



Standard Chartered Hong Kong SME Leading Business Index

Quarter 1, 2024

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 808 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 47th survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted in December 2023. Top management of 808 SMEs were surveyed to gauge their views on the outlook of the overall business environment in Q1 2024 and to investigate the development of e-commerce among local SMEs.

Key Findings

The Q1 2024 Overall Index of the Standard Chartered SME retreated by 3.9 to 43.7 this quarter, down to the level in Q4 2022.

Key findings of the survey are as follows:

- ⊕ Of the five component sub-indices, except “Investment Sentiment” (48.8) which remained stable, the remaining four recorded declined simultaneously, including “Profit Margin” (37.1, -8.3), “Business Condition” (40.2, -7.5), “Global Economy” (30.3, -4.3) and “Recruitment Sentiment” (52.0, -1.0), indicating a weakened confidence among local SMEs on their business turnover this quarter. Notably, “Global Economy” had been down for three consecutive quarters and accumulated a drop of 18.0 since Q2 2023, reflecting that local SMEs are still facing challenges from the external environment;
- ⊕ In terms of the 11 industry indices, “Financing and Insurance” (53.0) recorded the largest increment, uplifted by 5.2 and returned to the level above the 50 neutral line. Meanwhile, “Social and Personal Services” (52.1) also stayed above the 50 neutral line. In contrast, larger drops were recorded for “Accommodation and Food Services” (47.1, -8.4), “Import / Export Trade and Wholesale” (39.2, -7.5), “Professional and Business Services” (43.6, -6.4), “Information and Communications” (43.9, -6.2) and “Retail” (38.8, -4.4); and industry indices of “Import / Export Trade and Wholesale” (39.2), “Retail” (38.8) and “Transportation, Storage and Courier Services” (36.9) were even below 40 points;
- ⊕ 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 were “Training Related to E-commerce or Digital Technology”, “Online / 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 rebounded by 4 percentage points to 59% this quarter. Similarly, the proportion of SMEs expecting an increase in staff salary rebounded by 10 percentage points to 35% and returned to the level in Q3 2023, reflecting that the SMEs will face the cost pressure again. On the other hand, only 23% of SMEs planned to increase the price of their product or service, a slight increase of 2 percentage points from the previous quarter, indicating that majority of SMEs had no plan of shifting their cost pressure to the consumers.



Key Findings (cont.)

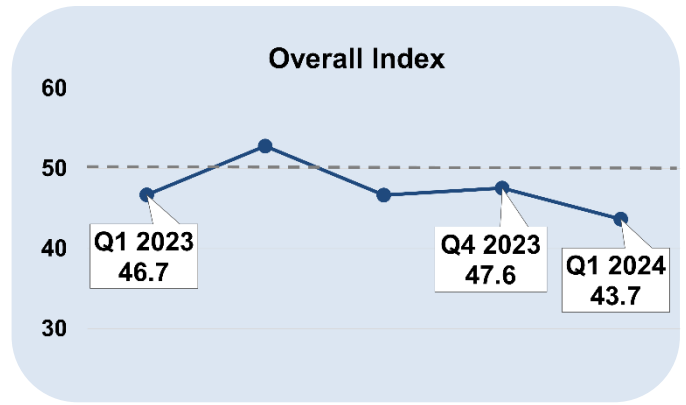
- ⊕ The thematic survey of this quarter investigated the development of e-commerce among local SMEs:
- The survey found that among SMEs who were currently selling online, majority of them primarily focused on developing the local market in Hong Kong (85%), while one-third (35%) were currently developing the Mainland market and one-third (34%) of SMEs developing the overseas markets;
 - Among the local SMEs which considered developing online sales, close to two-thirds (62%) of them considered developing in the Mainland market, while 40% and 36% considered developing online sales in the Hong Kong local market and the overseas markets respectively;
 - The difficulties and challenges that local SMEs were facing when developing or expanding online sales in the Mainland market included “Lack of knowledge about the corresponding laws or regulations”, “Too many domestic brands in the Mainland market”, “Lack of understanding about Mainland consumers’ needs and preferences / Rapid change of Mainland consumers’ preference” and “Lack of relevant labour or talent”;
 - The types of support that most SMEs expected to receive included “Funding Support” (e.g. providing funding support or facilitating SMEs’ financing), “Industry Collaboration” (e.g. Government or industry to support organising different online sales activities in the Mainland), and “Market Insights” (e.g. enhancing SMEs’ knowledge in online sales in the Mainland or providing solutions that facilitate online sales in the Mainland).



Standard Chartered SME Index

Q1 2024

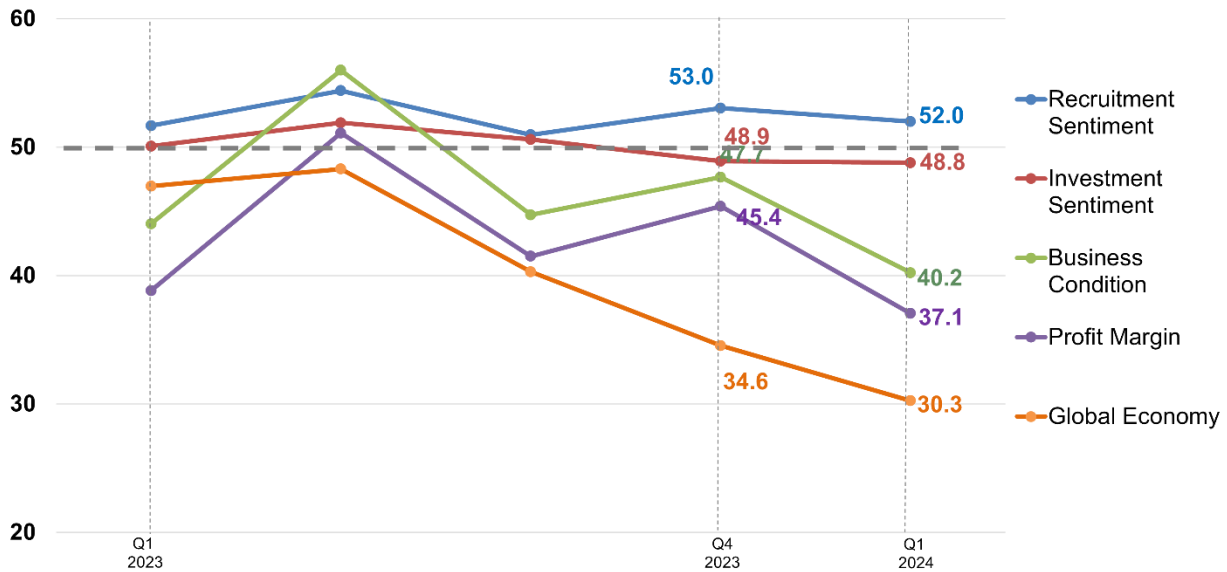
43.7



The Q1 2024 Overall Index retreated by 3.9 to 43.7 this quarter and was down to the level in Q4 2022.

Except "Investment Sentiment", all component sub-indices declined simultaneously, reflecting a weakened confidence of SMEs on their business turnover this quarter. Notably, "Global Economy" has been down for 3 consecutive quarters, it was down by 4.3 to 30.3 this quarter and accumulating a drop of 18.0 since Q2 2023. This indicates that SMEs are still facing the challenges from the external environment.

Five Component Sub-Indices of Overall Index



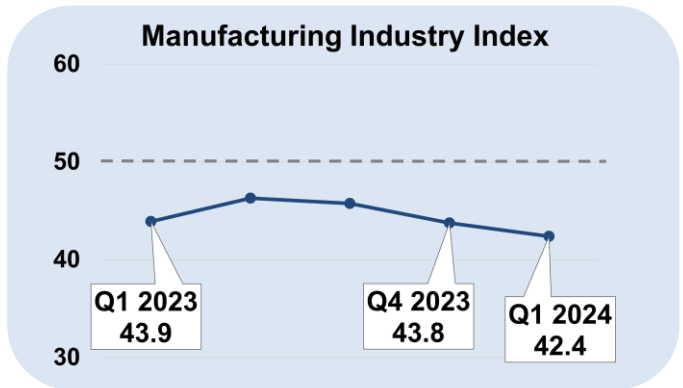
The 3 Key Industry Indices

Manufacturing Industry 42.4



Industry index of Manufacturing Industry has been down for 3 consecutive quarters and accumulated a drop of 3.9 to 42.4 this quarter, returning to a similar level as Q4 2022. The decline was mainly due to the drops in “Profit Margin” and “Business Condition”, which decreased by 7.7 and 1.5 respectively. On the other hand, “Global Economy” picked up this quarter, recording an increase for the first time since Q2 2023.

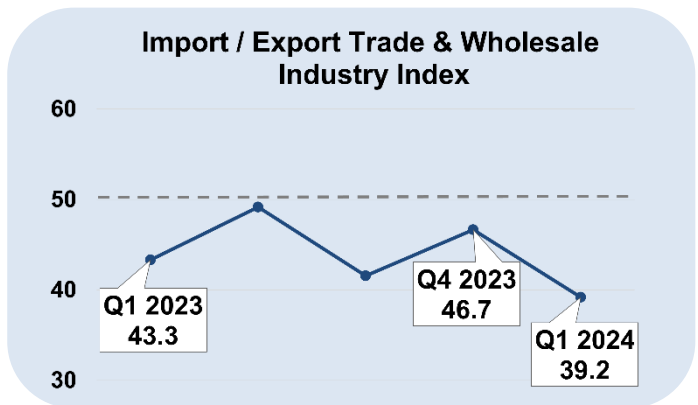
Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	49.0	Up	Down
Investment Sentiment	50.0	Down	Down
Business Condition	37.4	Down	Down
Profit Margin	33.5	Down	Up
Global Economy	34.5	Up	Down



Import / Export Trade and Wholesale Industry 39.2

Industry index of Import / Export Trade & Wholesale Industry recorded a larger drop of 7.5 to 39.2 this quarter. All component sub-indices fell simultaneously, of which “Profit Margin” and “Business Condition” suffered larger drops of 13.5 and 12.6 respectively.

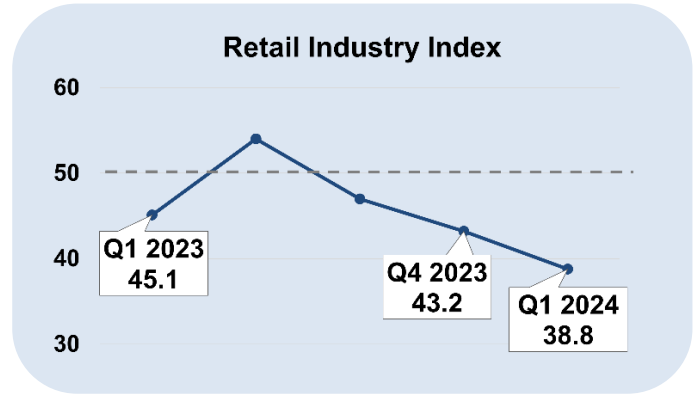
Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	49.6	Down	Up
Investment Sentiment	43.6	Down	Down
Business Condition	33.1	Down	Down
Profit Margin	30.5	Down	Down
Global Economy	31.8	Down	Down



The 3 Key Industry Indices

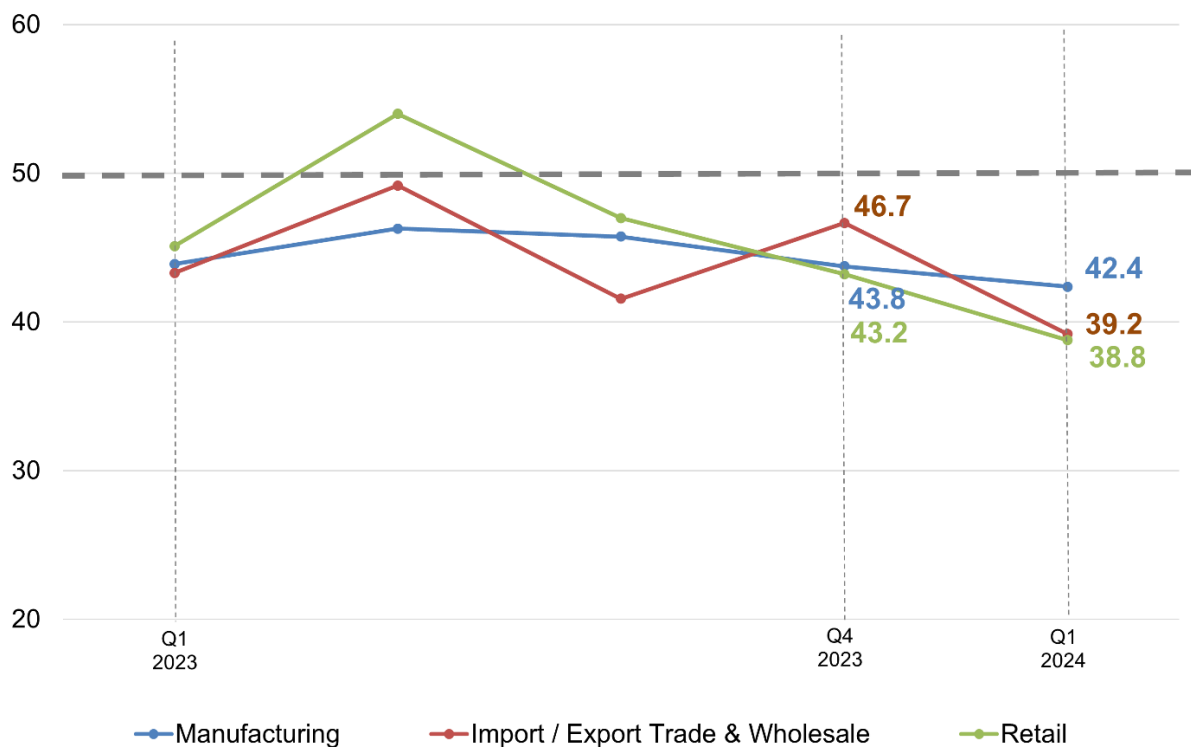
Retail Industry 38.8

Industry index of Retail Industry has been down for 3 consecutive quarters and accumulated a drop of 15.2 to 38.8 this quarter which was lower than the level in Q4 2022. In particular, “Business Condition”, “Global Economy” and “Profit Margin” recorded larger drops of 11.6, 10.9, and 8.3 respectively. In contrast, “Investment Sentiment” slightly picked up (+3.3).



Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	50.0	Down	Remain
Investment Sentiment	46.2	Up	Down
Business Condition	30.1	Down	Down
Profit Margin	31.4	Down	Down
Global Economy	24.4	Down	Down

3 Key-Industry Indices



Industry Index

In terms of the 11 industry indices, "Financing and Insurance" (+5.2) recorded the largest increment. In contrast, larger drops were recorded for "Accommodation and Food Services" (-8.4), "Import / Export Trade and Wholesale" (-7.5), "Professional and Business Services" (-6.4), "Information and Communications" (-6.2) and "Retail" (-4.4).



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

1	Social and Personal Services	100%
2	Construction	95%
3	Financing and Insurance	94%
4	Manufacturing	93%
4	Professional and Business Services	93%

Most SMEs expected to maintain or increase investment on “Training Related to E-commerce or Digital Technology”, “Marketing Promotion (Online / Offline)” and “IT System”. 9

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

**Training Related to
E-commerce
or Digital Technology**

**Marketing Promotion
(Online / Offline)**

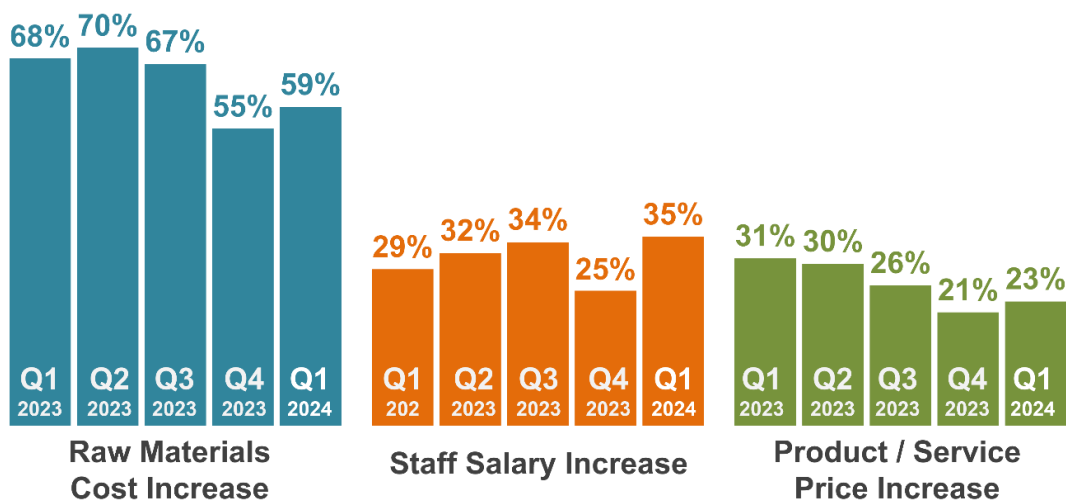
IT System



Market Prospects

In terms of the changes in cost components, the proportion of local SMEs expecting raw materials cost to increase rebounded by 4 percentage points to 59% this quarter. Similarly, the proportion of SMEs expecting an increase in staff salary rebounded by 10 percentage points to 35% and returned to the level in Q3 2023, reflecting that the SMEs will face the cost pressure again. On the other hand, only 23% of SMEs planned to increase the price of their product or service, a slight increase of 2 percentage points from the previous quarter, indicating that majority of SMEs had no plan of shifting their cost pressure to the consumers.

Proportion of surveyed SMEs:



Featured Topic

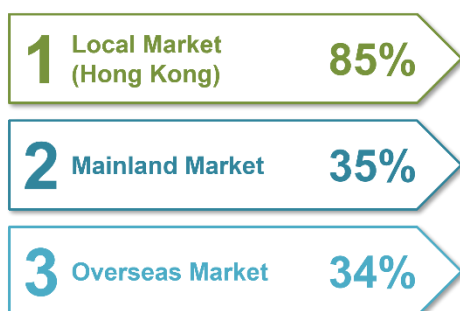
Development of E-commerce among Hong Kong SMEs

The thematic survey of this quarter investigated the development of e-commerce among local SMEs. The survey found that among SMEs who were currently selling online, the majority of them primarily focused on developing the Hong Kong local market (85%), while one-third (35%) were currently developing the Mainland market and one-third (34%) developing the overseas markets.

Among those local SMEs who were developing online sales in the Mainland Market, the difficulties and challenges facing them included “Lack of knowledge about the corresponding laws or regulations”, “Too many domestic brands in the Mainland market”, “Lack of relevant labour or talent”, “Lack of funding to develop online sales” and “Rapid change of Mainland consumers’ preference”.

Among the SMEs that are currently selling online:

Market Distribution:



Difficulties and Challenges Encountered when Selling Online in the Mainland Market:

- Lack of knowledge about the corresponding laws or regulations
- Too many domestic brands in the Mainland market
- Lack of relevant labour or talent
- Lack of funding to develop online sales
- Rapid change of consumers’ preference

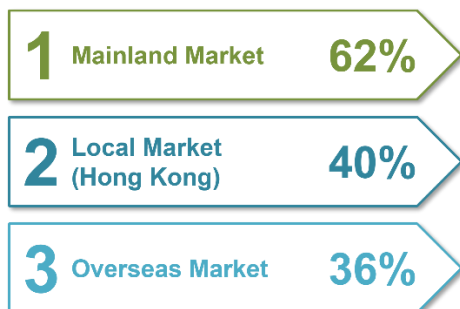
11

Among the local SMEs which considered developing online sales, close to two-thirds (62%) of them considered developing in the Mainland market, while 40% and 36% considered developing online sales in the local market and the overseas markets respectively.

They expected to face similar difficulties and challenges when selling online in the Mainland market, which included “Lack of knowledge about the corresponding laws or regulations”, “Too many domestic brands in the Mainland market”, “Lack of understanding about Mainland consumers’ needs and preferences”, “Lack of relevant labour or talent” and “Concerns about cybersecurity in online transaction”, etc.

Among the SMEs that consider developing online sales:

Market Distribution:



Expected Difficulties and Challenges when Selling Online in the Mainland Market:

- Lack of knowledge about the corresponding laws or regulations
- Too many domestic brands in the Mainland market
- Lack of understanding about consumers’ needs and preferences
- Lack of relevant labour or talent
- Concerns about cybersecurity in online transaction

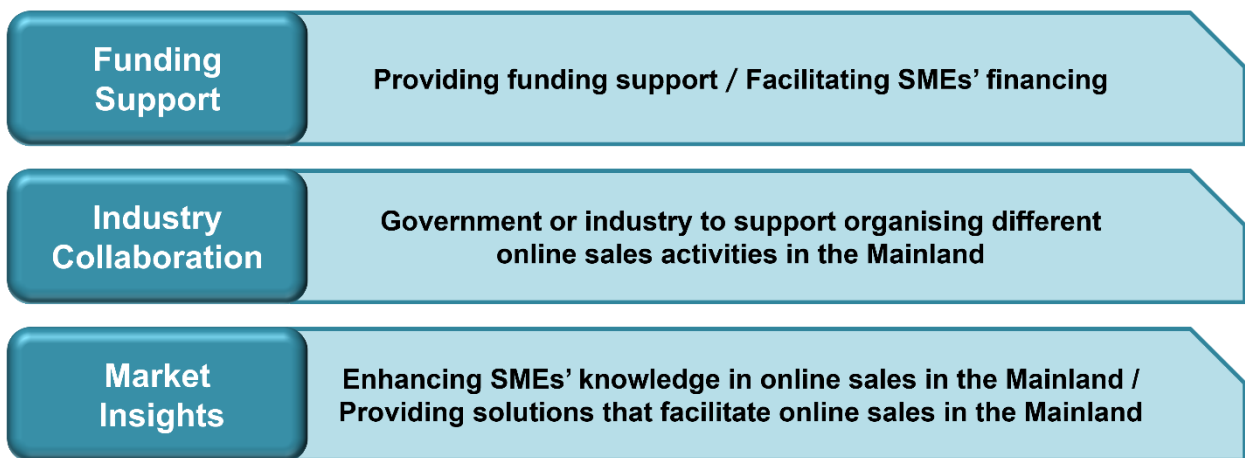


Featured Topic

Development of E-commerce among Hong Kong SMEs

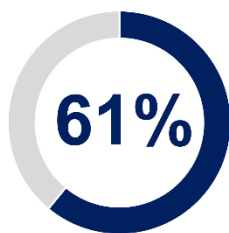
In terms of the supports needed for local SMEs to develop online sales in the Mainland, the types of support that most SMEs expected to receive included “Funding Support” (e.g. providing funding support or facilitating SMEs’ financing), “Industry Collaboration” (e.g. Government or industry to support organizing different online sales activities in the Mainland), and “Market Insights” (e.g. enhancing SMEs’ knowledge in online sales in the Mainland or providing solutions that facilitate online sales in the Mainland).

The following **supports** are considered most helpful for SMEs in developing online sales in the Mainland:



12

On the other hand, 61% of surveyed local SMEs claimed that they were currently not selling online or not consider selling online. The main reasons behind included “Business nature not suitable”, “Lack of relevant labour or talent” and “Lack of funding to develop online sales”.



SMEs claimed that they are currently not selling / not consider selling online

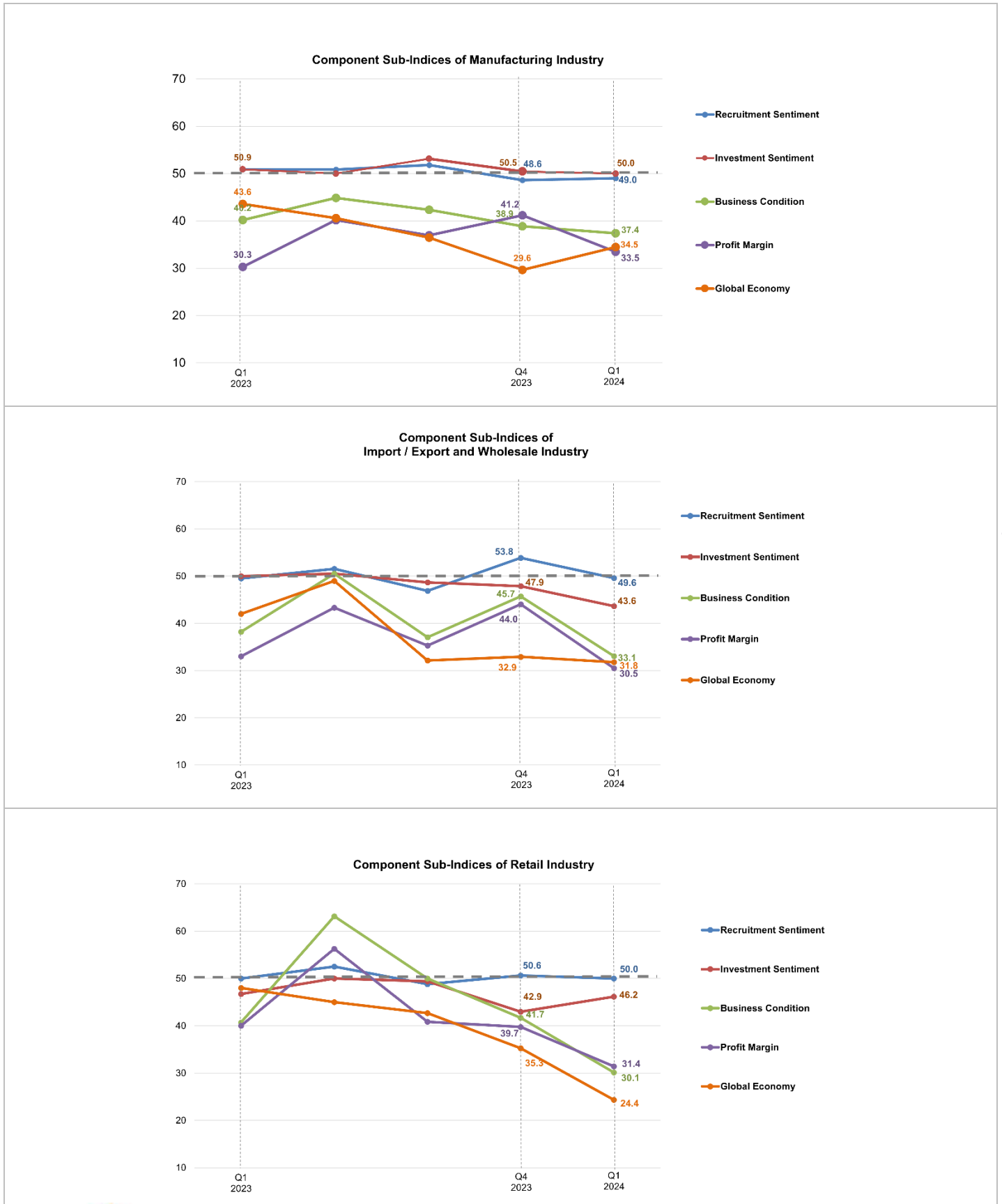
Main considerations behind their decision not to sell online:

- Business nature not suitable
- Lack of relevant labour or talent
- Lack of funding to develop online sales



Appendix

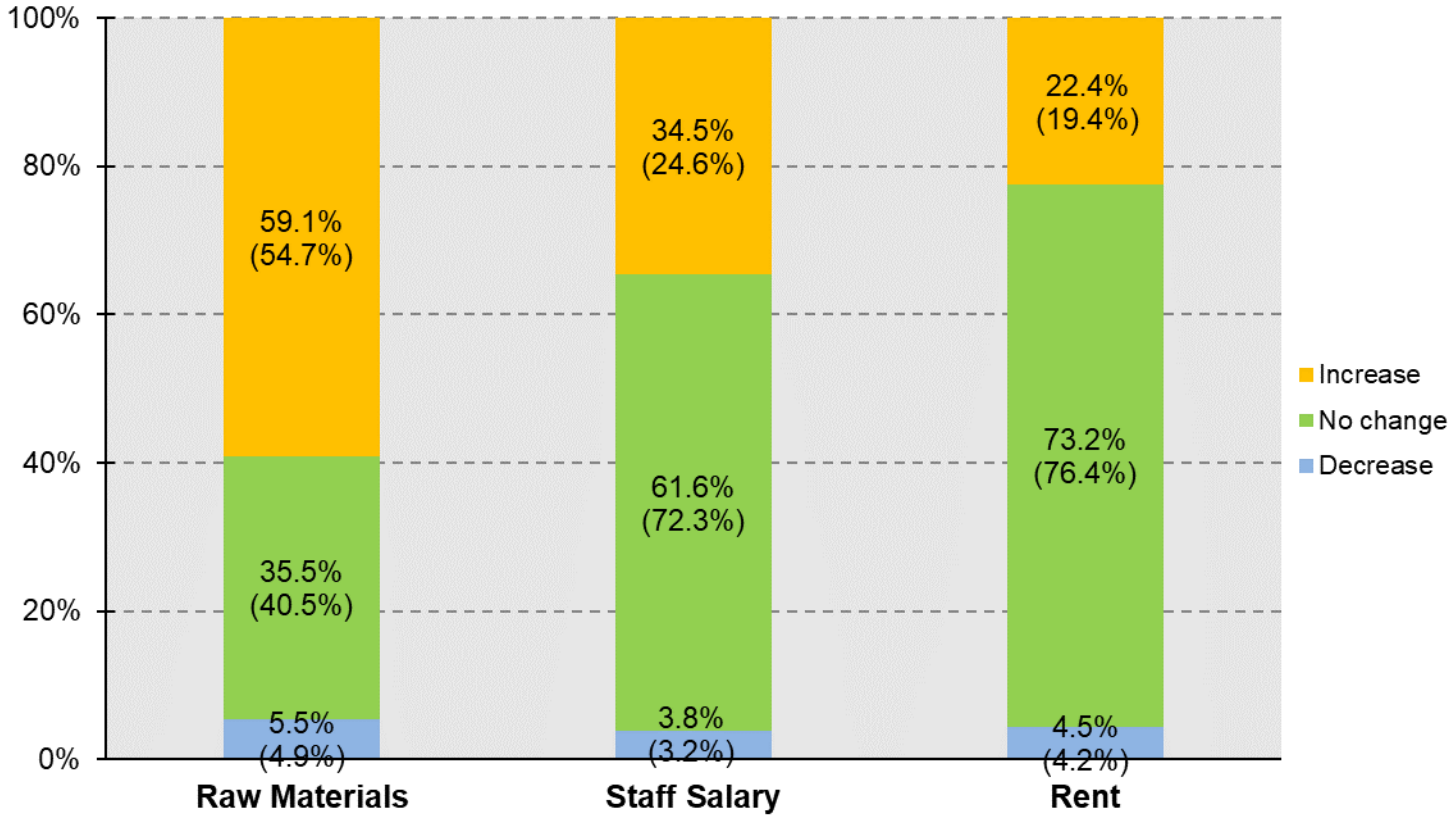
Component Sub-Indices of the 3 Key Industry Indices



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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