



Standard Chartered Hong Kong SME Leading Business Index

Quarter 4, 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 46th survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted in September and October 2023. Top management of 822 SMEs were surveyed to gauge their views on the outlook of the overall business environment in Q4 2023, expanding their business into other GBA cities and to explore the development direction of Hong Kong SMEs in 2024.

Key Findings

The Q4 2023 Overall Index of the Standard Chartered SME slightly rebounded by 0.9 to 47.6 this quarter, though still below the 50 neutral line. Key findings of the survey are as follows:

- ⊕ 3 out of 5 component sub-indices registered increments, including “Profit Margin” (45.4, +3.9), “Business Condition” (47.7, +3.0) and “Recruitment Sentiment” (53.0, +2.0), indicating that SMEs have expectations for business conditions this quarter. On the contrary, “Global Economy” had been declining since Q2 2023, from 48.3 in Q2 2023 to 34.6 this quarter, accumulating a drop of 13.7. This indicates that local SMEs are still facing challenges from the external environment;
- ⊕ In terms of the 11 industry indices, “Import / Export Trade and Wholesale” (46.7, +5.1) recorded the largest increment. On the contrary, “Real Estate” (39.2, -7.3), “Construction” (42.8, -4.7) and “Retail” (43.2, -3.8) suffered the largest drops, with “Retail” even falling back to the level of Q1 2023;
- ⊕ In terms of overall investment trends, 92% 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”, “Overall Staff Training”, “Research & Development”, “Offline Marketing Promotion”, and “IT System”;
- ⊕ In terms of the changes in cost components, the proportion of local SMEs expecting raw materials cost to increase had been on a declining trend. Compared with the previous quarter, it further dropped by 12%-points to 55%. Similarly, the proportion of SMEs expecting an increase in staff salary fell by 9%-points to 25%. The findings indicate a slowdown in the cost pressures facing SMEs. On the other hand, only 21% of local SMEs planned to increase the price of their product or service, a further decrease of 5%-points from the previous quarter, indicating that the majority of SMEs are gradually easing the pace of their price increases;
- ⊕ Among SMEs currently with business operation or sales business in other GBA cities, 41% of them claimed they had already providing or considered providing Hong Kong employees with job opportunities in other GBA cities, while 23% of them had already providing or considered providing employees in the Mainland with job opportunities in Hong Kong.



Key Findings (cont.)

⊕ The thematic survey of this quarter investigated the deployment plan and direction of local SMEs in 2024:

- The survey found that “worse-than-expected economic conditions” would be the top challenge that local SMEs expected to face in 2024, followed by “increase in cost” and “difficulties in recruitment”. In particular, “low spending intentions among local citizens”, “local citizens spending outside Hong Kong”, and “insufficient tourist arrivals” were found to be the major challenges facing “Retail” and “Accommodation and Food Services”;
- Local SMEs put “regaining / increasing local customer base” as their top priority in their 2024 development plan, particularly for “Retail”, “Construction”, “Accommodation and Food Services”, “Professional and Business Services” and “Information and Communications”. Meanwhile, “Manufacturing” showed higher intention to “provide or sell more products or services” and “increase resources to develop overseas markets”;
- 11% of local SMEs claimed that they would increase the adoption of digital technology in their operational processes in the coming year, with “Administration and Office Support”, “Sales and Business Development”, and “Data Analysis” being the top areas with increased adoption.

⊕ The survey also gauged local SMEs' awareness of various Government funding schemes available for SMEs:

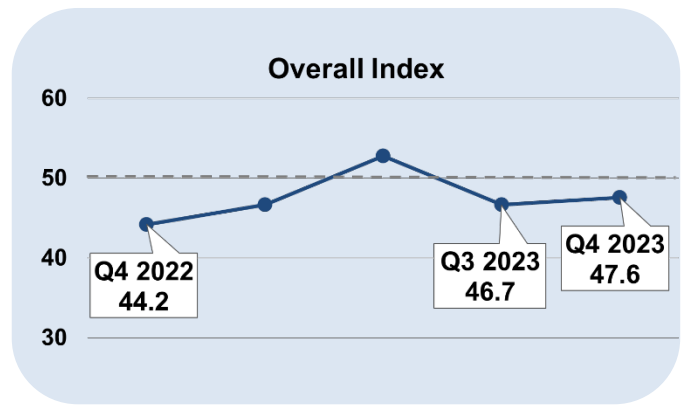
- In particular, the “SME Financing Guarantee Scheme”, “Technology Voucher Programme (TVP)”, “SME Export Marketing Fund (EMF)”, “BUD Fund” (Dedicated Fund on Branding, Upgrading and Domestic Sales), and “Enterprise Support Scheme (ESS)” showed higher levels of awareness.



Standard Chartered SME Index

Q4 2023

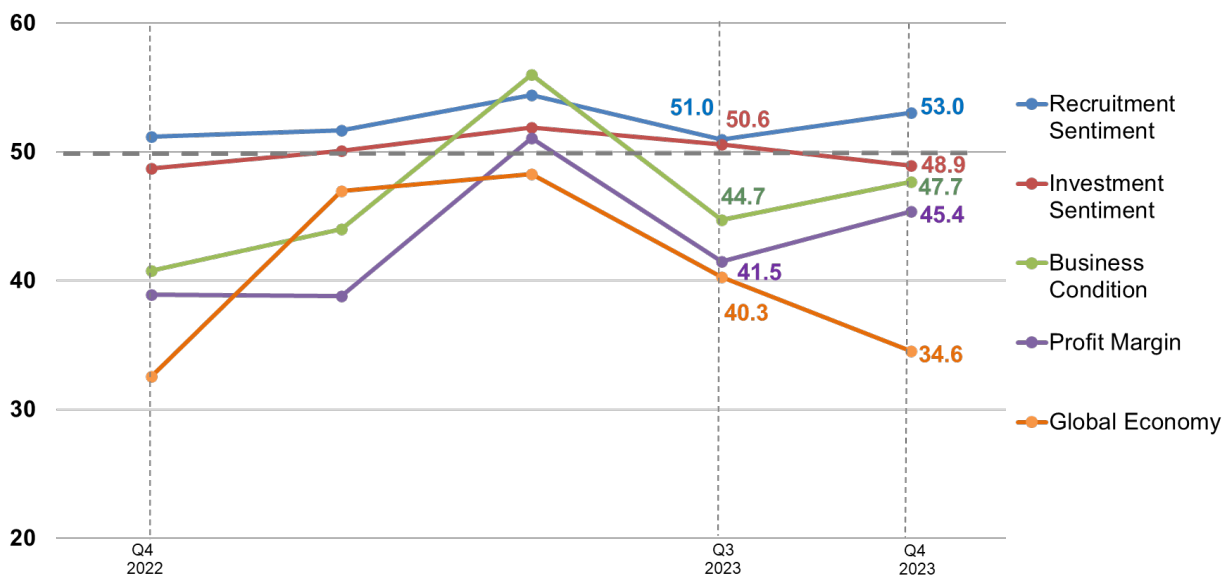
47.6



The Q4 2023 Overall Index slightly rebounded by 0.9 to 47.6 this quarter.

"Profit Margin" (+3.9), "Business Condition" (+3.0) and "Recruitment Sentiment" (+2.0) sub-indices rebounded this quarter, indicating that SMEs have expectations for business conditions this quarter. On the contrary, "Global Economy" sub-index continued to drop. It further declined by 5.7 to 34.6 this quarter, accumulating a drop of 13.7 since Q2 2023, indicating SMEs are still facing challenges from the external environment.

Five Component Sub-Indices of Overall Index



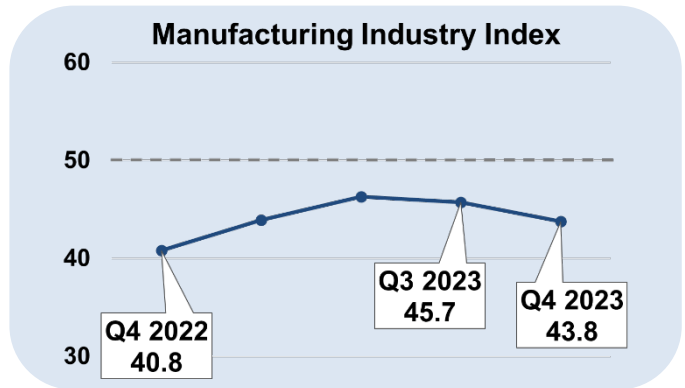
The 3 Key Industry Indices

Manufacturing Industry 43.8



Industry index of Manufacturing Industry continued to decline slightly, down by 1.9 to 43.8 this quarter. Except for “Profit Margin”, all other component sub-indices declined, particularly for “Global Economy” which dropped significantly by 6.9 and fell below the 30-point level.

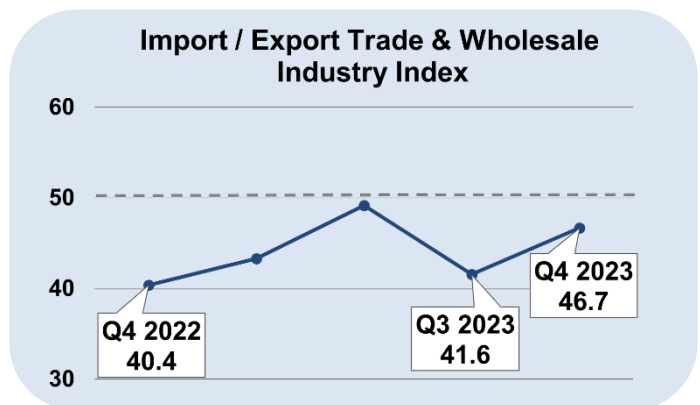
Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	48.6	Down	Down
Investment Sentiment	50.5	Down	Up
Business Condition	38.9	Down	Up
Profit Margin	41.2	Up	Up
Global Economy	29.6	Down	Down



Import / Export Trade and Wholesale Industry 46.7

Industry index of Import / Export Trade & Wholesale Industry rebounded by 5.1 to 46.7 this quarter. Except for “Investment Sentiment” which was slightly down to 47.9, all other component sub-indices registered increments, among which “Recruitment Sentiment” returned to the level above 50 neutral line.

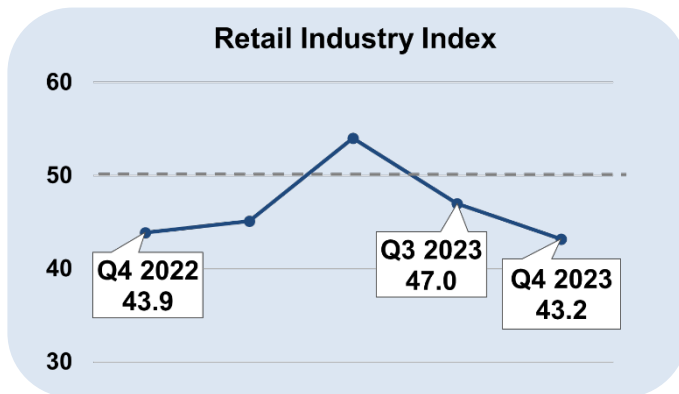
Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	53.8	Up	Up
Investment Sentiment	47.9	Down	Up
Business Condition	45.7	Up	Up
Profit Margin	44.0	Up	Up
Global Economy	32.9	Up	Up



The 3 Key Industry Indices

Retail Industry 43.2

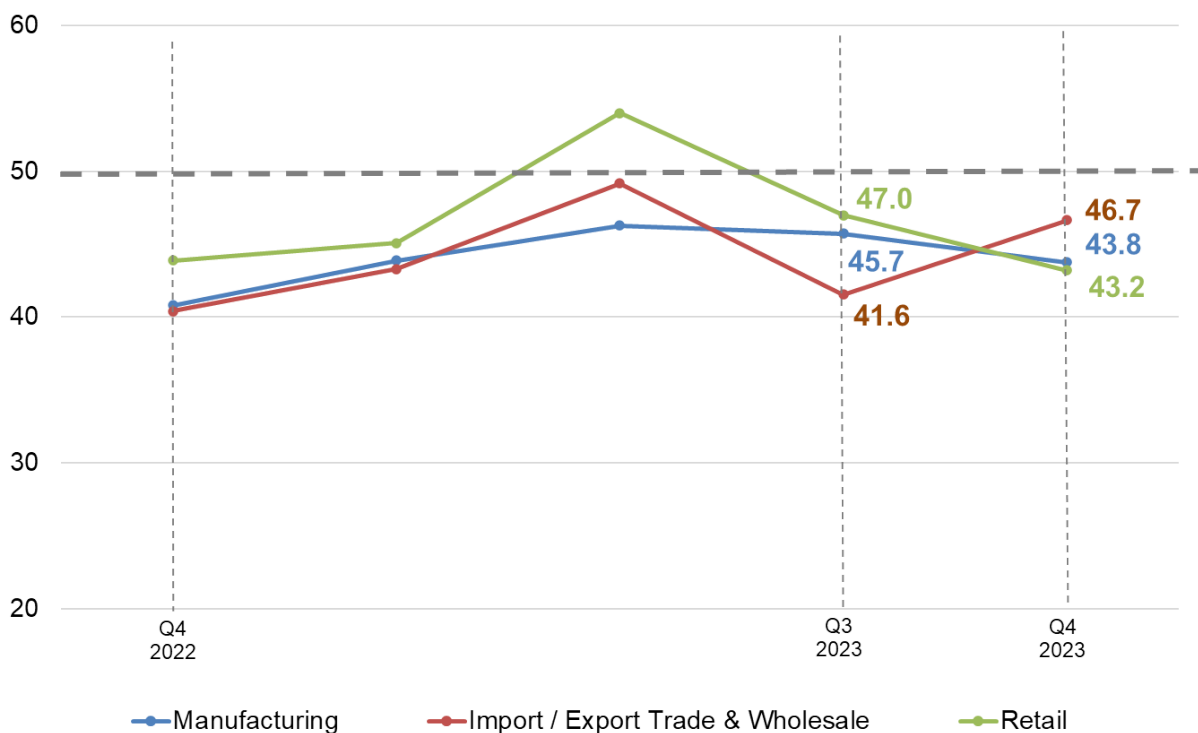
Industry index of Retail Industry continued to fall, down by 3.8 to 43.2 this quarter. Except for "Recruitment Sentiment" (50.6) which picked up slightly, all other component sub-indices suffered decline, among which "Business Condition" and "Global Economy" recorded larger drops of 8.3 and 7.4 respectively.



Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	50.6	Up	Up
Investment Sentiment	42.9	Down	Down
Business Condition	41.7	Down	Down
Profit Margin	39.7	Down	Down
Global Economy	35.3	Down	Down

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3 Key-Industry Indices



Industry Index

In terms of the 11 industry indices, "Import / Export Trade and Wholesale" (+5.1) saw the biggest increase, while the indices of "Professional and Business Services" (+1.7), "Information and Communications" (+0.9), "Transportation, Storage and Courier Services" (+0.9), and "Financing and Insurance" (+0.8) also registered slight increments. This shows that SMEs remain optimistic about their business prospects. On the contrary, the industry indices "Real Estate" (-7.3), "Construction" (-4.7) and "Retail" (-3.8) recorded larger declines.



Market Prospects

In terms of overall investment trends, 92% of surveyed SMEs indicated that they would maintain or increase investment this quarter, which is on par with the previous quarter.

92%

SMEs expected to maintain or increase on the overall investment

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

1	Accommodation and Food Services	98%
2	Social and Personal Services	97%
3	Professional and Business Services	96%
4	Construction	94%
4	Transportation, Storage and Courier Services	94%

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Most SMEs expected to maintain or increase investment on “Training Related to E-commerce or Digital Technology”, “Overall Staff Training”, “Research & Development”, “Offline Marketing Promotion” and “IT System”.

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

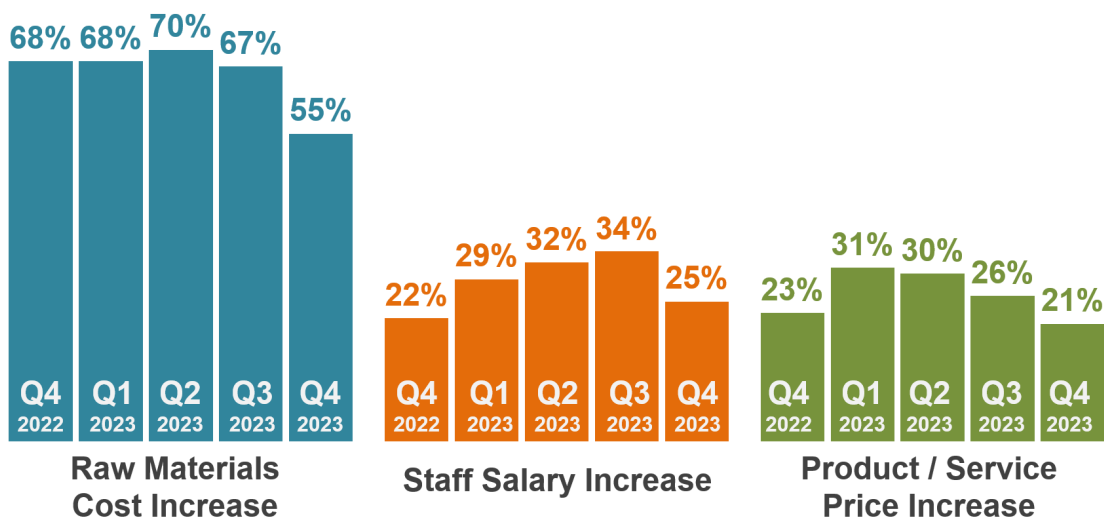
- 1** Training Related to E-commerce or Digital Technology
- 2** Overall Staff Training
- 3** Research & Development
- 4** Offline Marketing Promotion
- 5** IT System



Market Prospects

In terms of the changes in cost components, although the proportion of surveyed SMEs expecting an increase in raw material costs this quarter fell by 12%-points to 55%, the proportion of SMEs expecting an increase in staff salary fell further by 9%-points to 25%, rising by only 3%-points from the same quarter last year. The findings indicate a slowdown in the cost pressures facing SMEs. However, only 21% of local SMEs expected to increase the price for their product or service, a decrease of 5%-points from the previous quarter, indicating that the majority of SMEs are gradually easing the pace of their price increases.

Proportion of surveyed SMEs:



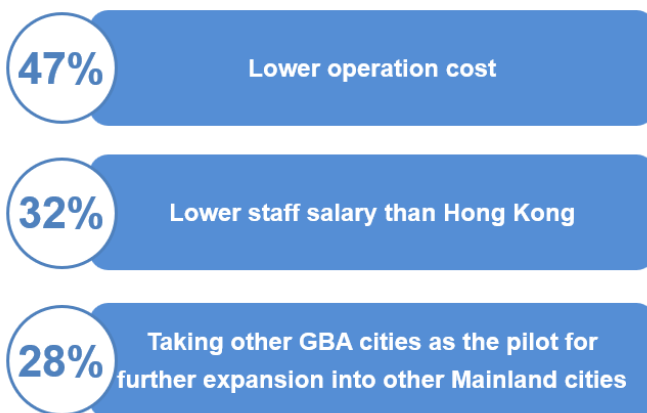
Market Situation

Local SMEs' Current Situation of Expanding Business into Other GBA Cities

35% of the surveyed local SMEs had already expanded / considered expansion to other GBA cities, and the motivations behind were "lower operation cost" (47%), "lower staff salary than Hong Kong" (32%) and "taking other GBA cities as the pilot for further expansion into other Mainland cities" (28%).



Motivations behind SMEs' Expansion into Other GBA Cities:

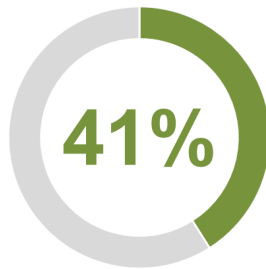


Market Situation

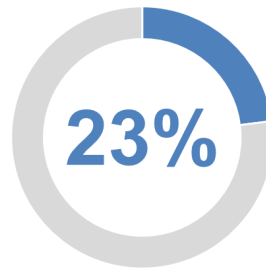
Local SMEs' Views on Talent Exchange

Among SMEs currently with business operation or sales business in other GBA cities, 41% of them claimed they were already providing or considered providing Hong Kong employees with job opportunities in other GBA cities, while 23% of them were already providing or considered providing employees in the Mainland with job opportunities in Hong Kong.

Among SMEs currently with business operation or sales business in other GBA cities:



Already providing / Considered providing **Hong Kong employees** with job opportunities in **other GBA cities**



Already providing / Considered providing **employees in the Mainland** with job opportunities in **Hong Kong**

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76% of SMEs currently with business operations or sales business in other GBA cities had no arrangement for employees to work across borders. The main reasons behind include “different division of labour / job nature among employees”, “not allowed by current business scale”, “complicated administration work” and “higher cost”.

Among SMEs currently with business operations or sales business in other GBA cities

76%

Currently have no arrangement for employees to work across borders

Reasons for not arranging employees to work across borders:

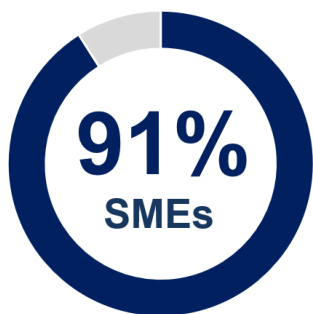
- 1** Different division of labour / job nature among employees
- 2** Not allowed by current business scale
- 3** Complicated administration work
- 4** Higher cost



Featured Topic

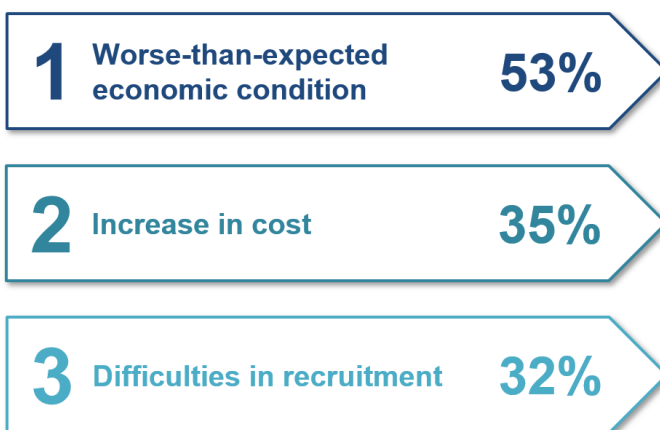
Hong Kong SMEs' Development Direction in 2024

The thematic survey of this quarter investigated the deployment plan and direction of local SMEs in 2024. The survey found that 91% of surveyed SMEs expected to encounter business challenges in 2024, with “worse-than-expected economic conditions” (53%), “increase in cost” (35%) and “difficulties in recruitment” (32%) being the major challenges expected by these SMEs.

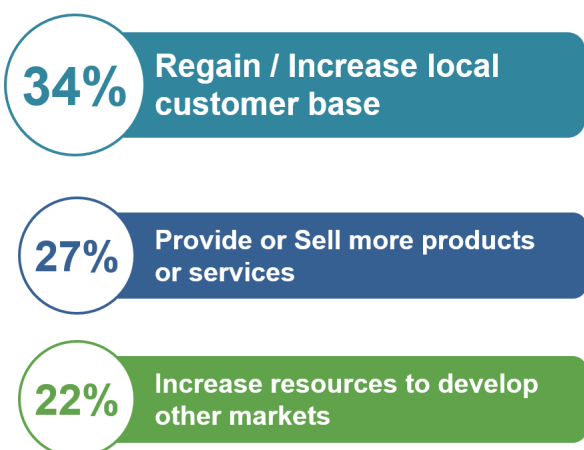


Expected to encounter business challenges in 2024

Major Challenges Expected by SMEs:



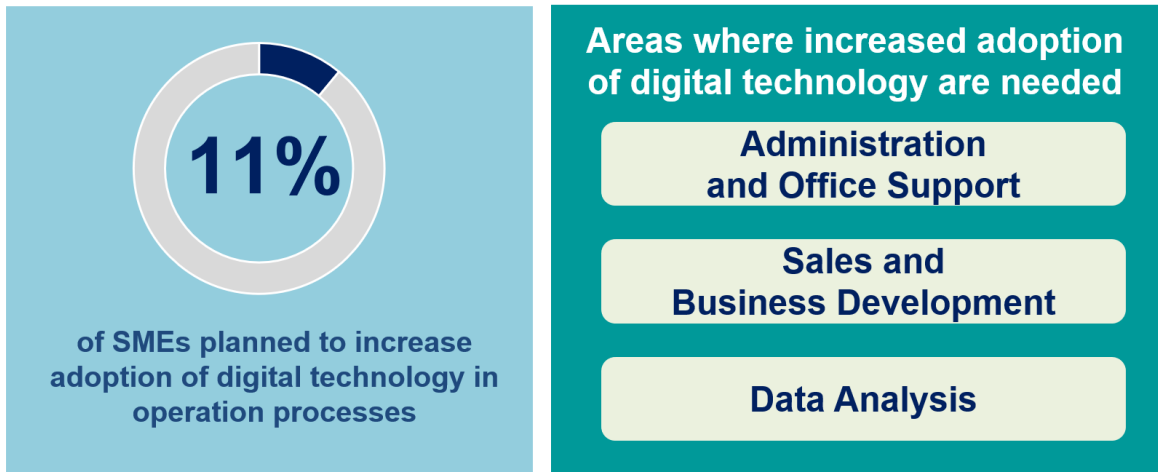
In response to these challenges, local SMEs put “regaining / increasing local customer base” as their top priority in their 2024 development plan, accounting for 34%. Such proportion is higher for “Retail”, “Construction”, “Accommodation and Food Services”, “Professional and Business Services” and “Information and Communications”. Meanwhile, 27% claimed that they would “provide or sell more products or services”, and 22% claimed that they would “increase resources to develop other markets”.



Featured Topic

Hong Kong SMEs' Development Direction in 2024

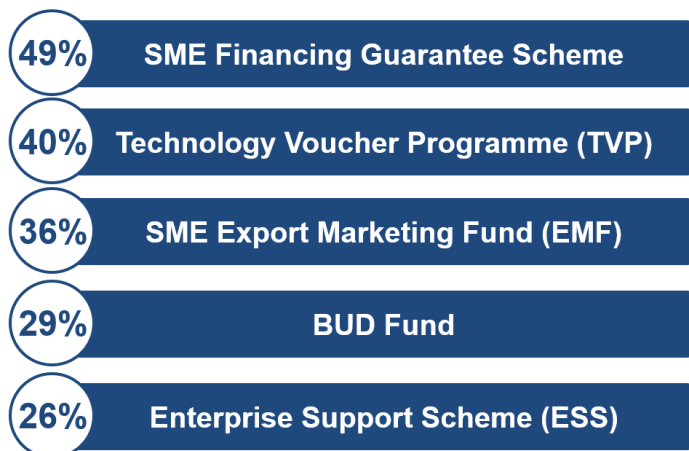
On the other hand, 11% of local SMEs claimed that they would increase the adoption of digital technology in their operational processes in the coming year, with "Administration and Office Support", "Sales and Business Development", and "Data Analysis" being the top areas with increased adoption.



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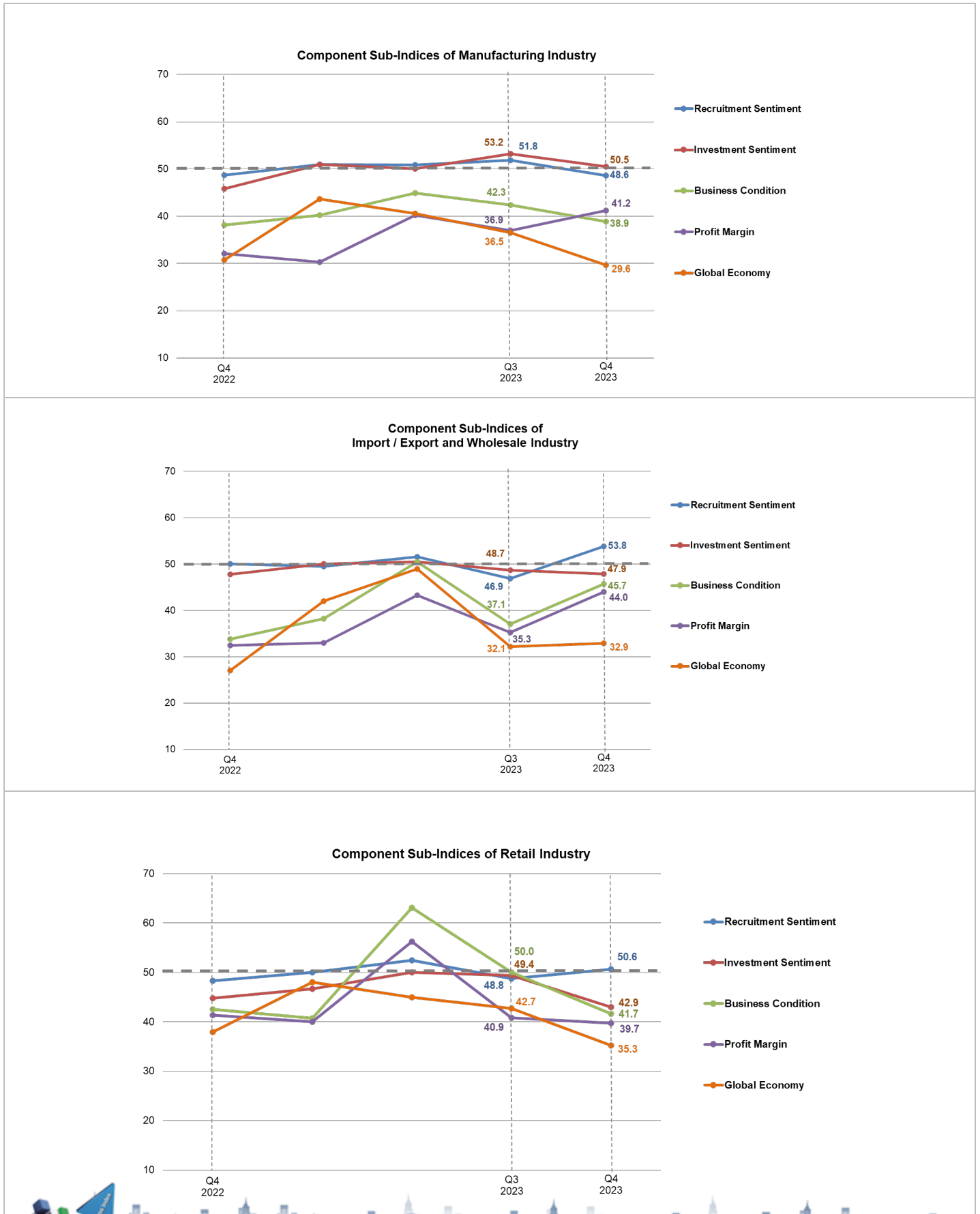
The survey also gauged local SMEs' awareness of various Government funding schemes available for SMEs. In particular, the "SME Financing Guarantee Scheme" (49%), "Technology Voucher Programme (TVP)" (40%), "SME Export Marketing Fund (EMF)" (36%), "BUD Fund" (Dedicated Fund on Branding, Upgrading and Domestic Sales) (29%), and "Enterprise Support Scheme (ESS)" (26%) showed higher levels of awareness.

Top 5 most known government funding schemes among SMEs:



Appendix

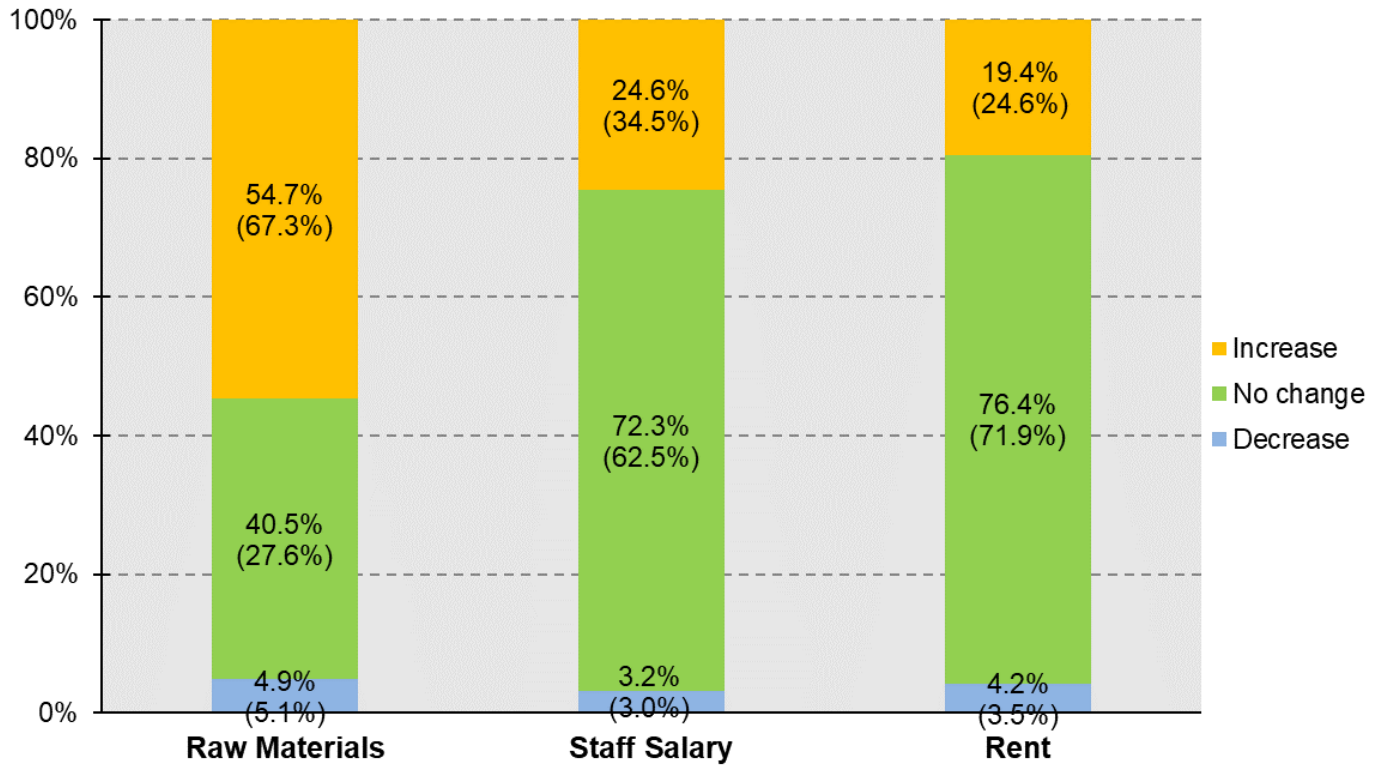
Component Sub-Indices of the 3 Key Industry Indices



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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