

Standard Chartered Hong Kong SME Leading Business Index

Results

Q3 2024



Background

- The “Standard Chartered Hong Kong SME Leading Business Index” is independently implemented by Hong Kong Productivity Council and sponsored by Standard Chartered Bank (Hong Kong) Limited.

Survey Objectives



- To analyse Hong Kong SMEs' confidence in the recent business environment

- To explore the impact of high interest rate environment on Hong Kong SMEs and their response strategies

Standard Chartered Hong Kong SME Leading Business Index

Results

Q3 2024



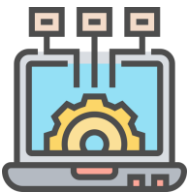
Key Findings of This Quarter



Overall Index was **42.5** for Q3 2024, retreated by 4.8 from the previous quarter, reaching the lowest level since Q3 2022



92% of SMEs expected their overall investment to remain unchanged or increase, especially for Retail, Accommodation and Food Services, and Professional and Business Services industries

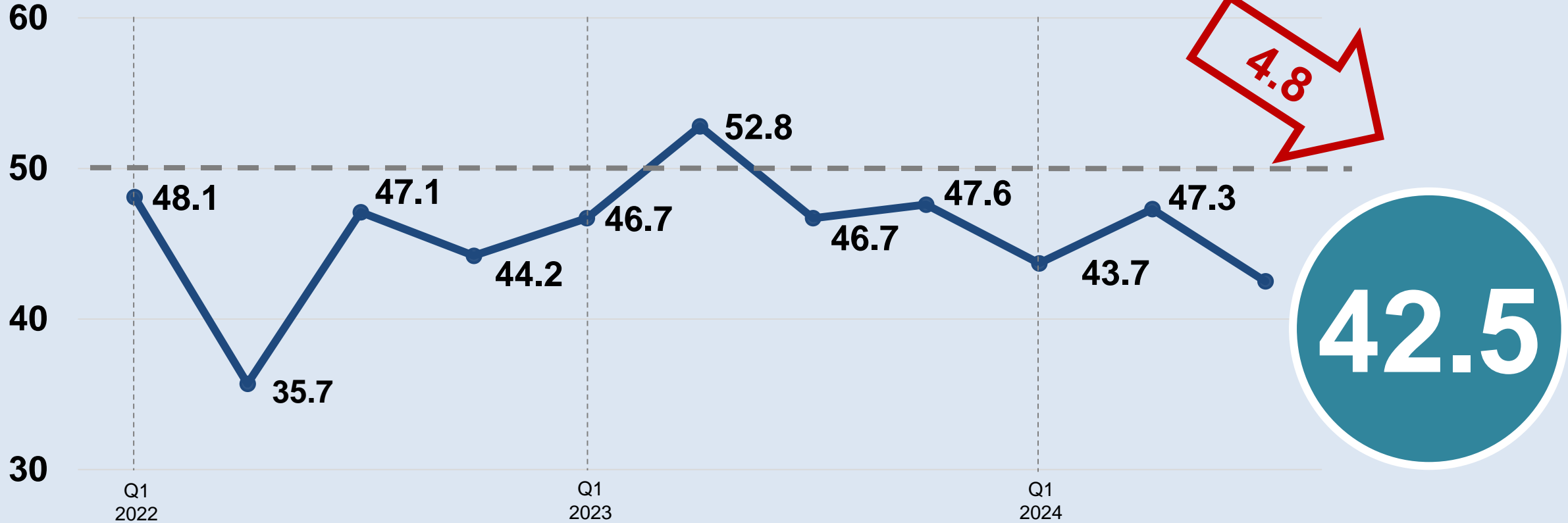


One-third of SMEs expected the interest rate downcycle to begin within the next 6 months, and a quarter indicated that they would adjust their pricing accordingly

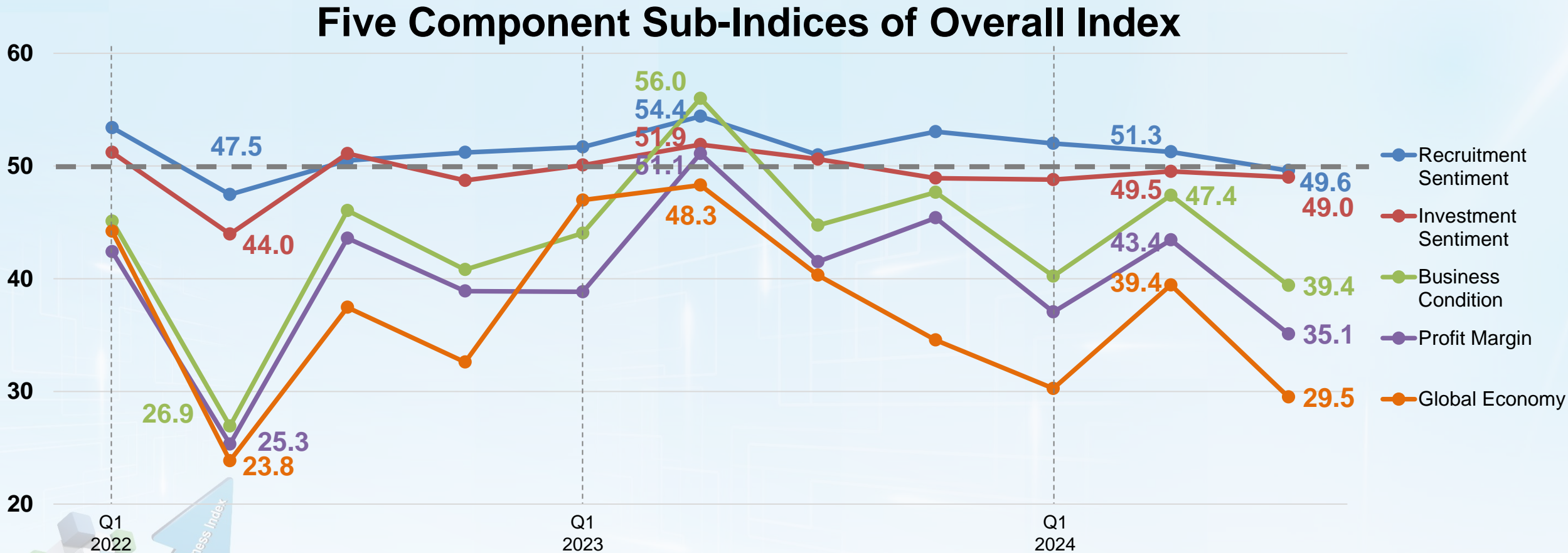
Overall Index in Q3 2024

Overall Index

Quarter-on-quarter decrease



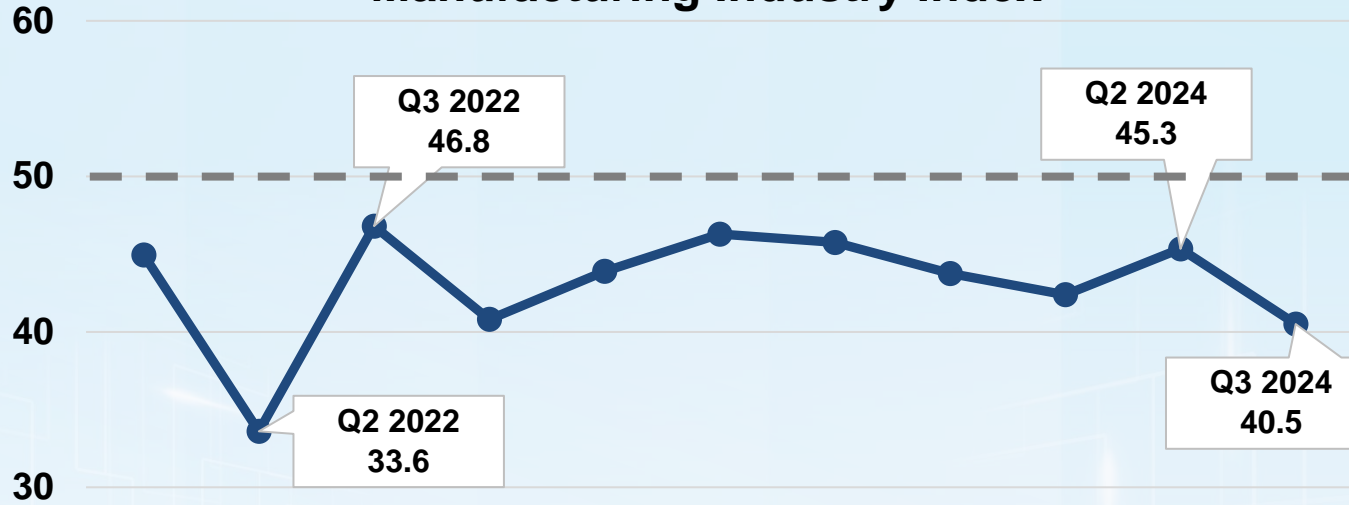
Five Component Sub-Indices of Overall Index



- All component sub-indices recorded a decline in this quarter, reflecting a drop in business turnover among Hong Kong SMEs for this quarter
- Except for "Investment Sentiment", the overall index and other component sub-indices reached their lowest levels since Q3 2022

Manufacturing

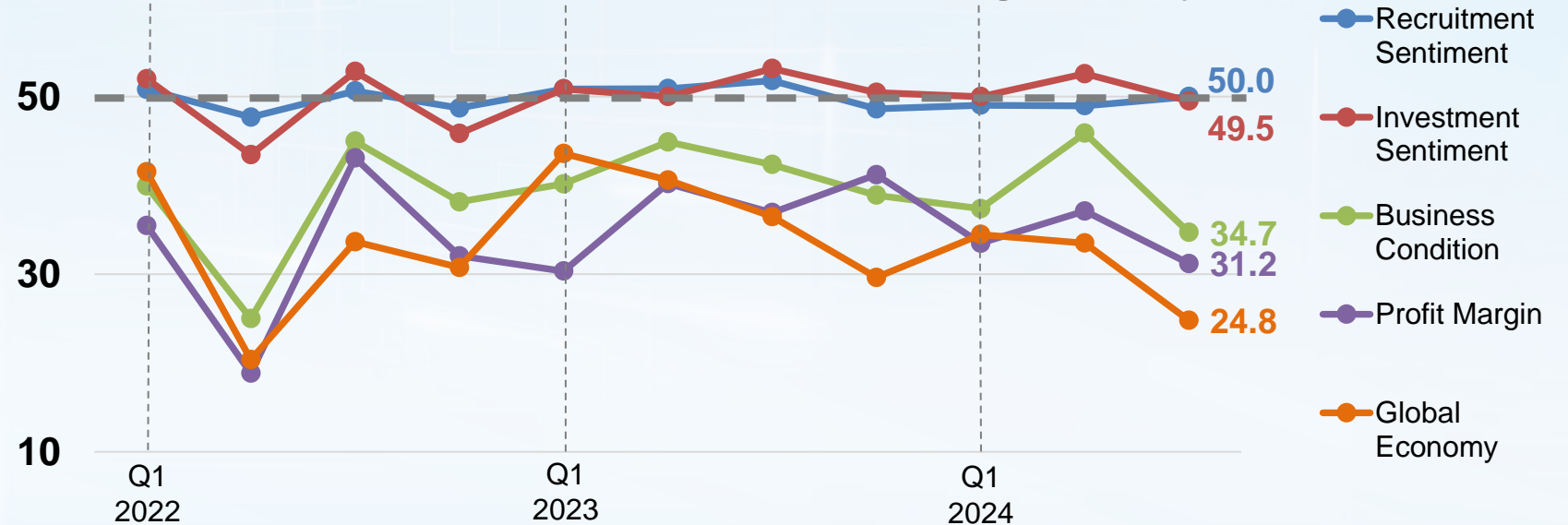
Manufacturing Industry Index



The Manufacturing Industry index recorded a decline in this quarter, down by 4.8 to 40.5, which was the lowest level since Q3 2022

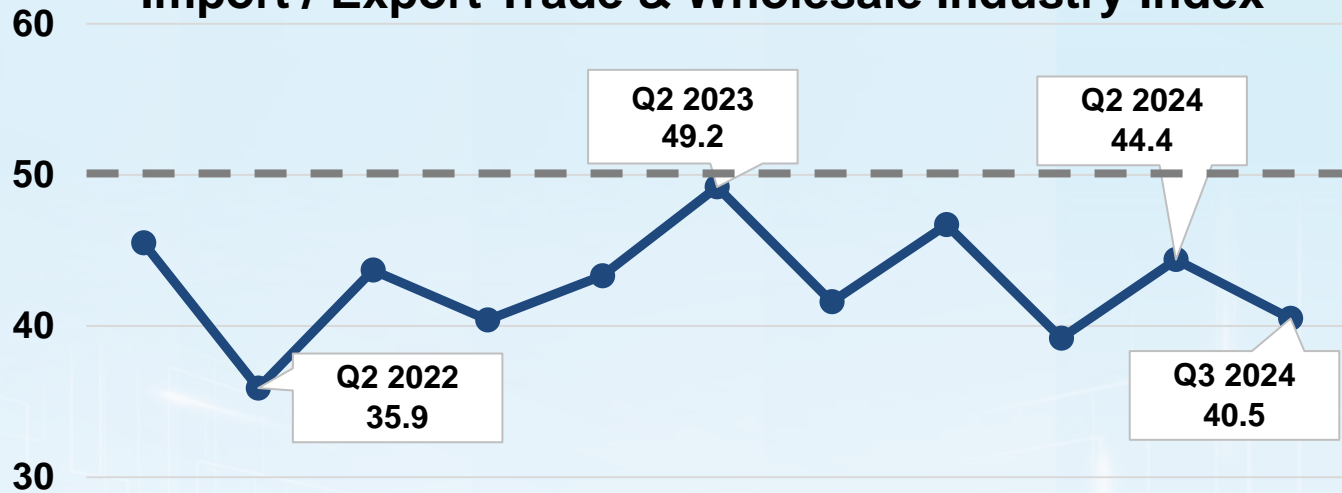
Except for “Recruitment Sentiment” which recorded a slight increase, other four component sub-indices fell in this quarter. In particular, “Business Condition” recorded the largest drop, down by 11.2 to 34.7

Component Sub-Indices of Manufacturing Industry



Import / Export Trade & Wholesale

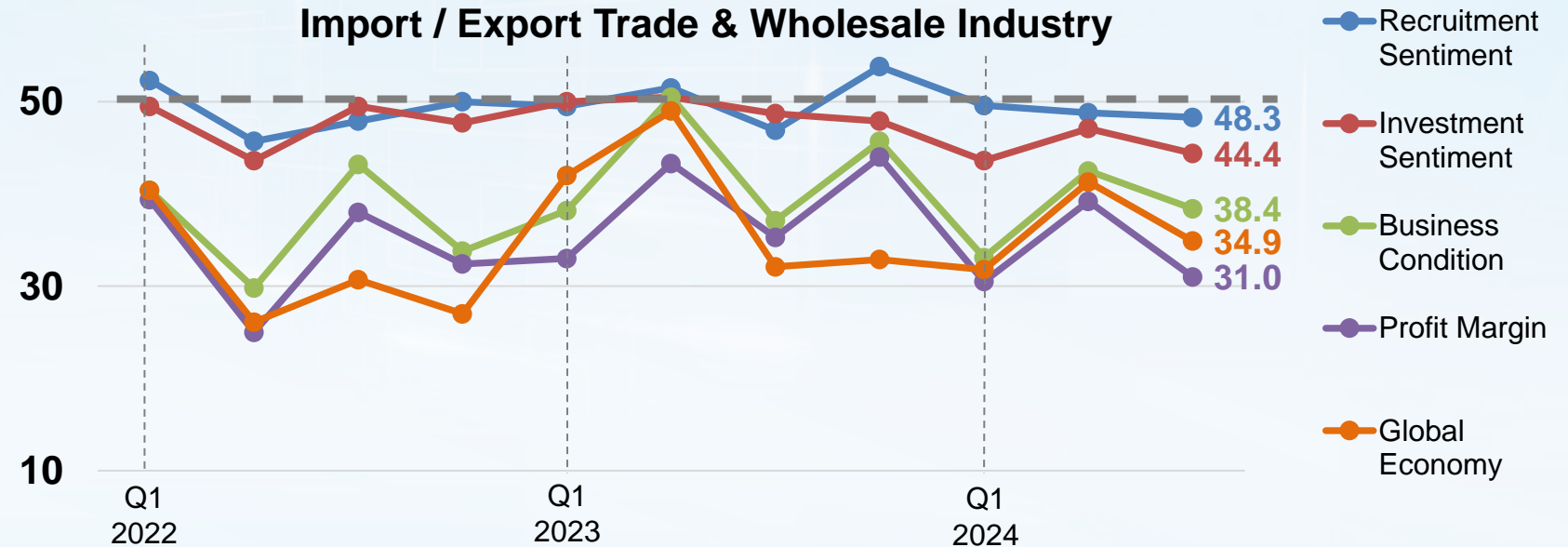
Import / Export Trade & Wholesale Industry Index



Industry index of Import / Export Trade & Wholesale Industry fell by 3.9 to 40.5 this quarter

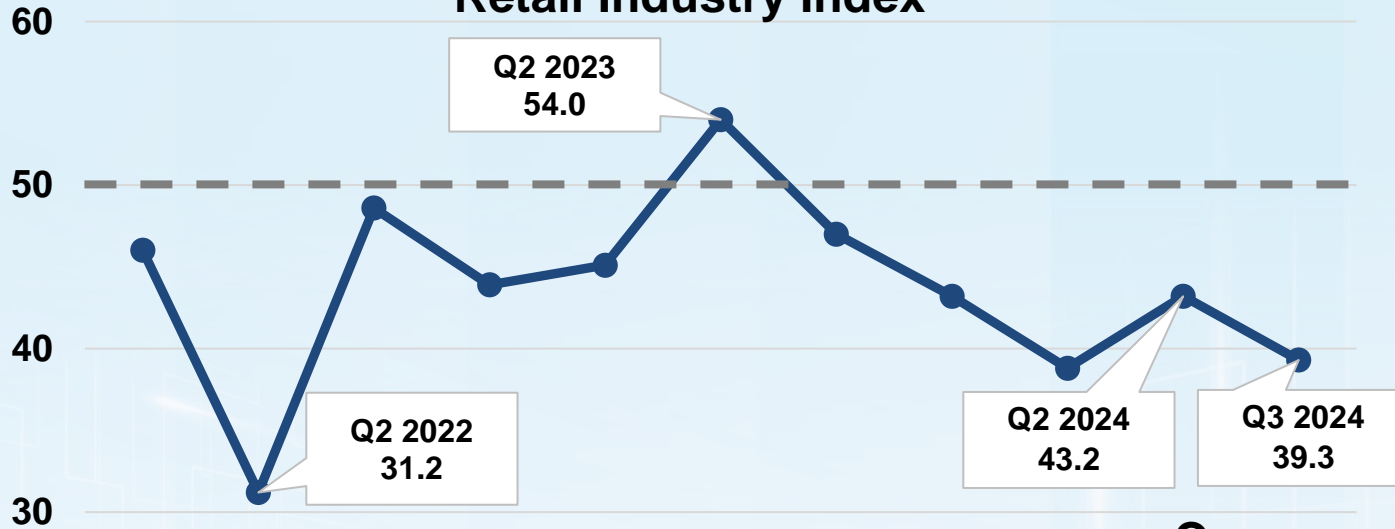
All component sub-indices recorded declines. In particular, the "Profit Margin" sub-index recorded the largest drop, down by 8.2 to 31.0 this quarter

Component Sub-Indices of Import / Export Trade & Wholesale Industry



Retail

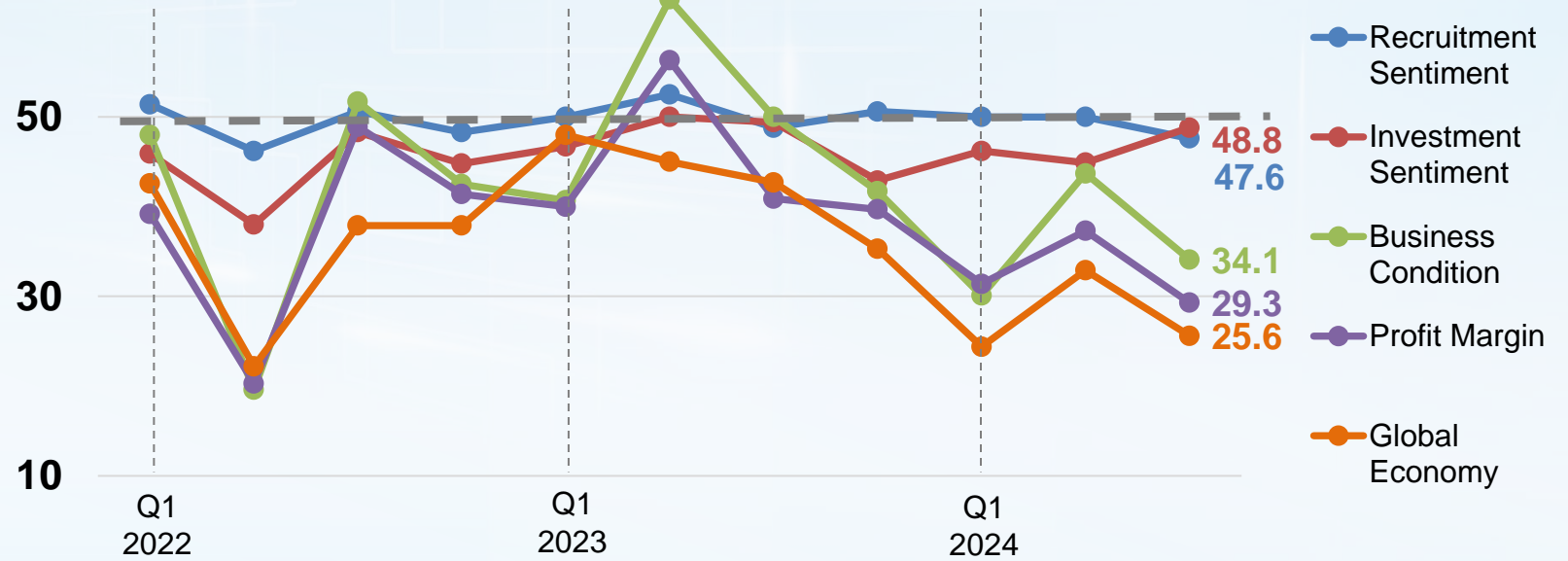
Retail Industry Index



The Retail Industry index decreased by 3.9 to 39.3 this quarter

Except for "Investment Sentiment" which recorded an increase of 3.9, all other component sub-indices recorded declines, with the "Business Condition" sub-index seeing the largest drop of 9.6 to 34.1

Component Sub-Indices of Retail Industry

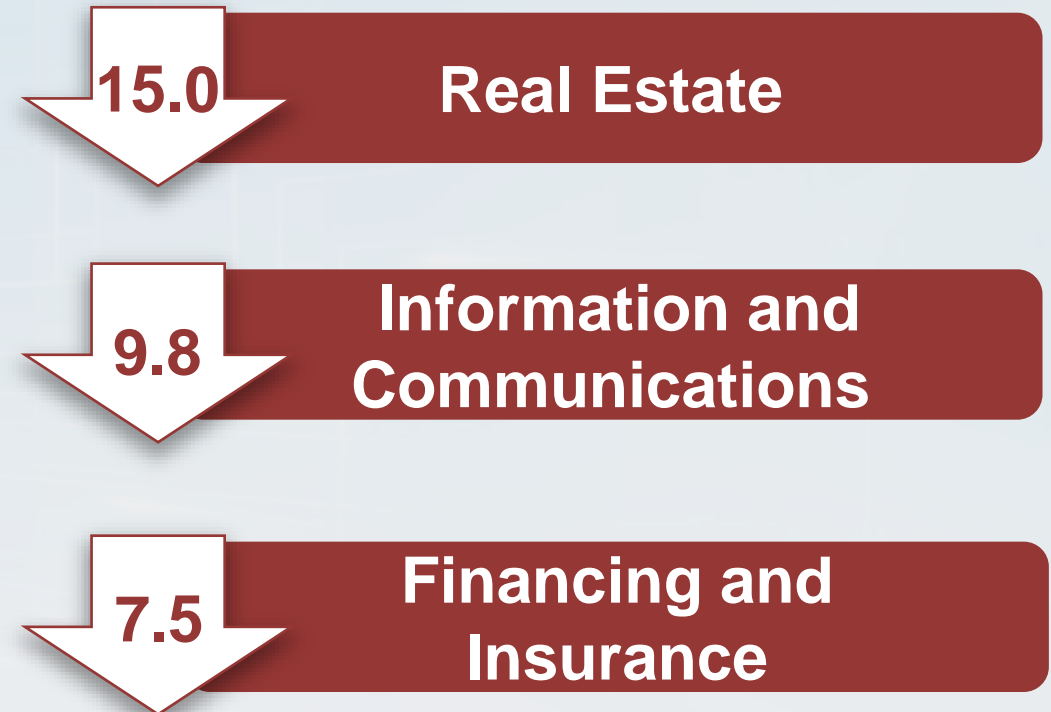


Industries with the Largest Changes

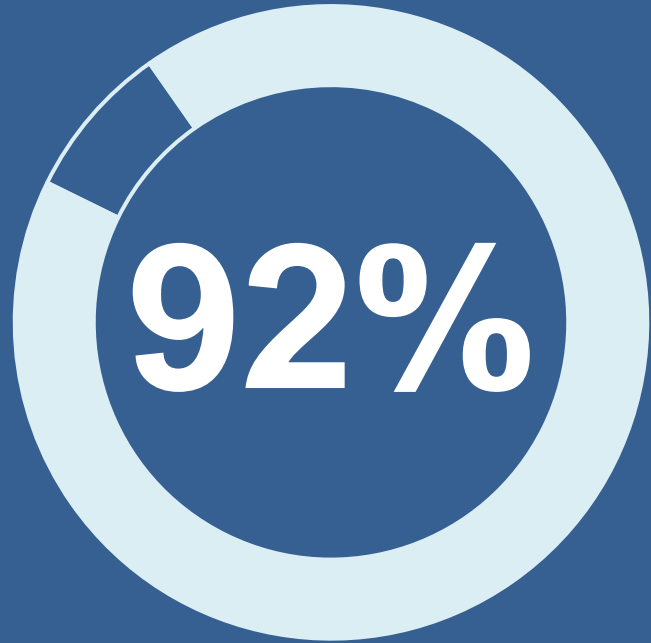
Industry Recording the Largest Increase



Industries Recording the Largest Declines



Expectation towards Changes on Investment



**SMEs expected to
maintain or increase
their overall investment**

**Industries with significant growth
in this quarter**

Retail

**Accommodation and
Food Services**

**Professional and
Business Services**

Expectation towards Changes on Investment

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

Research and
Development

Training Related to
E-commerce
or Digital Technology

Overall Staff Training

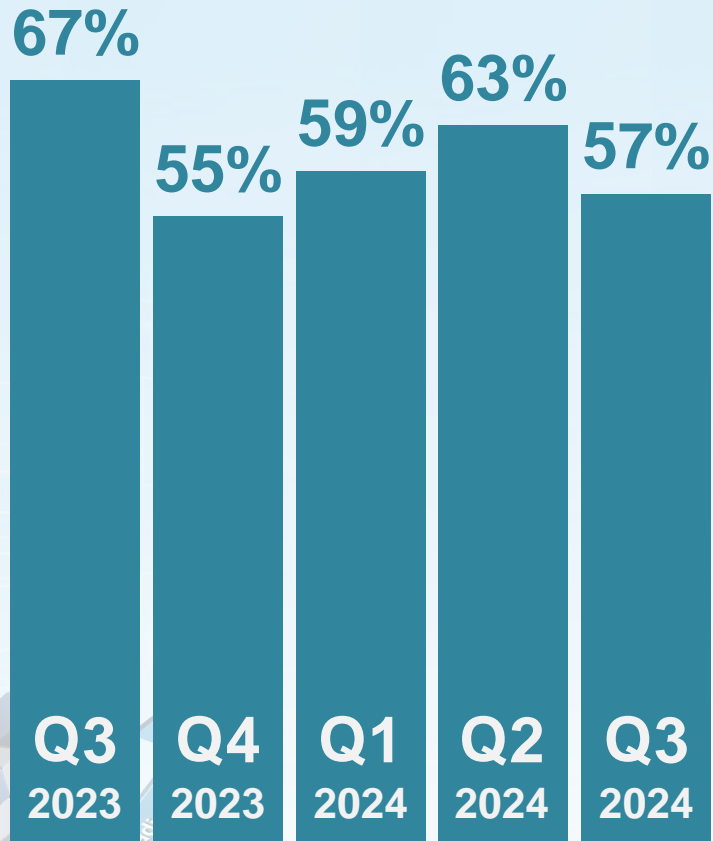
Facilities and
Equipment

Offline Marketing
Promotion

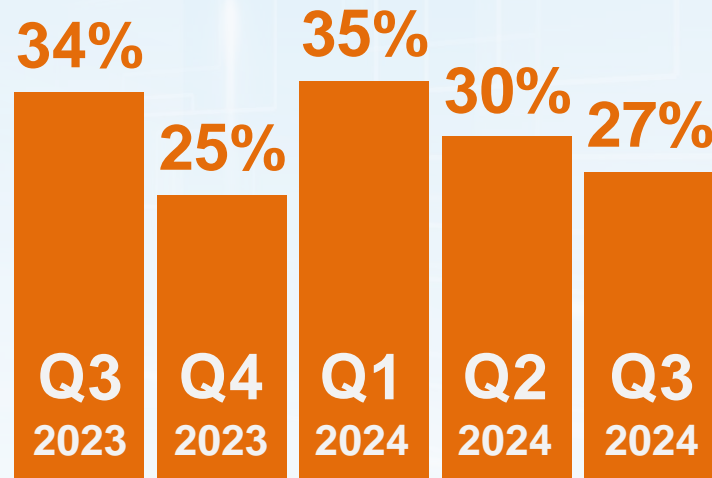
IT System

Expectation towards Increase on Raw Materials Cost, Staff Salary and Price Factors

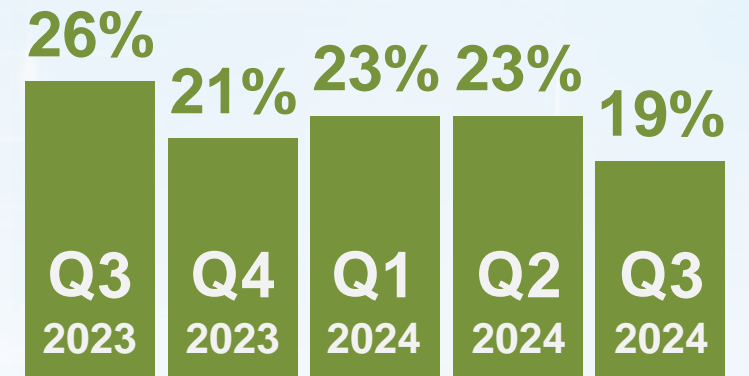
Proportion of surveyed SMEs:



Raw Materials Cost Increase



Staff Salary Increase



Product / Service Price Increase

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Featured Topic

**The impact of high interest rate
environment on Hong Kong SMEs
and their response strategies**



Impact of High Interest Rate Environment

SMEs expressed that the high interest rate environment has led to...

56%

Reduction of customers' purchasing power

32%

Negative impact on company's cash flow

29%

Among SMEs with supply chain:

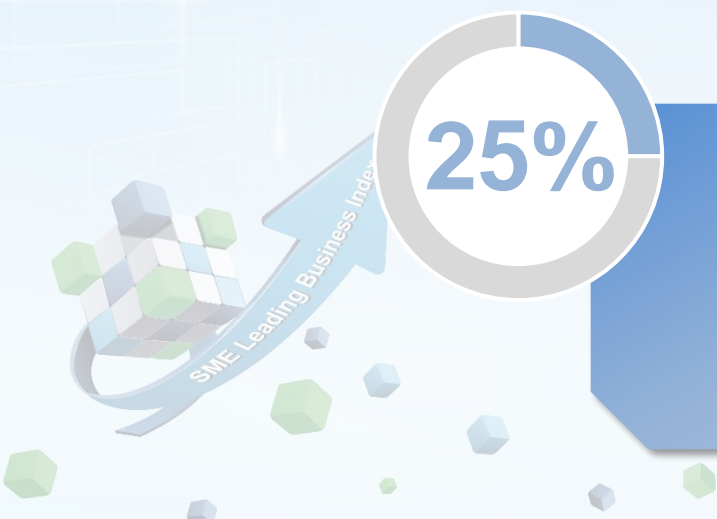
Negative impact on company's supply chain management

25%

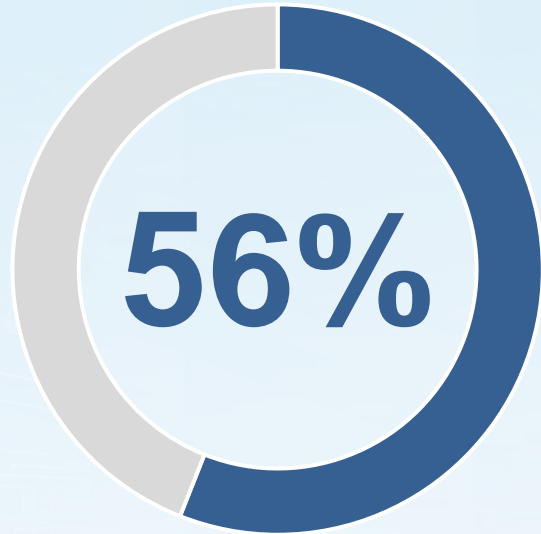
Reduction in investment

18%

Difficult in borrowing or obtaining new funds



Impact of High Interest Rate Environment on Customers' Purchasing Power

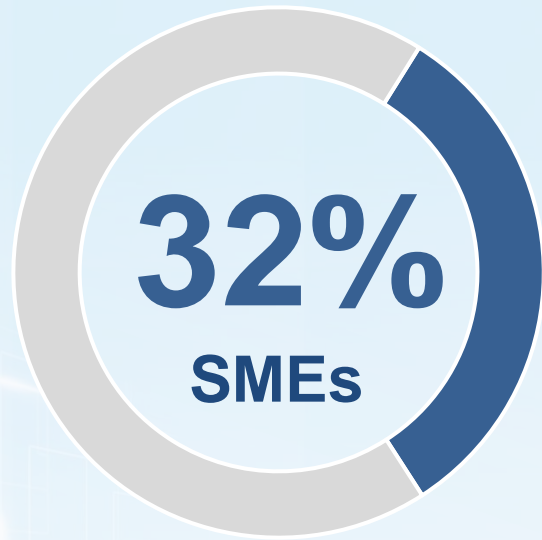


of SMEs indicated that high interest rate environment has led to reduction of customers' purchasing power

Top 3 industries most affected:



Impact of High Interest Rate Environment on Cash Flow



Factors affecting cash flow:

Customers delaying payments due to financial pressure

Cash flow being affected due to declining sales

Rising costs of existing debts

Indicated a negative impact on cash flow

Top 5 industries with cash flow affected:

1 Transportation, Storage and Courier Services

2 Retail

3 Manufacturing

4 Real Estate

5 Construction

Impact of High Interest Rate Environment on Supply Chain Management

29%

SMEs with supply chain

Indicated a negative impact

Top 3 negative impacts:

1 Need to find suppliers offering lower prices **55%**

2 Need to reduce inventory to reduce costs **48%**

3 Increase in inventory costs **41%**

Top 4 industries with supply chain affected:

1

Construction

2

Retail

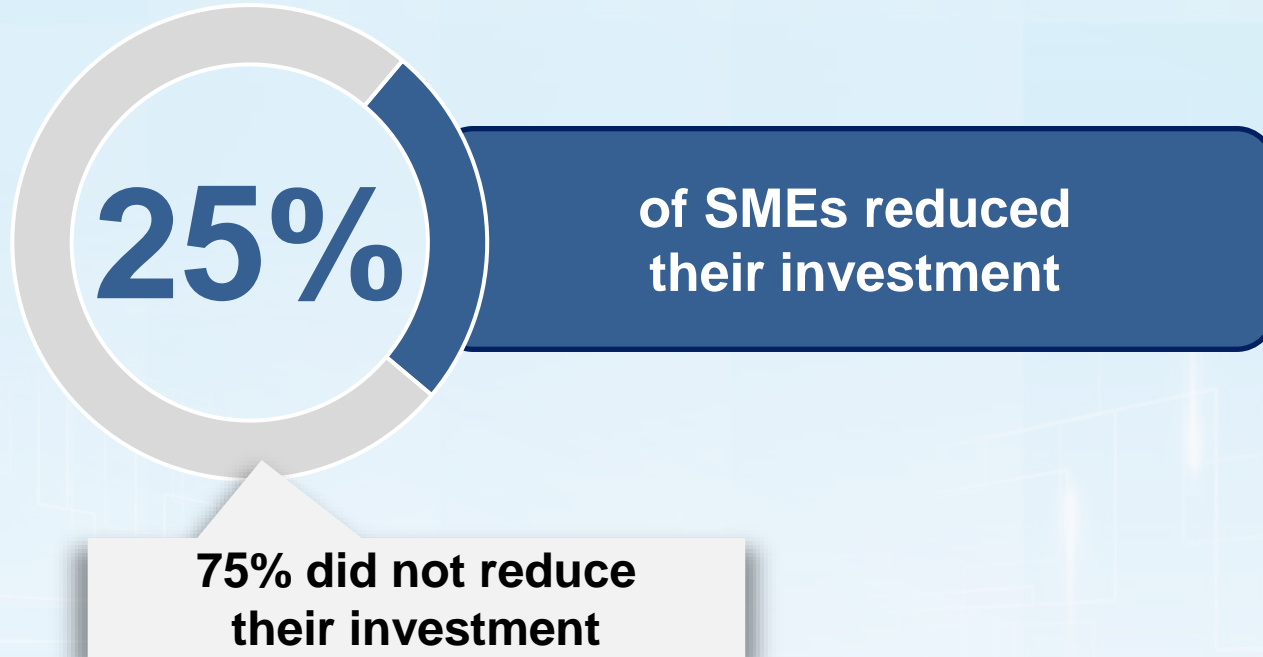
3

Manufacturing

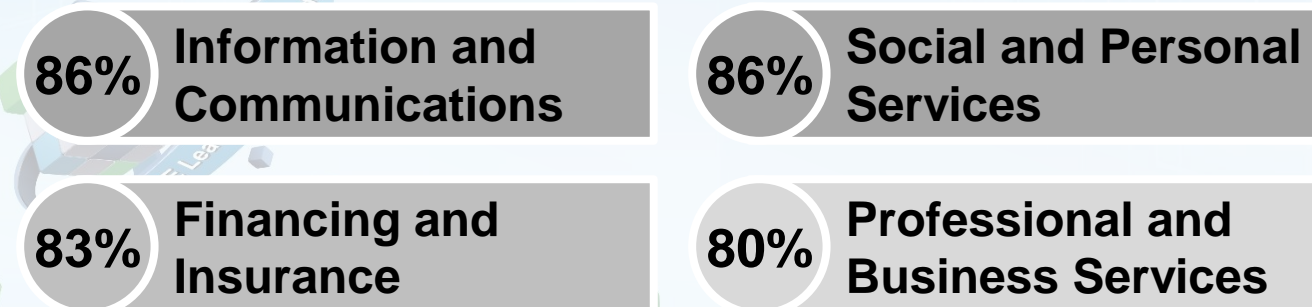
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Import / Export Trade and Wholesale Retail

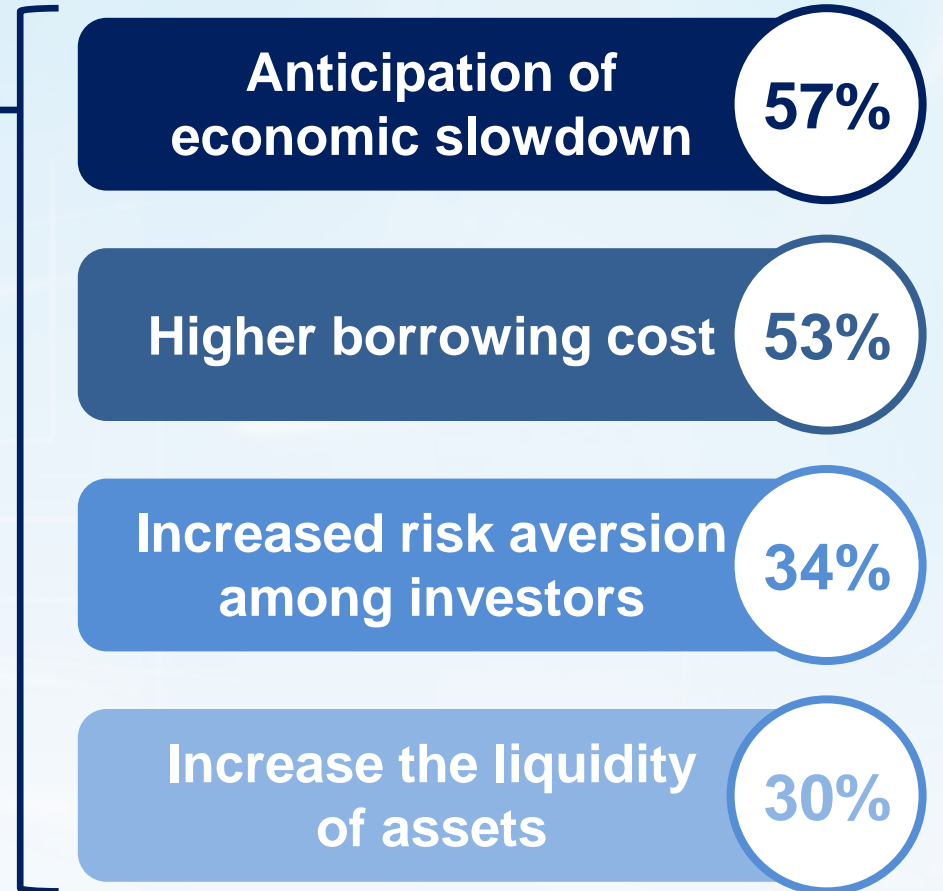
Impact of High Interest Rate Environment on Investment Plans



Top 4 industries with no reduction on investment:



Major reasons:



Impact of High Interest Rate Environment on SMEs in Borrowing or Obtaining New Funds



18%

SMEs expressed difficulties in borrowing or obtaining new funds

Major reasons :

70%

Tightening of lending conditions

54%

Banks raising lending rates

43%

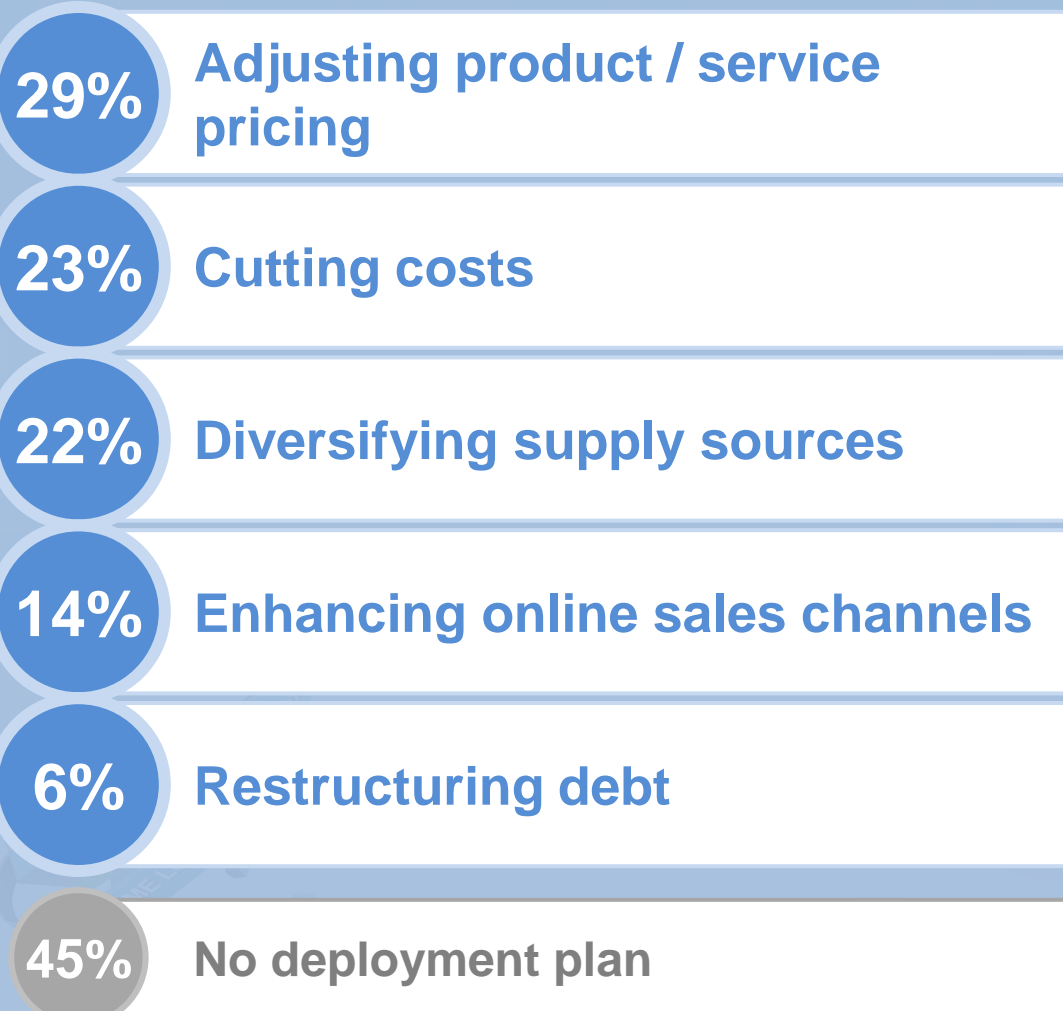
Reduction in credit limits



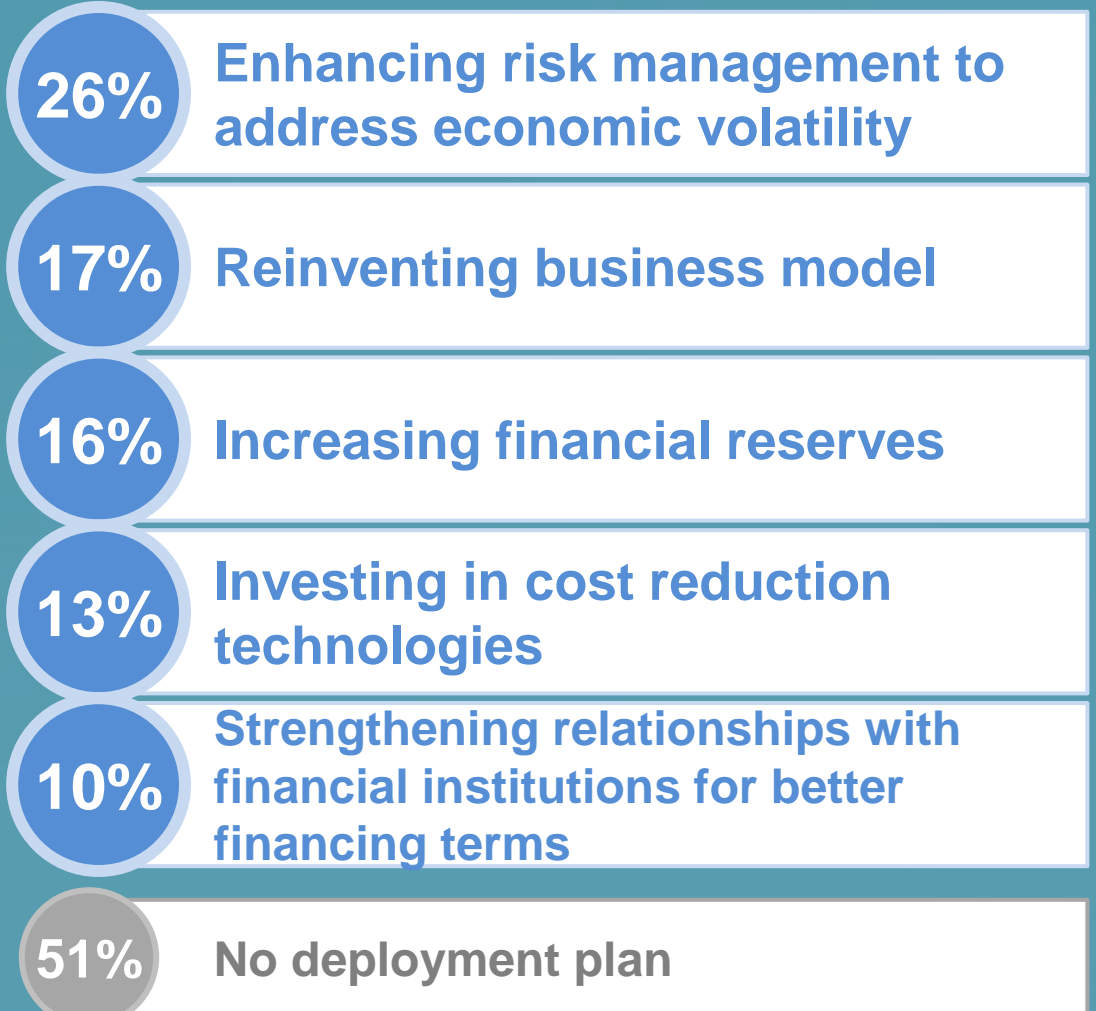
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Future Deployment Plan under High Interest Rate Environment

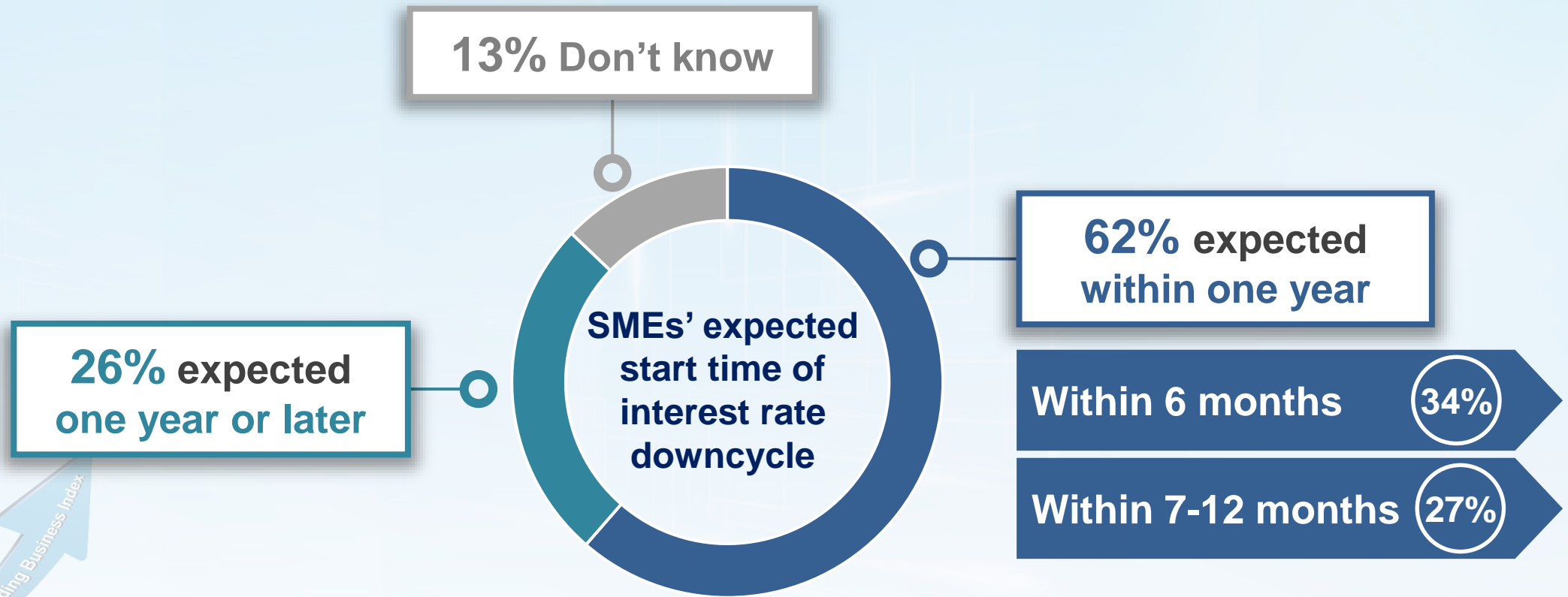
Deployment plan in the next 6 months



Deployment plan in the next 7-12 months



Expected Start Time of Interest Rate Downcycle



Adaptations at the Beginning of Interest Rate Downcycle

Adjusting product / service prices 25%

Adjusting investment strategies 14%

Increasing manpower 9%

Applying for loan 9%

Restarting business expansion plans 8%

Increasing inventory level to fulfill rising order demand 6%

No change will be made 55%

Major Business Expansion Scope

56% Expanding mainland or overseas business

53% Expanding local business

42% Providing more products offering or services

29% Establishing online sales channels / Developing e-commerce capabilities