

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 moving along. There are green landscaped areas with palm trees and other plants between the highway sections. A tall light pole stands on the right side of the highway.

Standard Chartered Hong Kong SME Leading Business Index

Quarter 4, 2019

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, professional services, and real estate industries. It covers SMEs’ outlook on their ‘Recruitment Sentiment’, ‘Profit Margin’, ‘Investment Sentiment’, ‘Business Condition’, and ‘Global Economy’ 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
Recruitment Sentiment	25%
Investment Sentiment	25%
Business Condition	20%
Profit Margin	20%
Global Economy	10%

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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 30th survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted in September 2019. Top management of 801 SMEs were surveyed to gauge their views on the outlook of the overall business environment and regional economic changes in the 4th quarter of 2019.

Key findings

The 2019 Q4 Overall Index of the Standard Chartered SME Index decreased by 7.6 points, reading at 31.4, indicating that SMEs' confidence in the business environment stays persistently weak. Nevertheless, the survey found that 70% of SMEs agreed that tapping into new markets could breakthrough current business situation; and 86% of SMEs agreed digital technology deployment as business development trend, which indicated that SMEs are proactively figuring out how to combat current business challenges. Key findings of the survey are as follows:

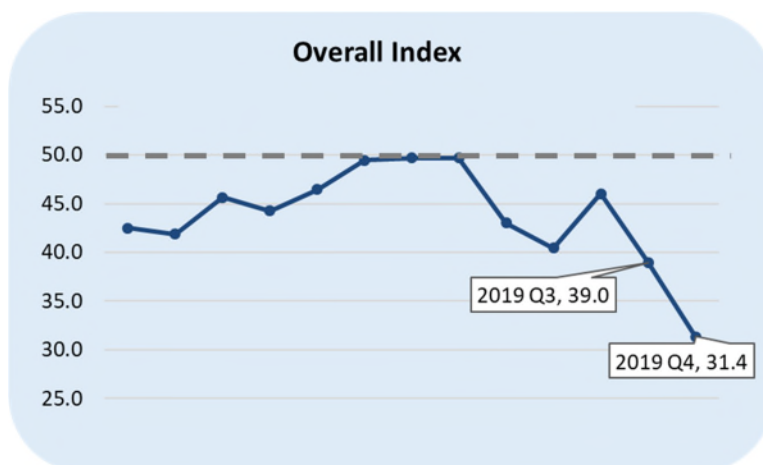
- ⊕ Overall Index comprising five sub-indices, and all the sub-indices dropped simultaneously;
- ⊕ "Recruitment Sentiment" (47.6) "Investment Sentiment" (36.1), and "Profit Margin" (23.6) respectively decreased by 3.0, 7.5 and 11.2 points;
- ⊕ "Business Condition" recorded a relatively large decrease of 12.2 points, reduced to 24.2;
- ⊕ "Global Economy" dropped from 12.1 to 8.9;
- ⊕ As for the three key industry indices, namely "Manufacturing Industry", "Import/Export Trade and Wholesale Industry" and "Retail Industry" were all seen to drop;
- ⊕ When being asked about the trend of international trade disputes, 51% of surveyed SMEs expressed cautiousness, which was slightly higher than last quarter's 48%;
- ⊕ To cope with business challenges brought by international trade disputes, 52% of SMEs said they got the corresponding response plan. 48% of SMEs with response plans would tap into new markets for sales and operations; followed by reduce investment (45%), and streamline operation (35%);
- ⊕ 70% of surveyed SMEs agreed that "Tapping into new market" could make a breakthrough under current situation, while 80% of respondents in "Information and Communications Industry" expressed the same view; followed by "Manufacturing Industry" (77%) and "Import/Export Trade and Wholesale Industry" (76%);
- ⊕ When being asked about the action plan for tapping into new markets, 48% of SMEs would study current market data and information; followed by improve staff capability (36%), and participate in relevant conferences, exhibitions, seminars and exchange activities (34%);
- ⊕ The survey also asked their preference on supports received when tapping into new markets, most of them (47%) would like to have government/organisation subsidies; while 36% and 35% of them would like to have more support on business partner matching and new market information respectively;
- ⊕ 86% of surveyed SMEs agreed that digital technology deployment as business development trend. The survey also asked their preference on supports on digital technology deployment, most of them (65%) would like to have support related to technical expert; while 54% and 43% of them would like to have more supports on funding and technology solutions respectively.



Standard Chartered SME Index

2019 Q4

31.4

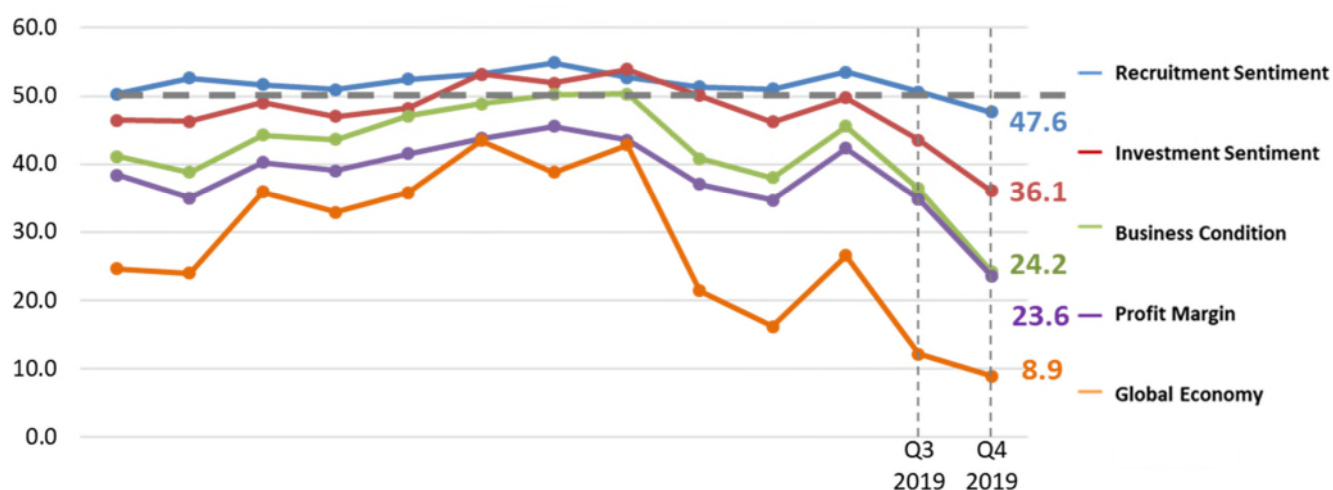


Compared with last quarter, the Overall Index decreased by 7.6 points to 31.4, indicating that SMEs' confidence in the business environment stays persistently weak.

This quarter, all the five sub-indices* of the Overall Index dropped simultaneously. "Business Condition" recorded a relatively large decrease of 12.2 points, reduced to 24.2. "Recruitment Sentiment" (47.6), "Investment Sentiment" (36.1), and "Profit Margin" (23.6) respectively decreased by 3.0, 7.5 and 11.2 points; while "Global Economy" dropped from 12.1 to 8.9.

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The Five Component Sub-Indices



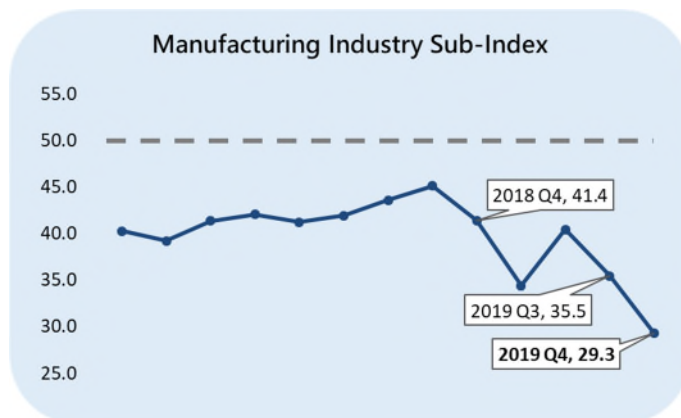
Industry Indices

Manufacturing Industry | 29.3

Manufacturing Industry sub-index decreased by 6.2 points to 29.3. Only “Global Economy” sub-index recorded a slight increase compared to last quarter, but still remains at a low level.



Component	View	Compare to last quarter	Compare to last year
Industry Index	Negative	Down	Down
Recruitment Sentiment	Negative	Down	Down
Investment Sentiment	Negative	Down	Down
Business Condition	Negative	Down	Down
Profit Margin	Negative	Down	Down
Global Economy	Negative	Up	Down

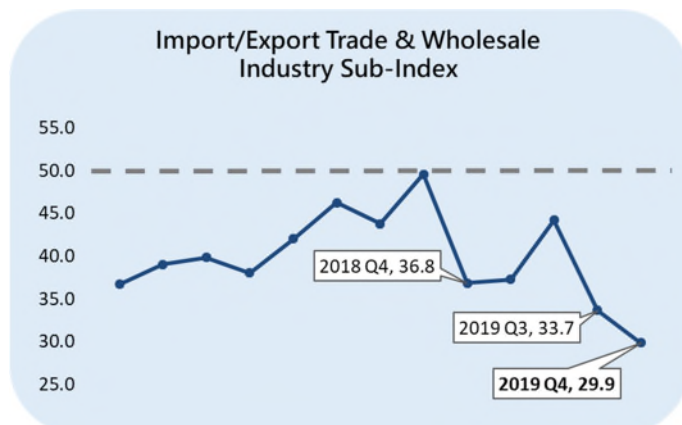


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Import/Export Trade and Wholesale Industry | 29.9

The Import, Export and Wholesale Industry sub-index decreased by 3.8 points to 29.9. Compared to Q3, only “Recruitment Sentiment” sub-index recorded a slight increase while it is still at a negative level.

Component	View	Compare to last quarter	Compare to last year
Industry Index	Negative	Down	Down
Recruitment Sentiment	Negative	Up	Down
Investment Sentiment	Negative	Down	Down
Business Condition	Negative	Down	Down
Profit Margin	Negative	Down	Down
Global Economy	Negative	Down	Down

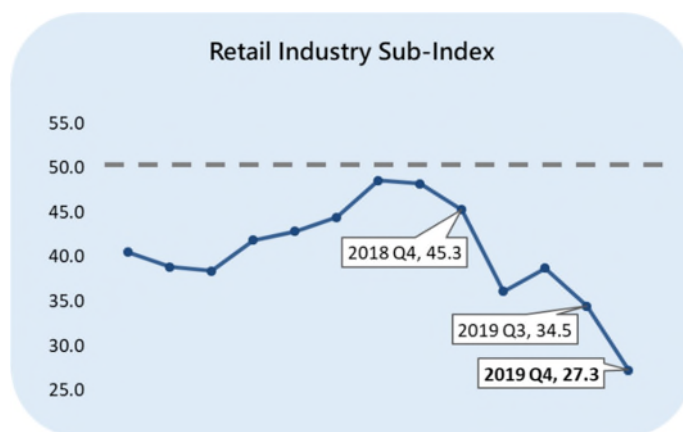


Industry Indices

Retail Industry | 27.3

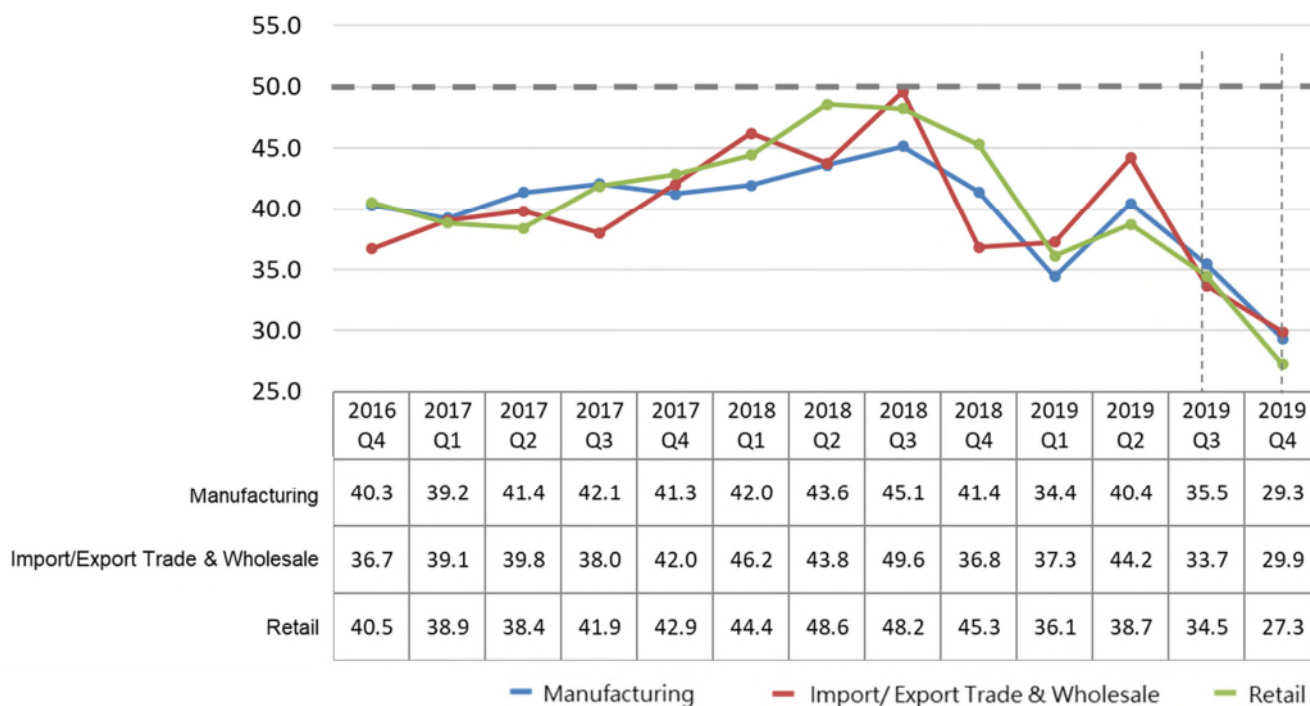
The Retail sub-index decreased by 7.2 points to 27.3. All sub-indices dropped simultaneously when compared to last quarter, indicating a more pessimistic outlook on the business environment.

Component	View	Compare to last quarter	Compare to last year
Industry Index	Negative	Down	Down
Recruitment Sentiment	Negative	Down	Down
Investment Sentiment	Negative	Down	Down
Business Condition	Negative	Down	Down
Profit Margin	Negative	Down	Down
Global Economy	Negative	Down	Down



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SME Index for Selected Industries

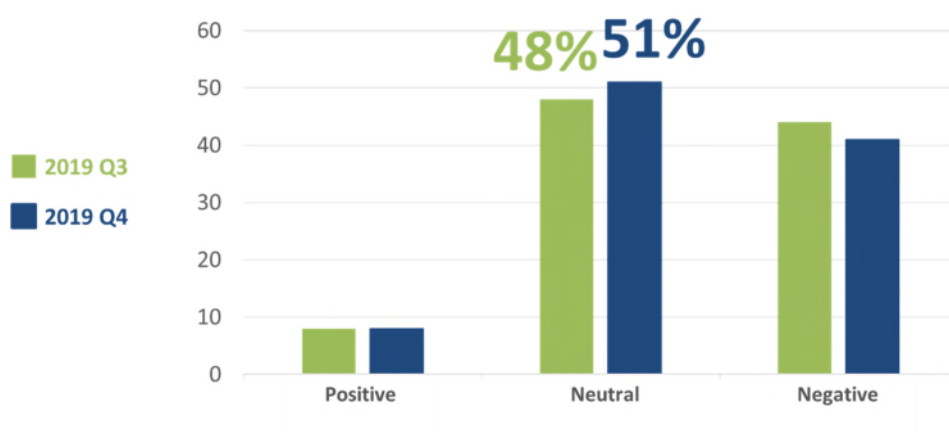


Featured topics

(A) How SMEs cope with the fluctuating global economy

When being asked about the trend of international trade disputes, 51% of surveyed SMEs expressed cautiousness, which was slightly higher than last quarter's 48%.

SMEs' views on the trend of international trade disputes:



To cope with business challenges brought by international trade disputes, 52% of SMEs said they have the corresponding response plan. 48% of SMEs with response plans would tap into new markets for sales and operations; followed by reduce investment (45%), and streamline operation (35%).

SMEs' response to international trade disputes:

- 1 Tap into new markets for sales and operations
- 2 Reduce investment
- 3 Streamline operation
- 4 Adjust company scale

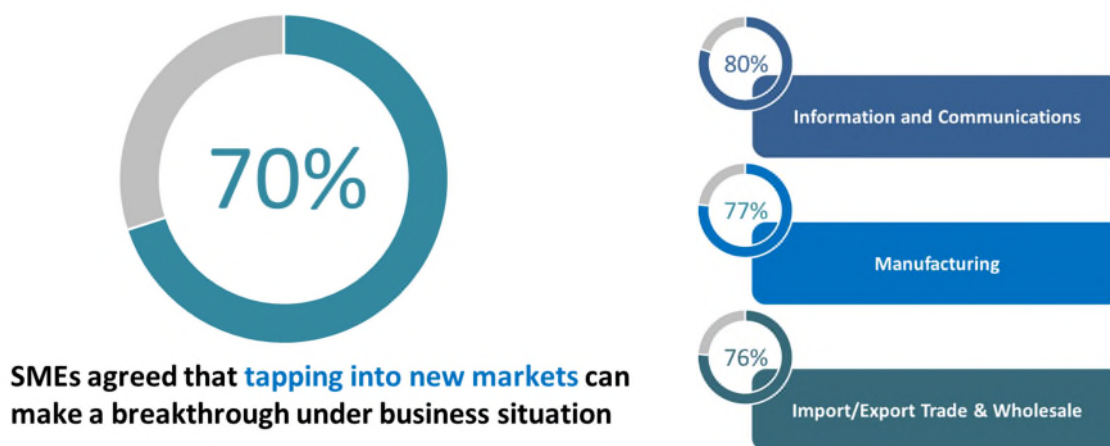


Featured topics

(B) SMEs' views on tapping into new market

This survey explored the views and strategies of SMEs on tapping into new markets. 70% of surveyed SMEs agreed that “Tapping into new market” could make a breakthrough under current situation. Among all industries, 80% of respondents in “Information and Communications Industry” expressed the same view; followed by “Manufacturing Industry” (77%) and “Import/ Export Trade and Wholesale Industry” (76%).

“Tapping into new markets” is a solution for current business challenge?

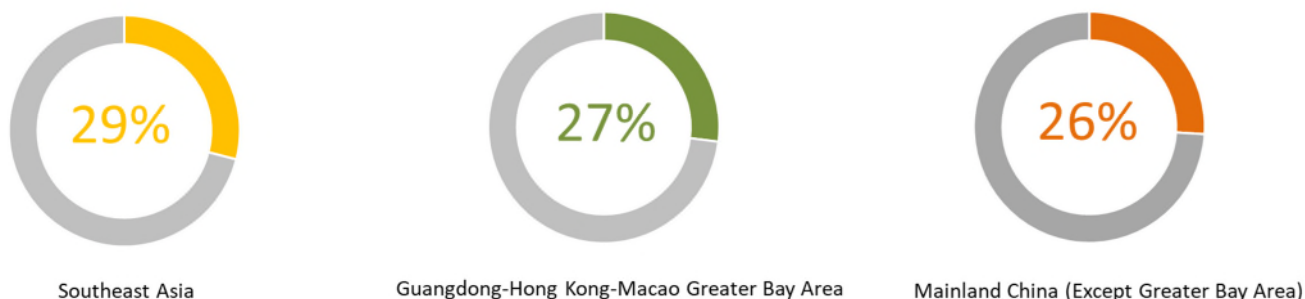


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When being asked about the plan for tapping into new markets, 29%, 27% and 26% responded SMEs said they were planning or have developed new markets in Southeast Asia, Guangdong-Hong Kong-Macao Greater Bay Area or other regions in the Mainland respectively.

SMEs' plans on tapping into new markets:

Areas where SMEs consider or plan to extend their business, or enter for business development

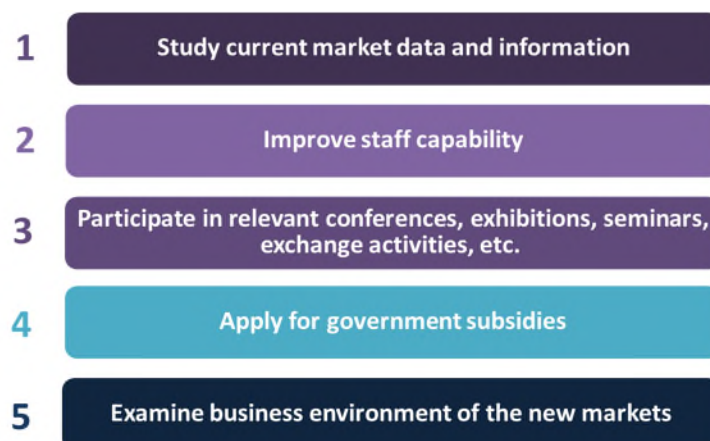


Featured topics

(B) SMEs' views on tapping into new market

When being asked about the action plan for tapping into new markets, 48% of SMEs would study current market data and information; followed by improve staff capability (36%), and participate in relevant conferences, exhibitions, seminars, exchange activities (34%).

SMEs' action plan when tapping into new markets:



The survey also asked SME's preference on supports they would like to receive when tapping into new markets, most of them (47%) wish to have government/ organisation subsidies; while 36% and 35% of them would like to have more supports on business partner matching and new market information respectively.

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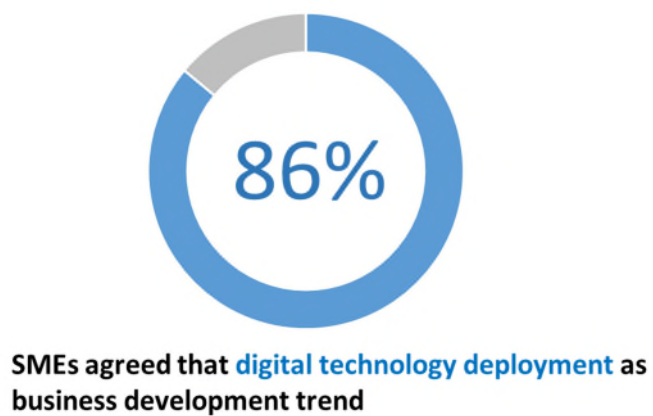
Supports that SMEs wish to receive when tapping into new markets:



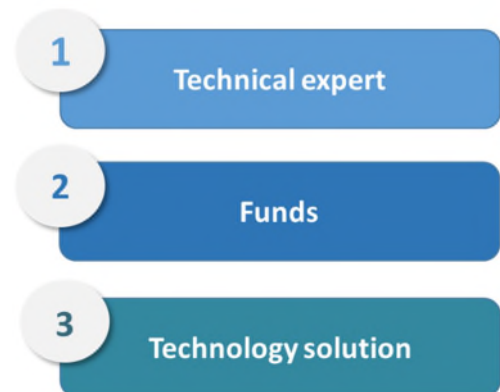
Featured topics

(C) SMEs' views on digital technology deployment

This survey further discussed the views on digital technology deployment. 86% of surveyed SMEs agreed that digital technology deployment as business development trend. The survey also asked their preference on supports on digital technology deployment, most of them (65%) would like to have support related to technical expert; while 54% and 43% of them would like to have more supports on funding and technology solutions respectively.



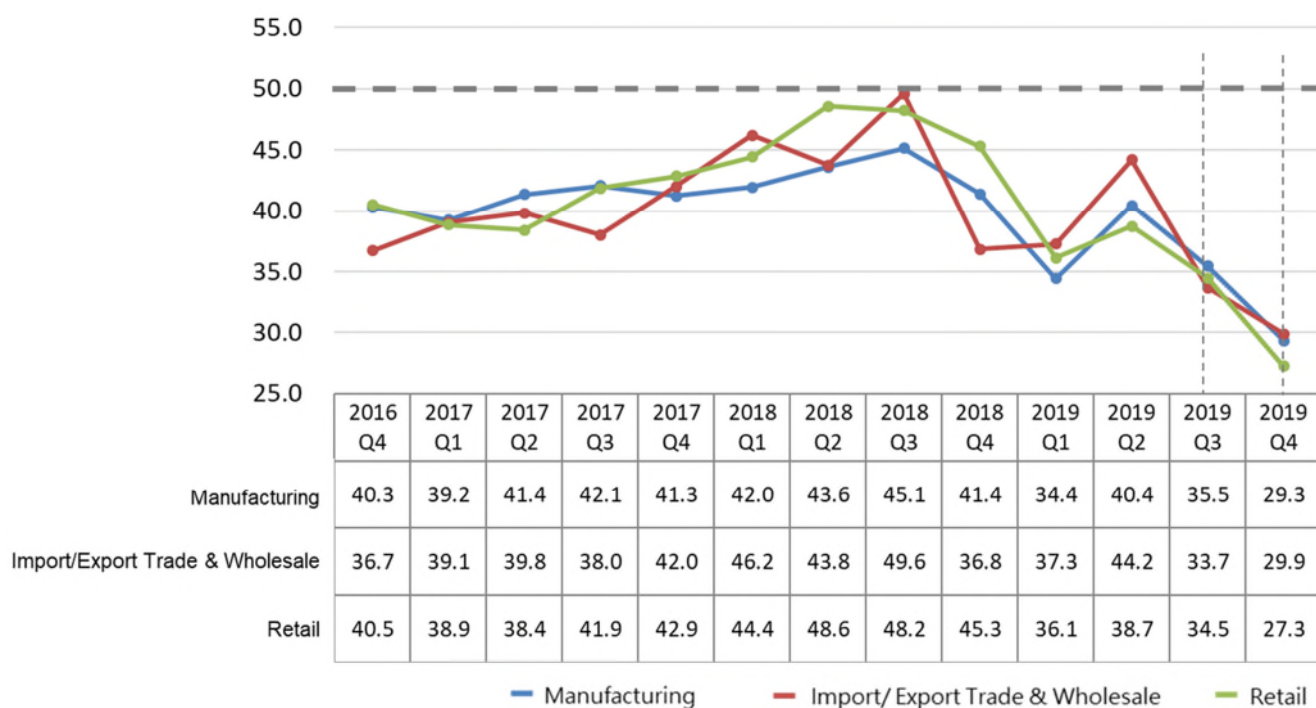
Support on digital technology deployment



Appendix

Standard Chartered SME Industry Index

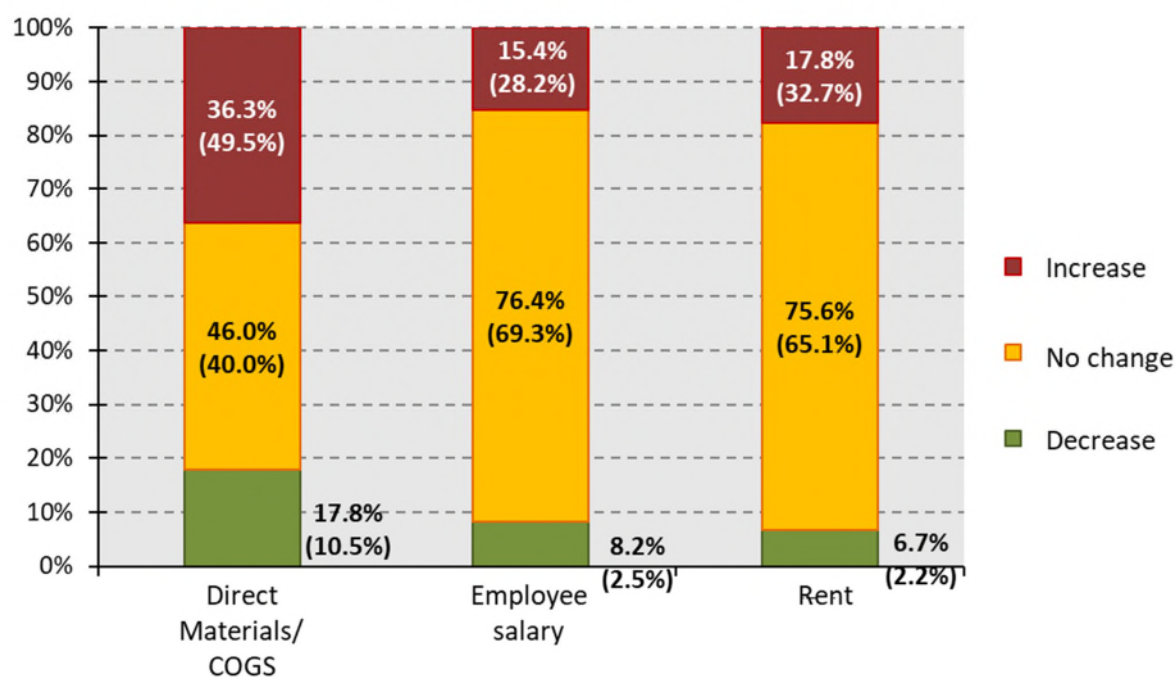
SME Index for Selected Industries



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Change of Major Cost Components

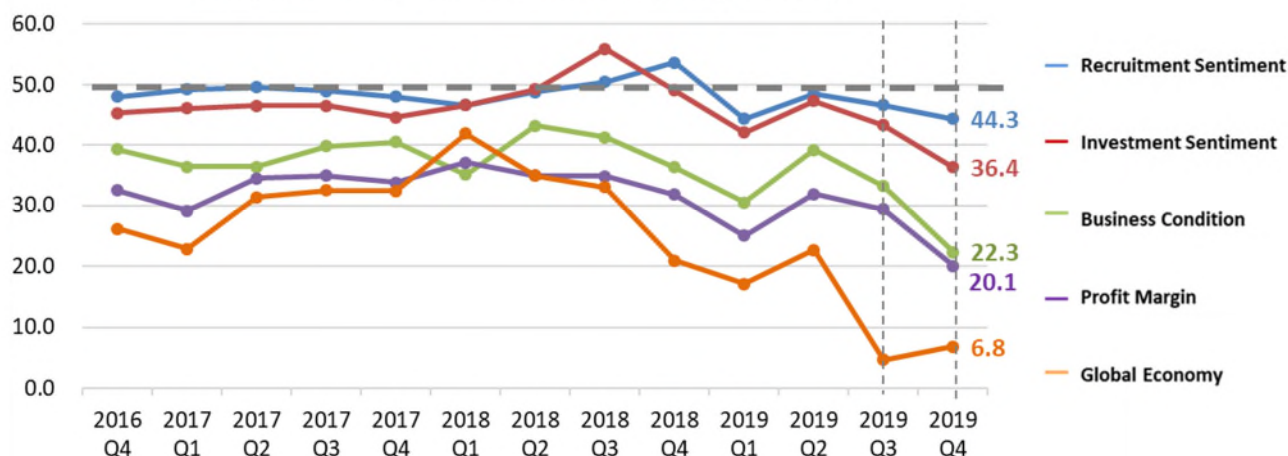
Change of major cost components (Last quarter figures in bracket)



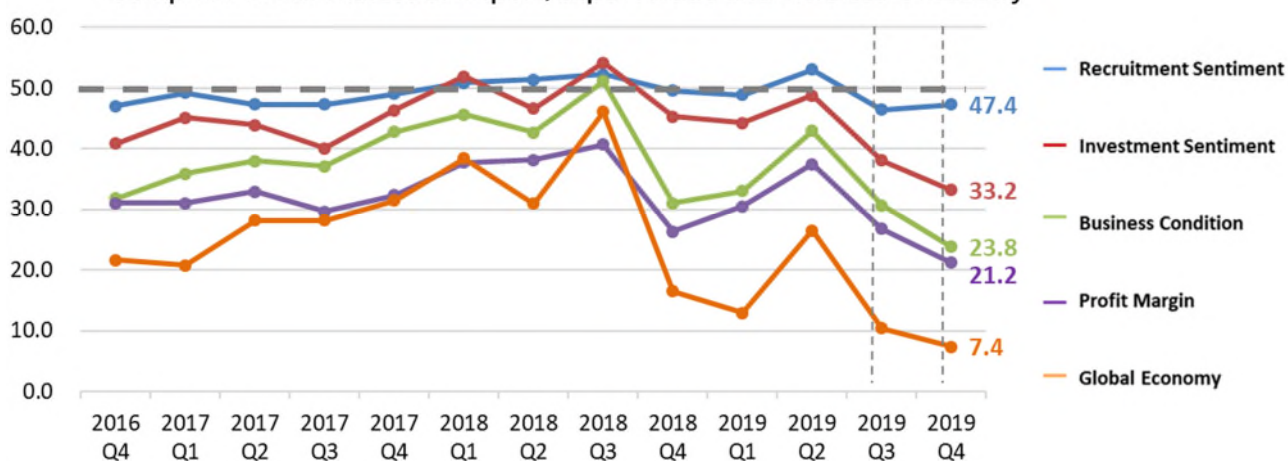
Appendix

Component Sub-Indices of 3 Main Industries

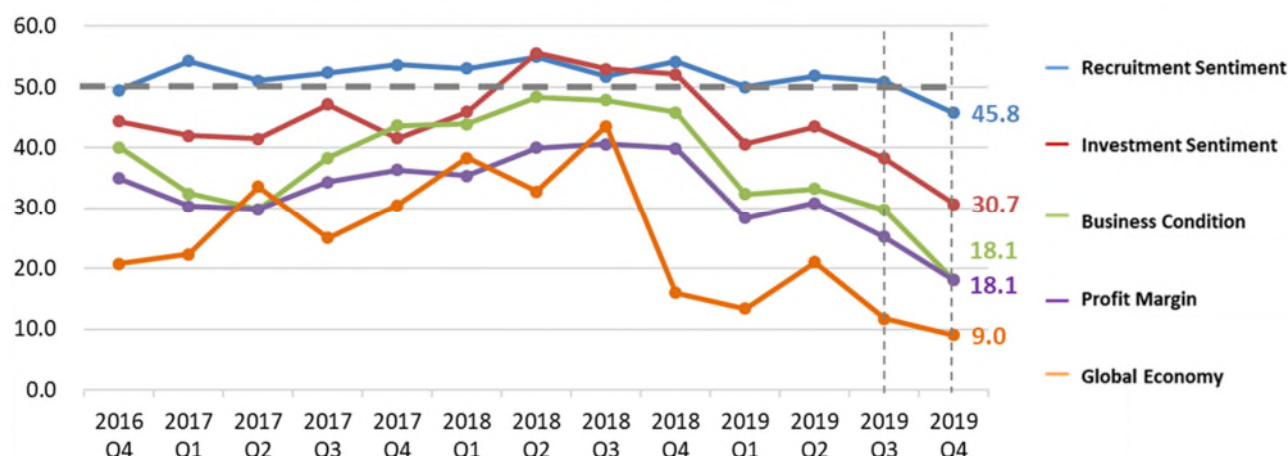
Component Sub-Indices of Manufacturing Industry



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 every quarters. Full reports can be downloaded at www.smeone.org.

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