



# Standard Chartered Hong Kong SME Leading Business Index

Quarter 3, 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 821 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 45<sup>th</sup> survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted in July 2023. Top management of 821 SMEs were surveyed to gauge their views on the outlook of the overall business environment in Q3 2023 and the talent recruitment needs among SMEs.

# Key Findings

The Q3 2023 Overall Index of the Standard Chartered SME retreated by 6.1 to 46.7 this quarter, reflecting that the positive effects brought along by the reopening of Mainland-Hong Kong's boundaries are beginning to diminish. Key findings of the survey are as follows:

- ⊕ All five component sub-indices registered downfall, with “Business Condition” (44.7, -11.3) and “Profit Margin” (41.5, -9.6) showing the most significant declines, indicating that local SMEs show less confidence in their business turnover for this quarter. “Global Economy” also dipped by 8.0 to 40.3, reflecting local SMEs are facing challenges from the external environment. Despite the declines in sub-indices, “Recruitment Sentiment” (51.0) and “Investment Sentiment” (50.6) stayed above 50 neutral line, indicating that SMEs remained optimistic towards the business prospects;
- ⊕ All 11 industry indices suffered decline, with “Accommodation and Food Services” (55.4) and “Information and Communications” (49.2) recording the largest drop of 11.8 and 9.7 respectively. Although “Accommodation and Food Services” suffered the largest decline in index this quarter, it still ranked top among the 11 industries. On the other hand, “Transportation, Storage and Courier Services” (39.5) dropped below 40 again;
- ⊕ In terms of overall investment trends, 91% of surveyed SMEs indicated that they would maintain or increase investment this quarter, which is on par with the previous quarter. The areas that most SMEs expected to maintain or increase investment included “Training Related to E-commerce or Digital Technology”, “IT System”, “Research & Development”, “Overall Staff Training”, “Online Marketing Promotion”, and “Offline Marketing Promotion”;
- ⊕ In terms of the changes in cost components, although the proportion of surveyed SMEs expecting an increase in raw material costs in this quarter fell by three percentage points to 67%, the proportion of SMEs expecting an increase in staff salary grew further by two percentage points to 34%, rising by over 10 percentage points from the same quarter last year. The findings showed that SMEs were still under ongoing pressure from cost hikes. However, only 26% of SMEs expected to increase the price for their product or service, a decrease of four percentage points from the previous quarter, indicating that SMEs have to absorb the increases in costs on their own.



# Key Findings (cont.)

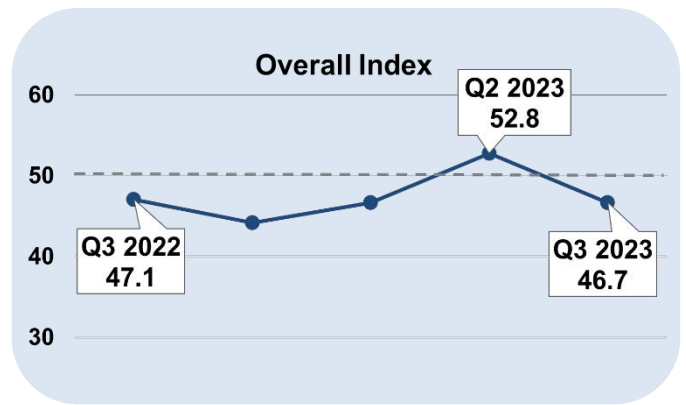
- ✚ The thematic survey of this quarter explored recruitment of talent by SMEs:
- The survey revealed that 29% of the surveyed local SMEs had hiring needs, and 12% of the local SMEs were adding headcounts, with higher proportions found in “Accommodation and Food Services”, “Information and Communications” and “Social and Personal Services”;
  - 88% of SMEs with hiring needs claimed they had encountered recruitment difficulties;
  - 31% of SMEs with difficulties in staff recruitment claimed that they would consider recruiting non-local talent, 25% would consider using outsource vendors, and 14% would consider using artificial intelligence (AI) to perform manual tasks. Among those SMEs considering recruiting non-local talent, 90% would consider recruiting talent from the Mainland;
  - The survey also gauged how different talent admission schemes put ahead by the HKSAR Government can help SMEs in talent recruitment. Over half of the surveyed SMEs considering recruiting non-local talent found the “Supplementary Labour Scheme” able to help them attract and recruit talent, while 43% considered “Admission Scheme for Mainland Talents and Professionals” helpful.



# Standard Chartered SME Index

Q3 2023

# 46.7

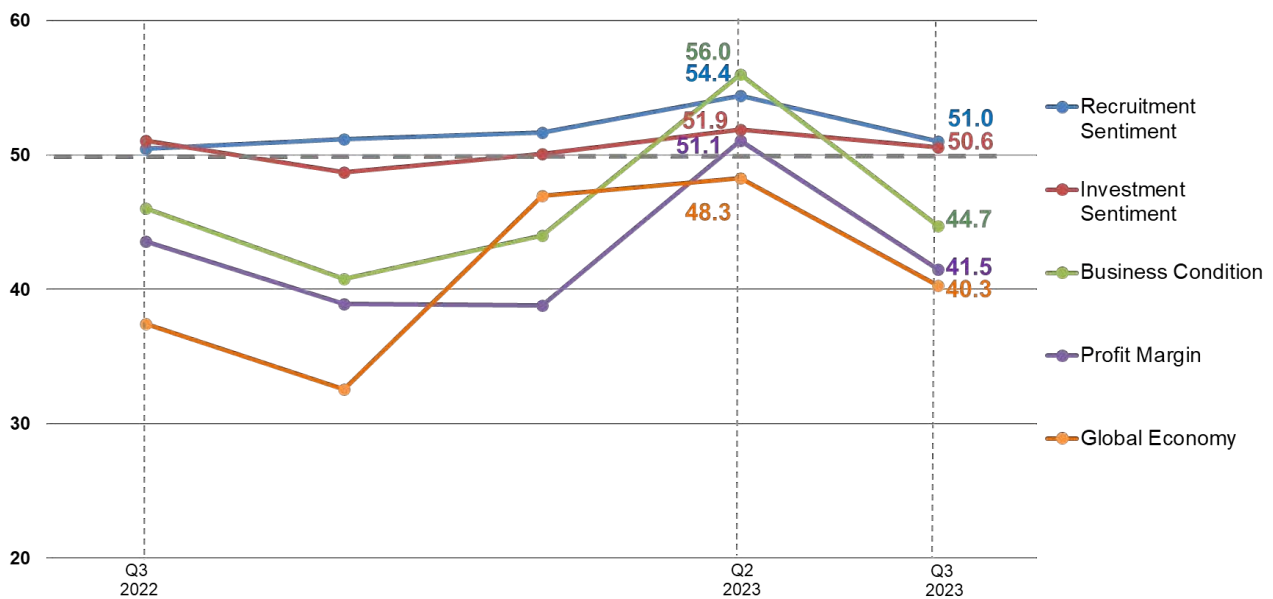


The Q3 2023 Overall Index retreated by 6.1 to 46.7, returning to the level in Q1 2023.

All sub-indices were down simultaneously, with “Business Condition” (44.7, -11.3) and “Profit Margin” (41.5, -9.6) recording the most significant drops, reflecting that SMEs have lower confidence on their turnover in this quarter. “Global Economy” also dipped by 8.0 to 40.3, indicating that SMEs are facing challenges from the external environment. Despite the declines in sub-indices, “Recruitment Sentiment” (51.0) and “Investment Sentiment” (50.6) stayed above 50 neutral line, indicating that SMEs remained optimistic towards the business prospects.

## Five Component Sub-Indices of Overall Index

5



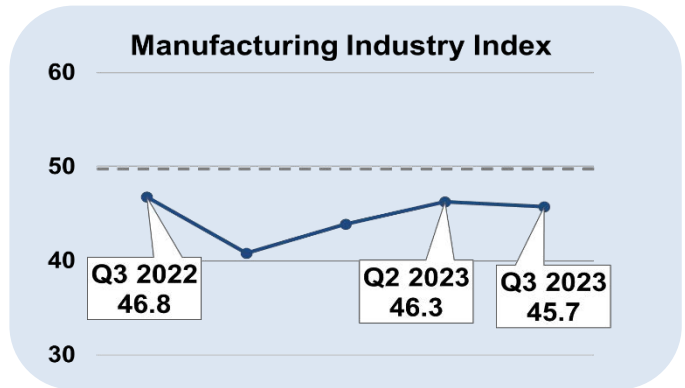
# The 3 Key Industry Indices

## Manufacturing Industry 45.7



Industry index of “Manufacturing Industry” was slightly down by 0.6 to 45.7 this quarter. Except “Investment Sentiment” (53.2) and “Recruitment Sentiment” (51.8) which further increased, all other component sub-indices declined, particularly for “Global Economy” which dipped further by 4.1 to 36.5.

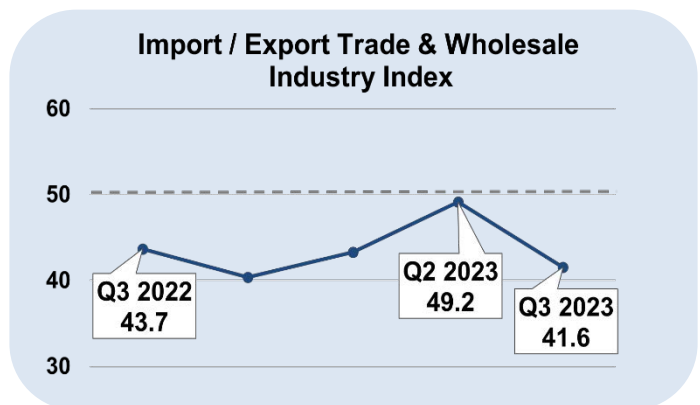
Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	51.8	Up	Up
Investment Sentiment	53.2	Up	Up
Business Condition	42.3	Down	Down
Profit Margin	36.9	Down	Down
Global Economy	36.5	Down	Up



## Import / Export Trade and Wholesale Industry 41.6

Industry index of “Import / Export Trade & Wholesale Industry” dropped significantly by 7.6 to 41.6. All component sub-indices were down, of which “Global Economy”, “Business Condition” and “Profit Margin” recorded more significant drops of 16.9, 13.4 and 8.0 respectively.

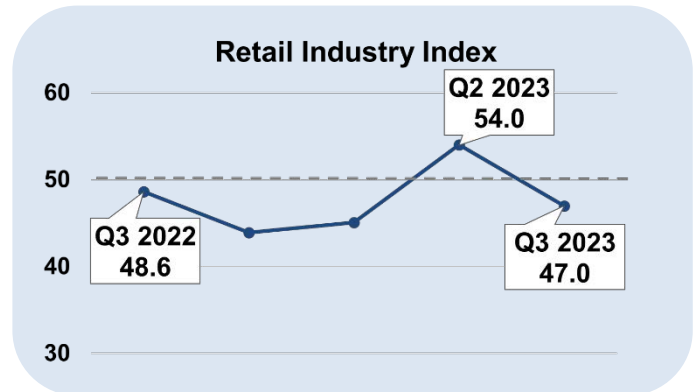
Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	46.9	Down	Down
Investment Sentiment	48.7	Down	Down
Business Condition	37.1	Down	Down
Profit Margin	35.3	Down	Down
Global Economy	32.1	Down	Up



# The 3 Key Industry Indices

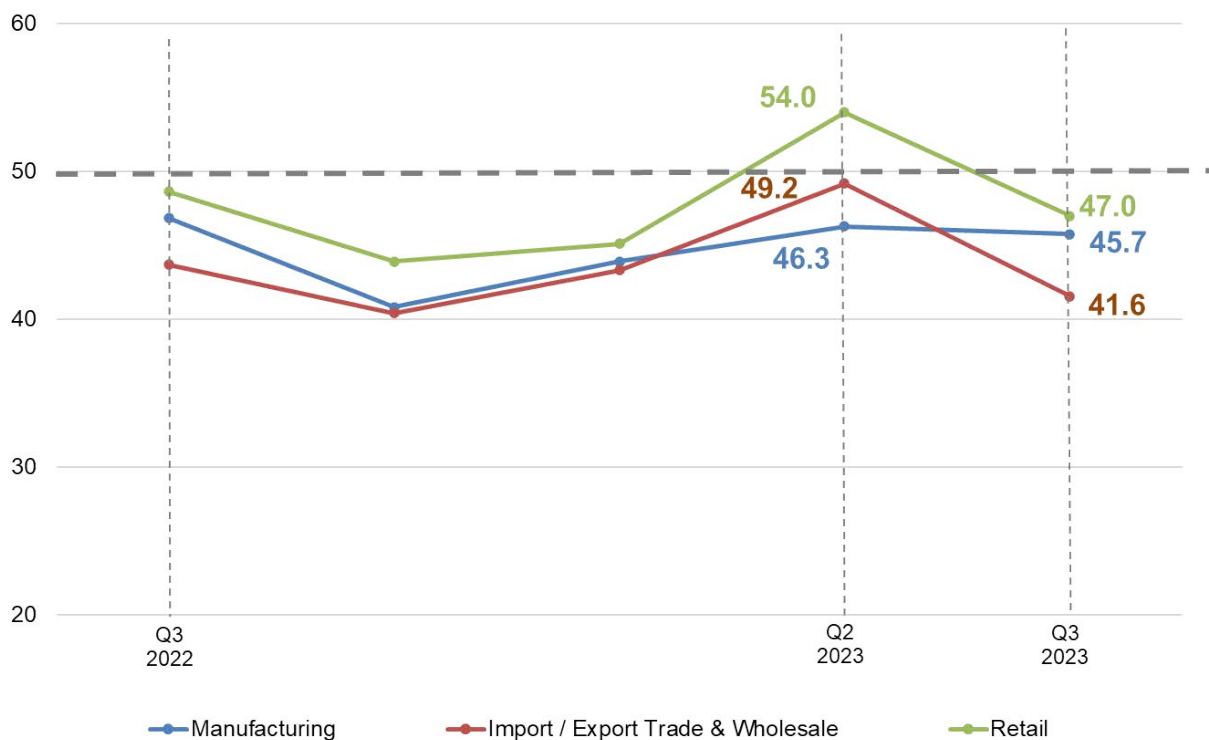
## Retail Industry 47.0

Industry index of "Retail Industry" retreated by 7.0 to 47.0, but it was still higher than 45.1 in Q1 2023. All component sub-indices dropped simultaneously. Although "Profit Margin" (-15.4) and "Business Condition" (-13.1) recorded drops of over 10 points, the latter stayed above 50 neutral line, indicating that the industry was still optimistic towards their prospects.



Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	48.8	Down	Down
Investment Sentiment	49.4	Down	Up
Business Condition	50.0	Down	Down
Profit Margin	40.9	Down	Down
Global Economy	42.7	Down	Up

## 3 Key-Industry Indices



# Industry Index

All 11 industry indices suffered decline, with “Accommodation and Food Services” (-11.8), “Information and Communications” (-9.7), “Import / Export Trade and Wholesale” (-7.6), “Construction” (-7.5) and “Retail” (-7.0) recording the largest drop.



Although “Accommodation and Food Services” suffered the largest decline in index this quarter, it still ranked top among the 11 industries. On the other hand, “Transportation, Storage and Courier Services” (39.5) dropped below 40 again.

### Industries with Index above 50 Neutral Line:



### Industries with the Largest Drops:



### Industries with Index below 40:





# Market Prospects

In terms of overall investment trends, 91% of surveyed SMEs indicated that they would maintain or increase investment this quarter, which is on par with the previous quarter.

# 91%

**SMEs expected to maintain or increase on the overall investment**

### Top 5 Industries Expecting to Maintain or Increase on the Overall Investment

<b>1</b>	<b>Accommodation and Food Services</b>	<b>96%</b>
<b>2</b>	<b>Social and Personal Services</b>	<b>95%</b>
<b>3</b>	<b>Financing and Insurance</b>	<b>94%</b>
<b>3</b>	<b>Real Estate</b>	<b>94%</b>
<b>3</b>	<b>Construction</b>	<b>94%</b>
<b>3</b>	<b>Transportation, Storage and Courier Services</b>	<b>94%</b>

The areas that most SMEs expected to maintain or increase investment included “Training Related to E-commerce or Digital Technology”, “IT System”, “Research & Development”, “Overall Staff Training”, “Online Marketing Promotion”, and “Offline Marketing Promotion”.

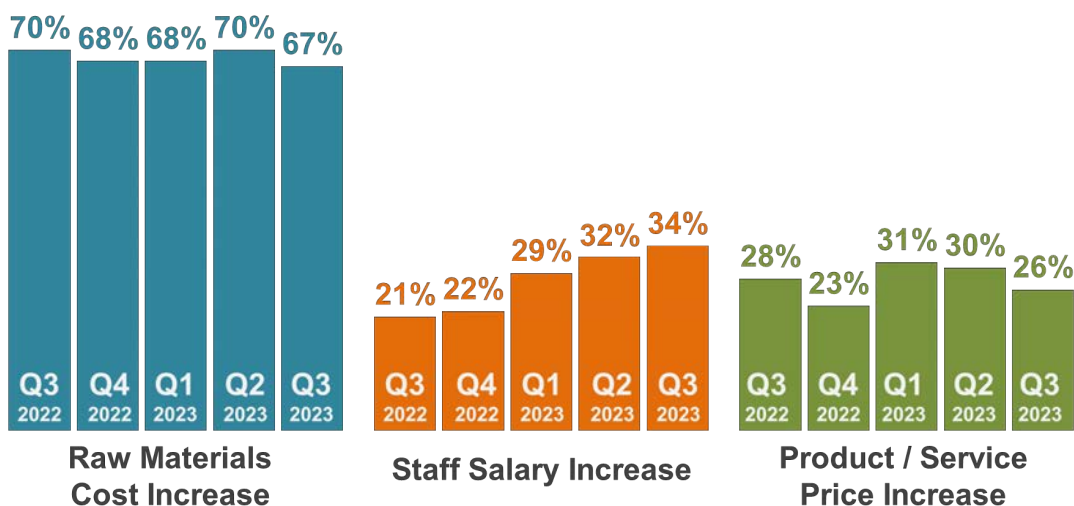
## Most SMEs expected to maintain or increase investment on the following items:

- 1** Training Related to E-commerce or Digital Technology
- 2** IT System
- 3** Research & Development / Overall Staff Training
- 4** Online Marketing Promotion
- 5** Offline Marketing Promotion



# Market Prospects

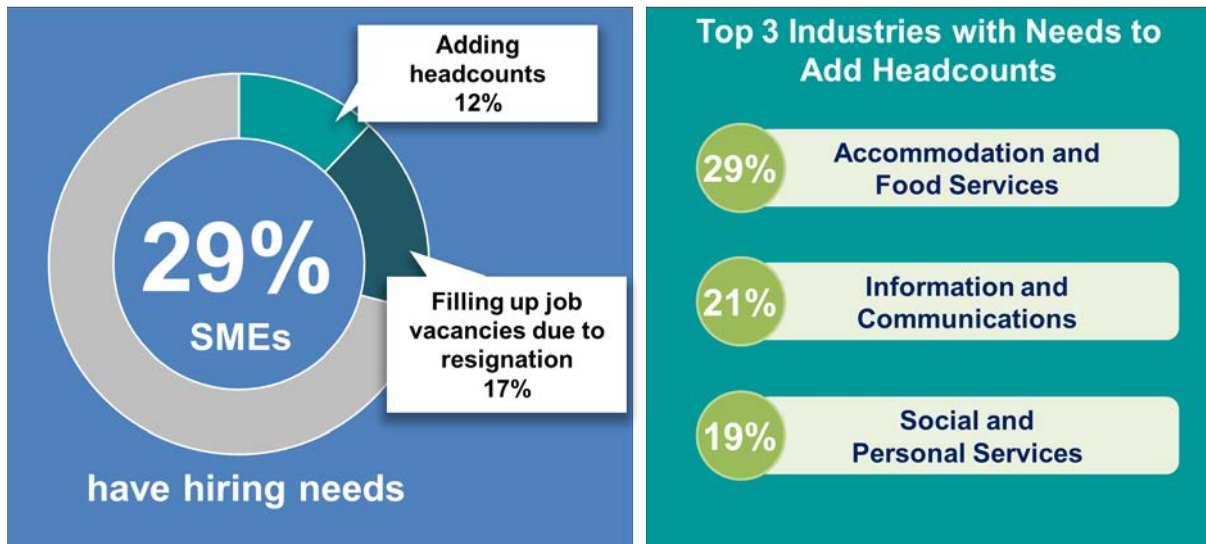
In terms of the changes in cost components, although the proportion of surveyed SMEs expecting an increase in raw material costs in this quarter fell by three percentage points to 67%, the proportion of SMEs expecting an increase in staff salary grew further by two percentage points to 34%, rising by over 10 percentage points from the same quarter last year. The findings showed that SMEs were still under ongoing pressure from cost hikes. However, only 26% of SMEs expected to increase the price for their product or service, a decrease of four percentage points from the previous quarter, indicating that SMEs have to absorb the increases in costs on their own.



# Featured Topic

## Recruitment of Talent by SMEs

The thematic survey of this quarter explored the recruitment of talent by SMEs. The survey revealed that 29% of the surveyed local SMEs had hiring needs, and 12% of the local SMEs were adding headcounts, with higher proportions found in “Accommodation and Food Services” (29%), “Information and Communications” (21%) and “Social and Personal Services” (19%).



11

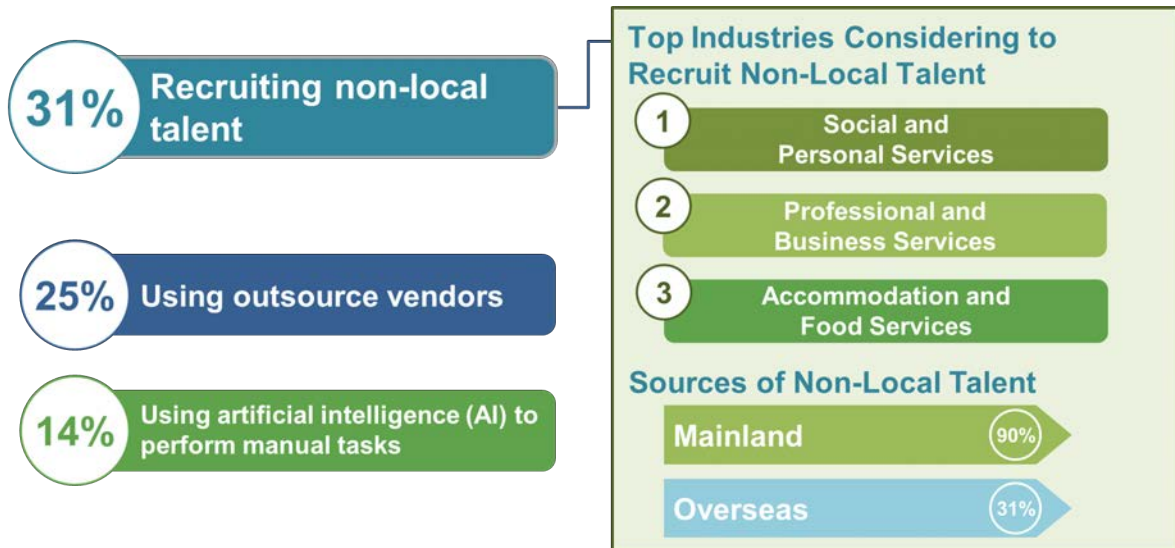
In addition, with labour gap persists, quite a few industries are affected by manpower shortage. The survey also discovered that 88% of SMEs with hiring needs claimed they had encountered recruitment difficulties.



# Featured Topic

## Recruitment of Talent by SMEs

To mitigate the manpower shortage issue, 31% of SMEs with difficulties in staff recruitment claimed they would consider recruiting non-local talent, 25% would consider using outsource vendors, and 14% would consider using artificial intelligence (AI) to perform manual tasks. Among those SMEs considering recruiting non-local talent, 90% would consider recruiting talent from the Mainland.



12

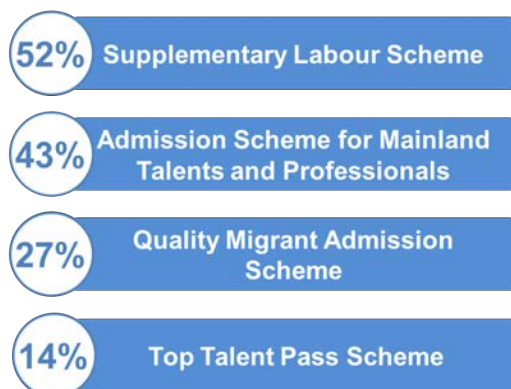
The survey also gauged how different talent admission schemes put ahead by the HKSAR Government can help SMEs in talent recruitment. Over half of the surveyed SMEs considering recruiting non-local talent found the “Supplementary Labour Scheme” able to help them attract and recruit talent, while 43% considered “Admission Scheme for Mainland Talents and Professionals” helpful.

Among SMEs considering to recruit non-local talent

**88%**

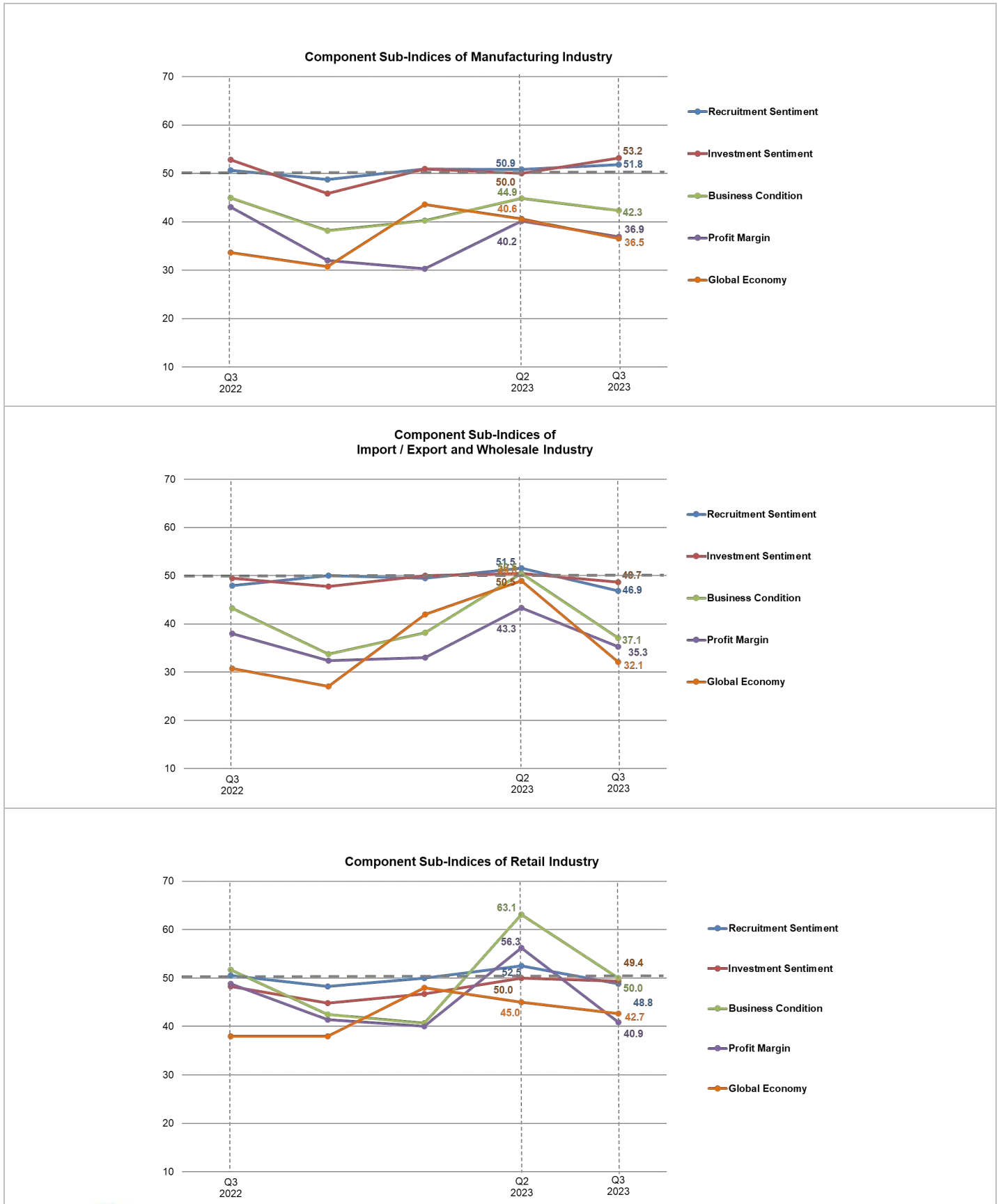
considered Hong Kong’s talent admission schemes helpful

**Talent Admission Schemes that SMEs Considered Useful:**



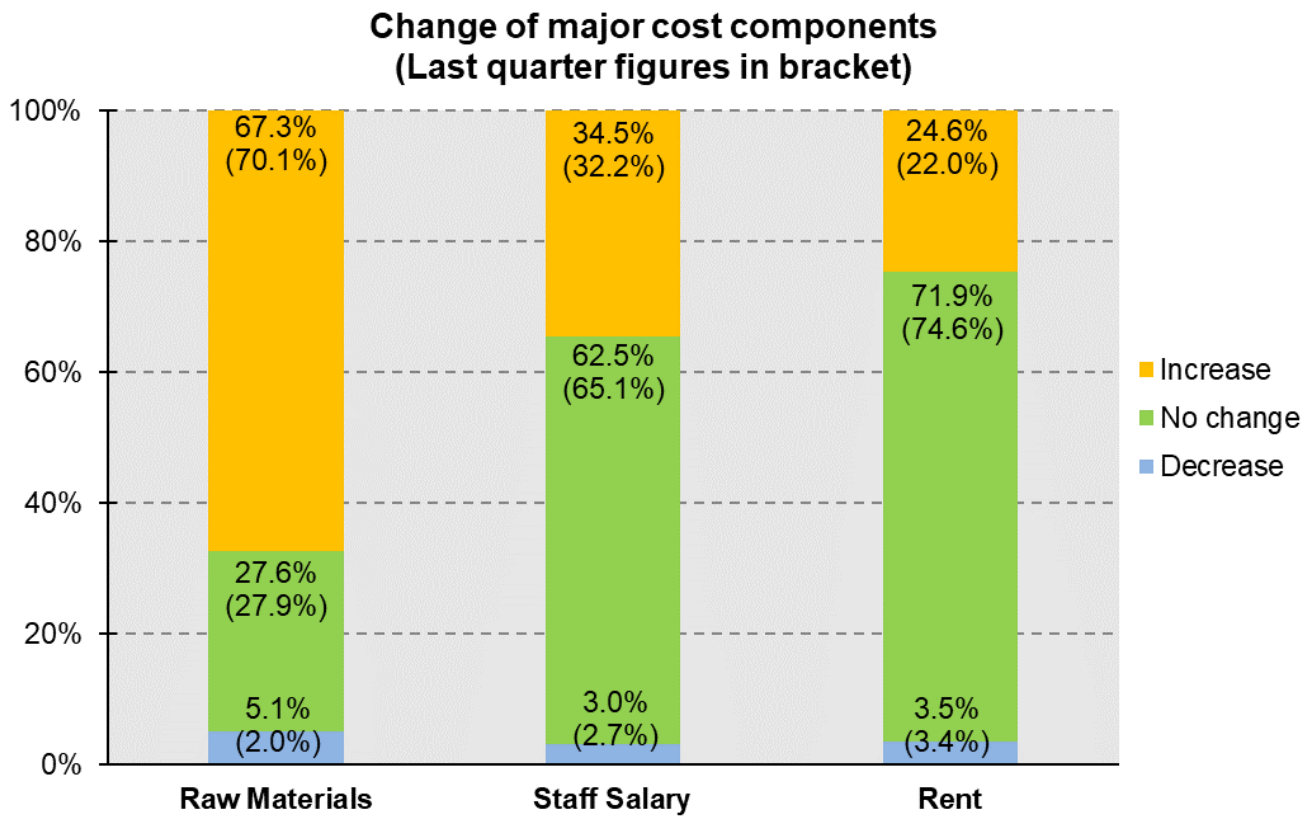
# Appendix

## 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>.

#### Disclaimer:

The content and data in this report is owned by Hong Kong Productivity Council (HKPC). Without the authorisation of HKPC, any changes to the report content and data, as well as selling of the report, are not permitted. HKPC shall not have any liability, duty or obligation for or relating to the content and data contained herein, any errors, inaccuracies, omissions or delays in the content and data, or for any actions taken in reliance thereon. In no event shall HKPC be liable for any special, incidental or consequential damages, arising out of the use of the content and data.

