

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 skyline includes several prominent skyscrapers, with one featuring a distinctive tiered top. A tall, slender light pole stands on the right side of the road. The overall scene conveys a sense of a modern, well-maintained urban environment.

Standard Chartered Hong Kong SME Leading Business Index

Quarter 1, 2017

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.



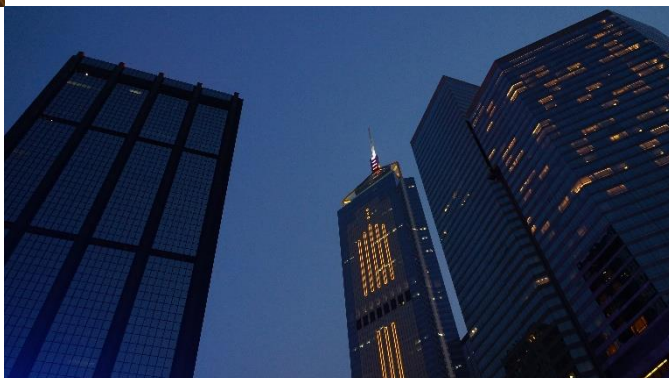
Summary

The nineteenth survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted from mid to late December 2016. Top management of 821 SMEs were surveyed to gauge their views on the outlook of the overall business environment and regional economic changes in the 1st quarter of 2017.

Key findings

The Overall Index of the Standard Chartered SME Index has edged down 0.6 to reach 41.9. The Index failed to keep up the growth momentum in last quarter and has been remaining below the 50 threshold for two years. Key findings of the survey are as follows:

- ⊕ Overall Index comprising five Sub-Indices. In this quarter, “Staff Number” (52.6) is the only Sub-Index that remains positive;
- ⊕ The reading for “Investments” (46.3) is similar to last quarter’s;
- ⊕ The Sub-Indices for “Sales Amount”, “Profit Margin” and “Global Economic Growth” all go down, registered at 38.8, 35.0 and 23.9 respectively;
- ⊕ All the three major Industry Sub-Indices fall below 40 again, swinging back to the level of the third quarter last year;
- ⊕ Dragged down by the “Sales Amount” and “Profit Margin” readings, the Manufacturing (39.2) and Retail (38.9) Sub-Indices dropped 1.1 and 1.6 respectively;
- ⊕ The Import, Export & Wholesale Sub-Index, on the other hand, has rebounded to 39.1, up 2.4; but uncertainty prevails as the Sub-Index fails to reach above 50;
- ⊕ With a prevailing fragile confidence, SMEs are cautious about the economic outlook of Hong Kong and their business performance in 2017. The Information and Communications Technology (ICT) sector is a relatively bright spot, with over half of the respondents expecting business growth this year;
- ⊕ However, 20% of SMEs expressed dampened confidence with the new US President on board.

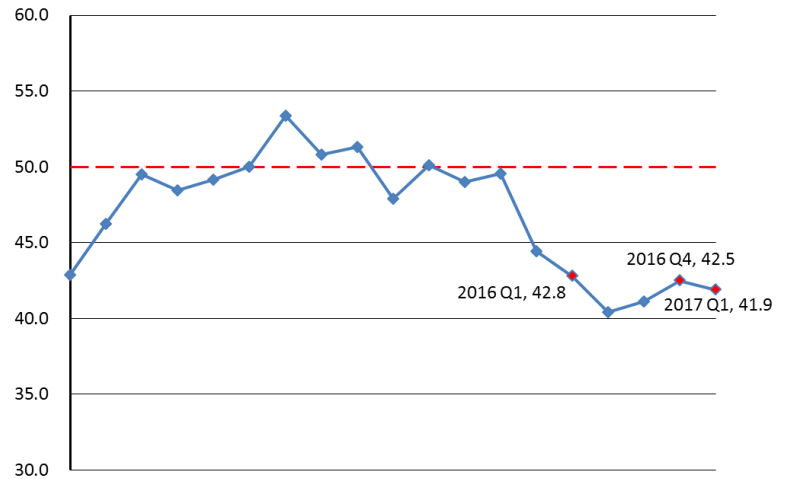


Standard Chartered SME Index

2017 Q1

41.9

Standard Chartered SME Index



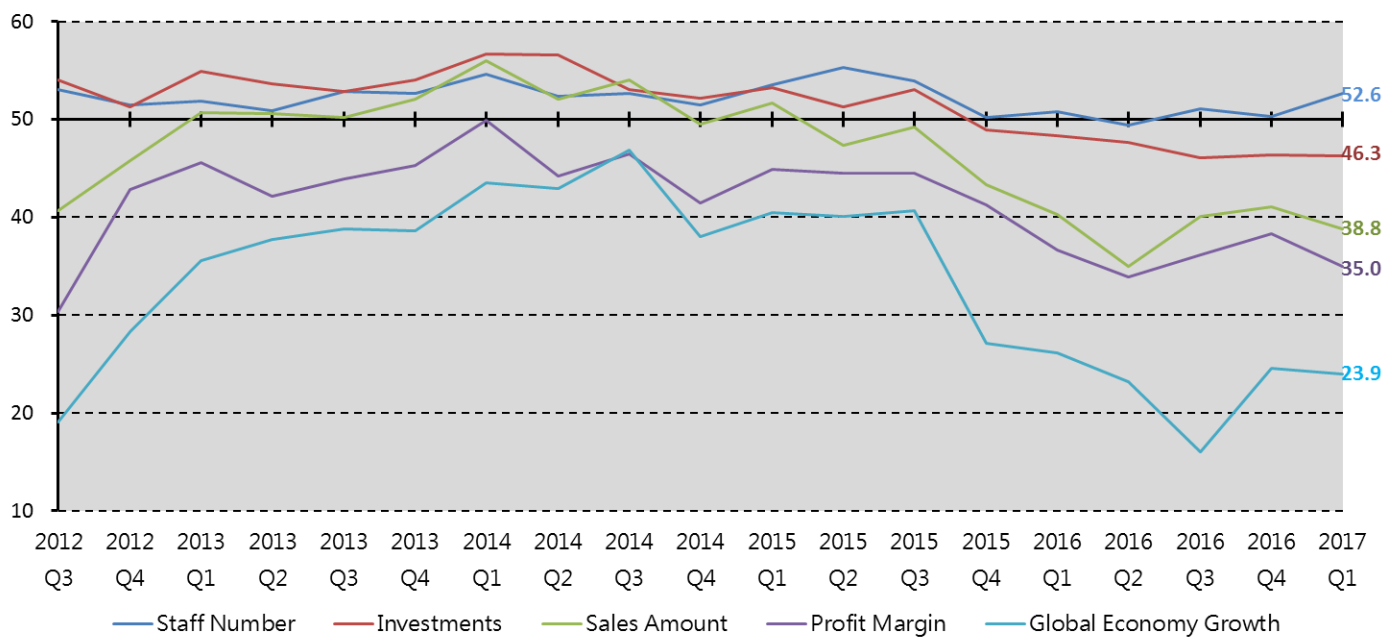
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Compared to the first quarter of 2016 (42.8), the Index of this quarter (42.5) reduced by 0.9 points. Despite "Staff Number" increased 1.8 point, all the other sub-indices were dropped simultaneously.

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The five component sub-indices

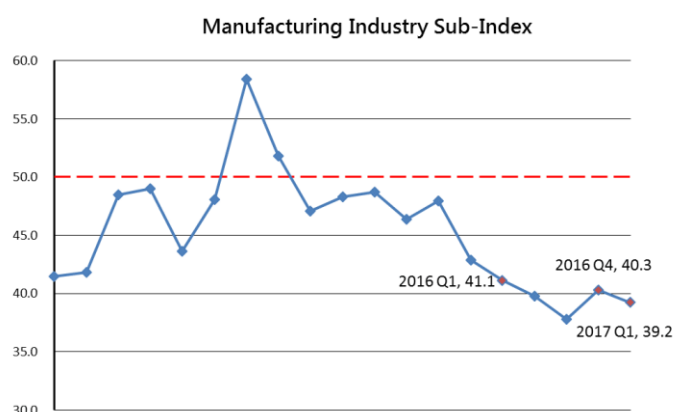


LB Index Industry Indices

Manufacturing industry| 39.2

Manufacturing industry sub-index has dropped by 1.1 points to 39.2. Compared to the same quarter in last year, the sub-index dropped 1.9 points. The reduction is the result of drop in “Sales Amount” and “Profit Margin”. Overall, the manufacturing industry yet to be improved.

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



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Import/Export Trade and Wholesale industry| 39.1

The Import, Export and Wholesale Industry Sub-Index has increased by 2.4 points to 39.1. Compared to same period in last year (41.6), the sub-index dropped 2.5 points in contrast. With the sub-indices remain below 40, the industry outlook stays bearish.



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

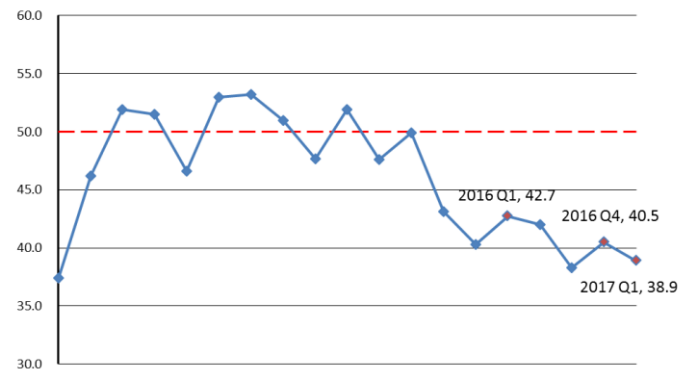


Retail industry| 38.9

The Retail Sub-Index decreased 1.6 points to 38.9, and also decreased at 3.8 points when comparing to the same period in last year. The drop is mainly attributed to “Sales Amount” and “Profit Margin”. Retailers may have lowered their business prospectation of the Lunar New Year due to unsatisfactory sales performance during the Christmas period. The confidence level cannot continue the upward trend in last quarter.

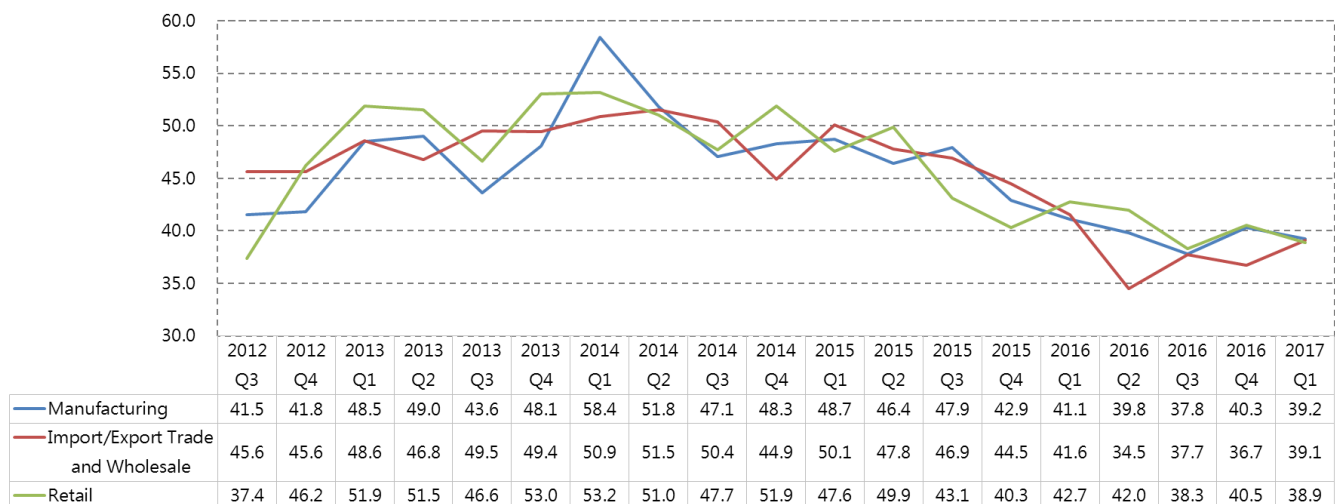
| Component | View | Compare to last quarter | Compare to last year |
|-----------------------|----------|-------------------------|----------------------|
| Industry Index | Negative | Down | Down |
| Staff Number | Positive | Up | Up |
| Investment | Negative | Down | Down |
| Sales Amount | Negative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

Retail Industry Sub-Index



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Standard Chartered SME Index by Industry

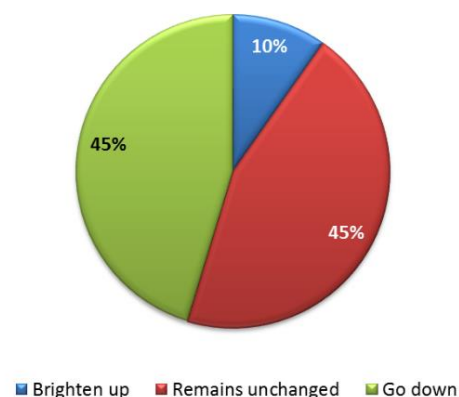


Featured topic

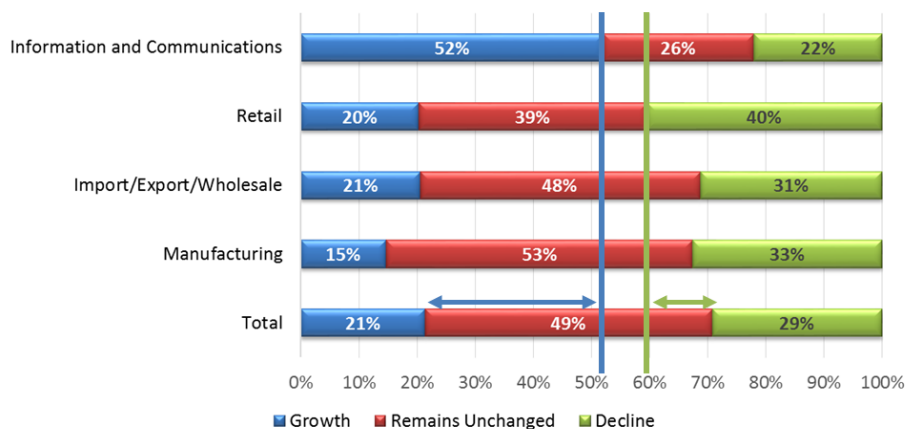
(a) The 2017 Prospection of Hong Kong SMEs

This survey also gauged the views of SMEs on Hong Kong's economic outlook and their business performance in 2017. Those expect the economy will go down are on a par with those think it remains unchanged, each group accounting for 45%; while only 10% believe the economy will brighten up.

Hong Kong's Economic Outlook in 2017



Expected Business Performance in 2017



In regard to business performance, 21% of respondents expect an increase in business performance throughout the year, nearly half expected unchanged (49%), while 29% expect a decrease.

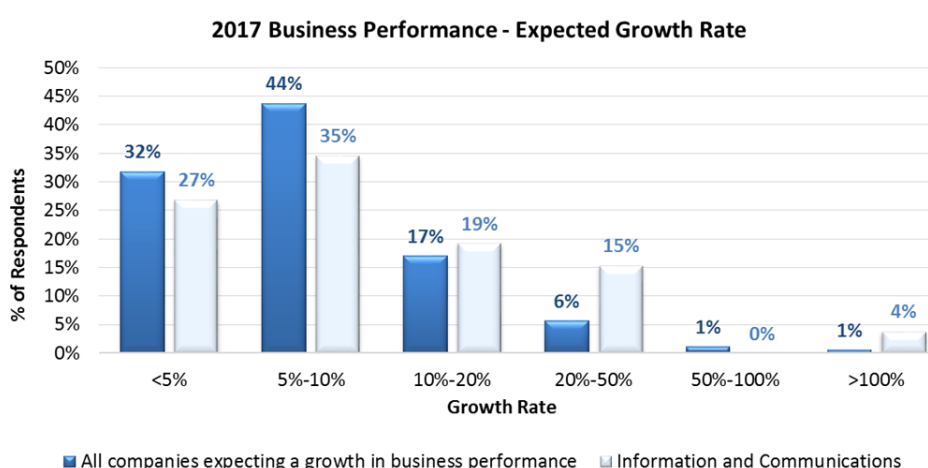
In terms of industry, the Information and Communications Technology (ICT) industry has the strongest confidence, with nearly 52% expecting growth in the full year; while confidence of Retail sector is the worst, 40% of the company is expecting a decline performance.



(a) The 2017 Prospection of Hong Kong SMEs (Con't)

Expected Growth Rate in Business Performance

For all companies expecting a growth in business performance, most of them (44%) expect the growth rate will be within the range of 5% to 10%, the average growth rate is calculated at 10%. In term of ICT industry, most of them (35%) expect the growth rate will be within the range of 5% to 10%, while the proportion that are expecting a high growth rate is more than all companies' expectation, with 15% expect a growth rate within 20% to 50%, where average growth rate is calculated at 15.4%

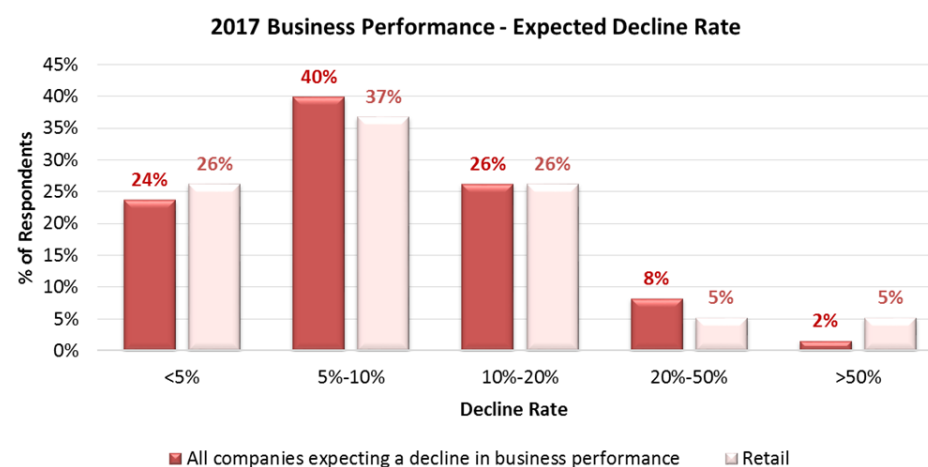


| | Average | All | ICT |
|----------------------------|------------|--------------|-----|
| <5% | 2.5% | 32% | 27% |
| 5%-10% | 7.5% | 44% | 35% |
| 10%-20% | 15% | 17% | 19% |
| 20%-50% | 35% | 6% | 15% |
| 50%-100% | 75% | 1% | 0% |
| >100% | 100% | 1% | 4% |
| Average Growth Rate | 10% | 15.4% | |

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Expected Decline Rate in Business Performance

For all companies expecting a decline in business performance, most of them (40%) expect the decline rate will be within the range of 5% to 10%, the average decline rate is calculated at 11.3%. In term of Retail industry, most of them (37%) expect the decline rate will be within the range of 5% to 10%, in line with all companies' expectation, with average decline rate is calculated at 11.8%



| | Average | All | Retail |
|-----------------------------|--------------|--------------|--------|
| <5% | 2.5% | 24% | 26% |
| 5%-10% | 7.5% | 40% | 37% |
| 10%-20% | 15% | 26% | 26% |
| 20%-50% | 35% | 8% | 5% |
| >50% | 50% | 2% | 5% |
| Average Decline Rate | 11.3% | 11.8% | |



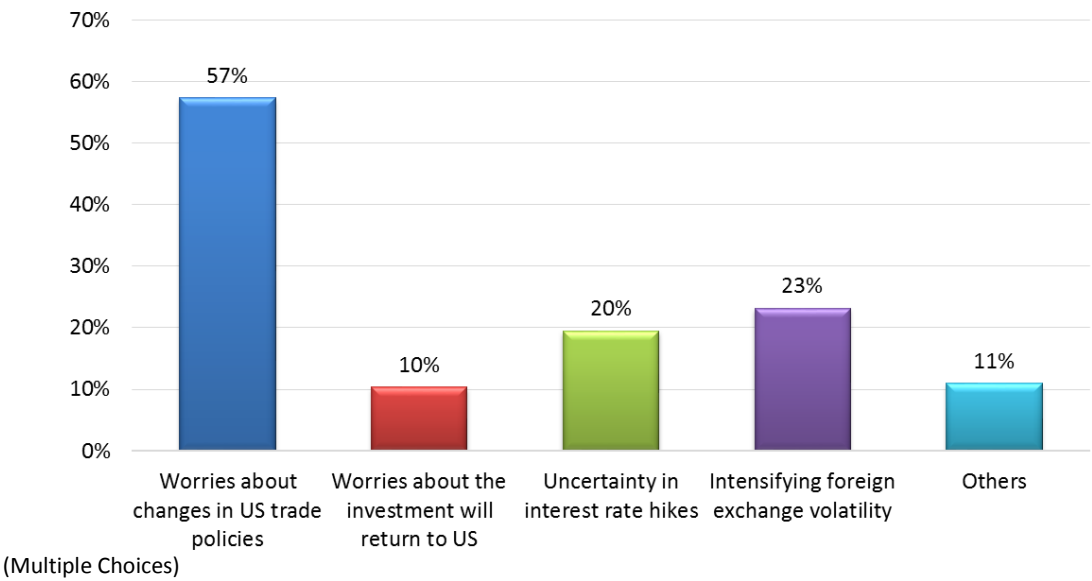
(b) Views of SMEs on the Change in the US Presidency

Mr Donald Trump was inaugurated as the new US President on 20 January, 2017. This survey also gauged the views of SMEs on the change in the US presidency. 20% of the surveyed companies expressed that their business confidence have weakened, mainly due to “worries about changes in US trade policies” (57%), followed by “intensifying foreign exchange volatility” (23%) and “uncertainty in interest rate hikes” (20%).

Views of SMEs on the Change in the US Presidency

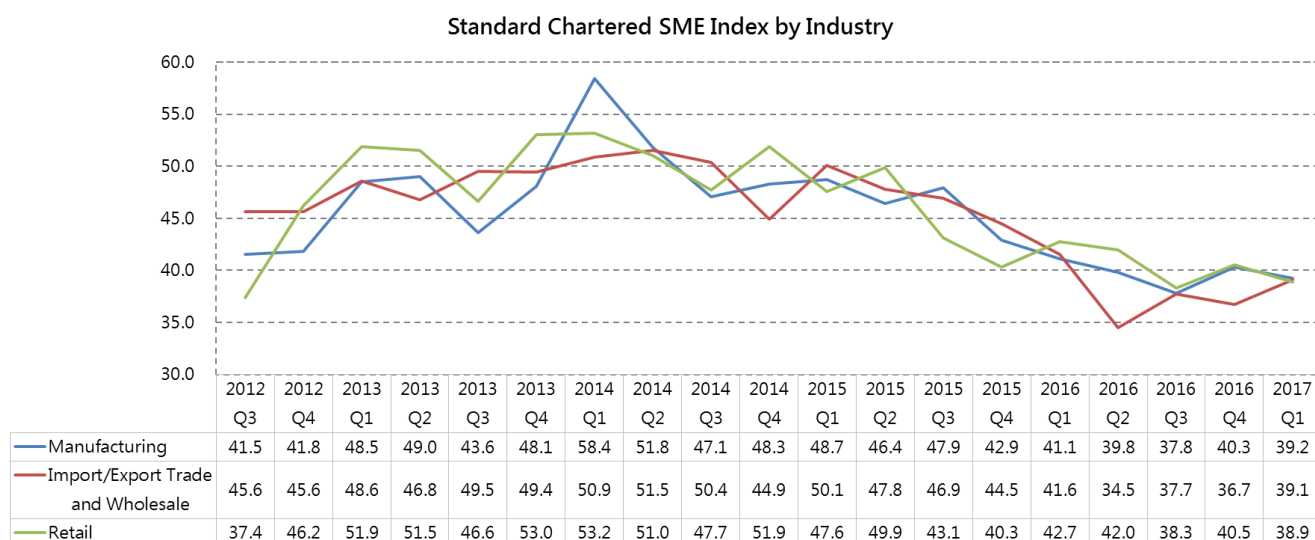


Main Reasons for Weakened Business Confidence



Appendix

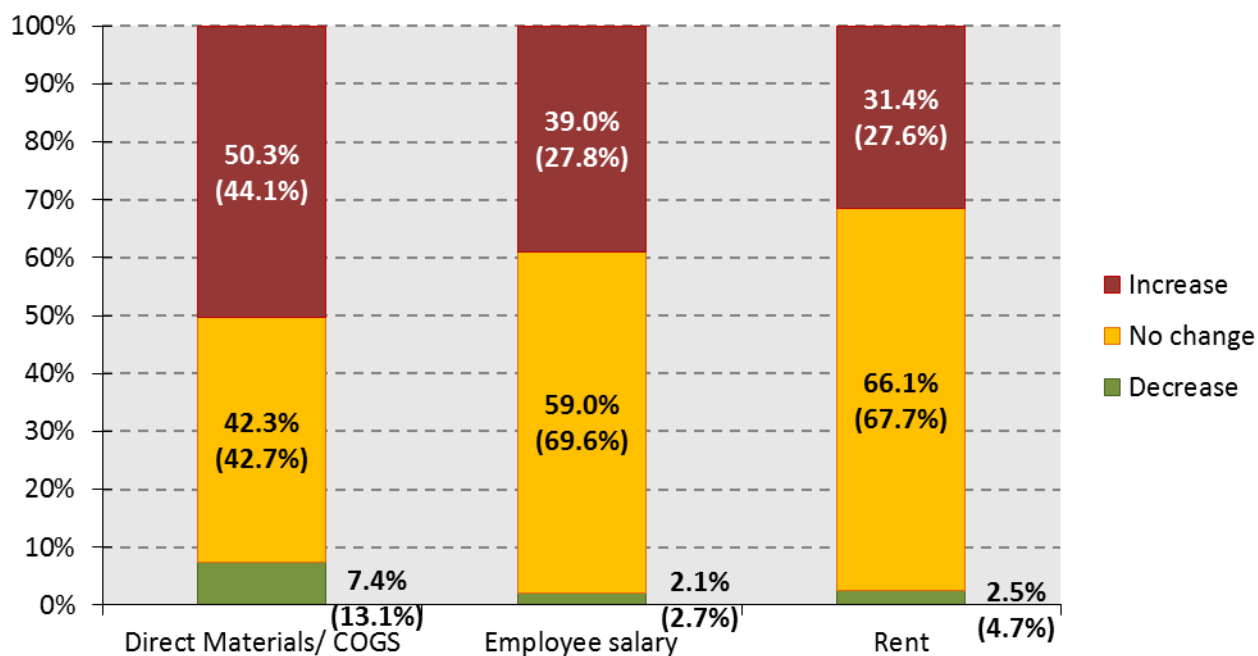
Standard Chartered SME Index by Industry



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



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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