



Standard Chartered Hong Kong SME Leading Business Index

Quarter 1, 2022

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, Construction, Import / Export Trade and Wholesale, Retail, Transportation, Storage and Courier Services, Accommodation and Food Services, Information and Communications, Financing and Insurance, Professional and Business Services, Real Estate, as well as Social and Personal Services. 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 817 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 eleven categories namely: 1) Manufacturing, 2) Construction, 3) Import / Export Trade and Wholesale, 4) Retail, 5) Transportation, Storage and Courier Services, 6) Accommodation and Food Services, 7) Information and Communications, 8) Financing and Insurance, 9) Professional and Business Services, 10) Real Estate, 11) Social and Personal Services.

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 39th survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted in December 2021. Top management of 817 SMEs were surveyed to gauge their views on the outlook of the overall business environment and regional economic changes in the Q1 2022.

Key Findings

The Q1 2022 Overall Index of the Standard Chartered SME dropped marginally by 0.1 to 48.1, showing a stable business confidence among local SMEs amid the COVID-19 epidemic. Key findings of the survey are as follows:

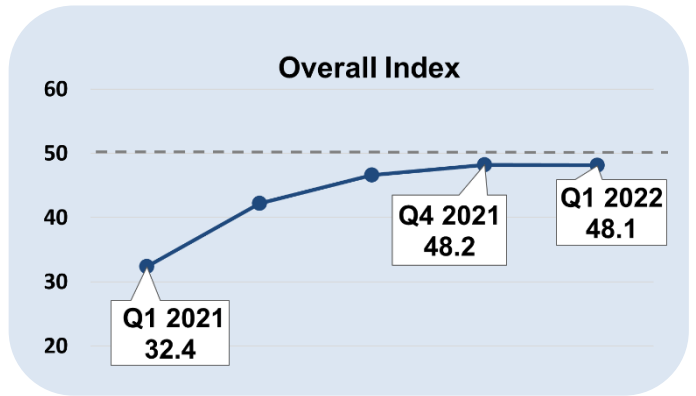
- ⊕ Of the five component sub-indices, “Recruitment Sentiment” (53.4) and “Investment Sentiment” (51.2) kept their rising trend with both scoring above 50, while “Global Economy” (44.2) had a significant drop of 6.7 due to the global pandemic;
- ⊕ Of the three major industry indices, “Import / Export Trade & Wholesale” (45.5) and “Manufacturing” (44.9) increased simultaneously but “Retail” (46.0) saw a downturn. The “Information and Communication” industry recorded the biggest growth this quarter with a leap of 7.3 (to 56.2);
- ⊕ The proportion of respondents expecting increases in raw materials cost, staff salary and number of staff in the coming quarter is higher than last quarter. 72% of SMEs expected raw materials to be more expensive, which is the sixth consecutive quarterly increase;
- ⊕ E-commerce was being surveyed for the first time. Results revealed that 9% of SMEs expected an increase on proportion of turnover on e-commerce in the next quarter, while “Accommodation and Food Services” industry has the highest proportion expecting an increase (22%), followed by “Manufacturing” (15%), “Information and Communication” (14%) and “Financing and Insurance” (14%);
- ⊕ The survey looked into SMEs’ perspective and planning on Environmental, Social and Governance (ESG);
- ⊕ 94% SMEs were not aware of or with insufficient knowledge about ESG. Only 9% of SMEs had put ESG into practice, and 83% SMEs had not felt the pressure to implement ESG;
- ⊕ Talking about the benefits of ESG, the most perceived benefits include, “enhance company/ brand image”, “complying with government/ regulation requirement” and “meeting with client expectation”;
- ⊕ Results also suggested that SMEs are experiencing challenges in implementing ESG – 64% SMEs they were currently lacking manpower or capital to do so. Supports most wanted by SMEs on ESG would be funding, industry guidance and human resource training.



Standard Chartered SME Index

Q1 2022

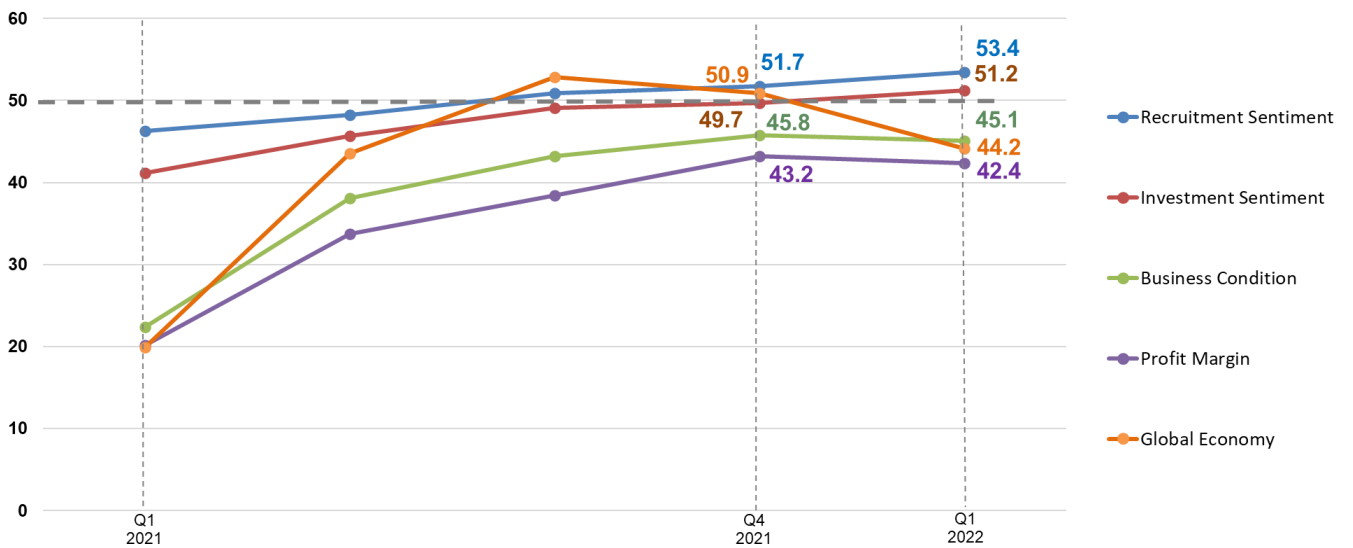
48.1



The Q1 2022 Overall Index recorded as 48.1, marginally dropped 0.1 from last quarter.

Among the five major sub-indices, "Recruitment Sentiment" (53.4) and "Investment Sentiment" (51.2) continued the uptrend for two consecutive quarters, with an increase of 1.7 and 1.5 respectively. While "Business Condition" (45.1), "Profit Margin" (42.4) and "Global Economy" (44.2) recorded a drop, with a decrease of 0.7, 0.8 and 6.7 respectively. "Global Economy" recorded the most significant decline.

Five Component Sub-Indices of Overall Index



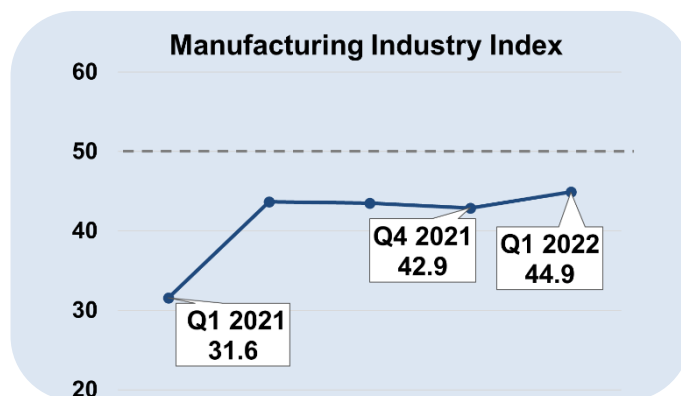
The 3 Key Industry Indices

Manufacturing Industry 44.9

The Manufacturing Industry Index remained flat with slight increase by 2.0 to 44.9 compared to last quarter. "Global Economy" component sub-index showed a downturn for three consecutive quarters, decreased to 41.5.



Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	50.8	Up	Up
Investment Sentiment	52.0	Up	Up
Business Condition	39.9	Down	Up
Profit Margin	35.5	Up	Up
Global Economy	41.5	Down	Up



Import / Export Trade and Wholesale Industry 45.5

The Import / Export Trade and Wholesale Industry Index jumped by 3.4 to 45.5. Compared to last quarter, most component sub-indices showed an upturn, except "Global Economy" which presented a drop of 3.3 to 40.4.

Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	52.3	Up	Up
Investment Sentiment	49.5	Up	Up
Business Condition	40.4	Up	Up
Profit Margin	39.4	Up	Up
Global Economy	40.4	Down	Up

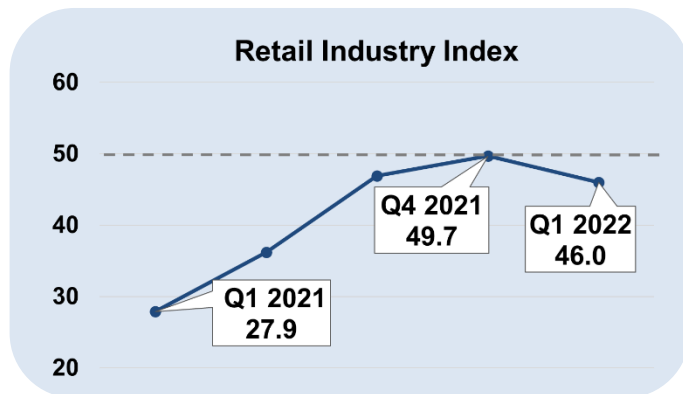


The 3 Key Industry Indices

Retail Industry 46.0

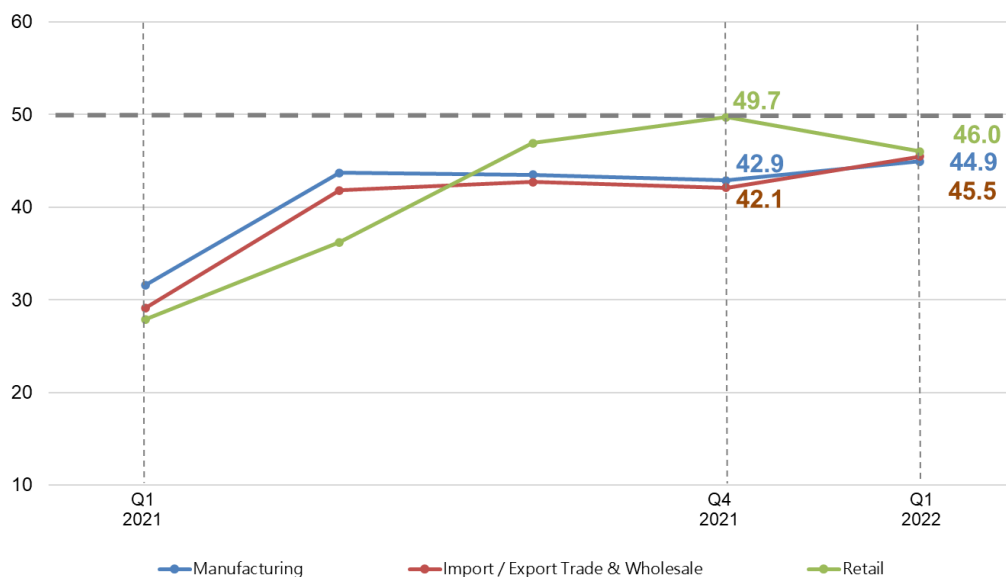
The Retail Industry Index decreased by 3.7 to 46.0. Most component sub-indices showed a drop, except "Recruitment Sentiment" which recorded a marginal climb of 0.8 to 51.4.

Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	51.4	Up	Up
Investment Sentiment	45.9	Down	Up
Business Condition	48.0	Down	Up
Profit Margin	39.2	Down	Up
Global Economy	42.6	Down	Up



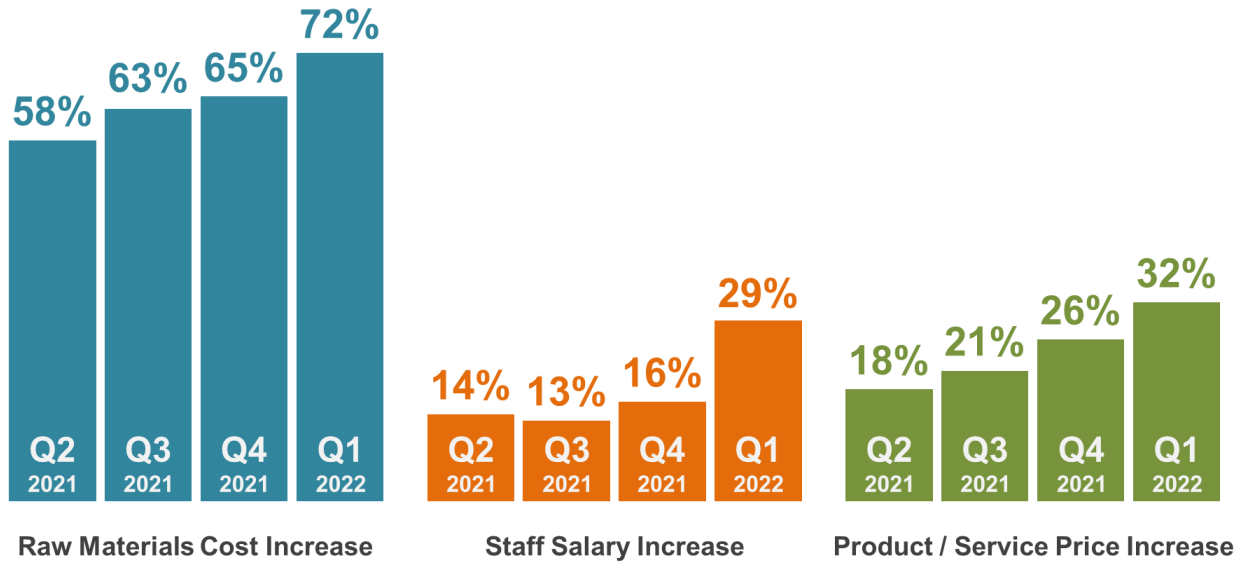
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3 Key-Industry Indices



Market Observations

72% of surveyed SMEs expected an increase of “Raw Material Cost”, which was 7% higher than the previous quarter; besides, 29% of surveyed SMEs expected an increase of “Staff salary”, with 13% of climb compared to last quarter. As for “Product / Service Price”, 32% of surveyed SMEs also expected an increase, 6% higher as compared to last quarter.



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E-commerce was being surveyed for the first time in the Standard Chartered SME Index. Almost one-tenth (9%) of SMEs expected the proportion of e-commerce in total turnover will increase in the next quarter, while “Accommodation and Food Services” industry has the highest proportion expecting an increase (22%), followed by “Manufacturing” (15%), “Information and Communication” (14%) and “Financing and Insurance” (14%).

9%

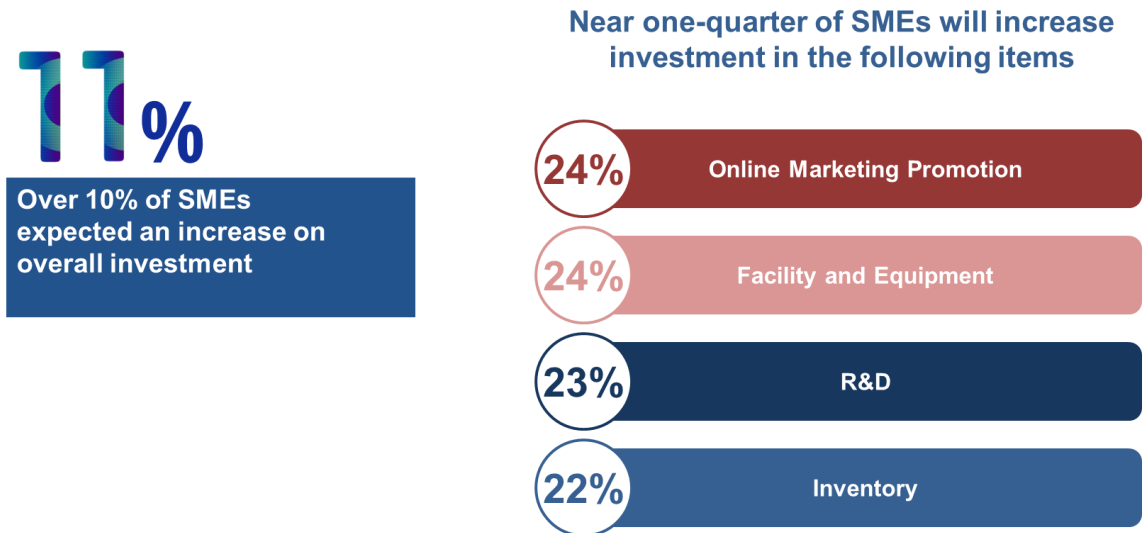
Nearly 10% of SMEs expected the proportion of e-commerce in total turnover will increase in the next quarter

Industries that expected the proportion of turnover on e-commerce to be increased in next quarter



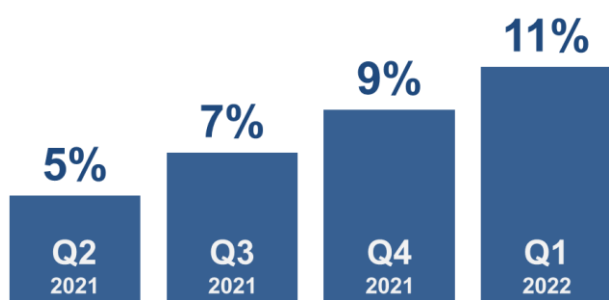
Market Observations

For the investment outlook, 11% of SMEs expected an increase on overall investment in the coming quarter. The investment items with the highest mentions are "Online Marketing Promotions" (24%), "Facility and Equipment" (24%), "R&D" (23%) and "Inventory" (22%).



SMEs expected the total number of staff continue to grow. "Accommodation and Food Services", "Information and Communications" and "Social and Personal Services" industries recorded the biggest increase.

SMEs expected the total number of staff continue to grow



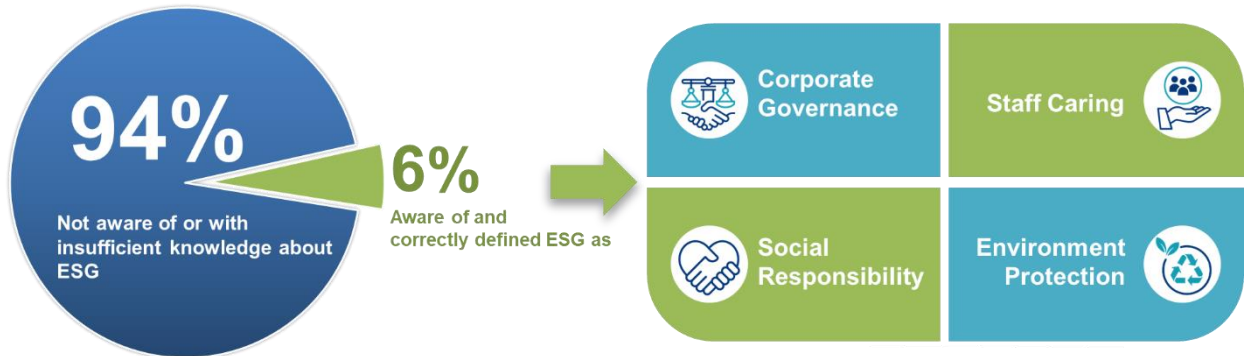
Industries with the biggest increase



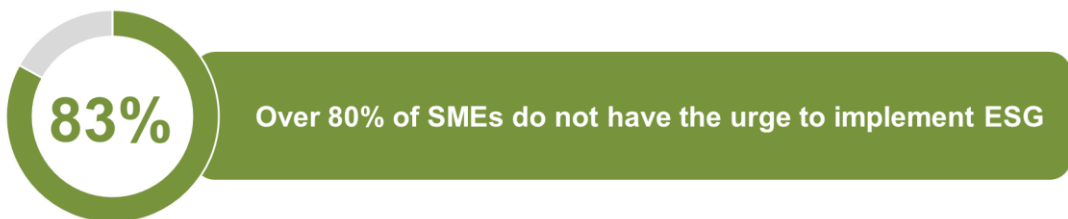
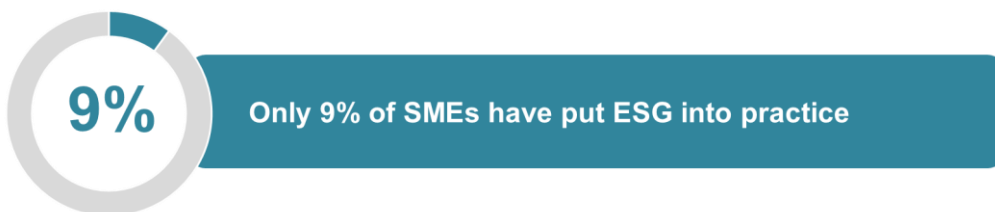
Featured Topic

Hong Kong SMEs' Perspective and Planning on ESG

The thematic survey of this quarter looked into Hong Kong SMEs' perspective and planning on Environmental, Social and Governance (ESG). It found that 94% of SMEs were not aware of or with insufficient knowledge about ESG, whereas 6% of them were aware of and correctly defined ESG as "Corporate Governance", "Staff Caring", "Social Responsibility" and "Environment Protection".



The survey revealed that only 9% of SMEs have put ESG into practice, while over 80% of SMEs do not have the urge to implement ESG.



Featured Topic

Hong Kong SMEs' Perspective and Planning on ESG

For the benefits from implementing ESG, most SMEs believed that it can “Enhance Company/ Brand Image” (31%), followed by “Comply with Government/ Regulation Requirement” (19%), and “Meet with Client Expectation” (17%).

Benefits from implementing ESG



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64% of SMEs claimed that they do not have enough manpower or capital to implement ESG now. Supports most wanted by SMEs include “Funding”, “Industry Guidance” and “Human Resource Training”.

64%

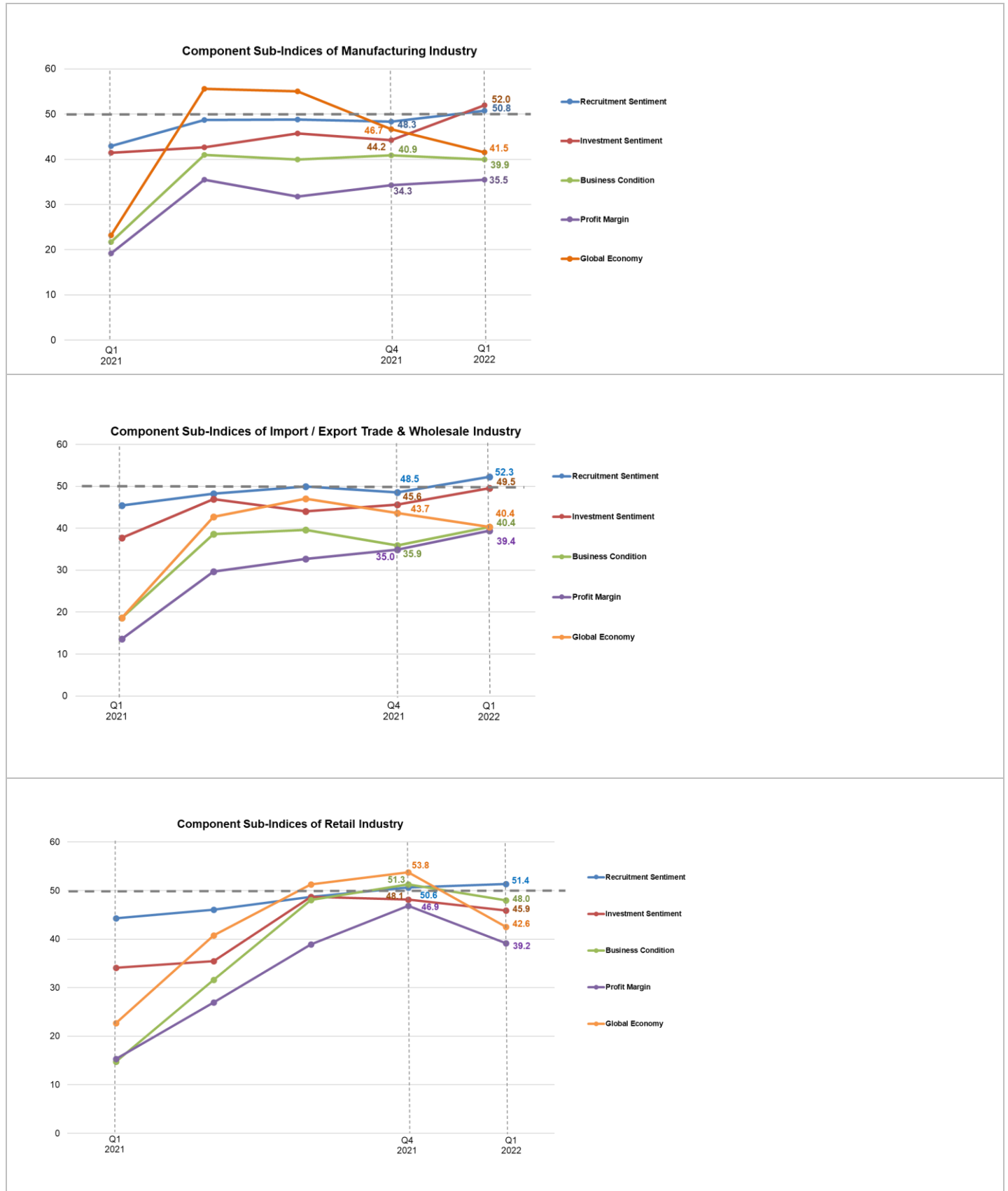
SMEs do not have enough manpower or capital to implement ESG now

Supports most wanted by SMEs



Appendix

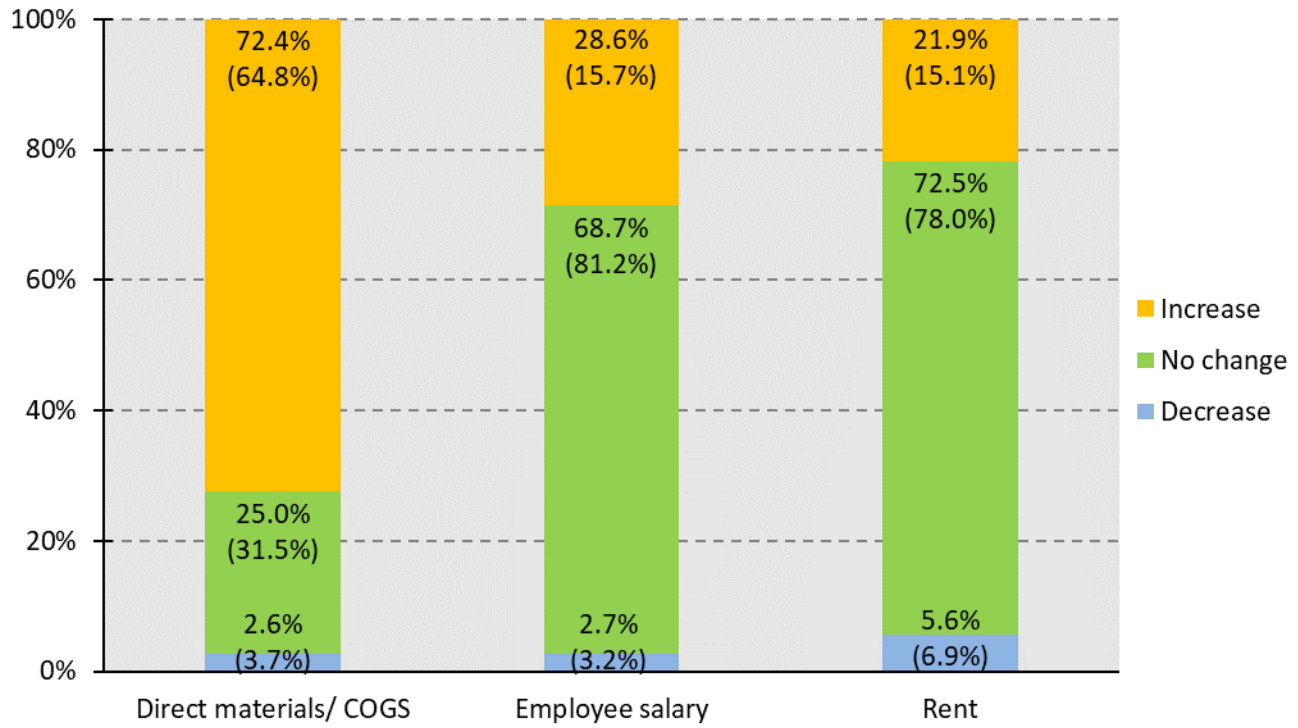
Component Sub-Indices of the 3 Key Industry Indices



Appendix

Change of Major Cost Components

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



Report Release

The Standard Chartered SME Index is released every quarter. Full reports can be downloaded at <https://u.hkpc.org/scbi-en>.

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