

Box 1.3**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 1.2* in the *First Quarter Economic Report 2014*.

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 lacklustre (*Table 1*). In July 2014, the diffusion indices for all selected sectors stayed below the boom-bust threshold of 50. Within this, the readings of the retail trade and wholesale trade sectors fell for three consecutive months, in line with the weak retail sales performance of late. Yet, the diffusion indices for the restaurant and business services sectors moved up moderately from lows. The reading for the real estate sector improved, conceivably reflecting the recent pick-up in property market activity. As regards the external segment, the diffusion index for the logistics sector remained weak, and that for the import/export trades stayed below the 50 mark, indicating the cautious sentiment among SMEs in these sectors had not shifted materially despite the recent improvement in external trade performance. 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 still stood near the boom-bust threshold of 50 in July, possibly indicating the still-uncertain external environment, notwithstanding the visible pick-up in merchandise exports in June.

The proportion of SMEs reporting tight credit access eased to 0.8% in July, 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 1.3 (Cont'd)**Table 1 : Diffusion indices[^] on business receipts**

	<u>2013</u>					<u>2014</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>	<u>May</u>	<u>Jun</u>	<u>Jul</u>
<i>Local segments</i>												
Restaurants	48.2	47.4	47.4	48.2	49.1	48.1	47.2	47.2	46.3	47.2	45.3	47.1
Real estate	35.3	35.3	41.2	36.8	44.1	42.4	42.4	54.5	48.5	48.5	43.9	47.0
Retail trade	50.0	49.0	47.5	48.0	49.0	47.4	49.1	47.4	48.2	47.7	46.9	46.1
Wholesale trade	44.1	47.1	50.0	44.1	47.1	44.7	44.7	50.0	50.0	44.7	39.5	36.8
Business services	43.9	45.5	50.0	48.5	53.0	47.0	51.6	51.6	53.1	50.0	46.9	48.4
<i>External segments</i>												
Import/export trade	47.6	48.5	49.0	49.5	49.0	47.9	48.3	48.7	49.6	48.4	49.2	48.8
Logistics	44.7	44.7	44.7	52.8	50.0	47.2	50.0	50.0	47.2	47.2	47.2	47.2
All the above sectors*	46.8	47.3	48.1	48.0	49.0	47.0	48.2	49.2	49.3	48.0	47.0	47.0

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

	<u>2013</u>					<u>2014</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>	<u>May</u>	<u>Jun</u>	<u>Jul</u>
<i>Local segments</i>												
Restaurants	50.0	49.1	49.1	49.1	48.2	49.1	49.1	49.1	49.1	49.1	48.1	49.0
Real estate	45.6	48.5	47.1	47.1	47.1	50.0	50.0	50.0	48.5	47.0	48.5	50.0
Retail trade	50.0	49.5	50.0	50.0	50.0	49.6	50.4	49.1	50.5	49.6	49.6	49.6
Wholesale trade	47.1	50.0	50.0	50.0	47.1	50.0	50.0	50.0	52.6	47.4	47.4	47.4
Business services	51.5	48.5	50.0	51.5	50.0	50.0	50.0	51.6	50.0	48.4	50.0	50.0
<i>External segments</i>												
Import/export trade	49.5	49.5	50.0	51.0	50.0	50.4	50.4	49.6	50.4	48.4	50.4	49.2
Logistics	50.0	47.4	47.4	50.0	50.0	50.0	50.0	50.0	50.0	50.0	52.8	50.0
All the above sectors*	49.5	49.3	49.7	50.3	49.5	50.0	50.2	49.7	50.3	48.6	49.8	49.3

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

Table 3 : Diffusion index on current new export orders

	<u>2013</u>					<u>2014</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>	<u>May</u>	<u>Jun</u>	<u>Jul</u>
Import/export trade	48.5	48.1	49.5	50.5	49.5	49.2	48.3	49.6	50.0	49.6	49.2	49.6

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

	<u>2013</u>					<u>2014</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>	<u>May</u>	<u>Jun</u>	<u>Jul</u>
All selected sectors*	0.7	0.7	0.7	0.4	0.6	1.5	1.8	0.9	0.9	1.1	1.1	0.8

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