

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 modern infrastructure and urban development.

Standard Chartered Hong Kong SME Leading Business Index

Quarter 2, 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.



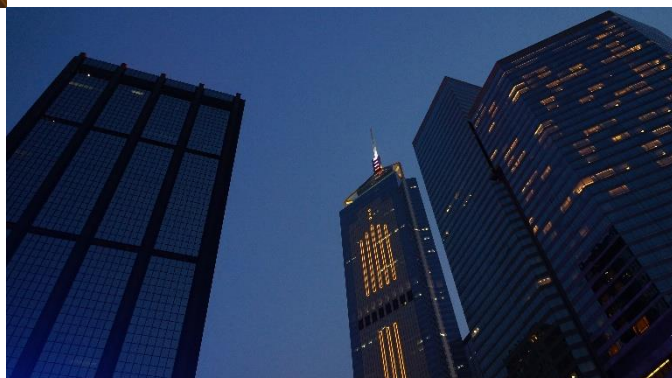
Summary

The 24th survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted from mid to late March 2018. Top management of 830 SMEs were surveyed to gauge their views on the outlook of the overall business environment and regional economic changes in the 2nd quarter of 2018.

Key findings

The Overall Index of the Standard Chartered SME Index rising for three consecutive quarters, reading at 49.7 for the second quarter of 2018. The mild increase of 0.3 points has pushed the Index closer to the 50 no-change mark. Key findings of the survey are as follows:

- ⊕ Overall Index comprising five Sub-Indices, the Sub-Indices for “Staff Number” and “Investments” remain positive, reading at 54.9 and 51.9 respectively;
- ⊕ The “Sales Amount” Sub-Index (50.2) rises above the 50 threshold for the first time in three years;
- ⊕ The “Profit Margin” Sub-Index (45.5) has slightly increased 1.8 points, while the “Global Economic Growth” Sub-Index has dropped 4.6 points to 38.8;
- ⊕ The business sentiment of the retail sector has improved notably, with the industry sub-index rising for four consecutive quarters, hitting a three-year high. Retailers’ outlook for “Investments” (55.6) has also exceptionally turned positive;
- ⊕ The Manufacturing (43.6) Sub-Index continues the growth momentum of last quarter, with a rise of 1.6 points;
- ⊕ Dragged down by the “Global Economic Growth” and “Investments” readings, the Import, Export and Wholesale Sub-Index fell 2.4 points to 43.8;
- ⊕ Nearly 33% of the surveyed SMEs have already developed or plan to tap foreign markets, such as Mainland China (62%), Southeast Asia (32%) and the United States (25%);
- ⊕ For business expansion on the Mainland, Guangdong-Hong Kong-Macao Bay Area (51%) is the most preferred location, followed by first-tier cities (Beijing, Shanghai, etc.) (32%). Only 7% of respondents chose “One Belt, One Road” related cities.

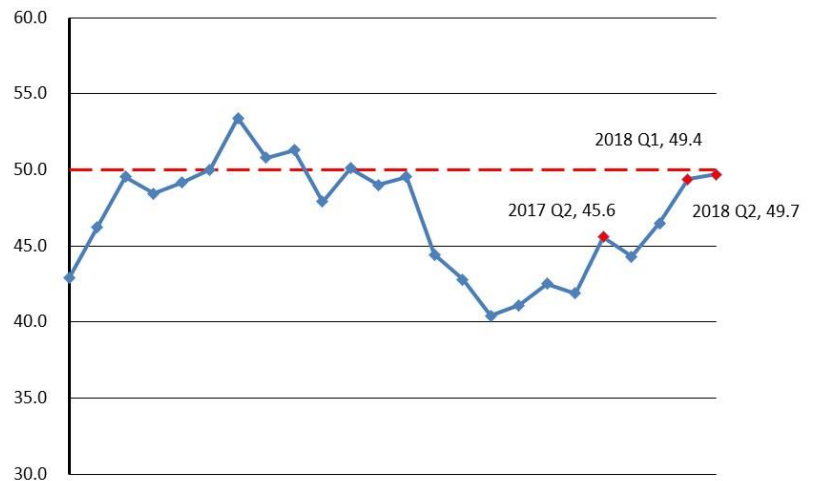


Standard Chartered SME Index

2018 Q2

49.7

Standard Chartered SME Index



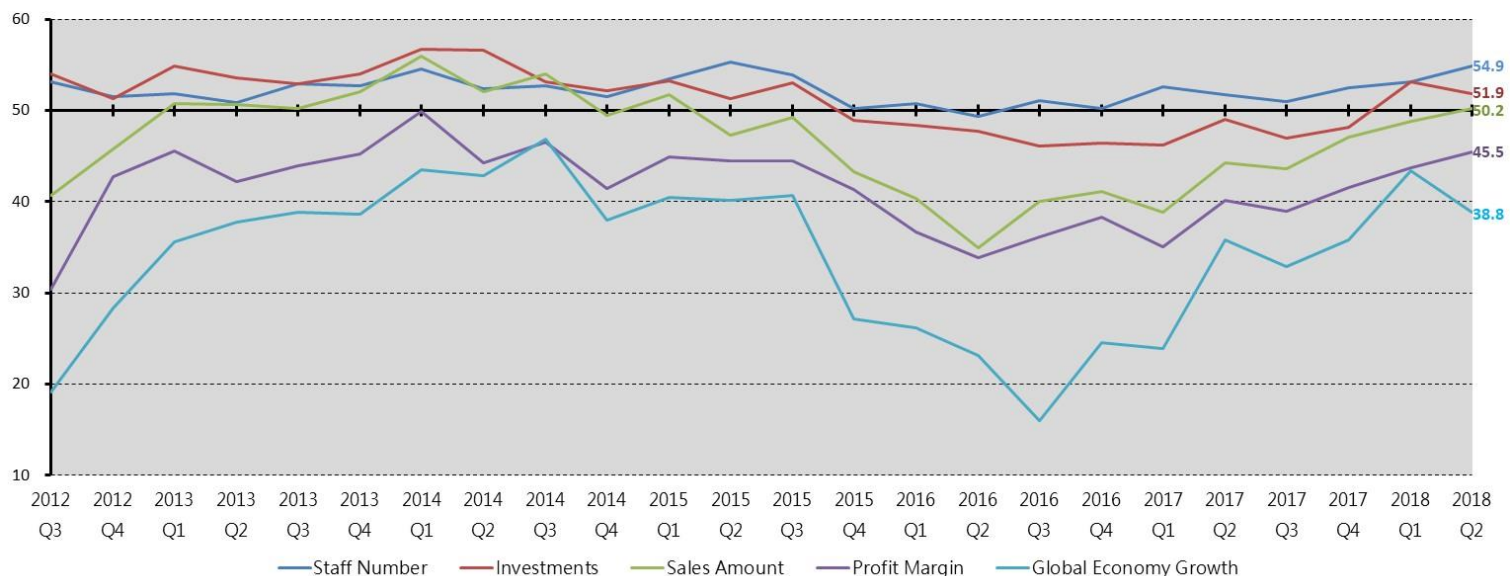
The Overall Index of the Standard Chartered SME Index rising for three consecutive quarters, reading at 49.7 for the second quarter of 2018, with the mild increase of 0.3 points has pushed the Index closer to the 50 no-change mark.

Overall Index comprising five Sub-Indices. In this quarter, the Sub-Indices for “Staff Number” and “Investments” remain positive, reading at 54.9 and 51.9 respectively. The “Sales Amount” Sub-Index (50.2) rises above the 50 threshold for the first time in three years. The “Profit Margin” Sub-Index (45.5) has slightly increased 1.8 points, while the “Global Economic Growth” Sub-Index has dropped 4.6 points to 38.8.

Compared to the second quarter of 2017 (45.6), the Index of this quarter (49.7) increased by 4.1 points. All the sub-indices were increased simultaneously.

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The five component sub-indices



LB Index Industry Indices

Manufacturing industry| 43.6

Manufacturing industry sub-index has increased by 1.6 points to 43.6, which also increased 2.2 when compared to the same quarter in last year(41.4). Manufacturing SMEs' confidence in the "Global Economy Growth" was clearly declined this quarter, but the overall upward trend continues.

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



Manufacturing Industry Sub-Index

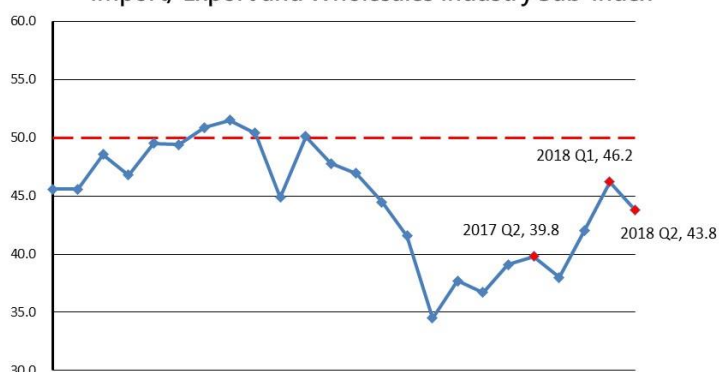


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Import/Export Trade and Wholesale industry| 43.8

The Import, Export and Wholesale Industry Sub-Index dropped by 2.4 points to 43.8. Compared to same period in last year (39.8), the sub-index increased by 4.0 points. Dragged down by the "Global Economic Growth" and "Investments" readings, there are still worries across the industry prospect.

Import/ Export and Wholesales Industry Sub-Index



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

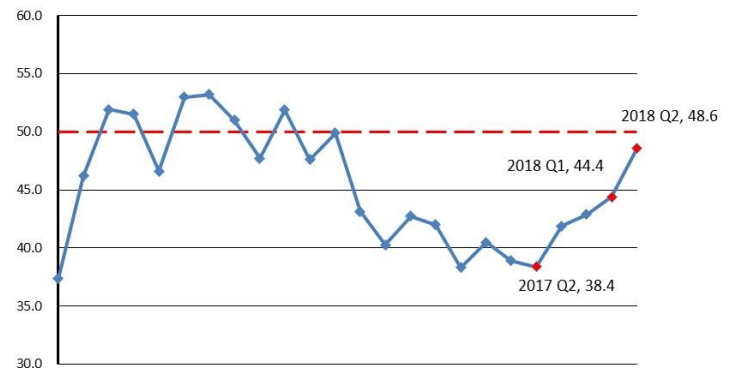


Retail industry | 48.6

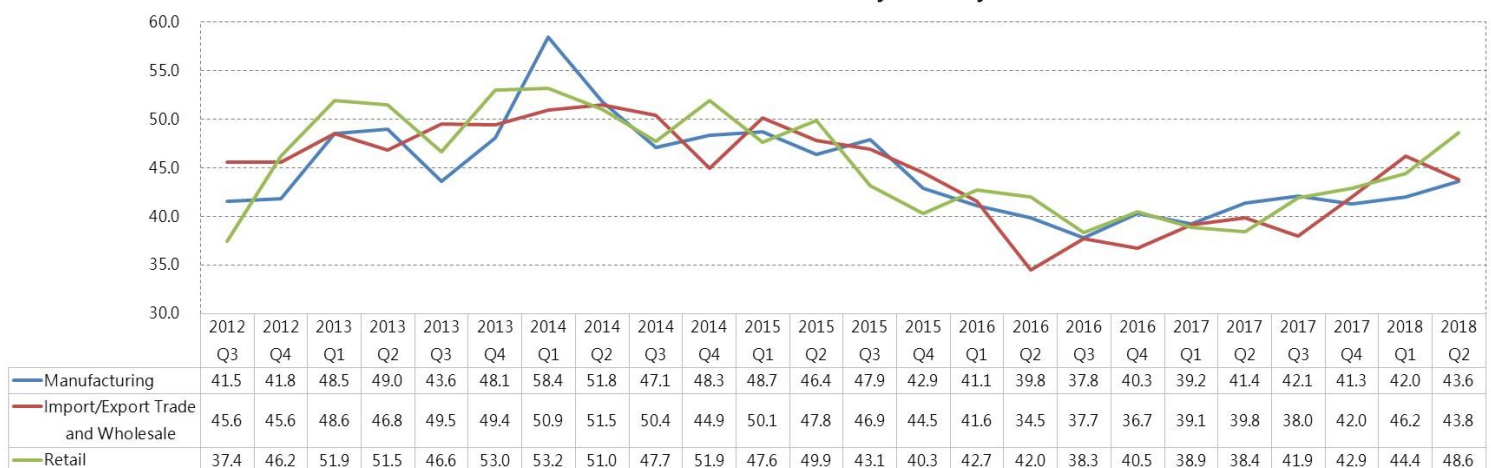
The Retail Sub-Index increased 4.2 points to 48.6, with a more significant increment of 10.2 points when comparing to the same period in last year (38.4). The index has increased for four consecutive quarters, hitting the three-year high. Retailers' outlook for "Investments" (55.6) has also exceptionally turned positive. 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	Up	Up
Investment	Positive	Up	Up
Sales Amount	Negative	Up	Up
Profit Margin	Negative	Up	Up
Global Economy Growth	Negative	Down	Down

Retail Industry Sub-Index



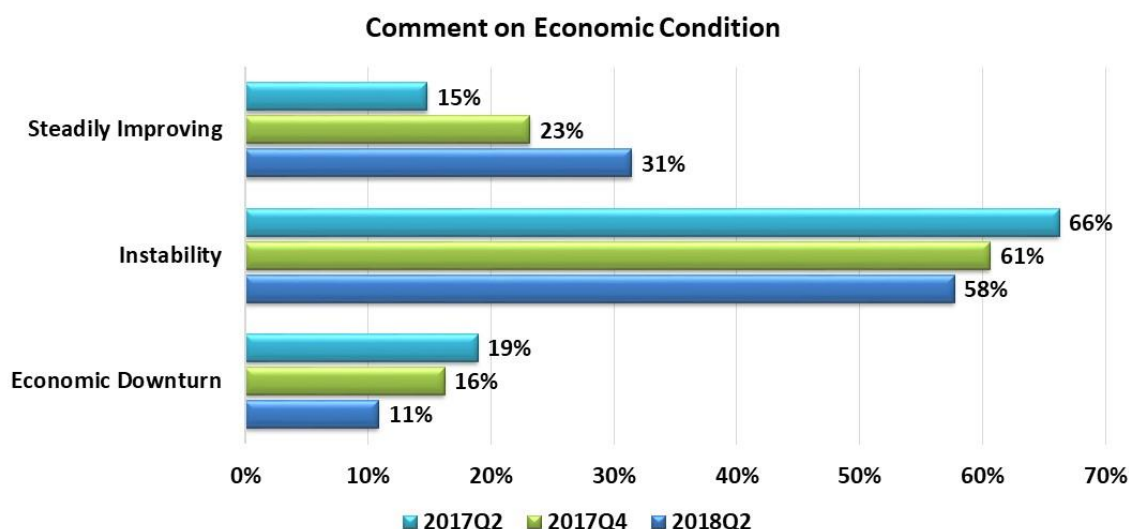
Standard Chartered SME Index by Industry



Featured topic

(a) Comment on the Economic Condition from SME Perspective

The survey also explored the comment on the economic condition from SME perspective. SMEs that believe that Hong Kong's economic environment has been steadily improving have multiplied to 31% in the past year. Also, SMEs that believe in "instability" and "economic downturn" have declined, reflecting that SMEs are more and more optimistic about their business prospects.

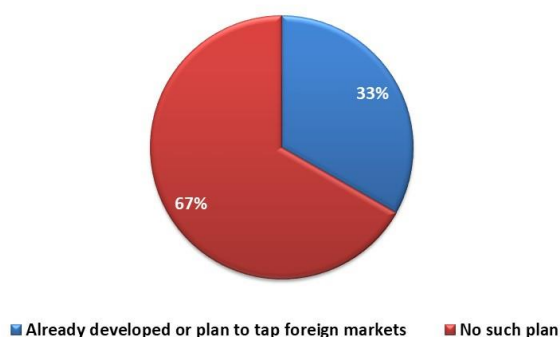


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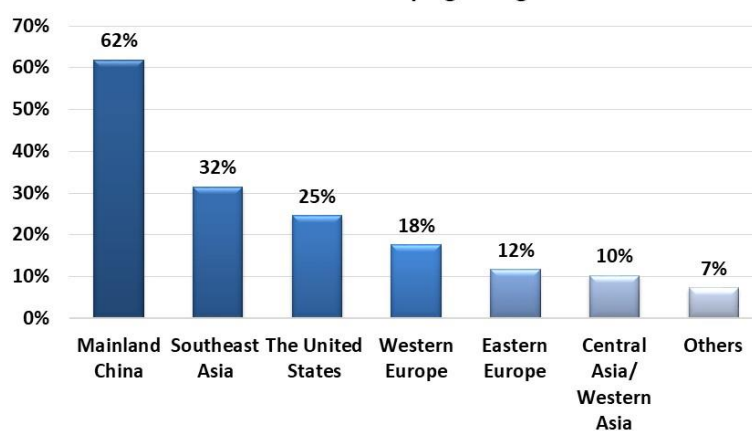
(b) Business Expansion Plan among SMEs

The survey also gauged the business expansion plan among SMEs. Nearly 33% of the surveyed SMEs have already developed or plan to tap foreign markets, such as Mainland China (62%), Southeast Asia (32%) and the United States (25%).

Business Expansion Plan in Foreign Market



Hot Location for Developing Foreign Market

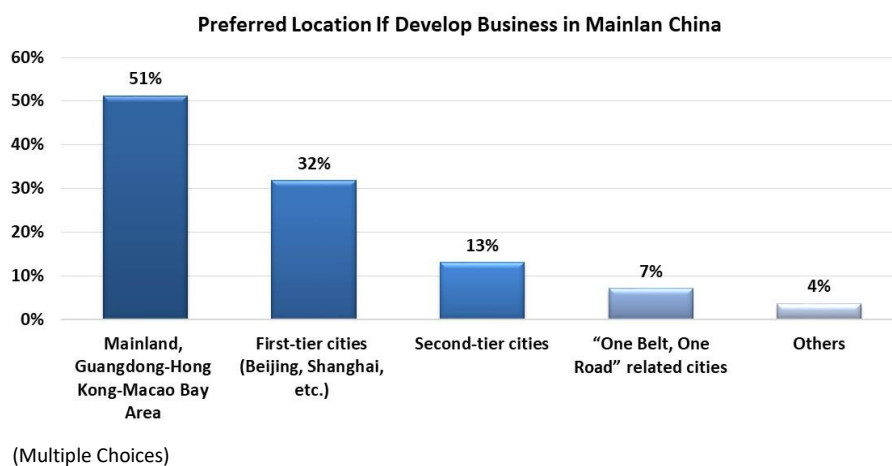


(Multiple Choices)

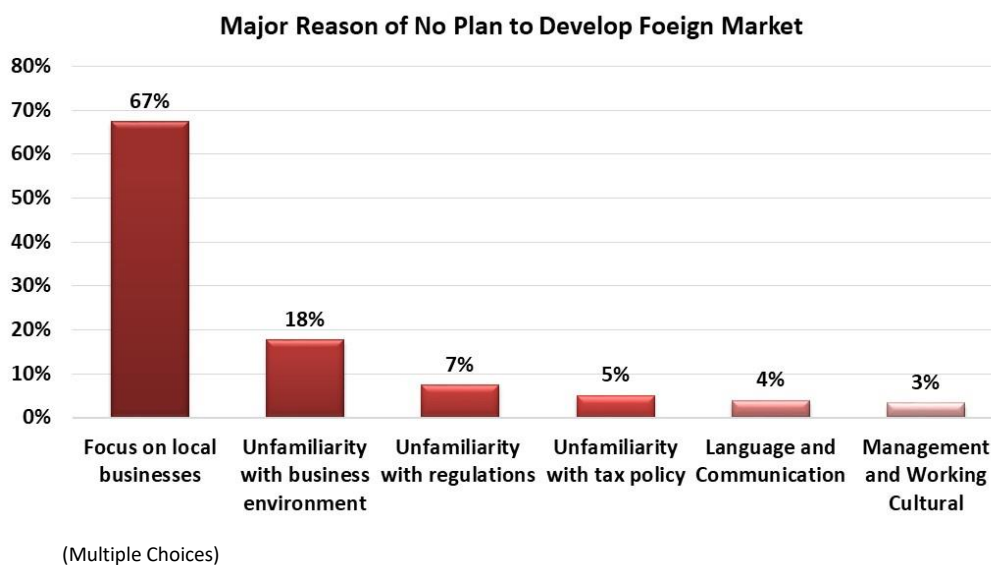


(b) Business Expansion Plan among SMEs (Con't)

For business expansion on the Mainland, Guangdong-Hong Kong-Macao Bay Area (51%) is the most preferred location, followed by first-tier cities (Beijing, Shanghai, etc.) (32%). Only 7% of respondents chose "One Belt, One Road" related cities.

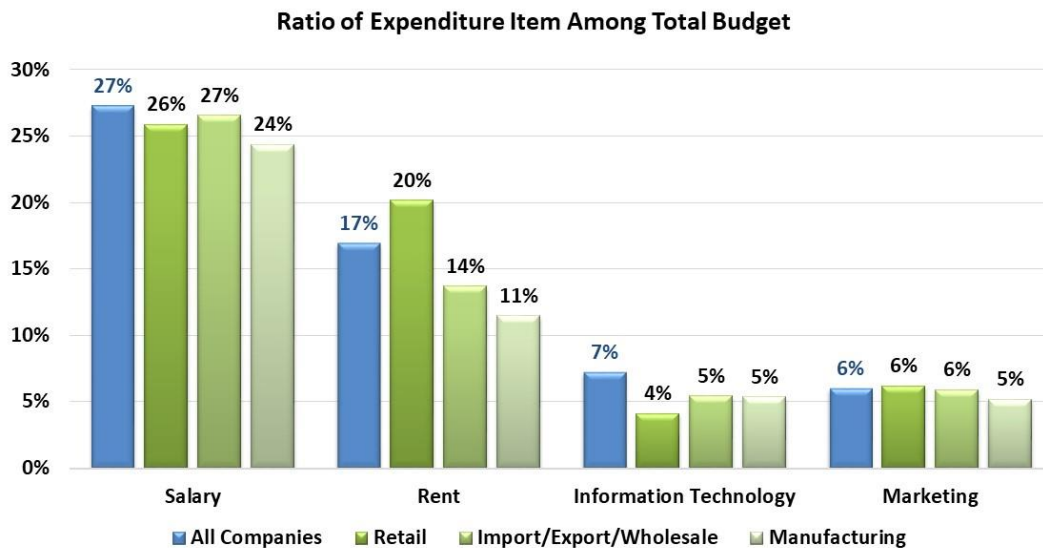


For those SMEs with no desire for foreign expansion, "Focus on local businesses" (67%), "Unfamiliarity with business environment" (18%), "Unfamiliarity with regulations" (7%) and "Unfamiliarity with tax policy" (4%) are their main reasons for the lukewarm response.



(c) Budgeting Of SMEs in The Fiscal Year 2018-19

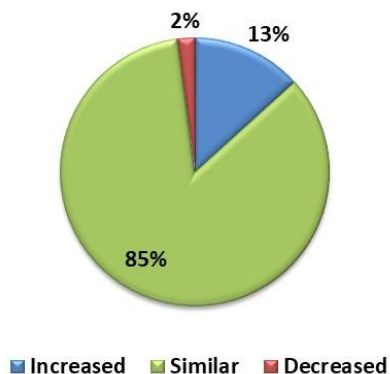
The survey also explored the budgeting of SMEs in the fiscal year 2018-19. "Salary" (27%) and "Rent" (17%) are the major expenditures, while the budgets for "Information Technology" (7%) and "Marketing" (6%) are relatively low. Among the three major industries, SMEs in Retail Industry are planning higher expenditure ratio on "Rent" at 20%.



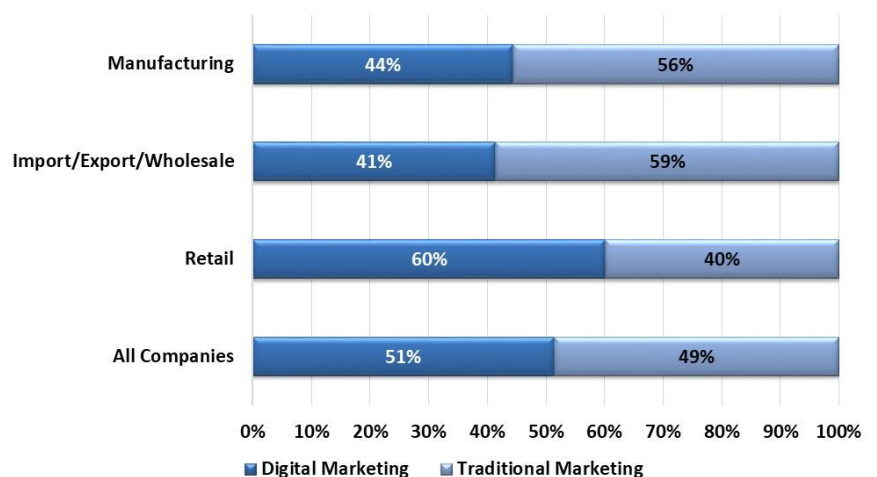
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In general, SMEs will spend about the same amount on both digital and traditional marketing in the coming year. Among all industries, the retail sector tends to invest more on digital marketing, with the forecasted expenditure covering 60% of the total marketing budget.

**Change in Marketing Budget
(Compared with Last Year)**

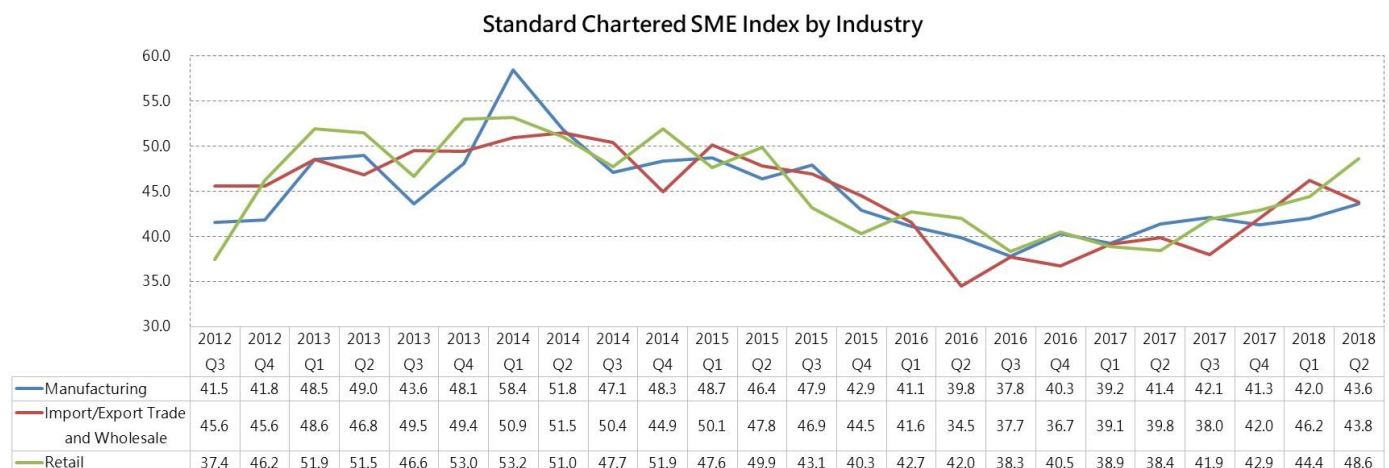


Expected Ratio of Digital Marketing Vs Traditional Marketing



Appendix

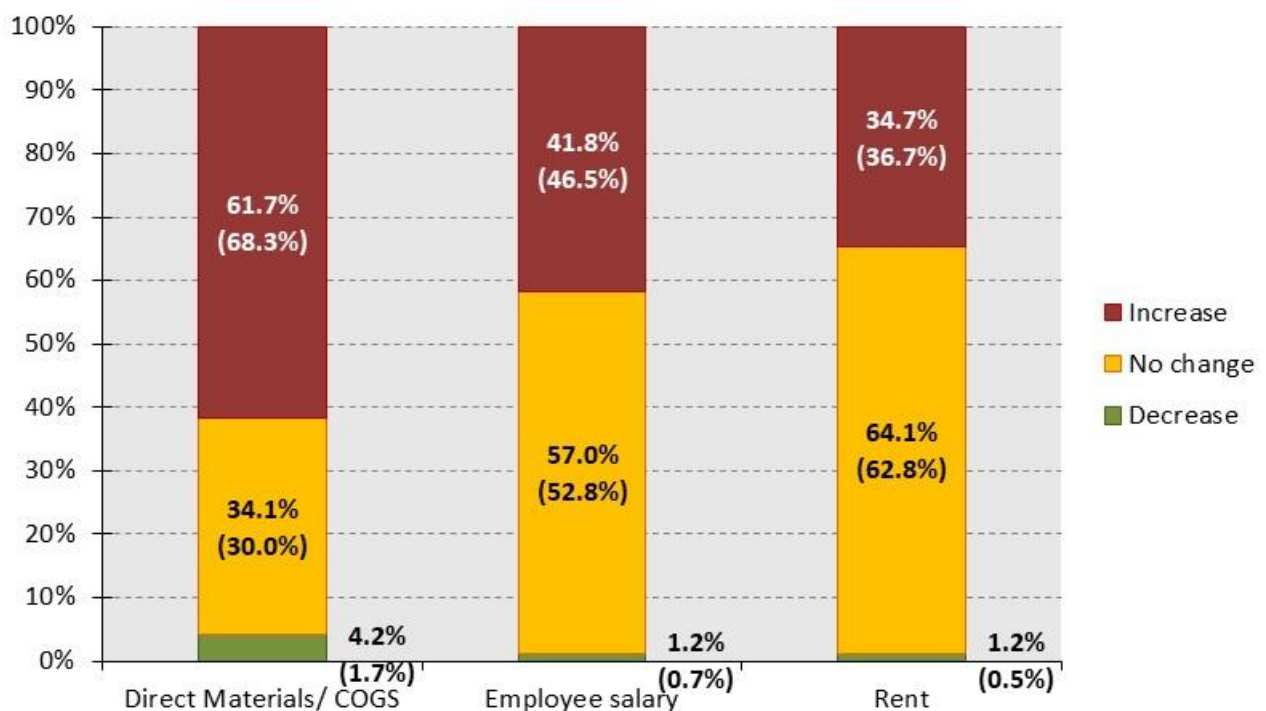
Standard Chartered SME Index by Industry



Change of major cost components

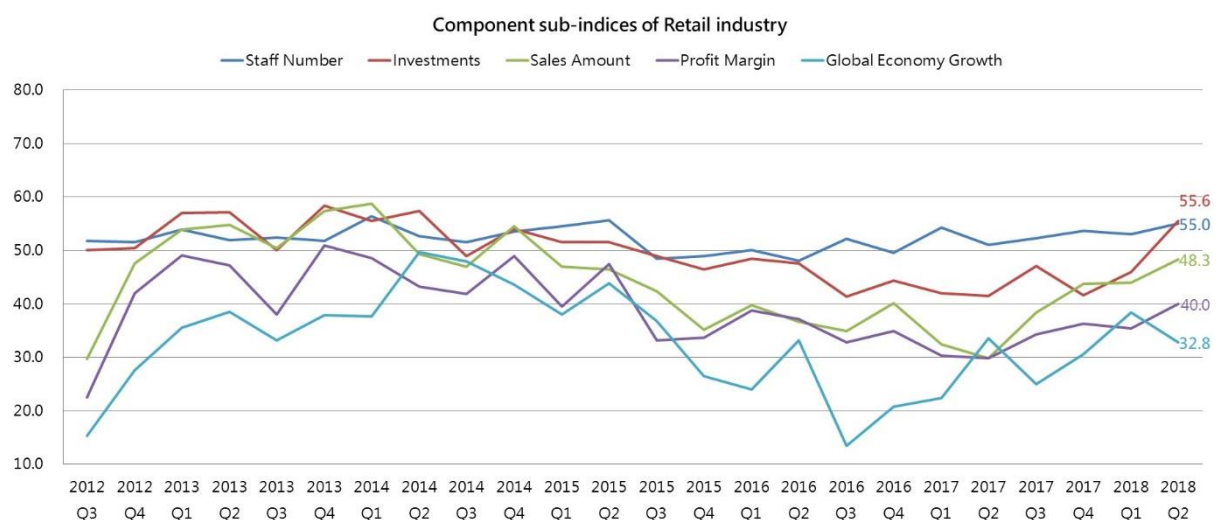
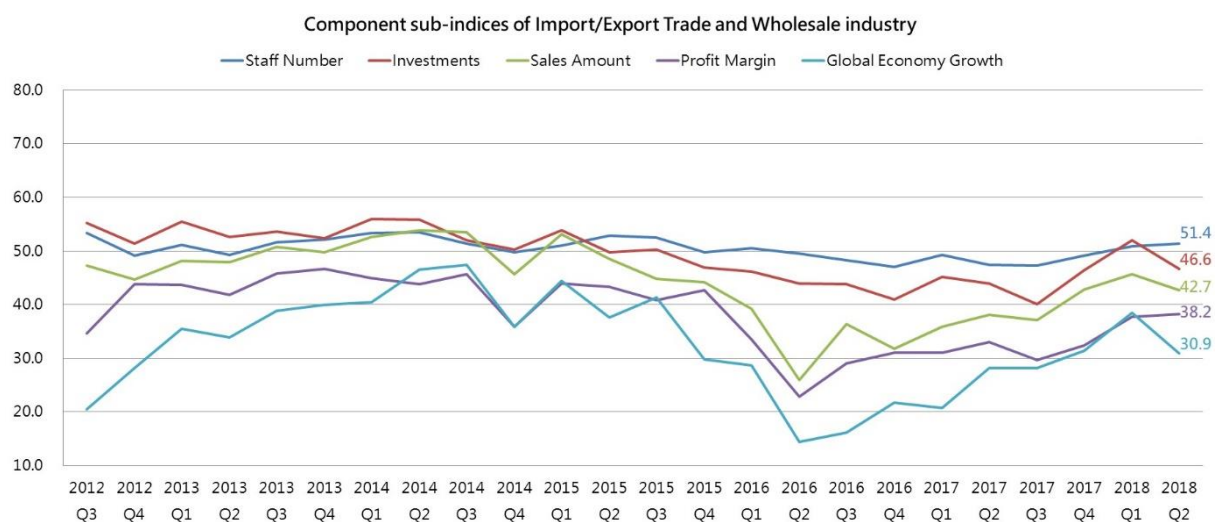
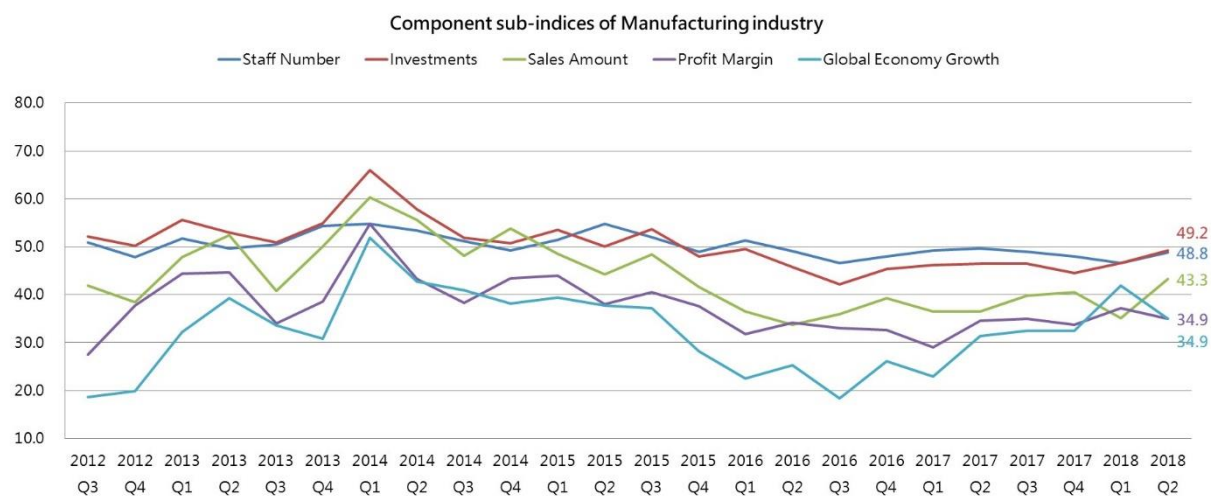
Change of major cost components

(Last quarter figures in bracket)



Appendix

Component sub-indices of 3 main industries



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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