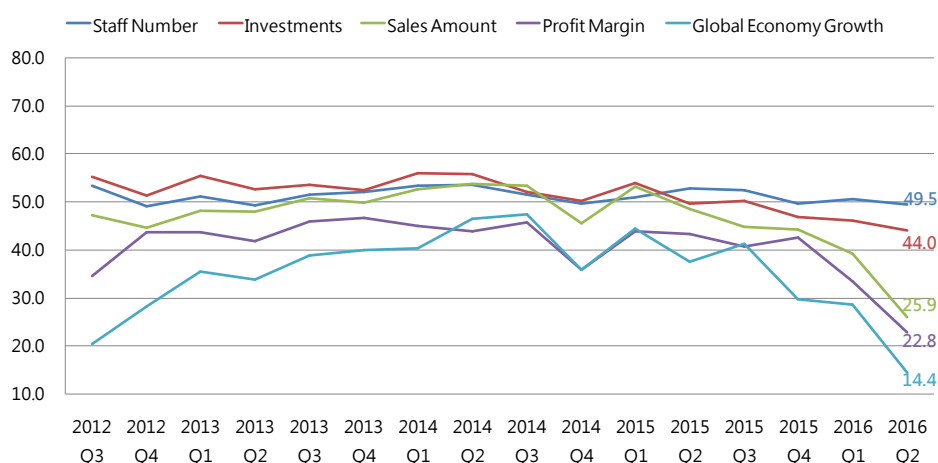
# Appendix

## Component sub-indices of 3 main industries

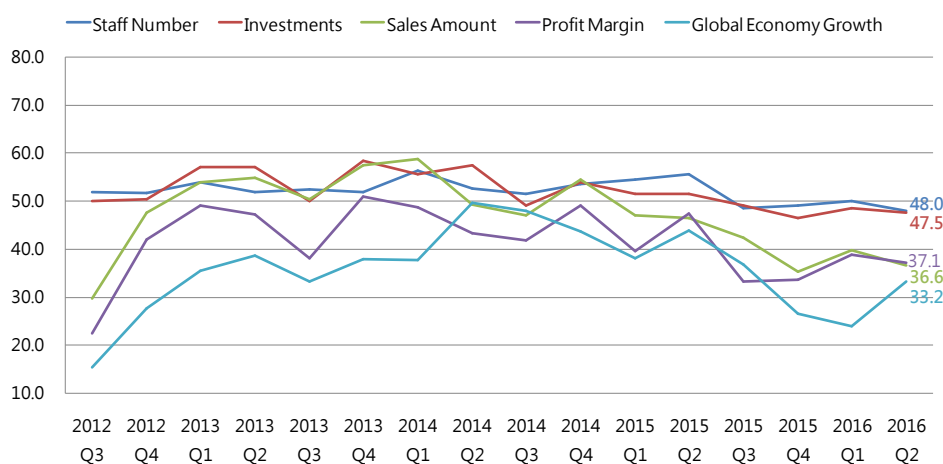
Component sub-indices of Manufacturing industry



Component sub-indices of Import/Export Trade and Wholesale industry



Component sub-indices of Retail industry



# Report release

The Standard Chartered SME Index is released in January, April, July and October every year. Full reports can be downloaded at [www.smeone.org](http://www.smeone.org), and the next report will be published in July 2016.

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

## Disclaimer:

The content and data in this report is owned by Hong Kong Productivity Council (HKPC). Without the authorization of HKPC, any changes to the report content and data, as well as selling of the report, are not permitted. HKPC shall not have any liability, duty or obligation for or relating to the content and data contained herein, any errors, inaccuracies, omissions or delays in the content and data, or for any actions taken in reliance thereon. In no event shall HKPC be liable for any special, incidental or consequential damages, arising out of the use of the content and data.

11

