



Standard Chartered Hong Kong SME Leading Business Index

Quarter 1, 2023

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’ confidence on the recent business environment. HKPC’s professional team interviews no less than 800 local SMEs’ top management 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 every quarter. The survey covers SMEs’ perception of their “Business Condition”, “Profit Margin”, “Investment Sentiment”, “Recruitment Sentiment”, and “Global Economy” in this quarter.

Methodology

Sample Distribution

Data were collected from 822 SMEs using publicly available SME directories and HKSAR Census database. The sample was 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, and 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%

Respondents indicated the change of business sentiments in three ways: increase, no change 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 neutral level generally indicates optimistic business sentiment, while that below 50 neutral level indicates pessimistic business sentiment. A reading at 50 neutral level indicates neutral business sentiment.



Summary

The 43rd survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted in December 2022. Top management of 822 SMEs were surveyed to gauge their views on the outlook of the overall business environment in Q1 2023 and their views on expanding business to other Greater Bay Area (“GBA”) cities.

Key Findings

The Q1 2023 Overall Index of the Standard Chartered SME rebounded by 2.5 to 46.7, reflecting SMEs are seeing rays of hope with gradual boundary reopening and relaxation of the pandemic measures. Key findings of the survey are as follows:

- ⊕ Four of the five sub-indices rose, contributing to the rebound of overall index this quarter. These included “Recruitment Sentiment” (+0.5), “Investment Sentiment” (+1.4), “Business Condition” (+3.2) and, most notably, “Global Economy” (+14.4), among which “Recruitment Sentiment” and “Investment Sentiment” rose above the 50 neutral level;
- ⊕ Among the eleven industry indices, except “Transportation, Storage and Courier Services” (-1.7) and “Accommodation and Food Services” (-0.3) which recorded slight decreases, all the remaining nine recorded increases, including the three major industries, namely “Manufacturing” (+3.1), “Import / Export Trade and Wholesale” (+2.9) and “Retail” (+1.2). Meanwhile, “Financing and Insurance” (+8.3) and “Construction” (+5.5) recorded more notable increases. There were three industries with their industry index surpassing the 50 neutral level in this quarter, namely “Financing and Insurance” (53.2), “Social and Personal Services” (52.9) and “Accommodation and Food Services” (51.6);
- ⊕ In terms of investment trends, 90% of SMEs expected no change or even an increase on their overall investment in this quarter, with “Social and Personal Services” (94%), “Financing and Insurance” (94%), “Professional and Business Services” (94%) and “Import / Export Trade and Wholesale” (93%) having the highest proportions. In terms of long-term investment, increases of 6-11% points were observed in the proportions of SMEs expecting no change or even an increase on their investment in “Research and Development” (82%), “Facility and Equipment” (82%) and “Office / Factory / Store” (80%);
- ⊕ On the inflation front, 68% of SMEs expected “Raw Material Cost” to increase, with the same proportion as in the last quarter, but 29% expected “Staff Salary” to rise in this quarter, an increase of 7% points from last quarter. The top three industries expecting a rise in “Staff Salary” were “Information and Communications” (44%), “Construction” (40%) and “Professional and Business Services” (37%). Under the pressure of surging costs, 31% of SMEs expected to increase their “Product / Service Price” in this quarter, up 8% points from the previous quarter.



Key Findings (cont.)

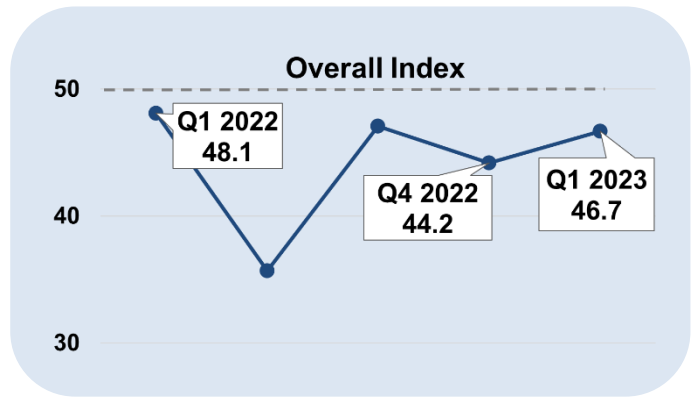
- ✚ The thematic survey this quarter gauged the views of Hong Kong SMEs on expanding their business into other GBA cities:
- Currently, more than one-tenth (11%) of the surveyed SMEs have already had their sales business in other GBA cities, of which 41% claimed that their turnover in other GBA cities accounted for 50% or more of their total turnover; and 34% claimed that their turnover in other GBA cities accounted for 20-49% of their total turnover;
 - Apart from sales business (11%), 27%, 13% and 6% of SMEs have already had procurement, production and outsourcing of professional services or consultancy services in other GBA cities respectively;
 - 24% of the surveyed SMEs claimed to have already expanded / considered further expansion of their business to other GBA cities or an increase of such investment because of the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area (“Outline Development Plan”);
 - Currently, only 35% of the surveyed SMEs claimed to be aware of the plans or policy measures of the GBA. Of the various plans or policy measures in the GBA, those most known to SMEs included “Certified Professionals in Hong Kong are allowed to practice in the GBA” (57%), “Tax Concessions” (53%) and “Cross-boundary Wealth Management Connect Scheme” (47%);
 - The top six challenges SMEs encountered or expected to encounter when expanding their business to other GBA cities included foreign exchange control measures in the Mainland (34%), unfamiliarity with the local laws and regulations (33%), products / services not suitable for other GBA cities (32%), higher investment risks (30%), differences in customer needs between Hong Kong and other GBA cities (26%) and unfamiliarity with the local taxation system (25%).



Standard Chartered SME Index

Q1 2023

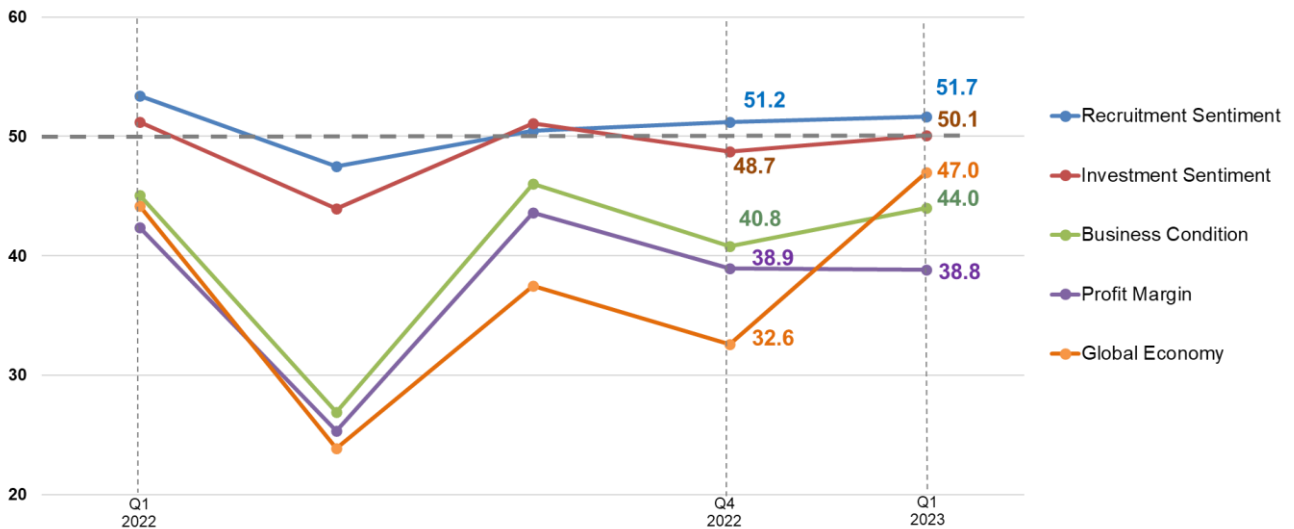
46.7



The Q1 2023 Overall Index rebounded by 2.5 to 46.7.

Among all five component sub-indices, except "Profit Margin" which was slightly down by 0.1, all other sub-indices were up simultaneously, of which "Recruitment Sentiment" further increased to 51.7, while "Investment Sentiment" returned to above 50 neutral level. The uplift of "Global Economy" was most significant, climbing by 14.4 to 47.0 in this quarter. All industries registered uplift in this component sub-index.

Five Component Sub-Indices of Overall Index



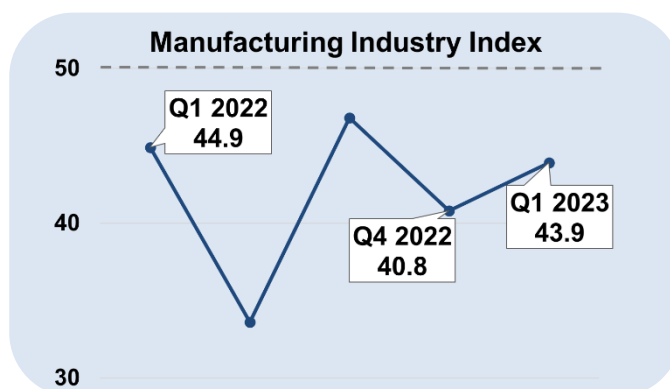
The 3 Key Industry Indices

Manufacturing Industry 43.9



Industry index of Manufacturing Industry rebounded by 3.1 to 43.9 in this quarter. Except "Profit Margin" which decreased further by 1.8, all other component sub-indices recorded an upturn, among which "Recruitment Sentiment" and "Investment Sentiment" returned to above 50 neutral level.

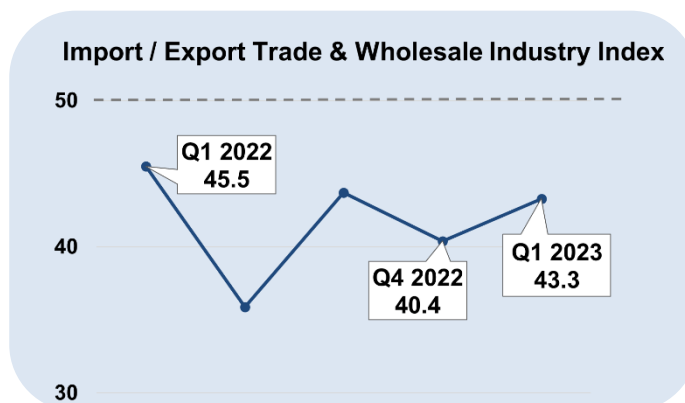
Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	50.9	Up	Up
Investment Sentiment	50.9	Up	Down
Business Condition	40.2	Up	Up
Profit Margin	30.3	Down	Down
Global Economy	43.6	Up	Up



Import / Export Trade and Wholesale Industry 43.3

Industry index of Import / Export Trade & Wholesale Industry increased by 2.9 to 43.3 in this quarter. Except "Recruitment Sentiment" which was slightly down to 49.5, all other component sub-indices uplifted, of which "Investment sentiment" returned to 50 neutral level, and "Business Condition" rebounded by 4.4.

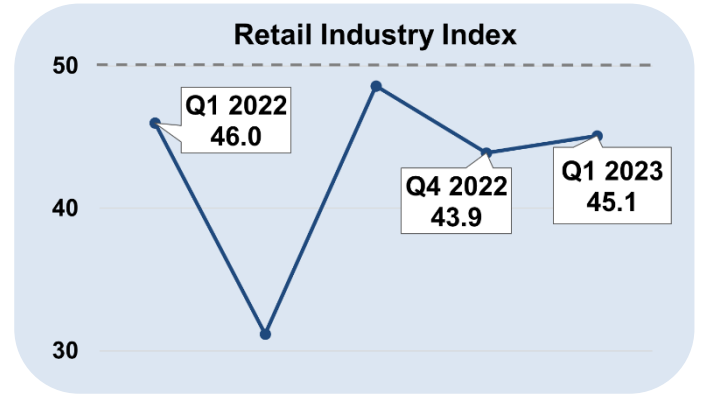
Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	49.5	Down	Down
Investment Sentiment	50.0	Up	Up
Business Condition	38.2	Up	Down
Profit Margin	33.0	Up	Down
Global Economy	42.0	Up	Up



The 3 Key Industry Indices

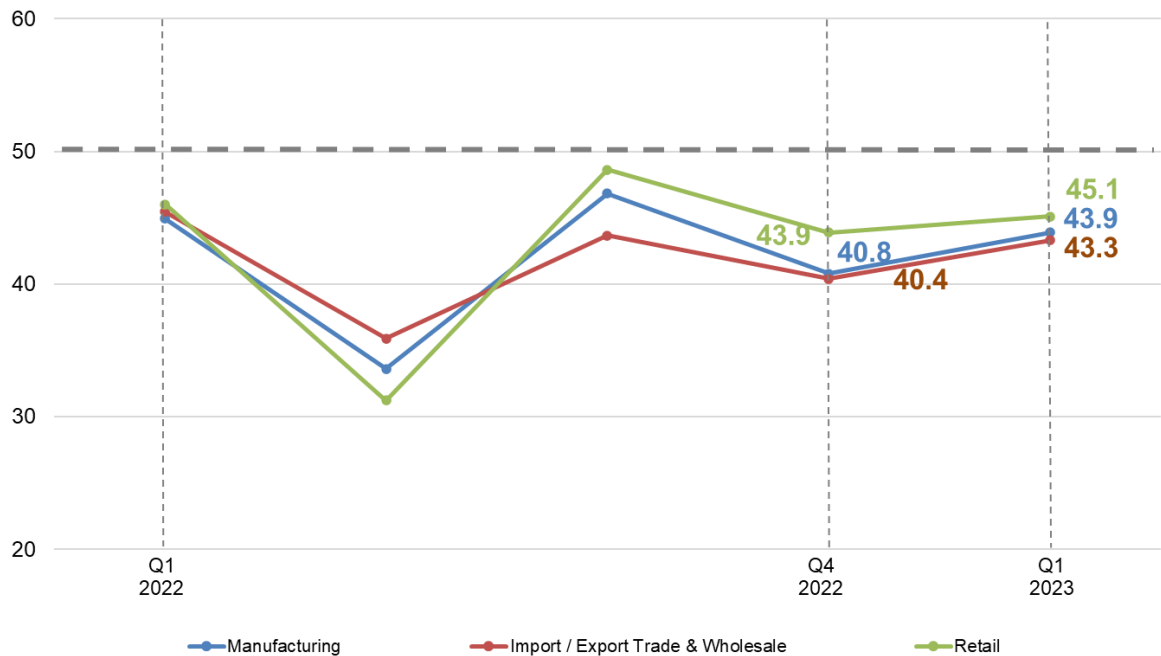
Retail Industry 45.1

Industry index of Retail Industry was up by 1.2 to 45.1 in this quarter. Despite the further retreats of “Business Condition” and “Profit Margin”, other component sub-indices stabilised, of which “Recruitment Sentiment” returned to 50 neutral level.



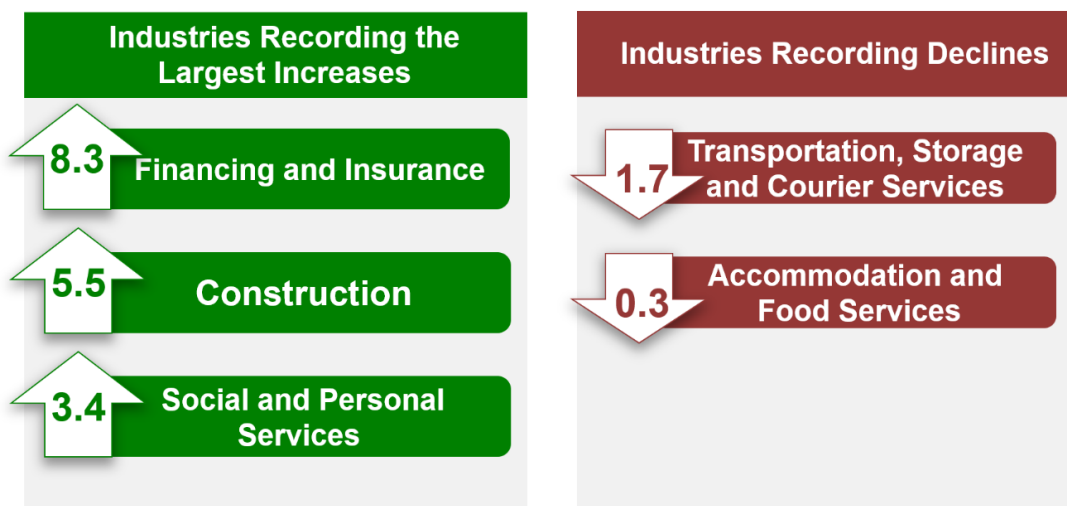
Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	50.0	Up	Down
Investment Sentiment	46.7	Up	Up
Business Condition	40.7	Down	Down
Profit Margin	40.0	Down	Up
Global Economy	48.0	Up	Up

3 Key-Industry Indices



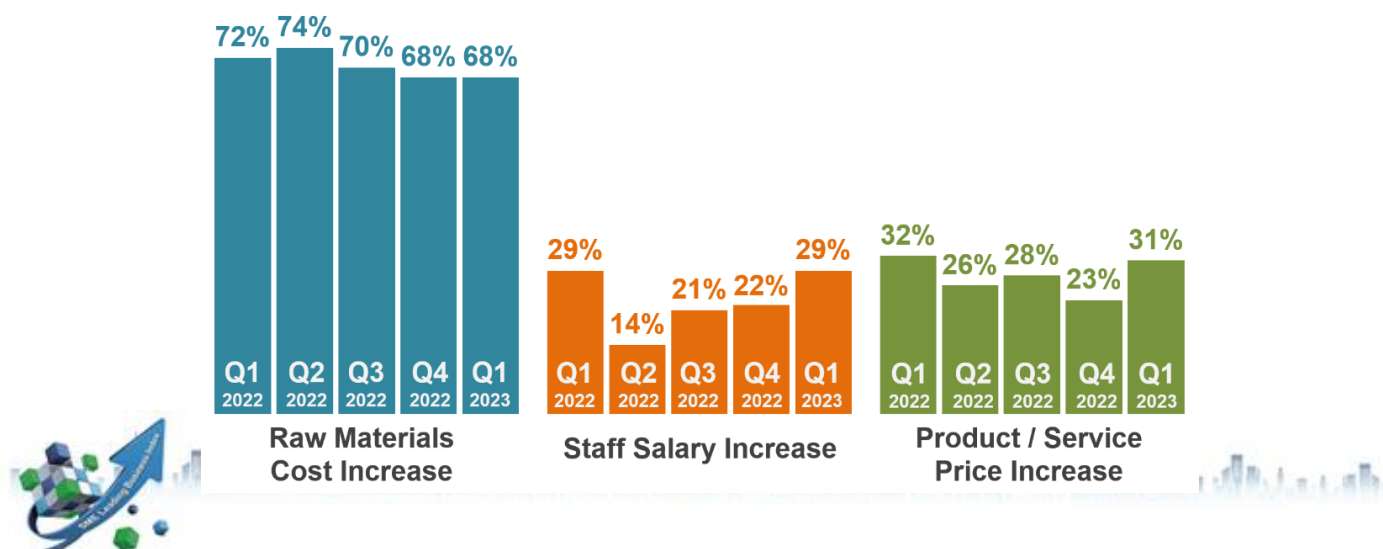
Top 5 Industries with the Largest Changes on Industry Index

Looking at the Industry Index, among the eleven industry indices, except “Transportation, Storage and Courier Services” (-1.7) and “Accommodation and Food Services” (-0.3) which recorded slight decreases, all the remaining nine recorded increases, including the three major industries, namely “Manufacturing” (+3.1), “Import / Export Trade and Wholesale” (+2.9) and “Retail” (+1.2). Meanwhile, “Financing and Insurance” (+8.3) and “Construction” (+5.5) recorded more notable increases.



Market Observations

On the inflation front, 68% of SMEs expected “Raw Material Cost” to increase, with the same proportion as in last quarter, but 29% expected “Staff Salary” to rise in this quarter, an increase of 7% points from last quarter. The top three industries expecting a rise in “Staff Salary” were “Information and Communications” (44%), “Construction” (40%) and “Professional and Business Services” (37%). Under the pressure of surging costs, 31% of SMEs expected to increase their “Product / Service Price” in this quarter, increasing by 8% points from the previous quarter.



Market Observations

In terms of investment trends, 90% of SMEs expected no change or even an increase on their overall investment in this quarter, with “Social and Personal Services” (94%), “Financing and Insurance” (94%), “Professional and Business Services” (94%) and “Import / Export Trade and Wholesale” (93%) having the highest proportions. In terms of long-term investment, increases of 6-11% points were observed in the proportions of SMEs expecting to remain or increase investment in “Research and Development” (82%), “Facility and Equipment” (82%) and “Office / Factory / Store” (80%).

90%

SMEs expected no change or even an increase on the overall investment

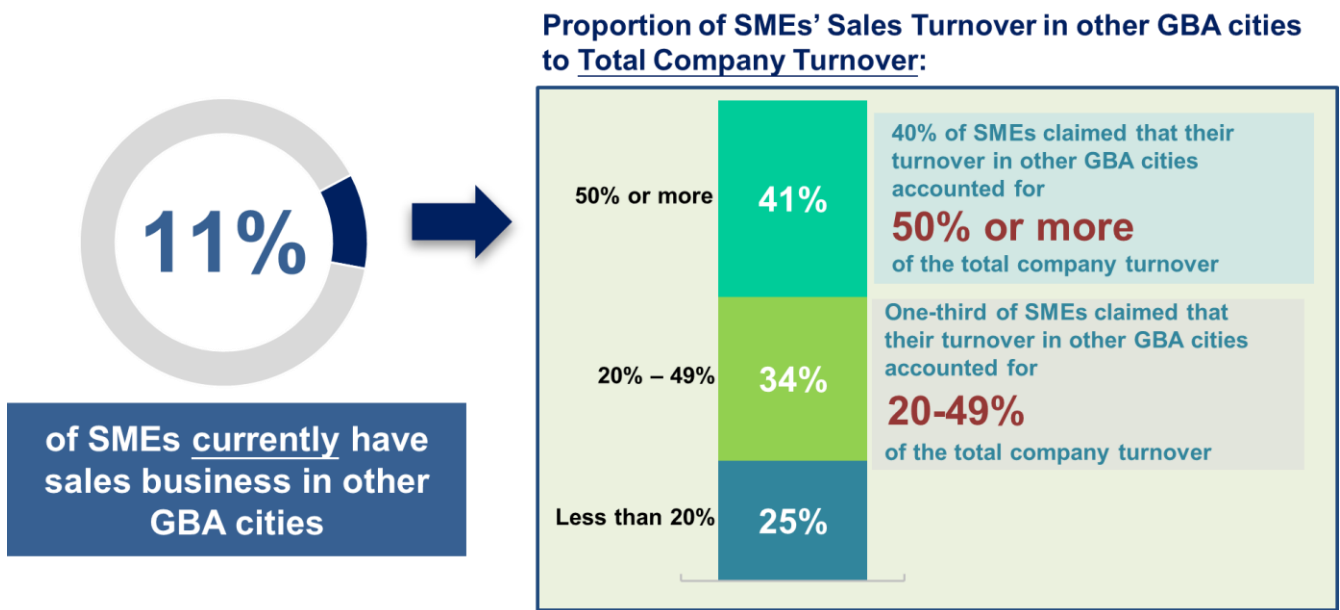
Industries with 90% or more SMEs Expecting No Change or Even Increase on the Overall Investment		
1	Social and Personal Services	94%
1	Financing and Insurance	94%
1	Professional and Business Services	94%
4	Import / Export Trade and Wholesale	93%
5	Accommodation and Food Services	90%
5	Manufacturing	90%



Featured Topic

Hong Kong SMEs' Views of Expanding Business into Other GBA Cities

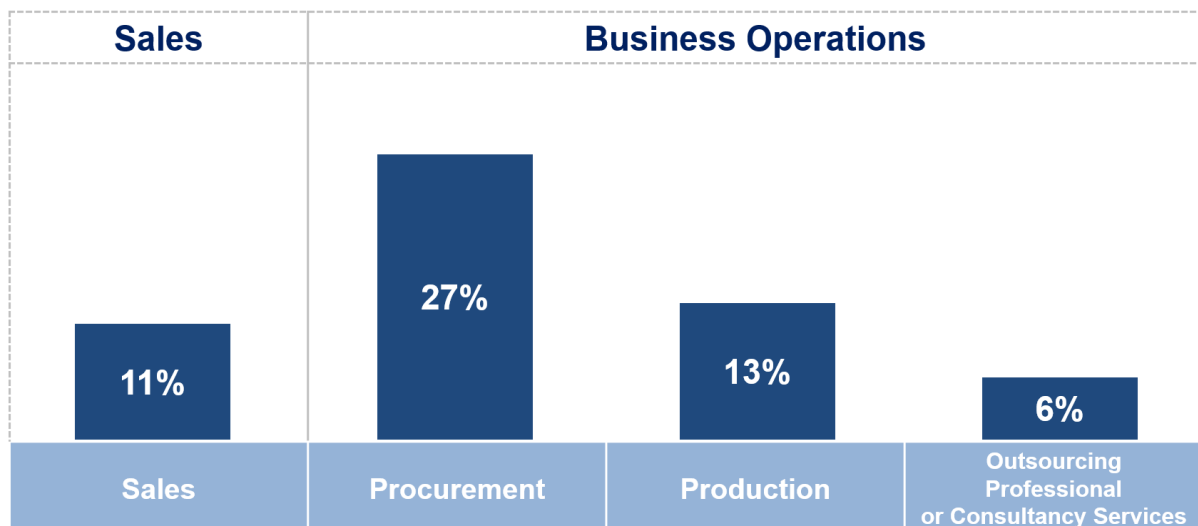
The thematic survey of this quarter explored the views of Hong Kong SMEs on expanding their business into other GBA cities. Currently, more than one-tenth (11%) of the surveyed SMEs have already had sales business in other GBA cities, of which 41% claimed that their turnover in other GBA cities accounted for 50% or more of their total turnover; and 34% claimed that their turnover in other GBA cities accounted for 20-49% of their total turnover.



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On the other hand, 27%, 13% and 6% of SMEs have already had procurement, production and outsourcing of professional services or consultancy services in other GBA cities respectively.

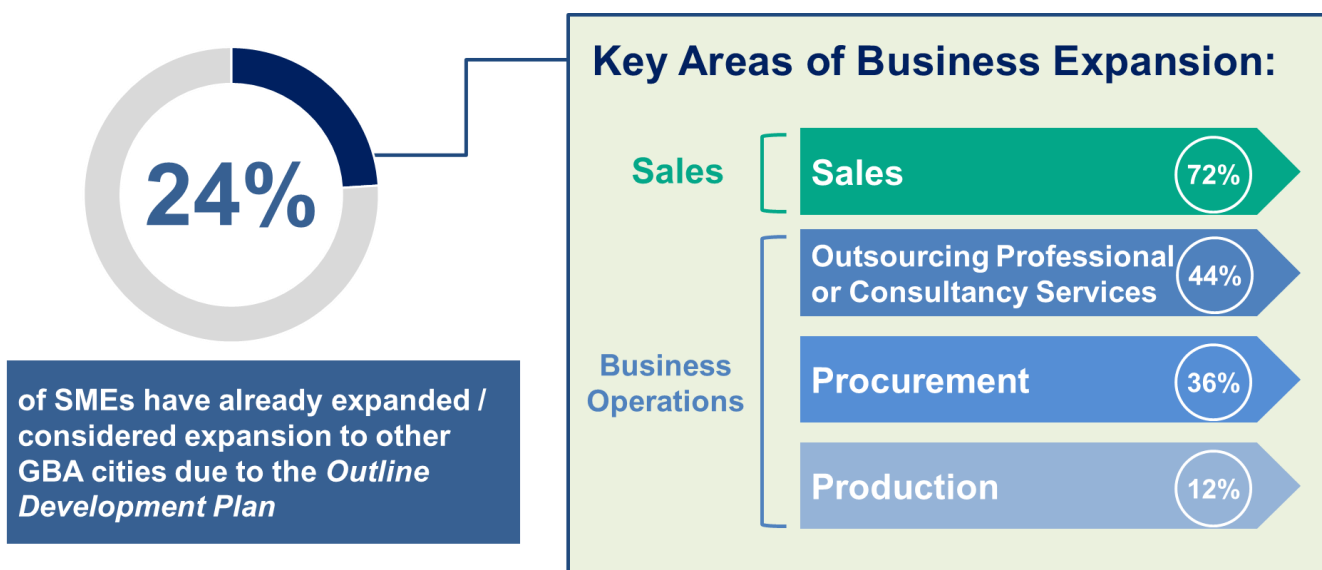
Proportion of SMEs Currently Running the Following Businesses in Other GBA Cities:



Featured Topic

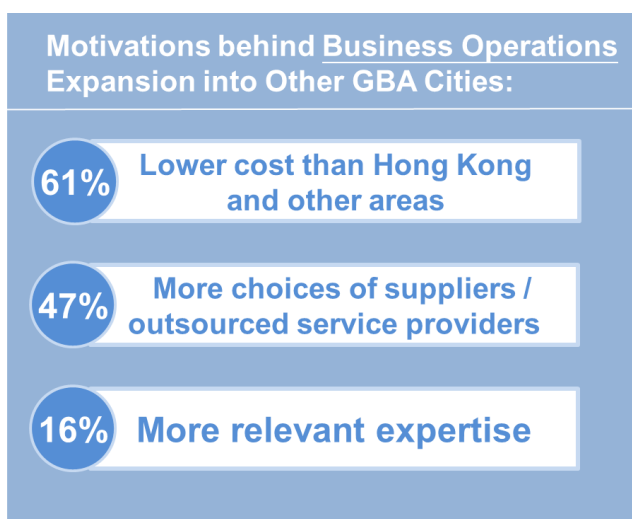
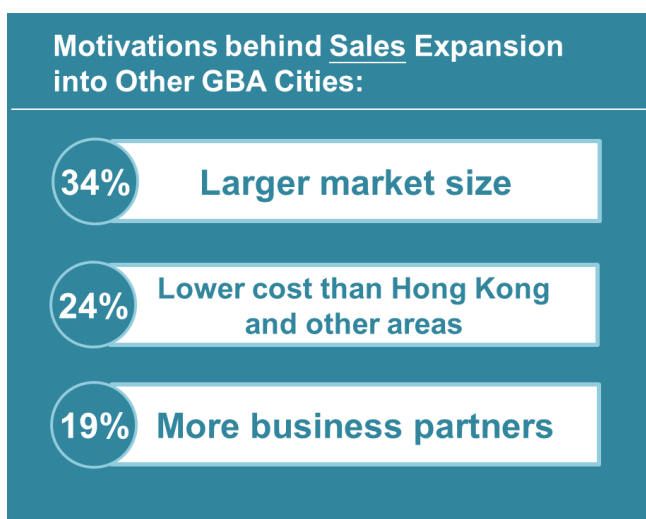
Hong Kong SMEs' Views of Expanding Business into Other GBA Cities

24% of the surveyed SMEs claimed to have already expanded / considered further expansion of their business to other GBA cities or an increase of such investment because of the Outline Development Plan. Among these SMEs, over 70% (72%) would expand their sales business in other GBA cities, while over 40% (44%) would expand their outsourcing of professional services or consultancy services, and 36% would expand on procurement.



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Larger market size, lower cost than Hong Kong and other areas, and more business partners, suppliers and outsourced service providers were the key motivations attracting Hong Kong SMEs to expand their business into other GBA cities.



Note: Business Operations covers Procurement, Production, and Outsourcing Professional or Consultancy Services



Featured Topic

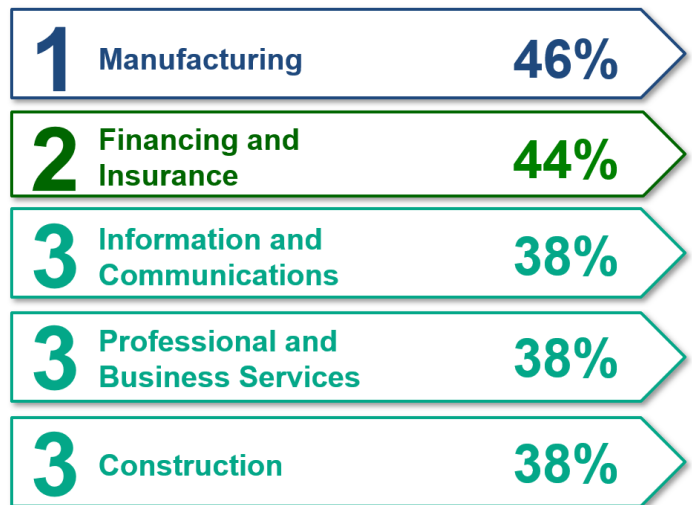
Hong Kong SMEs' Views of Expanding Business into Other GBA Cities

Nonetheless, only 35% of the surveyed SMEs claimed to be aware of the plans or policy measures of the GBA, with higher proportions found in "Manufacturing" (46%), "Financing and Insurance" (44%), "Information and Communications" (38%), "Professional and Business Services" (38%) and "Construction" (38%) industries.

35%

of SMEs claimed to be aware of the plans or policy measures of the GBA

Top Industries with Understanding of the Plans and Policy Measures of the GBA:



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Of the various plans or policy measures in the GBA, those most known to SMEs included "Certified Professionals in Hong Kong are allowed to practice in the GBA" (57%), "Tax Concessions" (53%) and "Cross-boundary Wealth Management Connect Scheme" (47%).

Top 3 most known GBA plans or policy measures among SMEs:



Featured Topic

Hong Kong SMEs' Views of Expanding Business into Other GBA Cities

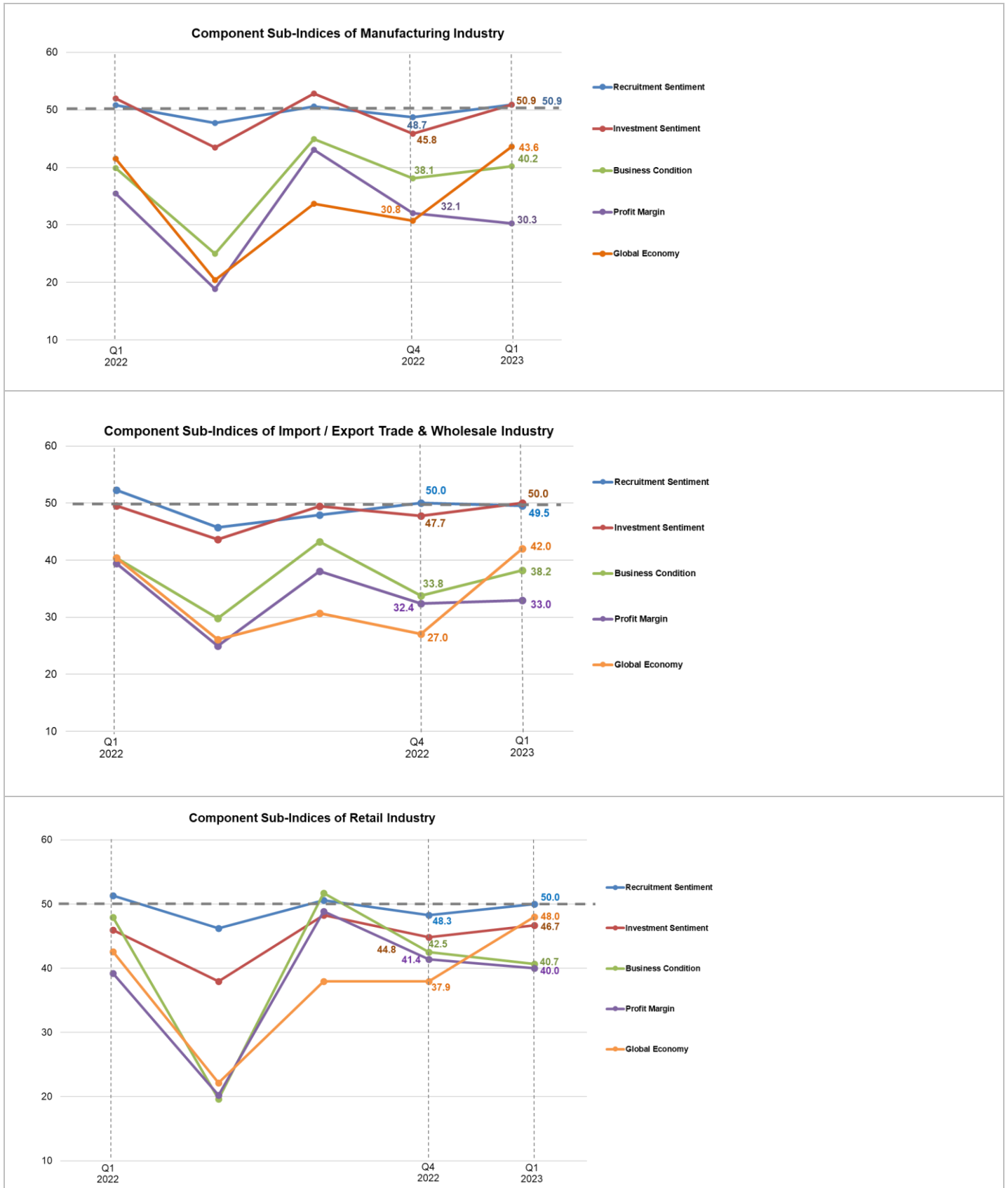
The top six challenges SMEs encountered or expected to encounter when expanding their business into other GBA cities included foreign exchange control measures in the Mainland (34%), unfamiliarity with the local laws and regulations (33%), products / services not suitable for other GBA cities (32%), higher investment risks (30%), differences in customer needs between Hong Kong and other GBA cities (26%) and unfamiliarity with the local taxation system (25%).

Challenges SMEs Have Encountered / Expected to Encounter when Expanding into Other GBA Cities



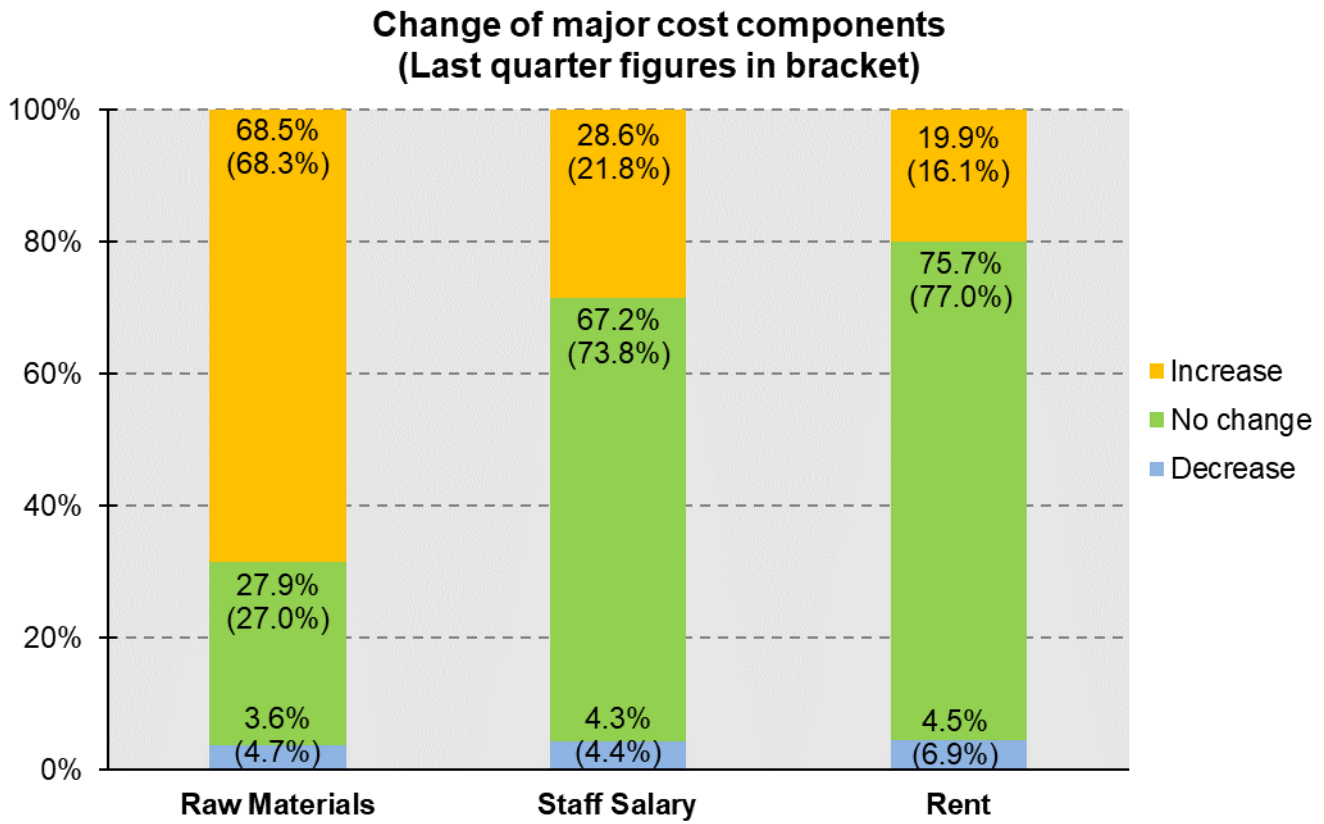
Appendix

Component Sub-Indices of the 3 Key Industry Indices



Appendix

Change of Major Cost Components



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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