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 1.3* in the *Half-yearly 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.

On business receipts of the SMEs surveyed, as depicted by the set of diffusion indices, the overall reading worsened abruptly in October to 41.0, the lowest since the adoption of the current consultation method (*Table 1*). Conceivably, the sharp decline in the latest readings reflects a far more cautious business sentiment among SMEs after the start of the "Occupy Movement". The details showed that deterioration in business receipts was widespread among the selected sectors. In particular, readings for the logistics, restaurants, wholesale trade, and retail trade sectors declined markedly, by 11.1, 8.9, 8.4, and 7.7 points respectively in October compared with September. As to the employment situation, the feedback from SMEs also indicated some initial signs of weakening, broadly in line with the more cautious business sentiment (*Table 2*).

Specifically for SMEs in the import/export trades 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 also slackened distinctly to 44.7 in October, possibly a foreboding sign that the external demand conditions would turn weaker going forward, although the sudden turn in business sentiment should also have dragged down the reading further.

The proportion of SMEs reporting tight credit access held stable at a low level of 0.8% in October, reflecting the generally accommodative monetary conditions and the Government's continued efforts to support SMEs through various loan guarantee schemes.

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(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									
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Local segments												
Restaurants	48.2	49.1	48.1	47.2	47.2	46.3	47.2	45.3	47.1	48.1	47.1	38.2
Real estate	36.8	44.1	42.4	42.4	54.5	48.5	48.5	43.9	47.0	47.0	46.9	40.6
Retail trade	48.0	49.0	47.4	49.1	47.4	48.2	47.7	46.9	46.1	48.4	48.0	40.3
Wholesale trade	44.1	47.1	44.7	44.7	50.0	50.0	44.7	39.5	36.8	44.4	41.7	33.3
Business services	48.5	53.0	47.0	51.6	51.6	53.1	50.0	46.9	48.4	48.4	45.3	45.2
External segments												
Import/export trade	49.5	49.0	47.9	48.3	48.7	49.6	48.4	49.2	48.8	49.6	49.2	42.6
Logistics	52.8	50.0	47.2	50.0	50.0	47.2	47.2	47.2	47.2	44.4	47.2	36.1
All the above sectors*	**48.0**	**49.0**	**47.0**	**48.2**	**49.2**	**49.3**	**48.0**	**47.0**	**47.0**	**48.3**	**47.6**	**41.0**

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

	2013		2014									
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Local segments												
Restaurants	49.1	48.2	49.1	49.1	49.1	49.1	49.1	48.1	49.0	50.0	48.0	46.1
Real estate	47.1	47.1	50.0	50.0	50.0	48.5	47.0	48.5	50.0	50.0	50.0	50.0
Retail trade	50.0	50.0	49.6	50.4	49.1	50.5	49.6	49.6	49.6	50.4	50.0	49.2
Wholesale trade	50.0	47.1	50.0	50.0	50.0	52.6	47.4	47.4	47.4	52.8	50.0	50.0
Business services	51.5	50.0	50.0	50.0	51.6	50.0	48.4	50.0	50.0	53.1	50.0	46.8
External segments												
Import/export trade	51.0	50.0	50.4	50.4	49.6	50.4	48.4	50.4	49.2	50.0	50.0	49.2
Logistics	50.0	50.0	50.0	50.0	50.0	50.0	50.0	52.8	50.0	50.0	47.2	50.0
All the above sectors*	**50.3**	**49.5**	**50.0**	**50.2**	**49.7**	**50.3**	**48.6**	**49.8**	**49.3**	**50.6**	**49.8**	**48.9**

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

Table 3 : Diffusion index on current new export orders

	2013		2014									
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Import/export trade	50.5	49.5	49.2	48.3	49.6	50.0	49.6	49.2	49.6	50.4	50.0	44.7

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

	2013		2014									
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
All selected sectors*	0.4	0.6	1.5	1.8	0.9	0.9	1.1	1.1	0.8	0.8	0.8	0.8

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