

A wide-angle photograph of a Hong Kong highway interchange. In the background, several tall skyscrapers are visible against a blue sky with scattered white clouds. The foreground shows a multi-lane highway with cars and vans. A large palm tree is in the lower right foreground. A white rectangular box with a teal border is overlaid on the right side of the image, containing the title and date.

# Standard Chartered Hong Kong SME Leading Business Index

Quarter 3, 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 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.



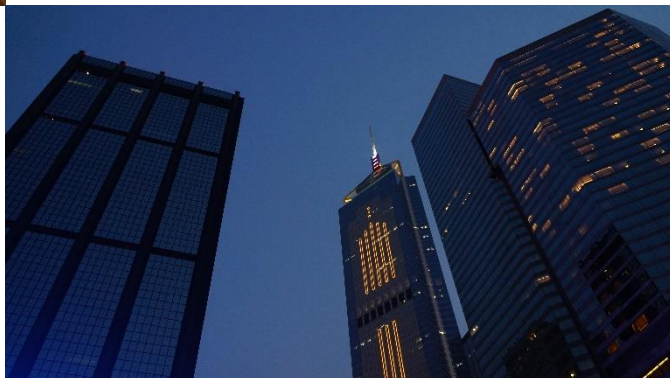
# Summary

The seventeenth survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted in July 2016. Top management of 862 SMEs were surveyed to gauge their views on the outlook of the overall business environment and regional economic changes in the 3<sup>rd</sup> quarter of 2016.

## Key findings

The Overall Index of the Standard Chartered SME Index took a breather with a 0.7-point increment to 41.1. Signs of stabilizing business confidence in local SMEs is noted, yet the global economy is expected to fall further. Key findings of the survey are as follows:

- ⊕ Overall Index comprising five Sub-Indices. In this quarter, “Staff Number” (51.1) is the only Sub-Index that turns positive;
- ⊕ Despite an increase of 5.1 and 2.3 points respectively, the Sub-Indices for “Sales Amount” (40.1) and “Profit Margin” (36.2) remain far below the 50 no-change mark;
- ⊕ On the other hand, both Sub-Indices for “Investments” (46.1) and “Global Economic Growth” (16.0) drop further. The drastic slip of 7.2 points in the latter reflects intensifying worries over the global economy;
- ⊕ All the three major Industry Sub-Indices are still below the 50 threshold;
- ⊕ The Manufacturing (37.8) and Retail (38.3) Sub-Indices drop 2.0 and 3.7 points respectively;
- ⊕ This is the first time that the Retail Sub-Index falls below 40 since the last quarter of 2012 - an indication of the worsening business confidence among retailers;
- ⊕ With the third quarter being the traditional trading season, the Import, Export & Wholesale sector shows improving confidence towards “Sales Amount”, and the Industry Sub-Index registers at 37.7 (up 3.2 points). Yet the industry outlook stays bearish;
- ⊕ Only 25% of the respondents remarked that it may affect their business, with nearly half of this group worried that it will trigger currency fluctuations (51.4%), a decline in business transactions (17.1%), and stock market volatility (11.1%);
- ⊕ In past year, about 13% of the surveyed companies encountered information security incidents with major issues being “interruption of computer operation” (32%), “information/ password being stolen” (20%) and “network/ website downtime” (15%).

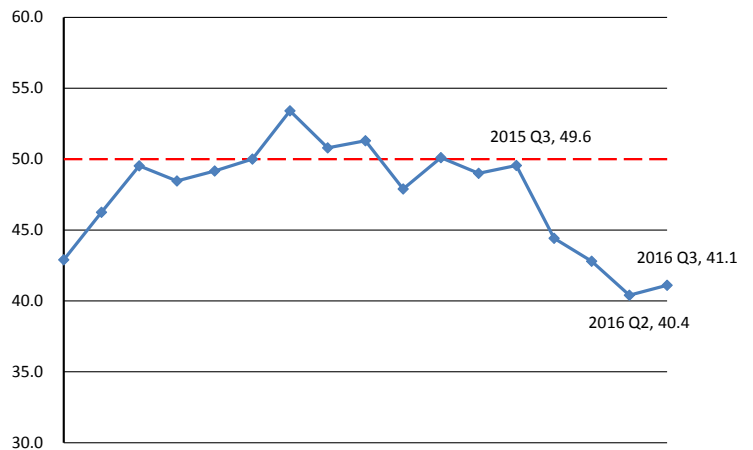


# Standard Chartered SME Index

2016 Q3

# 41.1

Standard Chartered SME Index



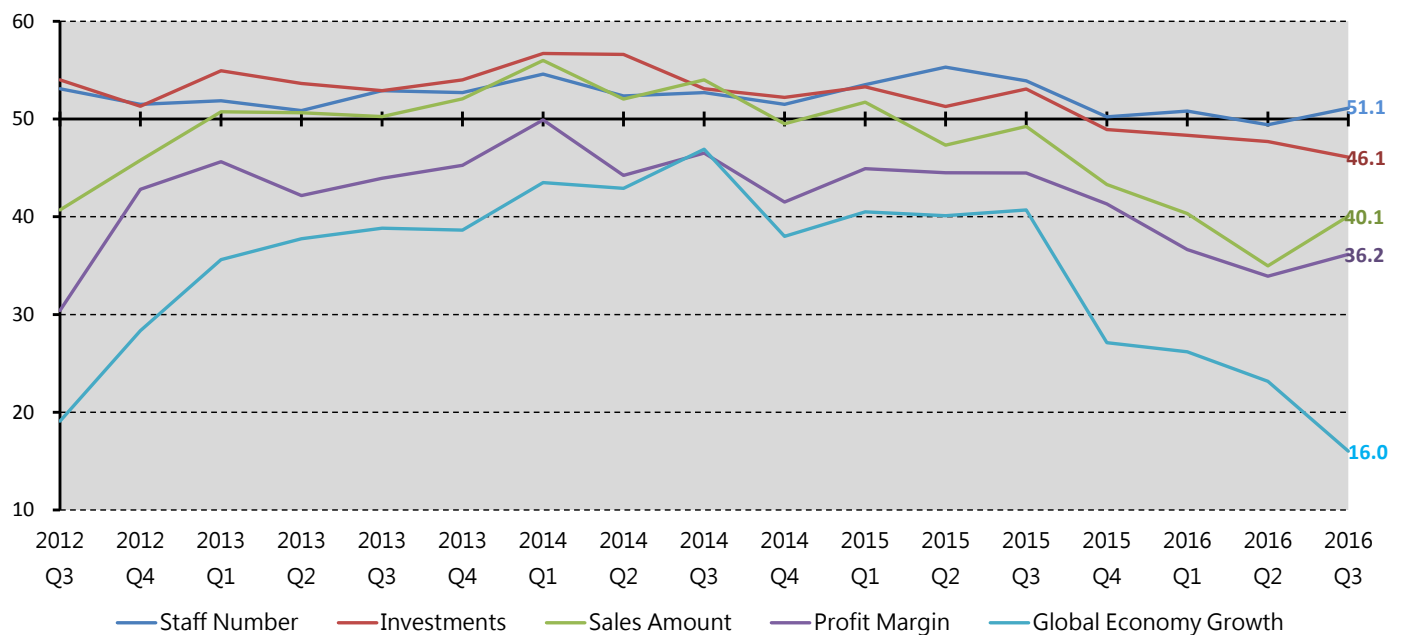
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Compared to the third quarter of 2015 (49.6), the Index of this quarter (41.1) reduced by 8.5 points. All five sub-indices were also dropped respectively.

4

The five component sub-indices



# LB Index Industry Indices

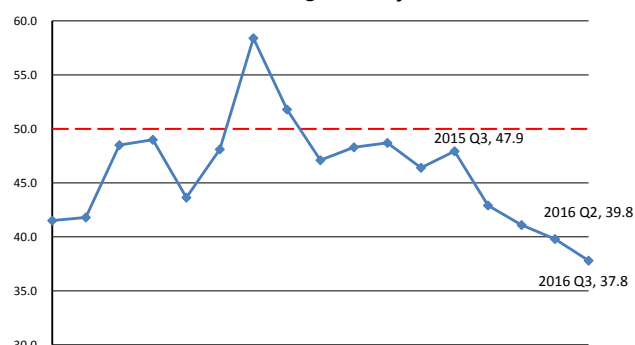
## Manufacturing industry| 37.8

Manufacturing industry sub-index has decreased by 2.0 points to 37.8. Compared to the same quarter in last year, the sub-index dropped notably at 10.1 points. Affected by the decline in "Global Economy Growth" and "Investment", Manufacturing industry sub-index has been declined in four consecutive quarters. 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	Up	Down
Profit Margin	Negative	Down	Down
Global Economy Growth	Negative	Down	Down



Manufacturing Industry Sub-Index

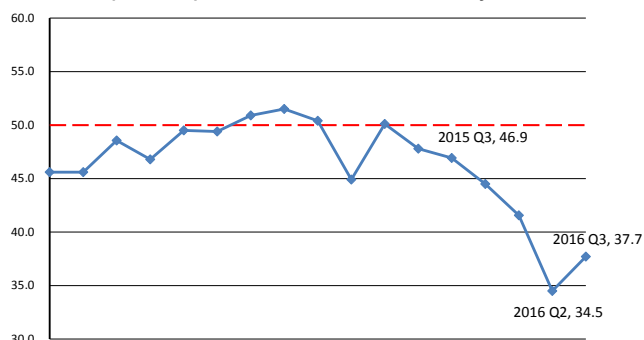


5

## Import/Export Trade and Wholesale industry| 37.7

The Import, Export and Wholesale Industry Sub-Index has increased by 3.2 points to 37.7. Compared to same period in last year (46.9), the sub-index dropped notably at 9.2 points. With the third quarter being the traditional trading season, the Import, Export & Wholesale sector shows improving confidence towards "Sales Amount" and "Profit Margin". However, the sub-indices remain below 40, yet the industry outlook stays bearish.

Import/ Export and Wholesales Industry Sub-Index



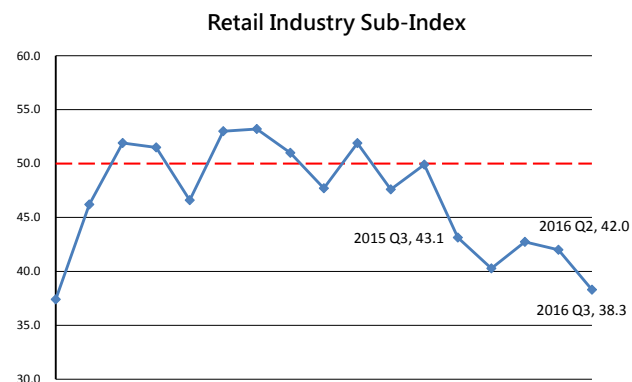
Component	View	Compare to last quarter	Compare to last year
Industry Index	Negative	Up	Down
Staff Number	Negative	Down	Down
Investment	Negative	Down	Down
Sales Amount	Negative	Up	Down
Profit Margin	Negative	Up	Down
Global Economy Growth	Negative	Up	Down



## Retail industry| 38.3

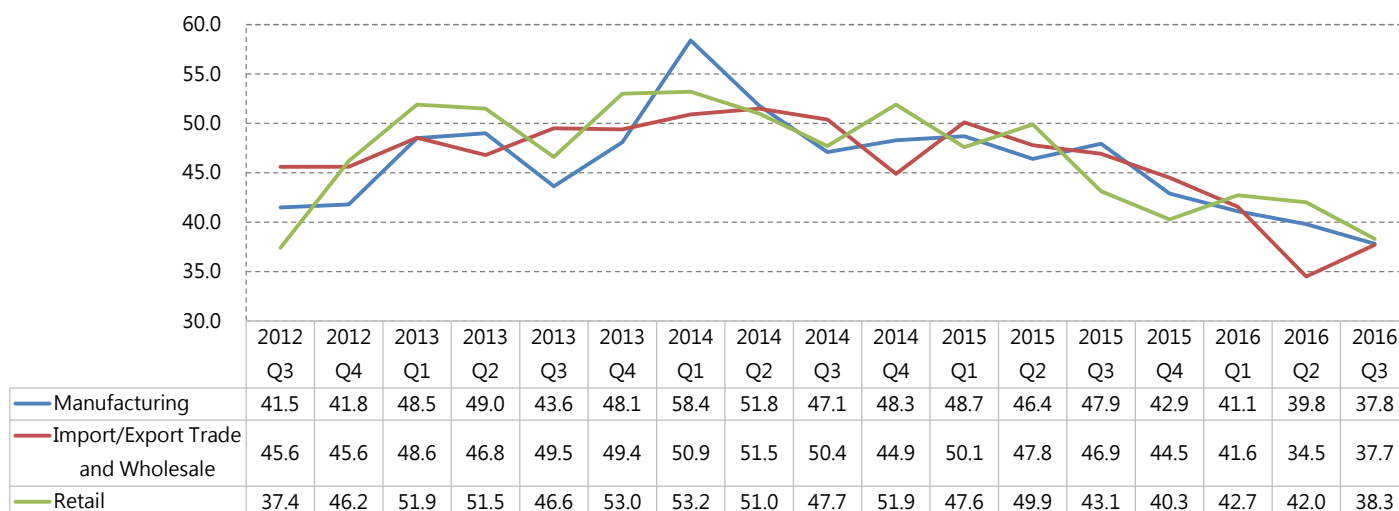
The Retail Sub-Index edged down 3.7 points to 38.3, and dropped 4.8 points when comparing to the same period in last year. Although “Staff Number” rebounded to above the 50 no-change-mark, all the other sub-indices dropped simultaneously. This is also the first time that the Retail Sub-Index falls below 40 since the last quarter of 2012 - an indication of the worsening business confidence among retailers.

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



6

## Standard Chartered SME Index by Industry

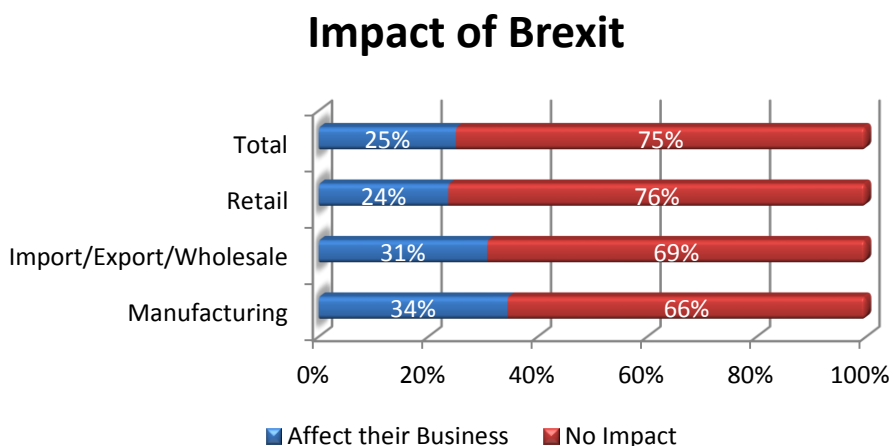


# Featured topic

## (a) Views of SMEs on the Impact of Brexit

This survey also gauged the views of SMEs on the impact of Brexit. Only 25% of the respondents remarked that it may affect their business, while 75% of them expected it has no impact on them.

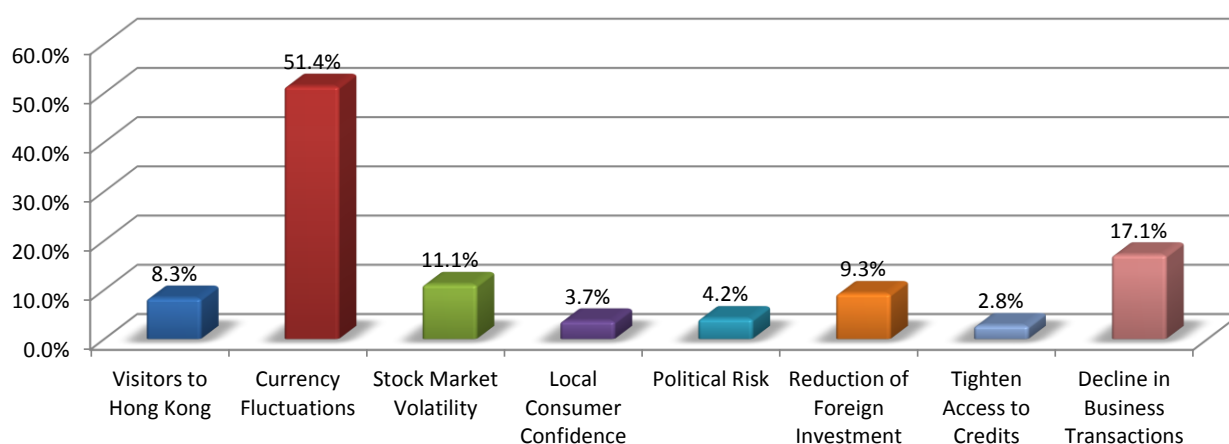
Among the three major Industries, the impact of Brexit is more significant in Manufacturing and Import/ Export Trade and Wholesales Industry, with 34% and 31% of the respondents remarked that it may affect their business respectively.



7

For the respondents remarked that it may affect their business, nearly half of them worried that it will trigger currency fluctuations (51.4%), a decline in business transactions (17.1%), and stock market volatility (11.1%).

## Impact Triggered by Brexit



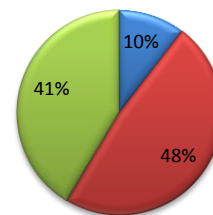
(Multiple Choices)



## (b) Information Security Awareness among SMEs

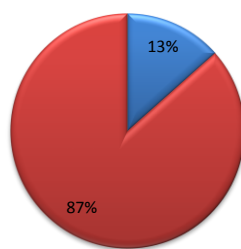
This survey also measured information security awareness among SMEs and found that nearly 40% respondents have little knowledge of information security, 48% respondents with fair knowledge, and only 10% of them clearly understand what Information Security is.

### Information Security Awareness among SMEs



■ Clearly Understand ■ Fair Knowledge ■ Little Knowledge

### Encountered Information Security Incidents in Past Year

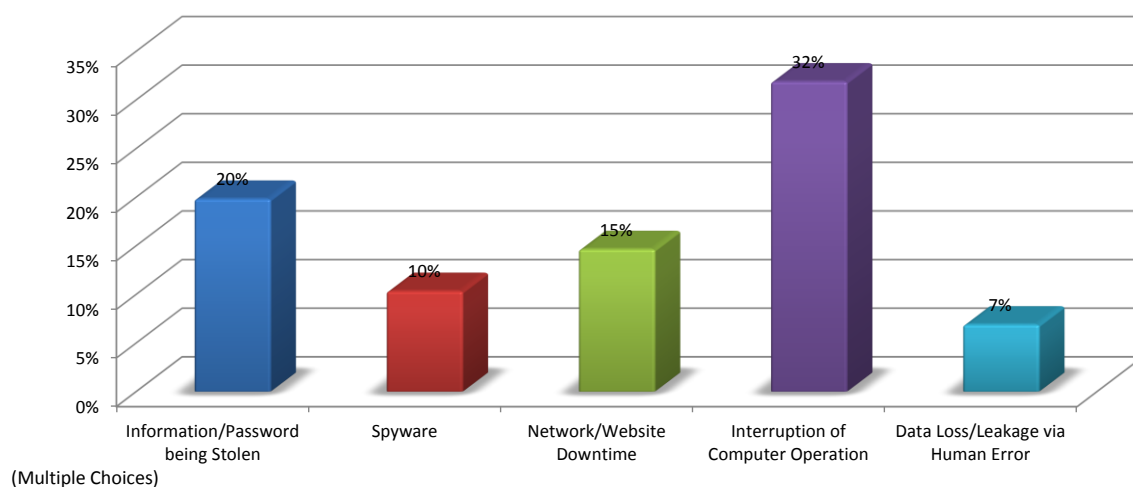


■ Yes ■ No

In the past year, about 13% of the surveyed companies encountered information security incidents with major issues being "interruption of computer operation" (32%), "information/password being stolen" (20%) and "network/website downtime" (15%).

8

### Type of Issues Encountered

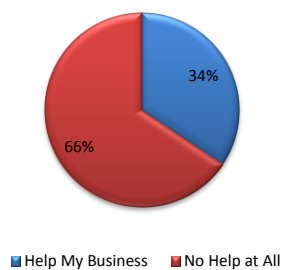




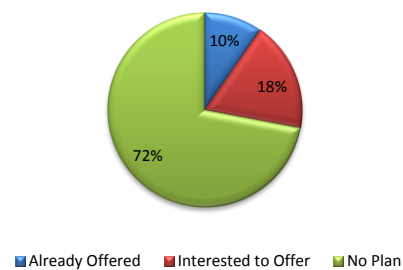
### (c) Views of Retail Industry towards New Payment Channels

This survey also gauged the views of Retail Industry towards new payment channels. Among the SMEs respondents in retail industry, about 34% of them agree that new payment channels can offer help to their businesses. Regarding whether they will provide new payment channels to customers in the future, 10% of the respondents noted that they have already offered the new channels, with 18% of the respondents responded that they are interested to offer, while 72% have no plan to offer new payment channels to their customers.

**Views of New Payment Channels from Retail Industry**



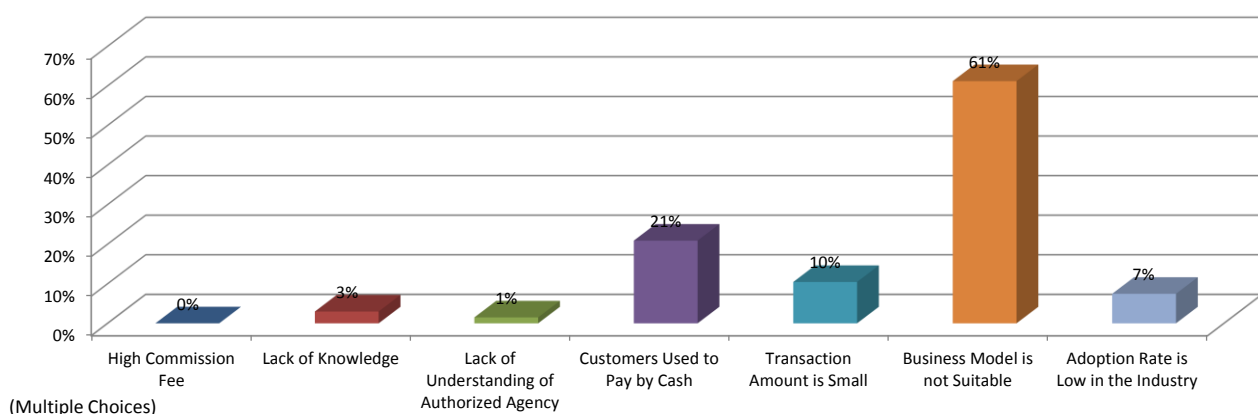
**Offer New Payment Channels to Customers in Future**



9

The reasons of no plan to offer the new payment channels are mainly "Business Model is not Suitable" (61%), following with "Customers Used to Pay by Cash" (21%) and "Transaction Amount is Small" (10%).

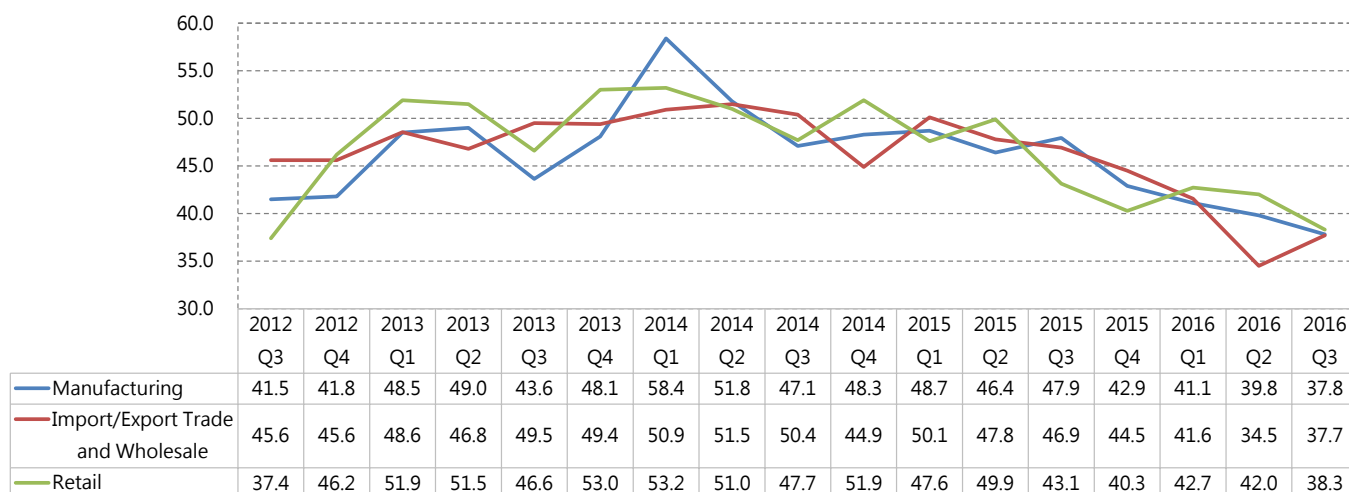
**Reasons of No Plan on New Payment Channels**



# Appendix

## Standard Chartered SME Index by Industry

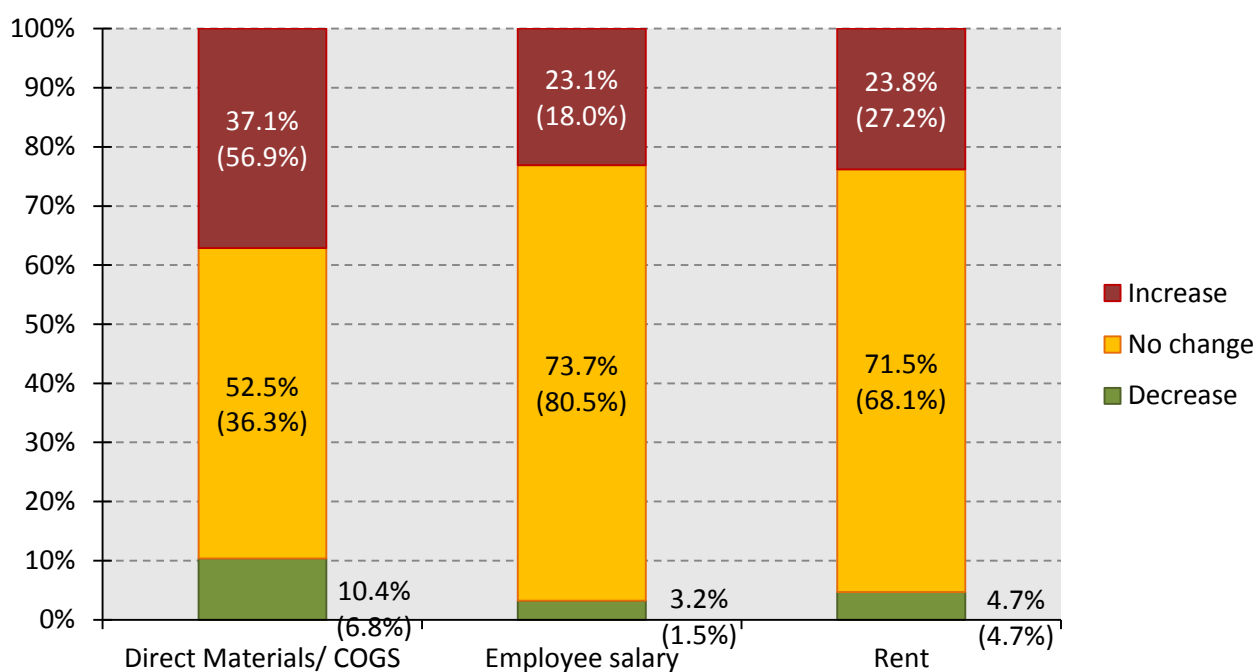
Standard Chartered SME Index by Industry



## Change of major cost components

**Change of major cost components**  
(Last quarter figures in bracket)

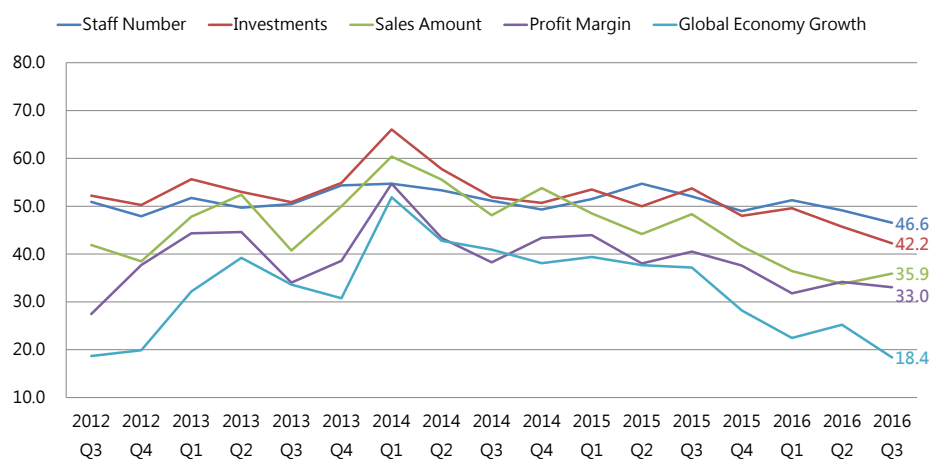
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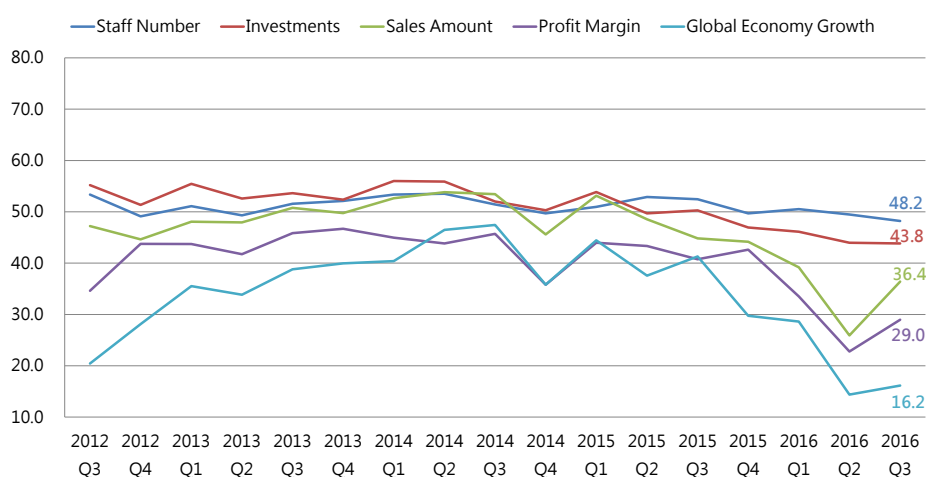
# Appendix

## Component sub-indices of 3 main industries

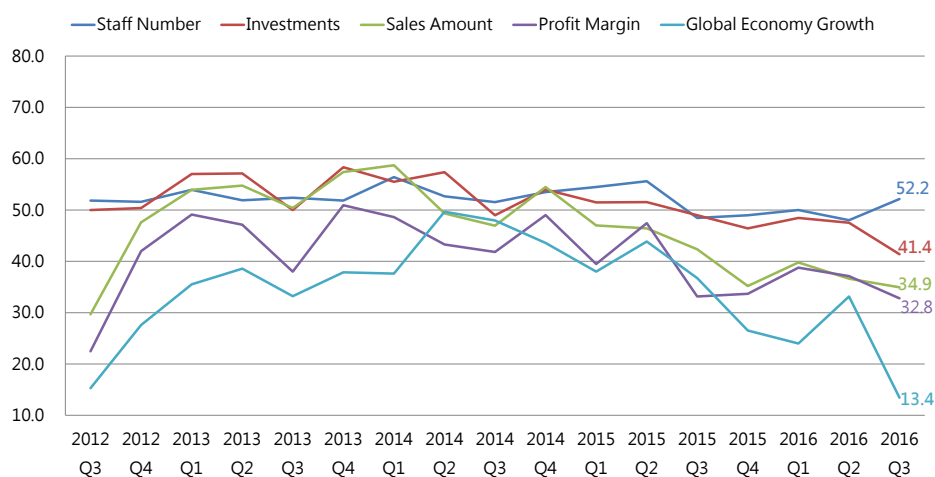
Component sub-indices of Manufacturing industry



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 every quarters. Full reports can be downloaded at [www.smeone.org](http://www.smeone.org).

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

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12

