

Box 1.2**Diffusion indices on small and medium-sized enterprises (an update)**

To gain a better understanding of the current situation of business receipts, employment and credit access for small and medium-sized enterprises (SMEs)⁽¹⁾, an ad-hoc consultation exercise has been conducted by the Census and Statistics Department on behalf of the Economic Analysis and Business Facilitation Unit since late November 2008. In the recent past, the exercise has been conducted on a sample panel of around 400 SMEs. This note provides a further update of the results reported in *Box 1.1* in the *2013 Economic Background and 2014 Prospects*.

A set of diffusion indices is compiled to indicate the general directions of change in the respondents' views on business receipts, employment and new export orders versus the preceding month. The percentage of SMEs reporting tight access to credit is also reported. While the findings should be interpreted with considerable caution given the coverage and nature of the consultation exercise, they can serve as a rough indicator to enable high frequency monitoring of SMEs' situation.

Business receipts of the SMEs surveyed, as depicted by the set of diffusion indices, showed that the overall situation remained rather sluggish, but some sectors posted relative improvements in recent months (*Table 1*). In April 2014, the diffusion index for the real estate sector fell below 50 again, after rising above the boom-bust threshold of 50 in March, indicating the still-weak business situation amid the quiet property market. The readings for business services stayed above 50 and indicated some improvement, but those of retail trade and restaurants fluctuated and remained below 50. As regards the external segment, the diffusion index for the logistics sector softened, but that for the import/export trades edged higher to come close to the 50 mark. As to the employment situation, the feedback from SMEs indicated broadly stable development in recent months (*Table 2*).

Specifically for SMEs in the import and export sector, their views on new export orders were sought separately to help gauge the likely export performance in the near term. The diffusion index on new export orders inched higher to 50 in April, pointing to a more steady external demand condition as the major advanced economies seemed to show some pick-up after a slow start at the beginning of the year.

The proportion of SMEs reporting tight credit access, after rising briefly in early 2014, eased back to a low level of 0.9% in April, reflecting the generally accommodative monetary conditions and the Government's continued efforts to support SMEs through various loan guarantee schemes.

(1) Manufacturing enterprises with fewer than 100 employees and non-manufacturing enterprises with fewer than 50 employees are regarded as SMEs in Hong Kong.

Box 1.2 (Cont'd)**Table 1 : Diffusion indices[^] on business receipts**

	2013								2014				
	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>
<i>Local segments</i>													
Restaurants	45.8	46.7	45.8	48.2	48.2	47.4	47.4	48.2	49.1	48.1	47.2	47.2	46.3
Real estate	38.2	42.6	44.1	44.1	35.3	35.3	41.2	36.8	44.1	42.4	42.4	54.5	48.5
Retail trade	47.6	47.6	47.1	49.0	50.0	49.0	47.5	48.0	49.0	47.4	49.1	47.4	48.2
Wholesale trade	44.4	50.0	47.1	41.2	44.1	47.1	50.0	44.1	47.1	44.7	44.7	50.0	50.0
Business services	43.9	48.5	48.5	45.5	43.9	45.5	50.0	48.5	53.0	47.0	51.6	51.6	53.1
<i>External segments</i>													
Import/export trade	49.0	50.0	50.0	48.1	47.6	48.5	49.0	49.5	49.0	47.9	48.3	48.7	49.6
Logistics	47.4	44.7	50.0	47.4	44.7	44.7	44.7	52.8	50.0	47.2	50.0	50.0	47.2
All the above sectors*	47.0	48.4	48.3	47.3	46.8	47.3	48.1	48.0	49.0	47.0	48.2	49.2	49.3

Notes : (^) The diffusion index is computed by adding the percentage of SMEs reporting “up” to one half of the percentage of SMEs reporting “same”. A diffusion index reading above 50 indicates that the business condition is generally favourable, whereas an index below 50 indicates otherwise. Respondents were requested to exclude seasonal effects in reporting their views.

(*) Weighted average using total number of SMEs in individual sectors as weights.

Table 2 : Diffusion indices on employment situation

	2013								2014				
	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>
<i>Local segments</i>													
Restaurants	49.2	50.0	48.3	50.0	50.0	49.1	49.1	49.1	48.2	49.1	49.1	49.1	49.1
Real estate	50.0	50.0	48.5	50.0	45.6	48.5	47.1	47.1	47.1	50.0	50.0	50.0	48.5
Retail trade	50.0	50.0	50.0	50.0	50.0	49.5	50.0	50.0	50.0	49.6	50.4	49.1	50.5
Wholesale trade	50.0	50.0	50.0	50.0	47.1	50.0	50.0	50.0	47.1	50.0	50.0	50.0	52.6
Business services	51.5	50.0	50.0	48.5	51.5	48.5	50.0	51.5	50.0	50.0	50.0	51.6	50.0
<i>External segments</i>													
Import/export trade	50.0	50.5	51.0	49.0	49.5	49.5	50.0	51.0	50.0	50.4	50.4	49.6	50.4
Logistics	50.0	50.0	47.4	47.4	50.0	47.4	47.4	50.0	50.0	50.0	50.0	50.0	50.0
All the above sectors*	50.1	50.2	50.1	49.3	49.5	49.3	49.7	50.3	49.5	50.0	50.2	49.7	50.3

Note : (*) Weighted average using total number of SMEs in individual sectors as weights.

Table 3 : Diffusion index on current new export orders

	2013								2014				
	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>
Import/export trade	49.0	49.5	49.5	48.5	48.5	48.1	49.5	50.5	49.5	49.2	48.3	49.6	50.0

Table 4 : Percentage of SMEs reporting tight current access to credit

	2013								2014				
	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>
All selected sectors*	0.9	0.6	0.6	0.6	0.7	0.7	0.7	0.4	0.6	1.5	1.8	0.9	0.9

Note : (*) Weighted average using total number of SMEs in individual sectors as weights.