



Standard Chartered Hong Kong SME Leading Business Index

Quarter 3, 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 814 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 49th survey of the Standard Chartered Hong Kong SME Leading Business Index was conducted in July 2024. Top management of 814 SMEs were surveyed to gauge their views on the outlook of the overall business environment in Q3 2024 and to explore the impact of high interest rate environment on them and their response strategies.

Key Findings

The Q3 2024 "Standard Chartered SME Index" retreated by 4.8 to 42.5 this quarter, reaching the lowest level since Q3 2022. Key findings of the survey are as follows:

- ⊕ All the five component sub-indices recorded a decline in this quarter, in which "Global Economy" (29.5, -9.9), "Profit Margin" (35.1, -8.3) and "Business Condition" (39.4, -8.0) recorded a significant decline, reflecting a drop in business turnover among Hong Kong SMEs for this quarter;
- ⊕ In terms of the 11 industry indices, only "Construction" recorded a slight increment of 1.8, while the remaining 10 industry indices recorded declines. Among those, "Real Estate", which had an increment of more than 10 in the last quarter, dropped 15.0 to 37.3 in Q3. In addition, "Information and Communications" (47.9) and "Financing and Insurance" (44.2) recorded a decline of 9.8 and 7.5 respectively, dropping below the 50 neutral line;
- ⊕ In terms of overall investment trends, 92% of the surveyed SMEs indicated that they would maintain or increase investment this quarter, which is on par with the previous quarter. The industries with the highest proportions were "Accommodation and Food Services" (98%), "Social and Personal Services" (98%), "Professional and Business Services" (96%), "Financing and Insurance" (94%) and "Retail" (93%). The areas that most SMEs expected to maintain or increase investment were "Research and Development", "Training Related to E-Commerce or Digital Technology", "Overall Staff Training", "Facilities and Equipment", "Offline Marketing Promotion" and "IT System". Notably, "Retail", "Accommodation and Food Services" and "Professional and Business Services" showed significant growth in this quarter;
- ⊕ In terms of the changes in cost components, the proportion of local SMEs expecting raw materials cost to increase had been dropped by 6 percentage points to 57%. Similarly, the proportion of SMEs expecting an increase in staff salary fell by 3 percentage points to 27%. The findings indicate a slowdown in the cost pressures facing SMEs. On the other hand, only 19% of SMEs planned to increase the price of their product or service, a decrease of 4 percentage points from the previous quarter, indicating that most SMEs are gradually easing the pace of their price increases.



Key Findings (cont.)

⊕ The thematic survey of this quarter investigated the impact of high interest rate environment on Hong Kong SMEs and their response strategies:

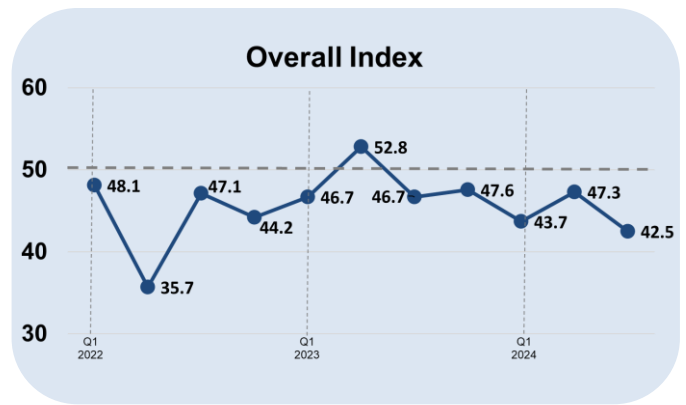
- The survey revealed that over half (56%) of the surveyed SMEs expressed that the high interest rate environment has led to reduction of customers' purchasing power, particularly in "Retail", "Accommodation and Food Services", and "Real Estate". However, three quarters (75%) of SMEs stated that they did not reduce investments due to the high interest rate environment, indicating that the decline in customers' purchasing power did not affect SMEs' investment plans;
- In terms of operation, 29% of the surveyed SMEs indicated that the high interest rate environment has negatively impacted their supply chain management as they "need to find suppliers offering lower prices", "reduce inventory to reduce costs", and "increase in inventory costs". On the other hand, around one third (32%) of the surveyed SMEs indicated that the high interest rate environment had a negative impact on cash flow, primarily because of "customers delaying payments", "declining sales", and "rising costs of existing debts";
- In terms of financing, nearly one-fifth (18%) of the surveyed SMEs reported difficulties in borrowing or obtaining new funds. "Tightening of lending conditions", "banks raising lending rates", and "reduction in credit limits" are their difficulties in obtaining new funds;
- The survey also explored the future deployment plan of SMEs under the high interest rate environment. In the short term (in the next 6 months), a higher percentage of SMEs indicated that they would be "adjusting product/ service pricing" (29%), "cutting costs" (23%) and "diversifying supply sources" (22%). In the long term (in the next 7 to 12 months), more SMEs stated that they would be "enhancing risk management to address economic volatility" (26%), "reinventing business model" (17%), and "increasing financial reserves" (16%);
- Looking ahead, SMEs generally expected that an interest rate downcycle would begin shortly. Among them, 34% of the surveyed SMEs expected the interest rate downcycle to begin "within 6 months", 27% anticipated it "within 7 - 12 months", while 26% expected it to occur "one year or later", and the remaining 13% expressed "don't know". When the interest rate downcycle begins, a higher percentage of SMEs planned to "adjust product/ service pricing" (25%) and "adjust investment strategies" (14%), while over half (55%) stated that "no change will be made".



Standard Chartered SME Index

Q3 2024

42.5

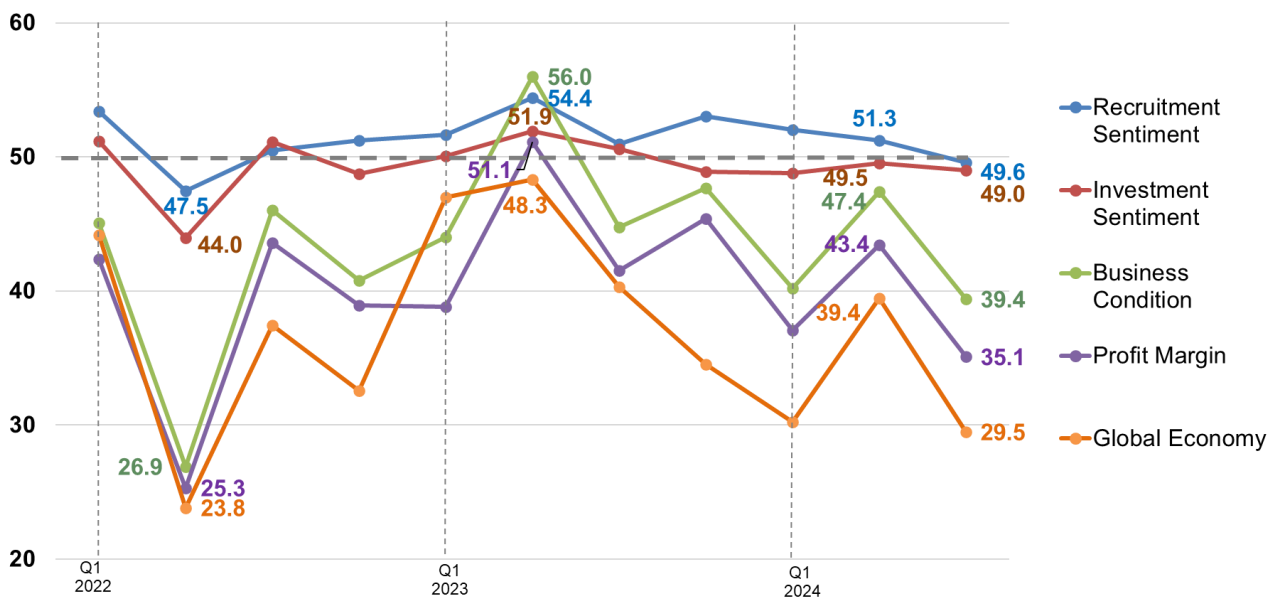


The Q3 2024 Overall Index retreated by 4.8 to 42.5 this quarter, reaching the lowest level since Q3 2022.

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.

Five Component Sub-Indices of Overall Index

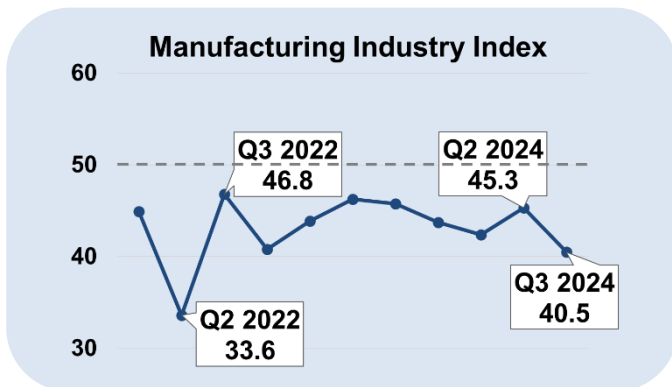


The 3 Key Industry Indices

Manufacturing Industry 40.5



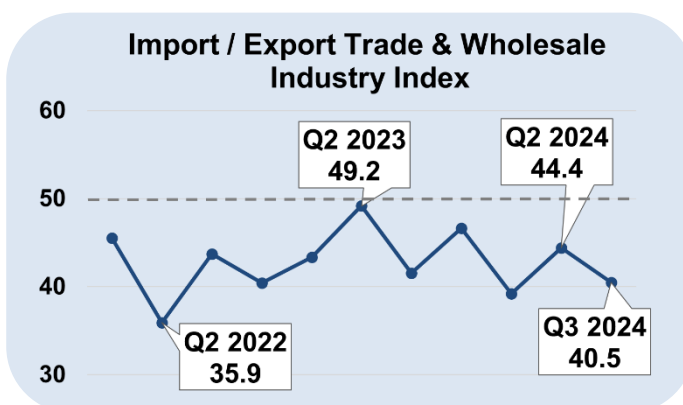
The Manufacturing Industry index recorded a decline in this quarter, down by 4.8 to 40.5, which was the lowest level since Q3 2022. Except for “Recruitment Sentiment” which recorded a slight increase, other four component sub-indices fell in this quarter. In particular, “Business Condition” recorded the largest drop, down by 11.2 to 34.7.



Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	50.0	Up	Down
Investment Sentiment	49.5	Down	Down
Business Condition	34.7	Down	Down
Profit Margin	31.2	Down	Down
Global Economy	24.8	Down	Down

Import / Export Trade and Wholesale Industry 40.5

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.



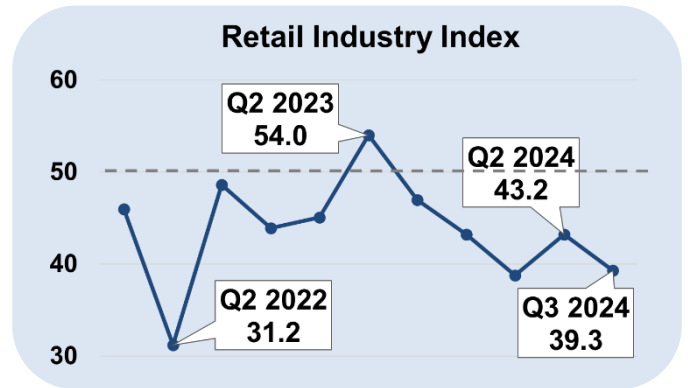
Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	48.3	Down	Up
Investment Sentiment	44.4	Down	Down
Business Condition	38.4	Down	Up
Profit Margin	31.0	Down	Down
Global Economy	34.9	Down	Up



The 3 Key Industry Indices

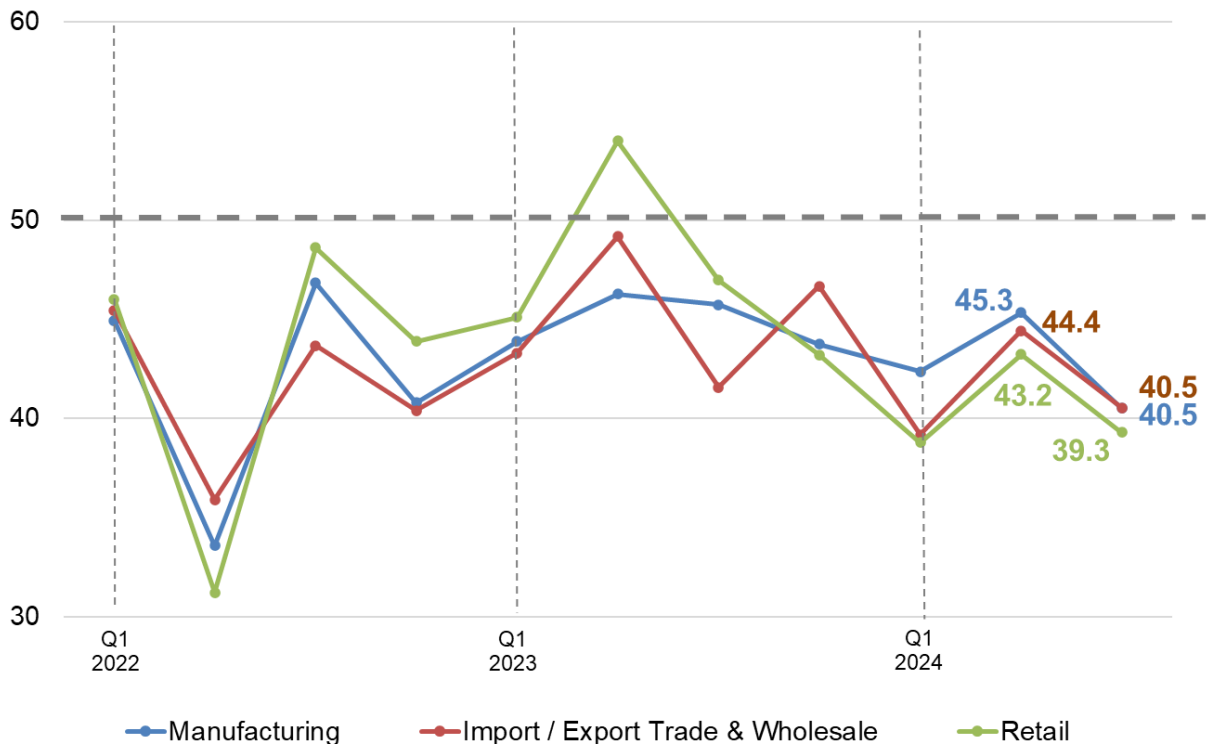
Retail Industry 39.3

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.



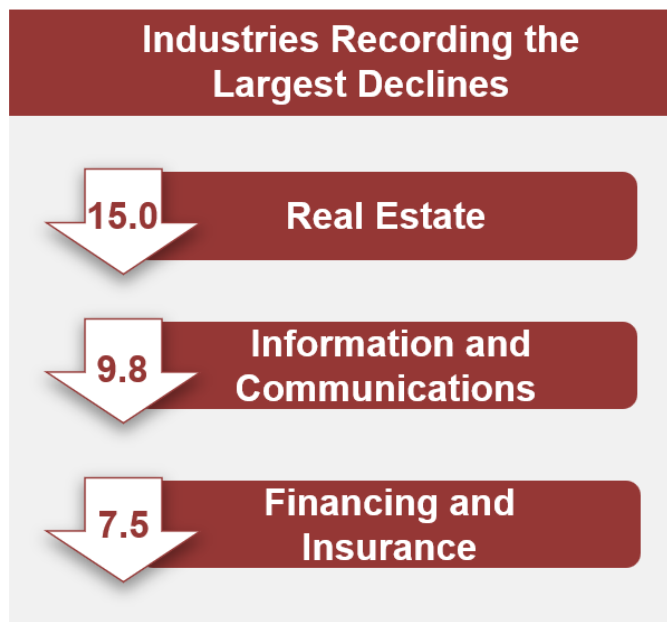
Component Indices	Index	Compared to last quarter	Compared to same period of last year
Recruitment Sentiment	47.6	Down	Down
Investment Sentiment	48.8	Up	Down
Business Condition	34.1	Down	Down
Profit Margin	29.3	Down	Down
Global Economy	25.6	Down	Down

3 Key-Industry Indices



Industry Index

In terms of the 11 industry indices, only "Construction" recorded a slight increment of 1.8, while the remaining 10 industry indices recorded declines. Among those, "Real Estate", which had an increment of more than 10 in the last quarter, dropped 15.0 to 37.3 in Q3. In addition, "Information and Communications" (47.9) and "Financing and Insurance" (44.2) recorded a decline of 9.8 and 7.5 respectively, dropping below the 50 neutral line.



Market Prospects

In terms of overall investment trends, 92% of the surveyed SMEs indicated that they would maintain or increase investment this quarter, which is on par with the previous quarter. Notably, "Retail", "Accommodation and Food Services" and "Professional and Business Services" showed significant growth in this quarter.



The areas that most SMEs expected to maintain or increase investment were "Research and Development", "Training Related to E-Commerce or Digital Technology", "Overall Staff Training", "Facilities and Equipment", "Offline Marketing Promotion" and "IT System".

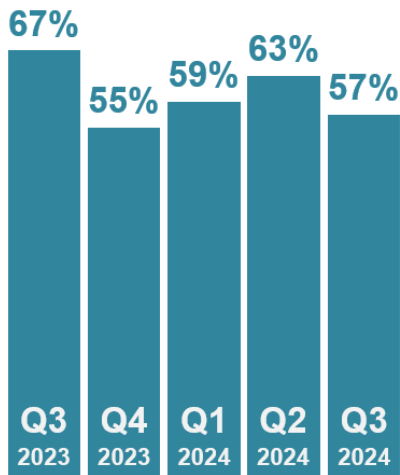
Most SMEs expected to maintain or increase investment in the following items:



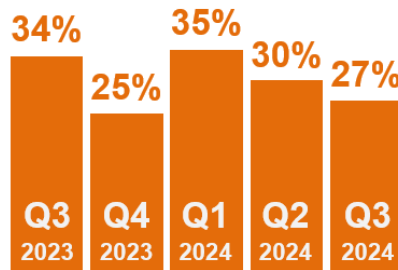
Market Prospects

In terms of the changes in cost components, the proportion of local SMEs expecting raw materials cost to increase had been dropped by 6 percentage points to 57%. Similarly, the proportion of SMEs expecting an increase in staff salary fell by 3 percentage points to 27%. The findings indicate a slowdown in the cost pressures facing SMEs. On the other hand, only 19% of SMEs planned to increase the price of their product or service, a decrease of 4 percentage points from the previous quarter, indicating that most SMEs are gradually easing the pace of their price increases.

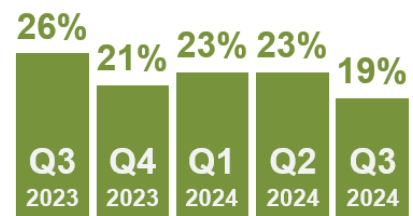
Proportion of surveyed SMEs:



Raw Materials Cost Increase



Staff Salary Increase



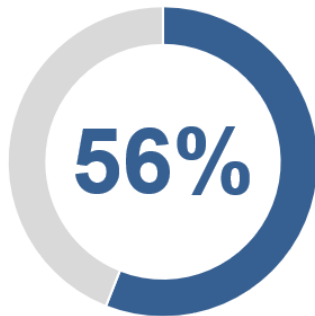
Product / Service Price Increase



Featured Topic

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

The thematic survey of this quarter investigated the impact of high interest rate environment on Hong Kong SMEs. The survey revealed that over half (56%) of the surveyed SMEs expressed that the high interest rate environment has led to reduction of customers' purchasing power, particularly in "Retail", "Accommodation and Food Services", and "Real Estate".



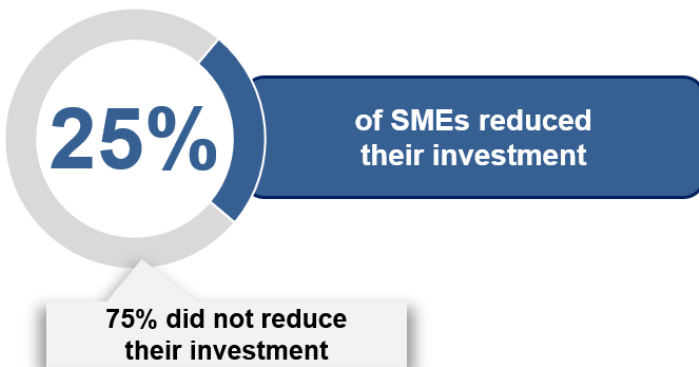
56%
of SMEs indicated that high interest rate environment has led to reduction of customers' purchasing power

Top 3 industries most affected:



11

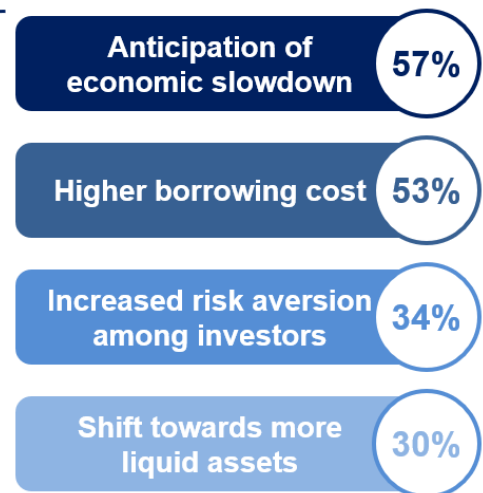
However, three quarters (75%) of SMEs stated that they did not reduce investments due to the high interest rate environment, indicating that the decline in customers' purchasing power did not affect SMEs' investment plans.



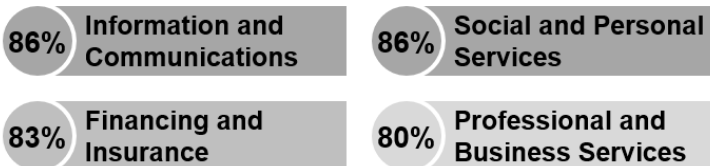
25% of SMEs reduced their investment

75% did not reduce their investment

Major reasons:



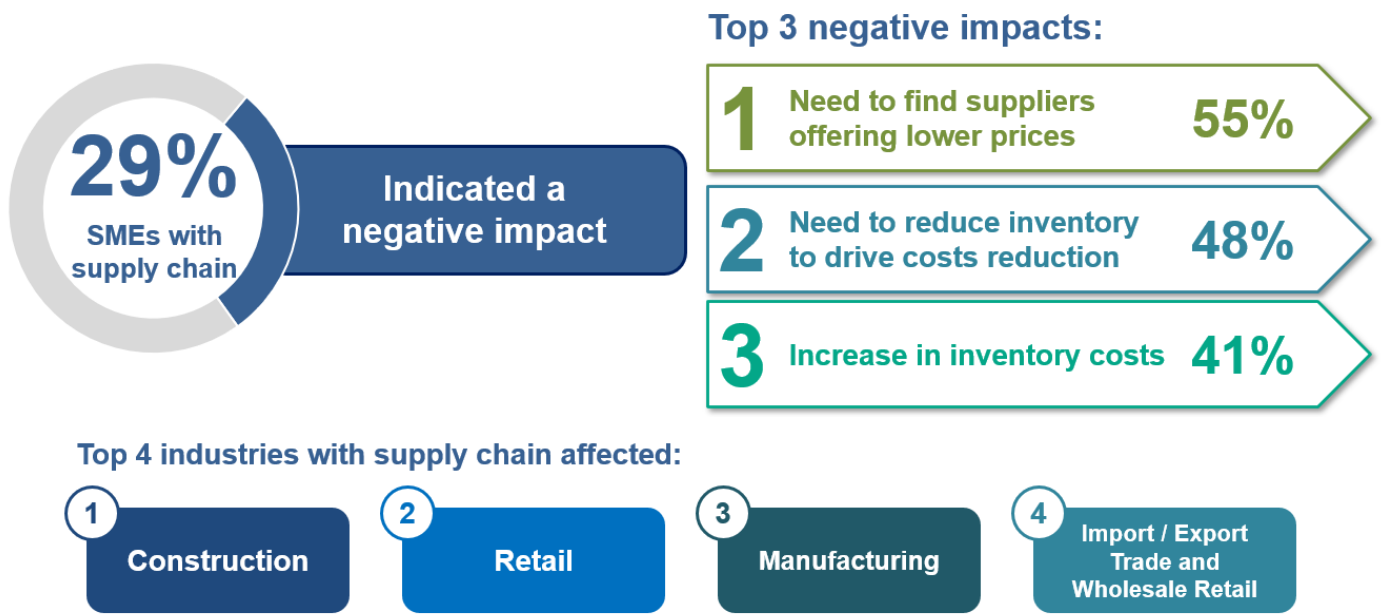
Top 4 industries with no reduction on investment:



Featured Topic

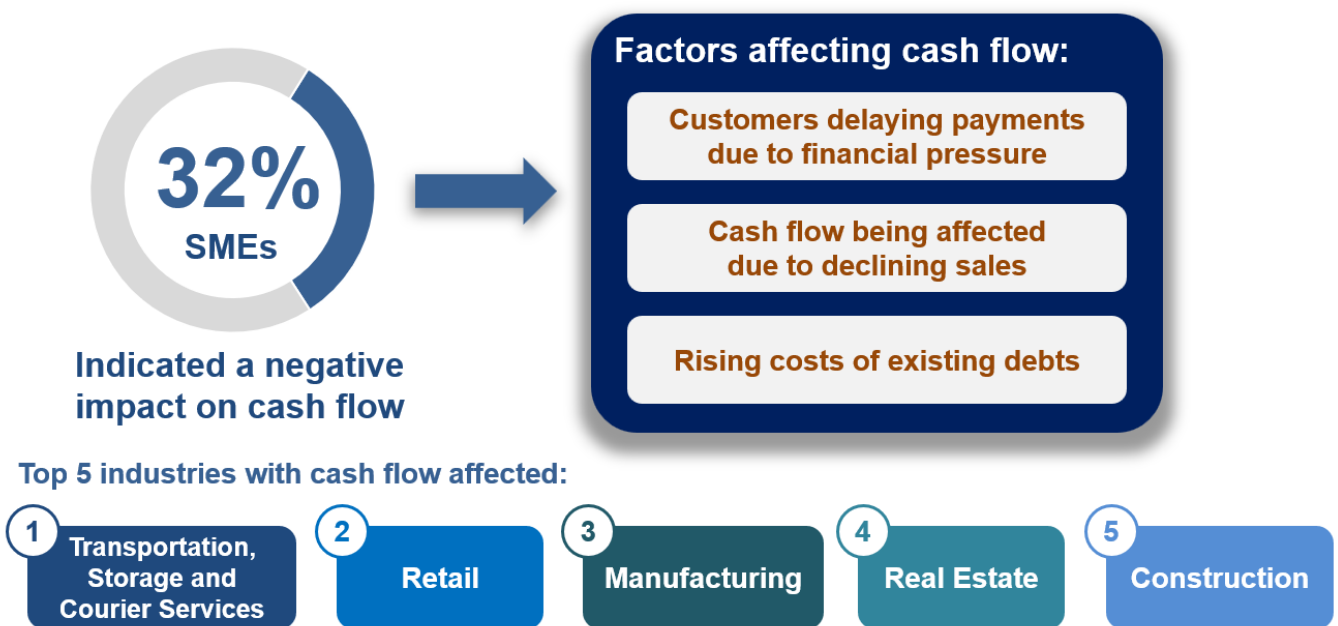
The impact of high interest rate environment on SMEs and their response strategies

In terms of operation, 29% of the surveyed SMEs indicated that the high interest rate environment has negatively impacted their supply chain management as they “need to find suppliers offering lower prices”, “reduce inventory to reduce costs”, and “increase in inventory costs”.



12

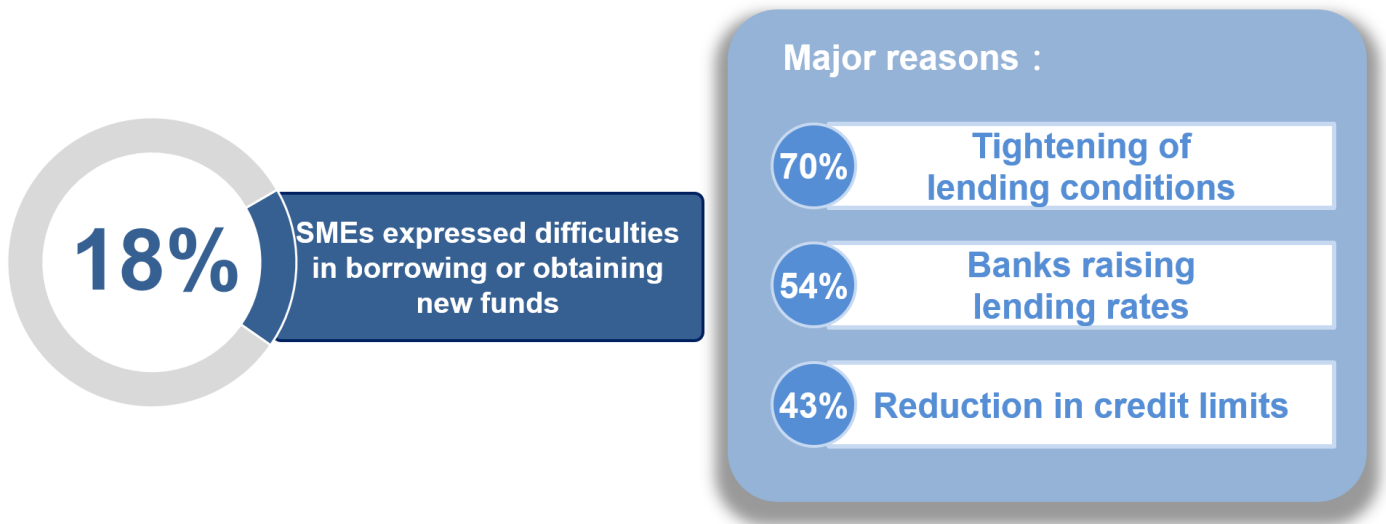
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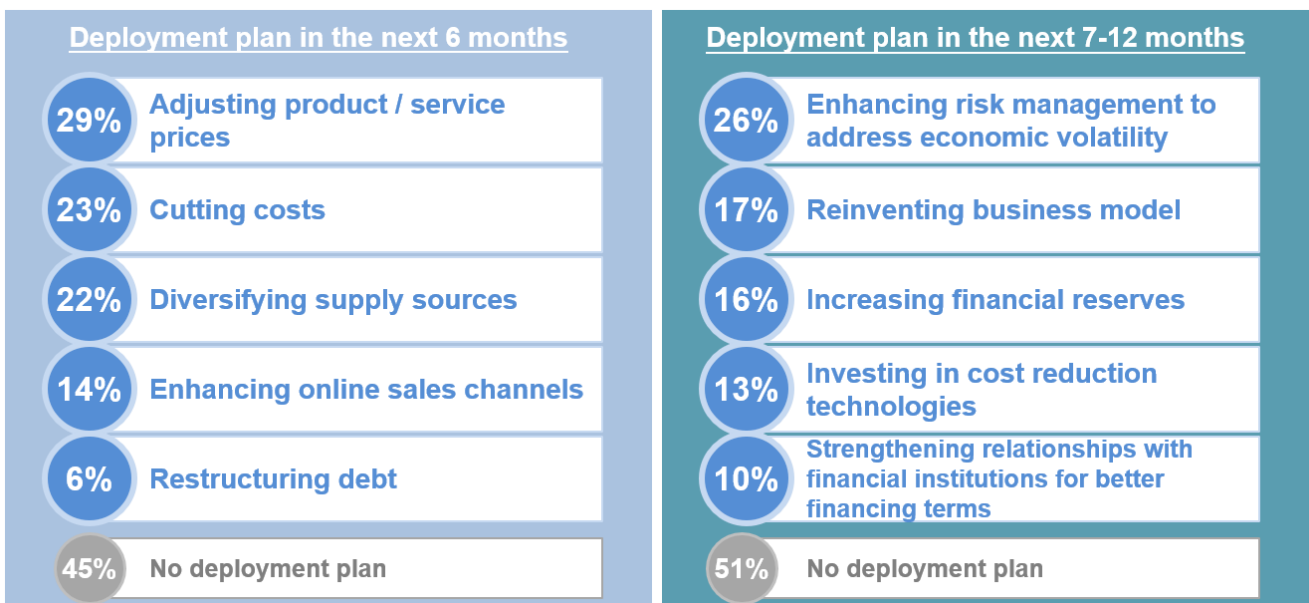
The impact of high interest rate environment on SMEs and their response strategies

In terms of financing, nearly one-fifth (18%) of the surveyed SMEs reported difficulties in borrowing or obtaining new funds. "Tightening of lending conditions", "banks raising lending rates", and "reduction in credit limits" are their difficulties in obtaining new funds.



13

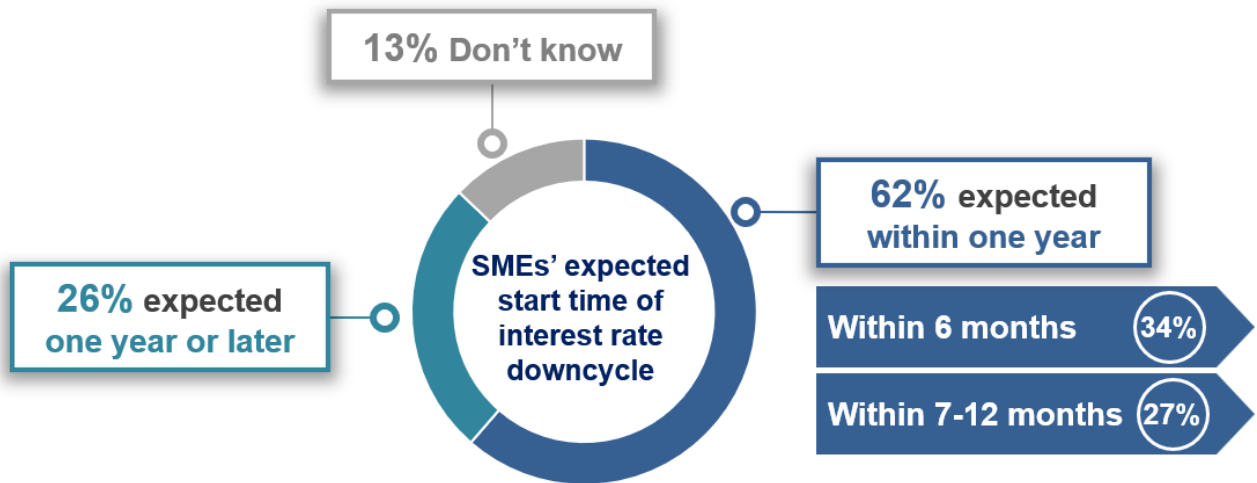
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Featured Topic

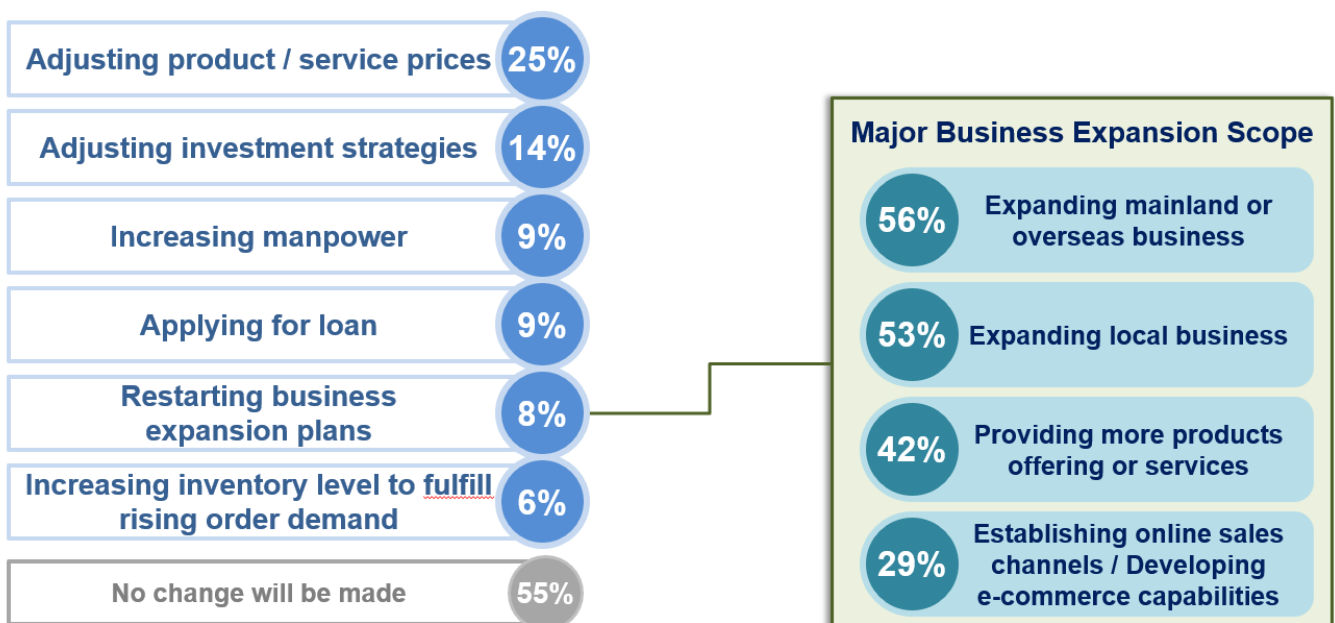
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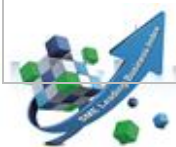
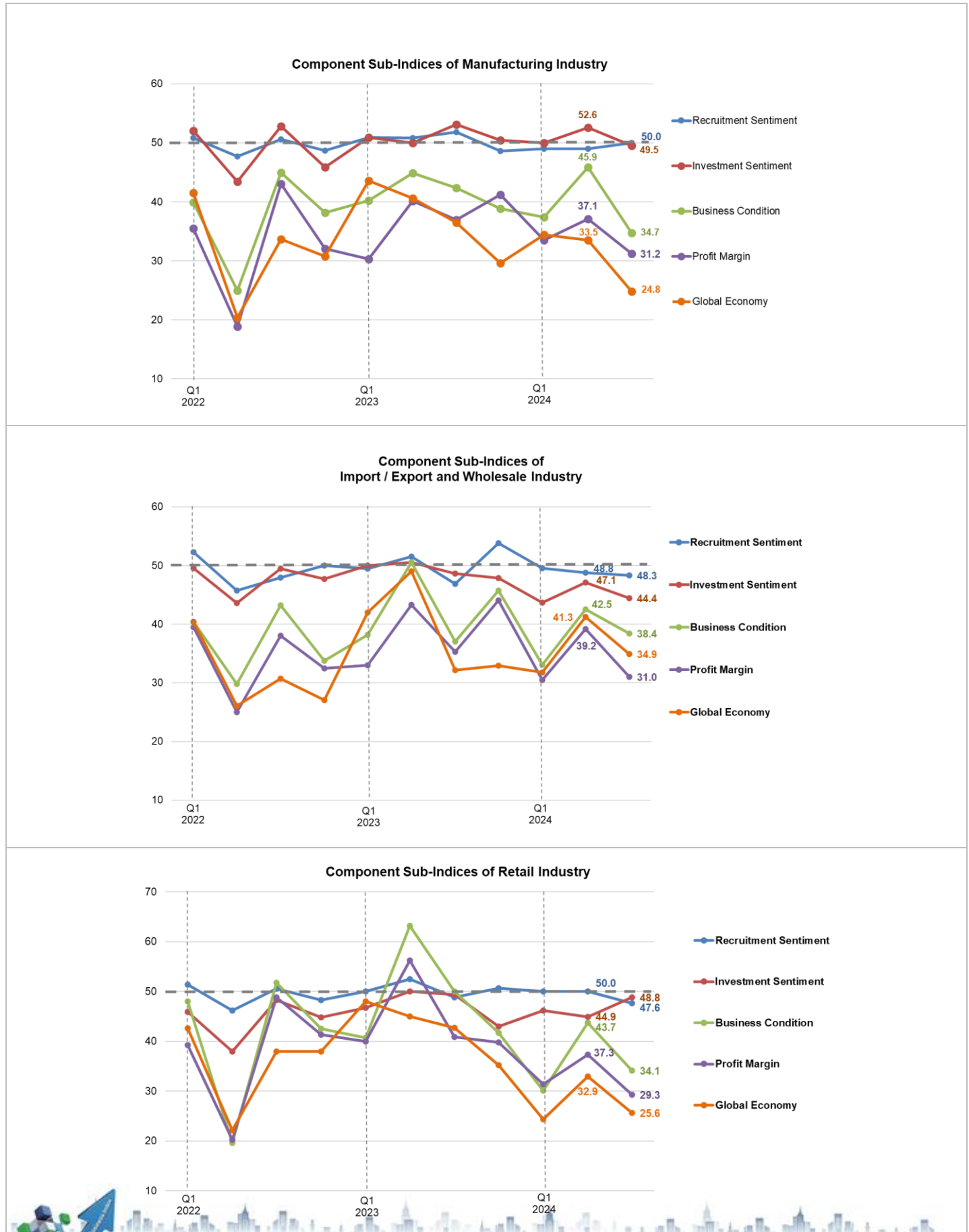
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When the interest rate downcycle begins, a higher percentage of SMEs planned to "adjust product/ service pricing" (25%) and "adjust investment strategies" (14%), while over half (55%) stated that "no change will be made".



Appendix

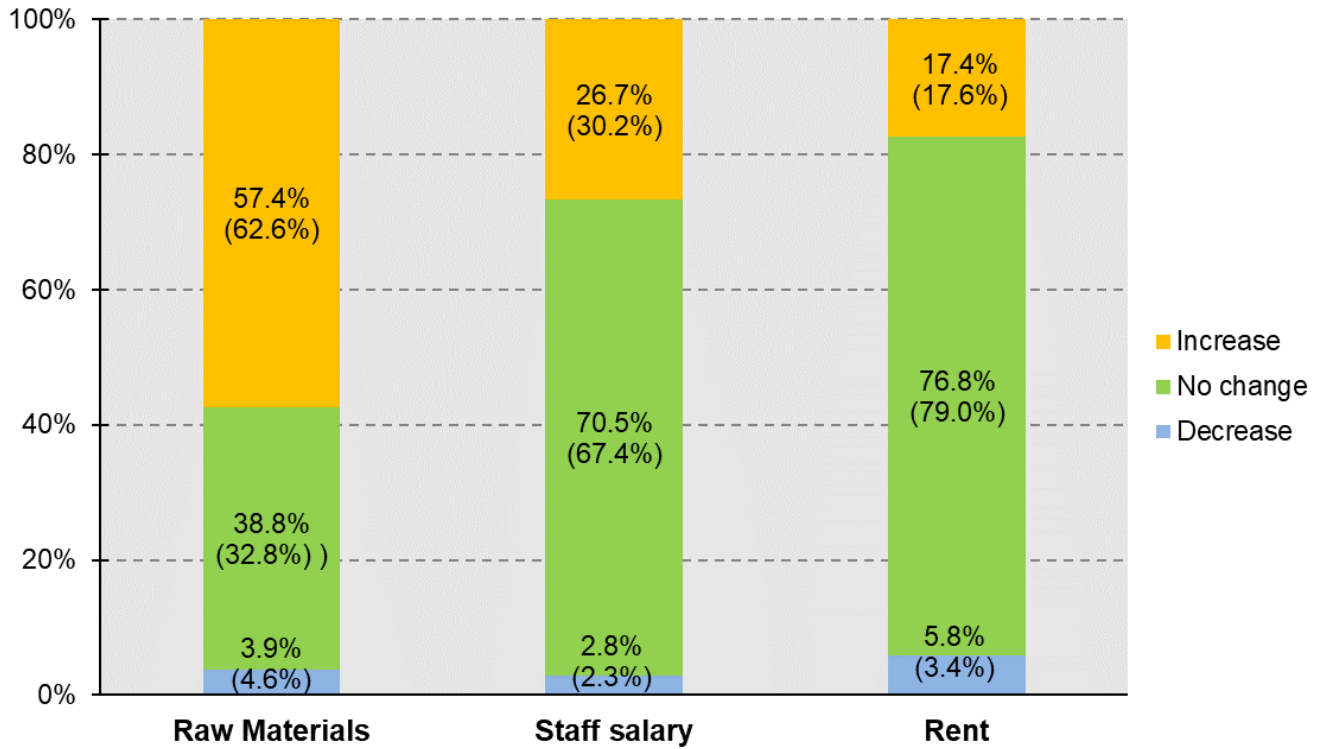
Component Sub-Indices of the 3 Key Industry Indices



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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