



Standard Chartered Hong Kong SME Leading Business Index

Quarter 2, 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 809 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 44th survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted in mid-March 2023. Top management of 809 SMEs were surveyed to gauge their views on the outlook of the overall business environment in Q2 2023 and the recovery status of SMEs.

Key Findings

The Q2 2023 Overall Index of the Standard Chartered SME rose by 6.1 to 52.8 this quarter, surpassing the 50 neutral line for the first time since the pandemic. This reflected that Hong Kong has embarked on the road to normalcy, and SMEs have regained confidence in the local business environment. Key findings of the survey are as follows:

- ⊕ All five sub-indices registered uplifts, with “Profit Margin” (+12.3) and “Business Condition” (+12.0) showing the most significant increments. Additionally, “Recruitment Sentiment” and “Investment Sentiment” picked up by 2.7 and 1.8 respectively. Although “Global Economy” (+1.3) was up to 48.3, it was the only sub-index that did not exceed the 50 neutral line;
- ⊕ Among the 11 industry indices, 10 of them, except “Financing and Insurance” which remained stable, recorded an increase while seven of them surpassed the 50 neutral line, including “Accommodation and Food Services” (67.2), “Information and Communications” (58.9), “Social and Personal Services” (55.5), “Construction” (55.0), “Retail” (54.0), “Professional and Business Services” (53.6), and “Financing and Insurance” (53.0). Although “Real Estate” (49.7), “Import / Export Trade and Wholesale” (49.2), “Manufacturing” (46.3) and “Transportation, Storage and Courier Services” (43.1) industries did not surpass the 50 neutral line this quarter, all of them recorded increments of 10.2, 5.9, 2.4 and 4.7 respectively;
- ⊕ In terms of overall investment trends, 93% of surveyed SMEs indicated that they would maintain or increase investment this quarter, which is on par with the previous quarter, with “Training Related to E-commerce or Digital Technology”, “Overall Staff Training”, “Online Marketing Promotion”, “Facility and Equipment”, and “IT System” being the areas that most SMEs expected to maintain or increase investment.;
- ⊕ In addition, the number of surveyed SMEs expecting to increase their manpower this quarter increased by 3%-point from previous quarter. Such increase was mainly seen in “Accommodation and Food Services” (32%), “Information and Communications” (28%), “Construction” (22%), and “Social and Personal Services” (19%).



Key Findings (cont.)

⊕ The thematic survey of this quarter explored the recovery status of SMEs:

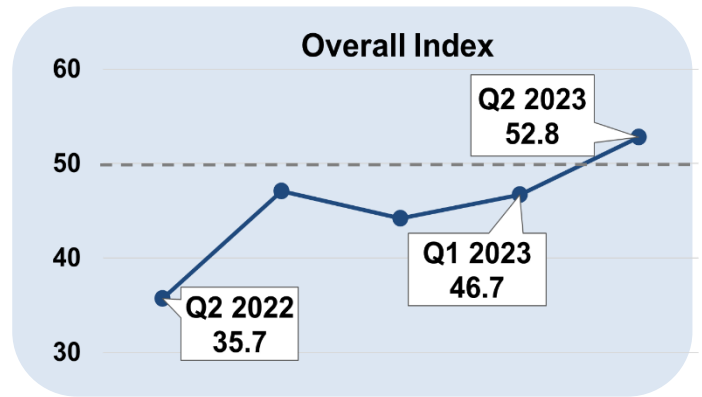
- About 70% of the surveyed SMEs were negatively affected by the pandemic, with “Accommodation and Food Services” (86%), “Real Estate” (84%), “Retail” (77%), and “Social and Personal Services” (77%) being the hardest hit industries;
- The survey also found that the pandemic has changed SMEs’ operations and sales models. For instance, physical meetings are replaced by virtual meetings and remote working has been implemented in terms of operations; or services are provided through digital channels and more payment methods are accepted in terms of sales. Most SMEs that have made these changes indicated that they would maintain these changes even after the pandemic;
- In terms of the post-pandemic business conditions, about one-third (32%) of the surveyed SMEs that were affected by the pandemic indicated that their current turnover has returned to or exceeded the pre-pandemic level, with “Construction” (60%), “Information and Communications” (53%), and “Accommodation and Food Services” (41%) recovering faster than other industries. As for the remaining two-thirds that are still recovering from the pandemic, their current business turnover has, on average, returned to about half of that before the pandemic;
- In terms of post-pandemic development plans, over 60% (62%) of the surveyed SMEs indicated they would have new development plans this year due to the resumption of normal business operations, with “Information and Communications” (82%), “Retail” (80%), “Social and Personal Services” (67%), “Financing and Insurance” (66%) and “Manufacturing” (65%) being the top five. Their main new development plans for this year include research and development or provision of new products / services, customer base recovery / expansion, increasing online sales channels / e-commerce development, and increasing digital adoption in operations.



Standard Chartered SME Index

Q2 2023

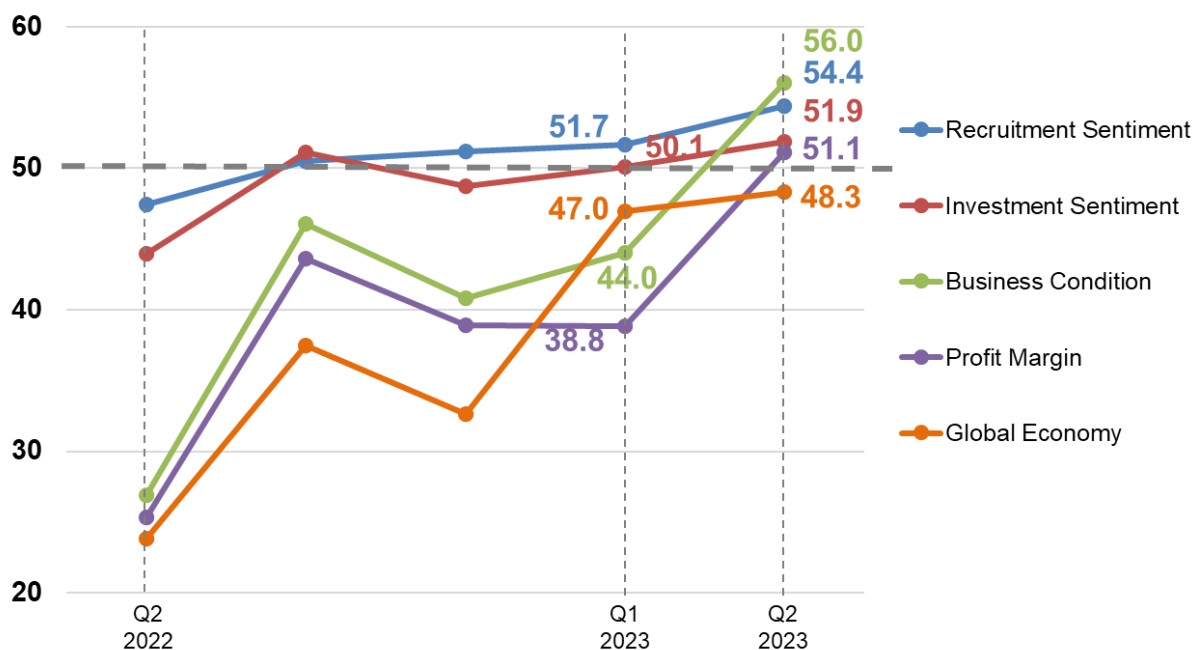
52.8



The Q2 2023 Overall Index rose by 6.1 to 52.8.

All component sub-indices registered uplifts, with “Profit Margin” (51.1, +12.3) and “Business Condition” (56.0, +12.0) showing the most significant increments, reflecting that SMEs have confidence on their turnover in this quarter. “Recruitment Sentiment” further increased to 54.4, the highest point since the onset of the pandemic. Expect “Global Economy”, all other sub-indices exceeded 50 neutral line, indicating that SMEs still remained cautious about the prospects of the global economy.

Five Component Sub-Indices of Overall Index



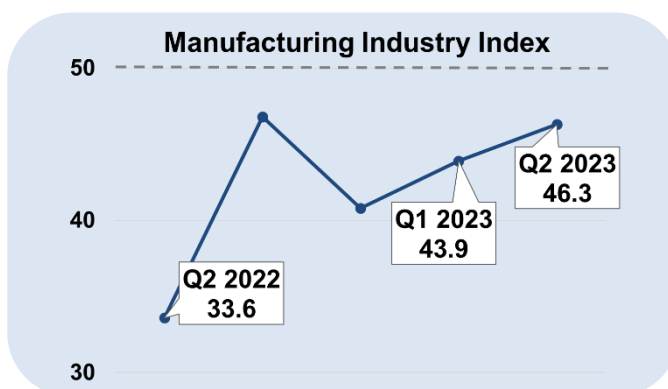
The 3 Key Industry Indices

Manufacturing Industry 46.3



Industry index of Manufacturing Industry further increased by 2.4 to 46.3 this quarter, among which “Recruitment Sentiment” and “Investment Sentiment” stayed above 50 neutral line. Besides, “Profit Margin” recorded significant uplift (+9.9), while “Business Condition” also increased by 4.7.

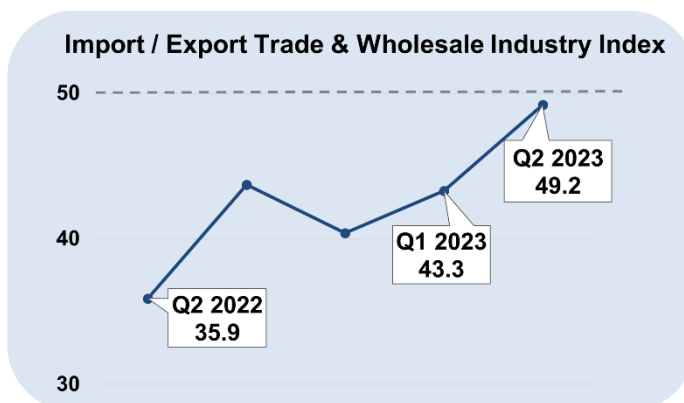
Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	50.9	Remain	Up
Investment Sentiment	50.0	Down	Up
Business Condition	44.9	Up	Up
Profit Margin	40.2	Up	Up
Global Economy	40.6	Down	Up



Import / Export Trade and Wholesale Industry 49.2

Industry index of Import / Export Trade & Wholesale Industry was further up by 5.9 to 49.2. All component sub-indices recorded increments, among which “Recruitment Sentiment”, “Business Condition” and “Investment Sentiment” surpassed the 50 neutral line.

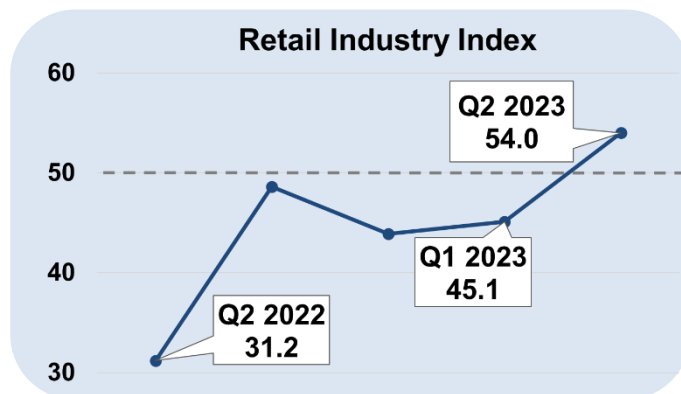
Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	51.5	Up	Up
Investment Sentiment	50.5	Up	Up
Business Condition	50.5	Up	Up
Profit Margin	43.3	Up	Up
Global Economy	49.0	Up	Up



The 3 Key Industry Indices

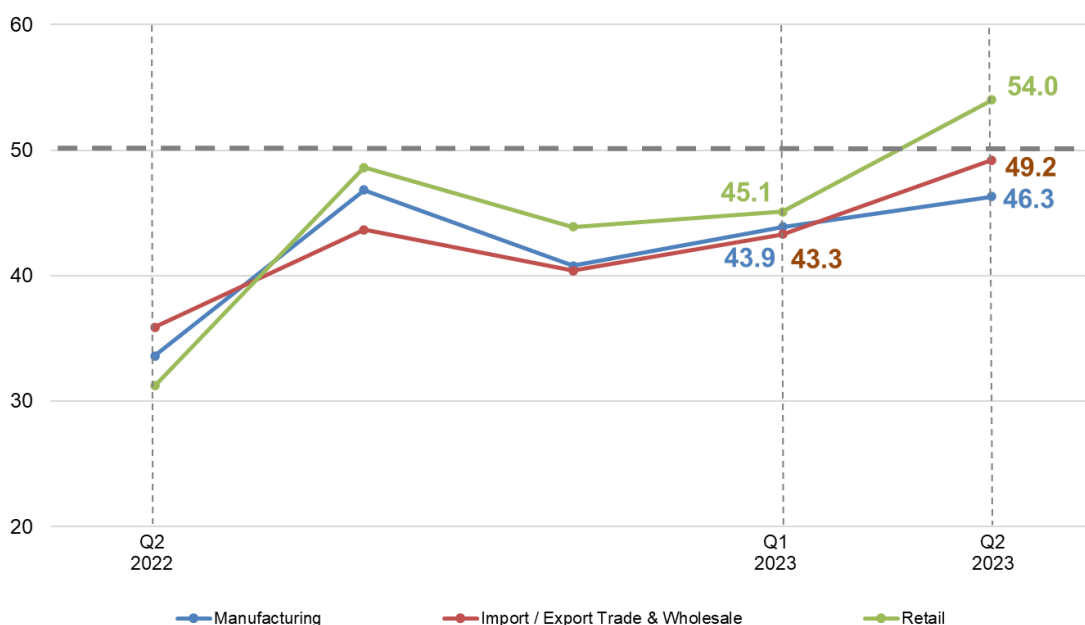
Retail Industry 54.0

Industry index of Retail Industry registered further uplift of 8.9 to 54.0. Except a decline of 3.0 in “Global Economy” to 45.0, other component sub-indices went up, of which “Business Condition” and “Profit Margin” recorded significant uplifts of 22.4 and 16.3 respectively.



Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	52.5	Up	Up
Investment Sentiment	50.0	Up	Up
Business Condition	63.1	Up	Up
Profit Margin	56.3	Up	Up
Global Economy	45.0	Down	Up

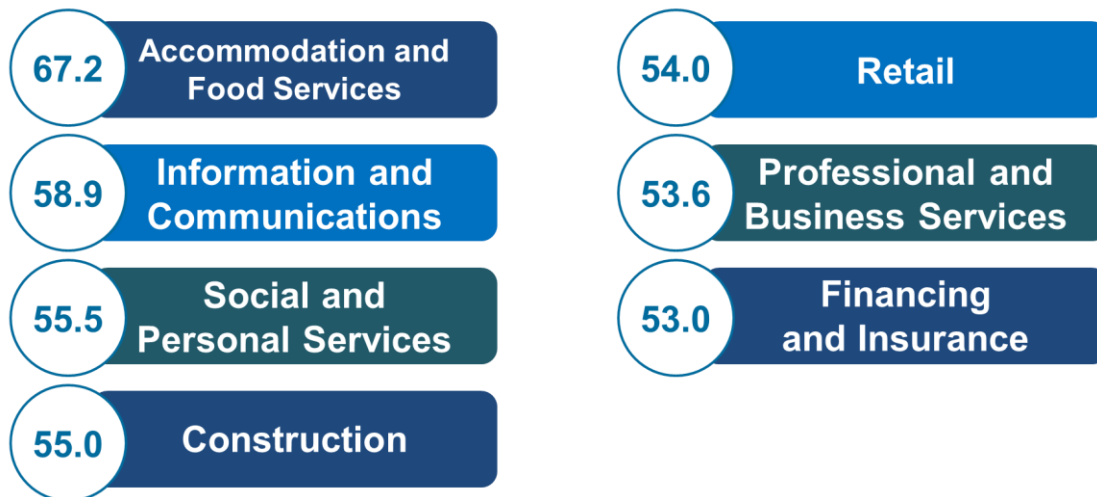
3 Key-Industry Indices



Industry Index

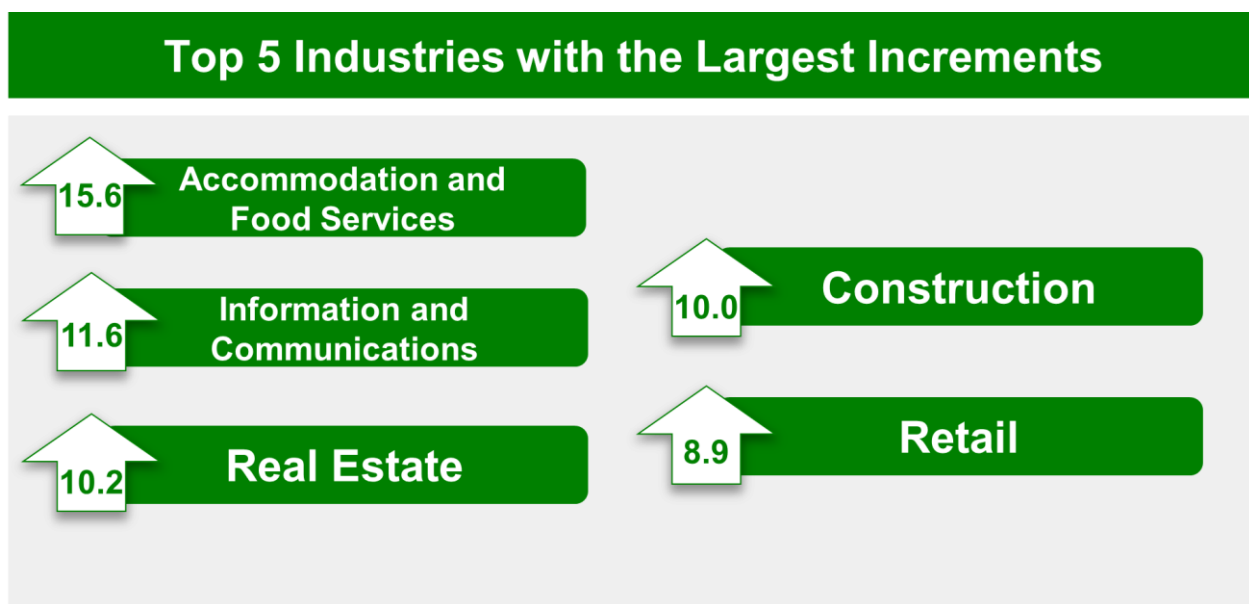
Among the 11 industry indices, except “Financing and Insurance” which maintained stable, all the remaining 10 industries recorded increases. Among them, seven industry indices surpassed the 50 neutral line.

Among 11 industries, 7 industry indices surpassed the 50 neutral line:



Industries with the Largest Changes

“Accommodation and Food Services” (+15.6), “Information and Communications” (+11.6) and “Real Estate” (+10.2) registered more significant growths.



Market Prospects

In terms of overall investment trends, 93% of surveyed SMEs expected to maintain or increase in this quarter, which is on par with the previous quarter, with “Training Related to E-commerce or Digital Technology”, “Overall Staff Training”, “Online Marketing Promotion”, “Facility and Equipment”, and “IT System” being the areas that most SMEs expected to maintain or increase investment this quarter. In addition, the proportion of surveyed SMEs expecting to increase their manpower this quarter increased by 3%-point from previous quarter. Such increase was mainly seen from “Accommodation and Food Services” (32%), “Information and Communications” (28%), “Construction” (22%), and “Social and Personal Services” (19%).

93%

SMEs expected to maintain or increase their overall investment

Top 5 Industries Expecting to Maintain or Increase their Overall Investment

1 Transportation, Storage and Courier Services **98%**

1 Construction **98%**

1 Accommodation and Food Services **98%**

4 Real Estate **96%**

5 Financing and Insurance **93%**

5 Retail **93%**

Most SMEs expected to maintain or increase investment on the following items:

1 Training Related to E-commerce or Digital Technology

2 Overall Staff Training

3 Online Marketing Promotion

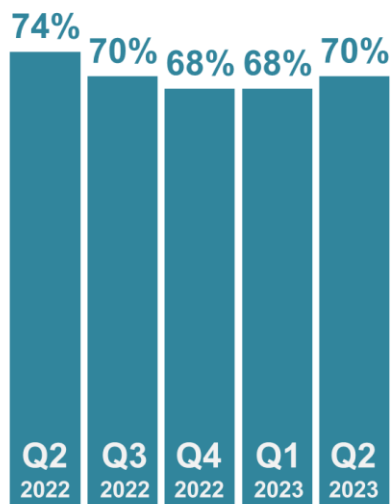
4 Facility and Equipment

5 IT System

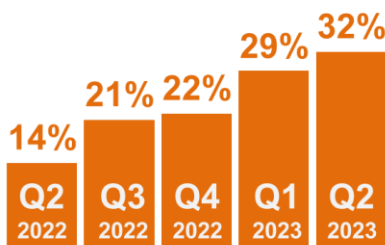


Market Prospects

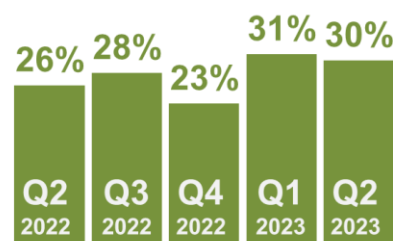
In terms of cost, 70% of SMEs expected “Raw Material Cost” to increase, increased by 2%-point compared with last quarter. 32% expected “Staff Salary” to rise in this quarter, an increase of 3%-point from last quarter. On the other hand, 30% of SMEs expected to increase their “Product / Service Price” in this quarter, down by 1%-point from last quarter.



Raw Materials Cost Increase



Staff Salary Increase



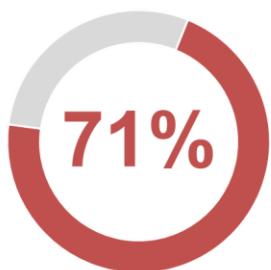
Product / Service Price Increase



Featured Topic

Recovery Status of SMEs

About 70% of the surveyed SMEs claimed their business was negatively affected by the pandemic in the past 3 years, with “Accommodation and Food Services” (86%), “Real Estate” (84%), “Retail” (77%), and “Social and Personal Services” (77%) being the hardest hit industries.



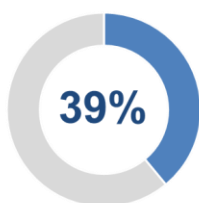
SMEs claimed their business was negatively affected by the pandemic in the past 3 years

Industries Hardest Hit by the Pandemic:



The survey also found that close to 40% of SMEs has changed the sales models as a result of the pandemic, with “Accommodation and Food Services”, “Retail” and “Social and Personal Services” having larger proportions. The major changes on sales included “Accepting more payment methods”, “Services being provided through digital channels” and “Providing new services non-digitally”. 98%, 93% and 94% of these SMEs making each of these changes on sales would maintain each of these changes after the pandemic.

Sales



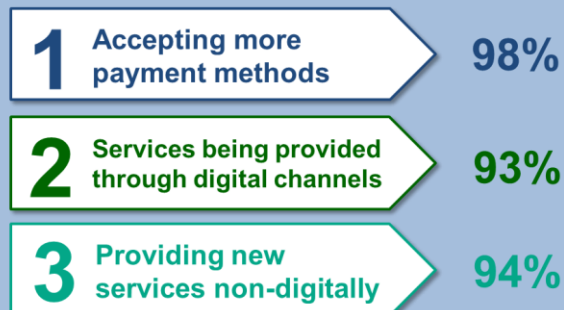
SMEs had made changes on Sales

Industries with larger proportion:



Major Changes on Sales:

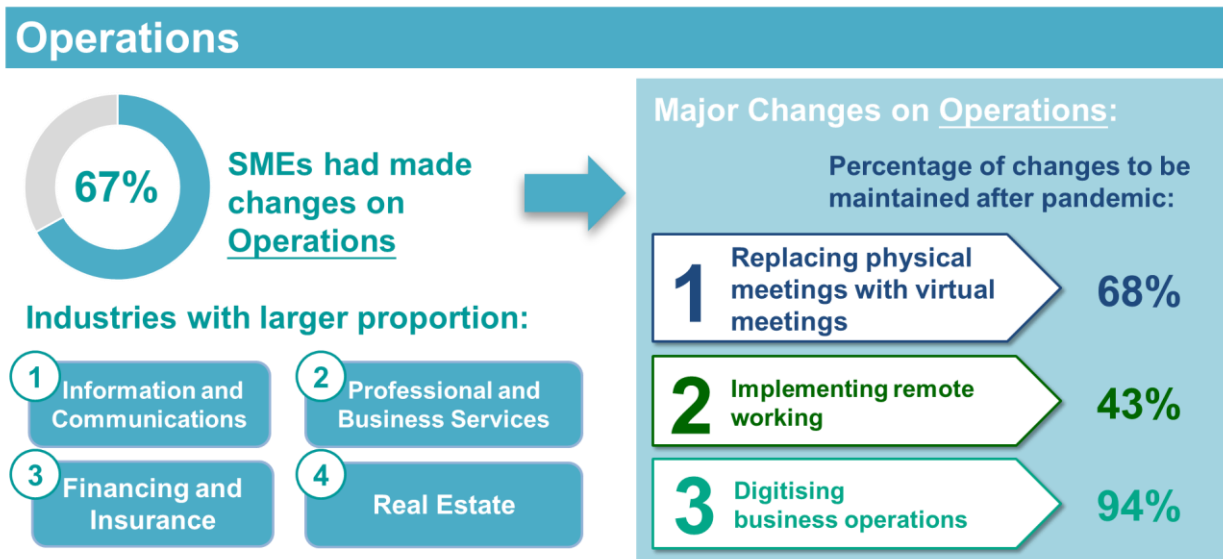
Percentage of changes to be maintained after pandemic:



Featured Topic

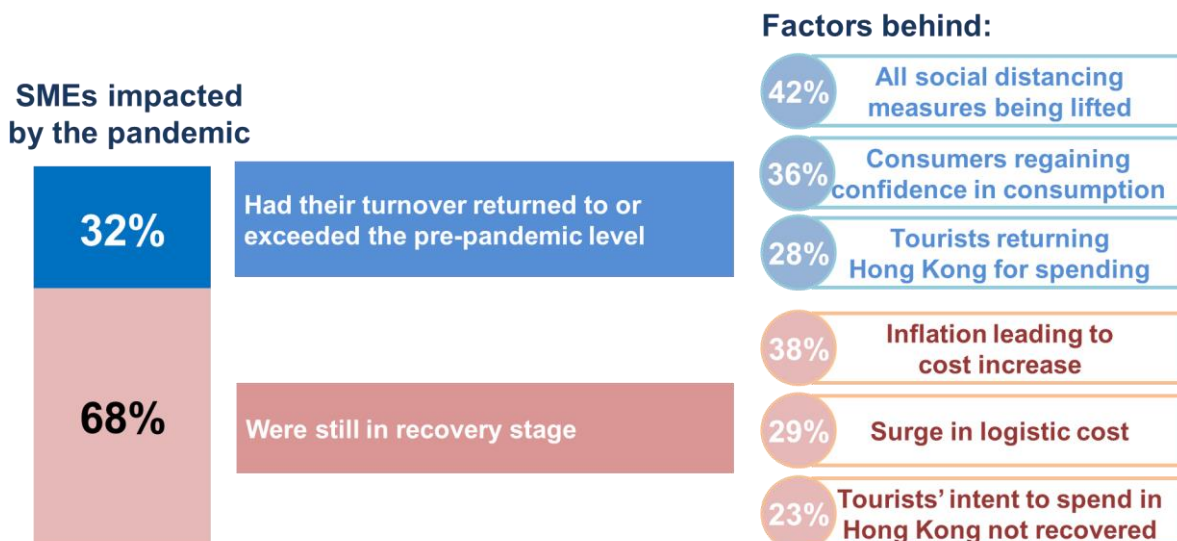
Recovery Status of SMEs

In terms of operations, two-thirds (67%) of SMEs have made changes in operations, with larger proportions found in “Information and Communications”, “Professional and Business Services”, “Financing and Insurance” and “Real Estate”. The major changes on operations included “Replacing physical meetings with virtual meetings”, “Implementing remote working” and “Digitising business operations”. 68%, 43% and 94% of the SMEs making each of these changes on operations would maintain each of these changes after the pandemic.



12

In terms of the post-pandemic business conditions, about one-third (32%) of the surveyed SMEs that were affected by the pandemic indicated that their current turnover has returned to or exceeded the pre-pandemic level, with key facilitating factors being “All social distancing measures being lifted” (42%), “Consumers regaining confidence in consumption” (36%), and “Tourists returning Hong Kong for spending” (28%). As for the remaining two-thirds that were still in recovery stage, the key barriers behind included “Inflation leading to cost increase” (38%), “Surge in logistic cost” (29%), and “Tourists’ intent to spend in Hong Kong not recovered” (23%).



Featured Topic

Recovery Status of SMEs

The survey also compared different industries' recovery pace. It is found that "Construction", "Information and Communications" and "Accommodation and Food Services" recovered at a faster recovery pace while "Social and Personal Services", "Transportation, Storage and Courier Services" and "Import / Export Trade and Wholesale" recovered slower than other industries.

Recovery Pace among Different Industries:



In terms of post-pandemic development plans, over 60% (62%) of the surveyed SMEs indicated they would have new development plans this year due to the resumption of normal business operations, with the five industries being "Information and Communications" (82%), "Retail" (80%), "Social and Personal Services" (67%), "Financing and Insurance" (66%) and "Manufacturing" (65%). Their main new development plans for this year include research and development or provision of new products / services, customer base recovery / expansion, increasing online sales channels / e-commerce development, and increasing digital adoption in operations.

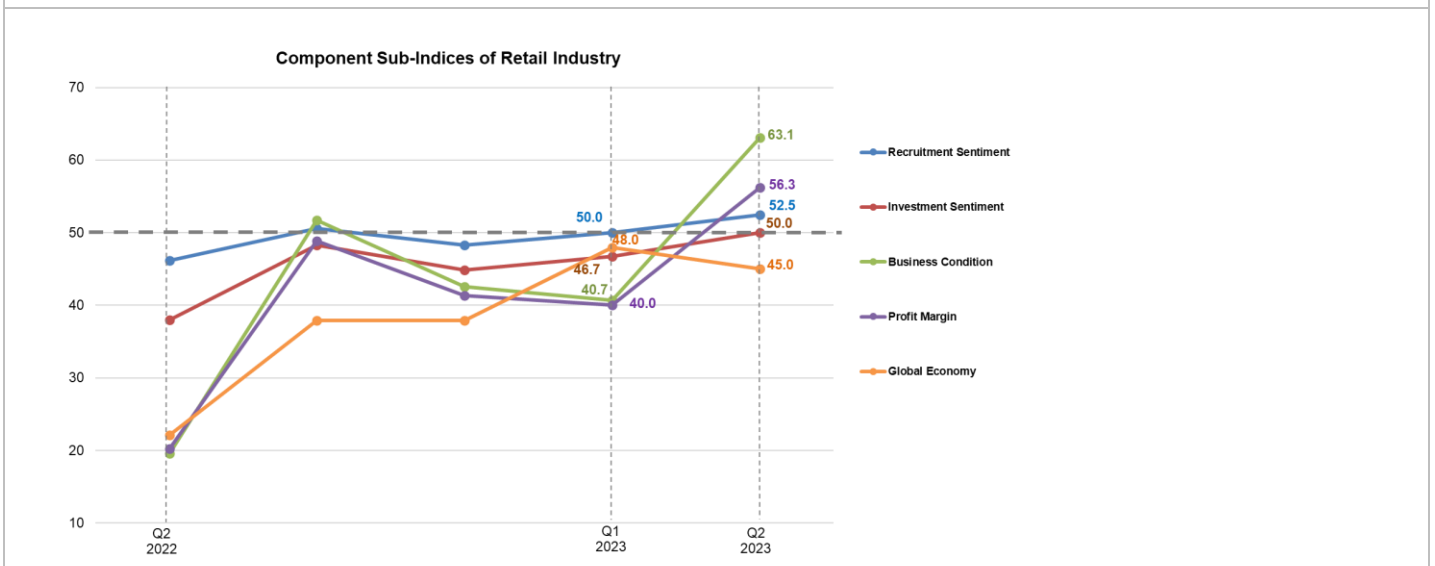
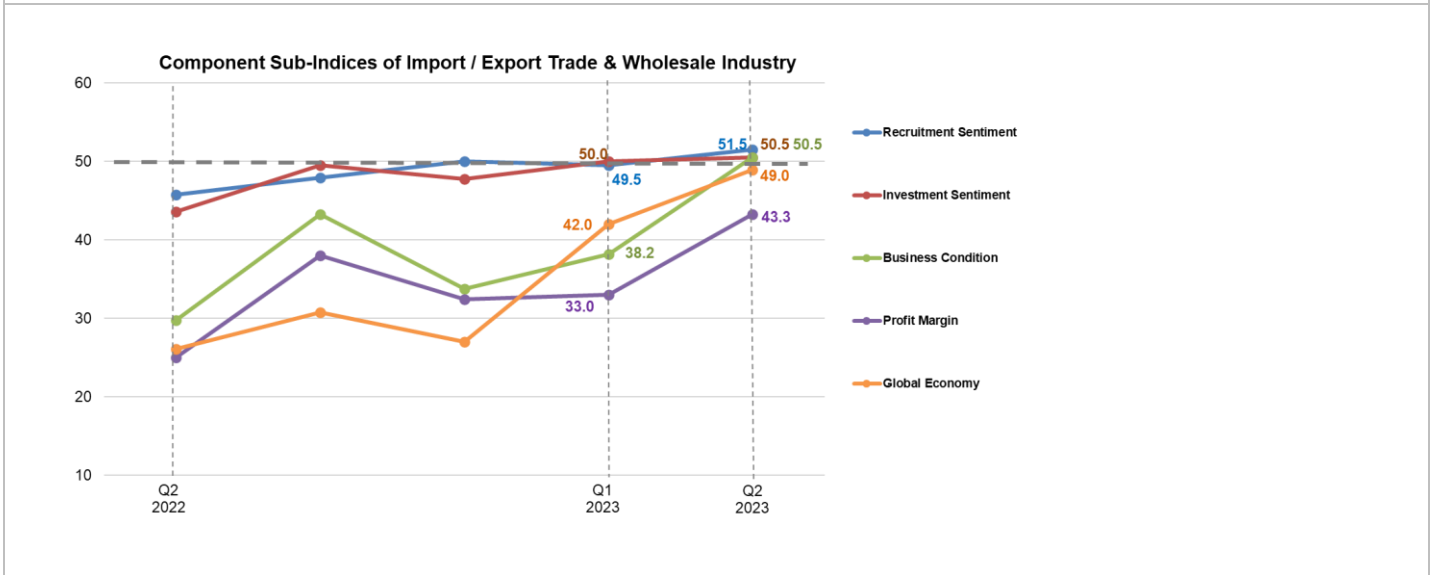
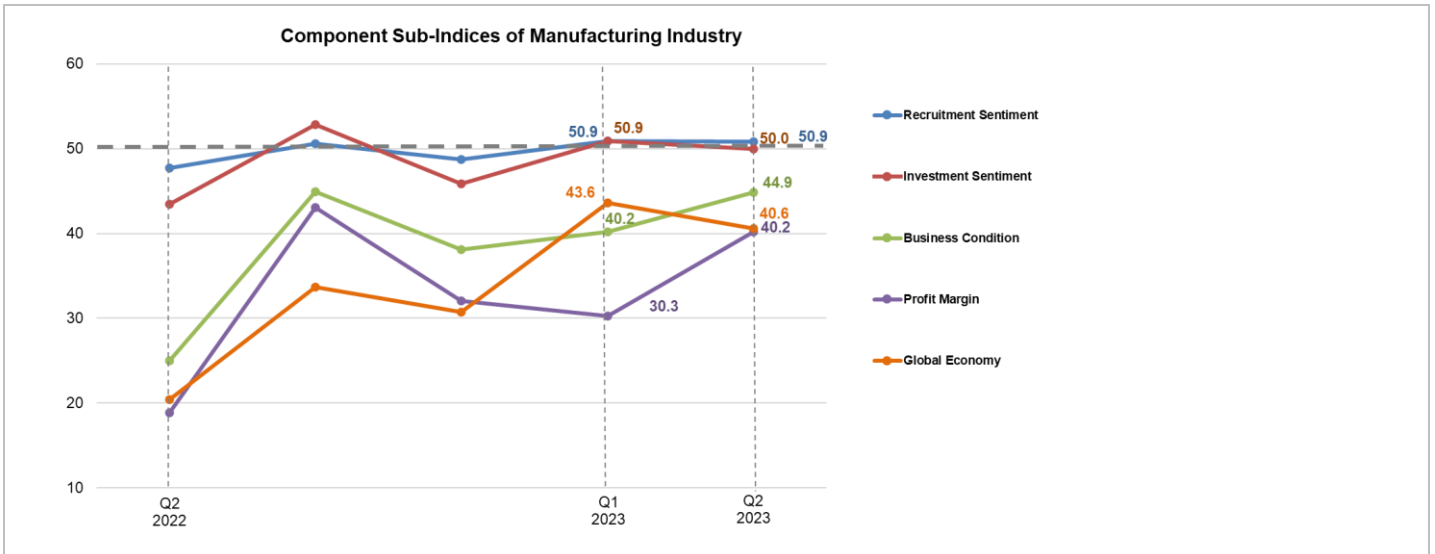


Top 5 Industries with Higher Proportions:



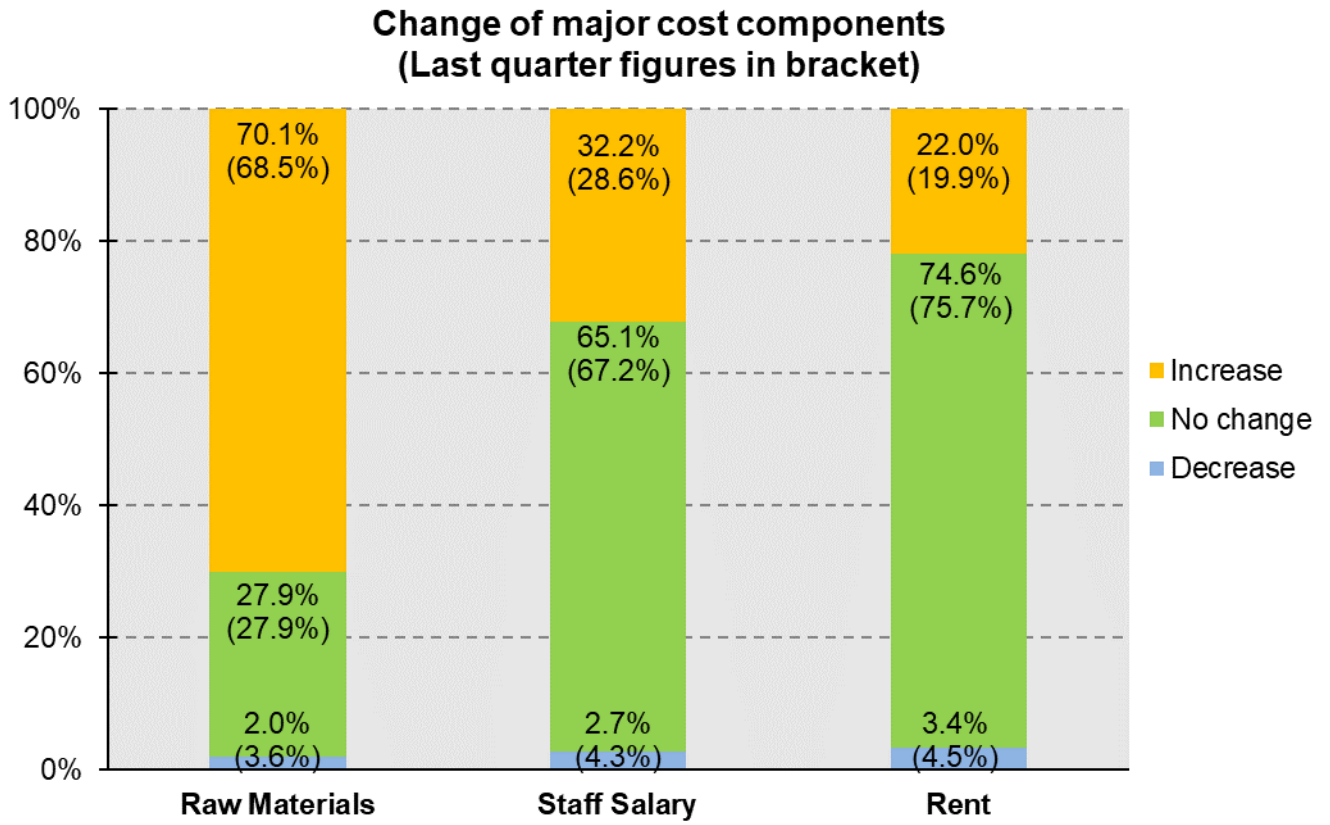
Appendix

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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