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 1.2* in the *2014 Economic Background and 2015 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 consulted, as measured by the set of diffusion indices, suggested that the overall situation stayed sluggish in recent months and enterprises surveyed in both local and external segments were still cautious about the outlook (*Table 1*).   The overall index weakened again after the rebound in December 2014, falling to 47.3 in April 2015.   Sectoral breakdown shows that all selected local sectors recorded readings below the neutral level of 50.0.   Among them, the wholesale and retail sectors recorded the lowest readings, in line with the fall in retail sales in the first quarter amid weaker inbound tourism. Besides, the diffusion index for real estate also declined visibly to a relatively low level after the Hong Kong Monetary Authority introduced the new round of macro-prudential measures in late February.   As regards the externally-oriented sectors, the readings for import/export trade and logistics fluctuated and hovered around the boom-bust mark of 50.0 in the more recent months, in tandem with the unsteady external environment.   As to the employment situation, the feedback from SMEs suggested a broadly stable development in recent months (*Table 2*).

For the import/export trade sector in particular, SMEs' 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 has eased since end-2014 and drifted successively to 48.7 in April, partly reflecting the sluggish external demand conditions.

The proportion of SMEs reporting tight credit access continued to fall, reaching a low level of 0.7% in April 2015, thanks mainly to 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

	2014									2015			
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Local segments													
Restaurants	46.3	47.2	45.3	47.1	48.1	47.1	38.2	46.1	52.0	50.0	47.7	47.7	48.4
Real estate	48.5	48.5	43.9	47.0	47.0	46.9	40.6	54.7	45.3	48.5	47.1	51.5	45.5
Retail trade	48.2	47.7	46.9	46.1	48.4	48.0	40.3	43.9	48.8	47.5	47.9	44.4	43.9
Wholesale trade	50.0	44.7	39.5	36.8	44.4	41.7	33.3	44.4	44.4	50.0	44.4	44.4	41.7
Business services	53.1	50.0	46.9	48.4	48.4	45.3	45.2	46.8	48.4	45.6	50.0	47.0	48.4
External segments													
Import/export trade	49.6	48.4	49.2	48.8	49.6	49.2	42.6	47.9	50.8	50.0	47.5	49.6	49.6
Logistics	47.2	47.2	47.2	47.2	44.4	47.2	36.1	41.7	41.7	50.0	50.0	44.7	52.8
All the above sectors*	**49.3**	**48.0**	**47.0**	**47.0**	**48.3**	**47.6**	**41.0**	**46.7**	**48.9**	**48.8**	**47.8**	**47.4**	**47.3**

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

	2014									2015			
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Local segments													
Restaurants	49.1	49.1	48.1	49.0	50.0	48.0	46.1	50.0	49.0	49.2	48.5	50.0	49.2
Real estate	48.5	47.0	48.5	50.0	50.0	50.0	50.0	51.6	50.0	48.5	50.0	51.5	47.0
Retail trade	50.5	49.6	49.6	49.6	50.4	50.0	49.2	50.8	49.6	49.6	50.0	50.0	50.0
Wholesale trade	52.6	47.4	47.4	47.4	52.8	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Business services	50.0	48.4	50.0	50.0	53.1	50.0	46.8	50.0	50.0	50.0	50.0	50.0	48.4
External segments													
Import/export trade	50.4	48.4	50.4	49.2	50.0	50.0	49.2	50.0	50.0	50.0	49.2	50.8	50.4
Logistics	50.0	50.0	52.8	50.0	50.0	47.2	50.0	47.2	50.0	47.1	47.1	47.4	50.0
All the above sectors*	**50.3**	**48.6**	**49.8**	**49.3**	**50.6**	**49.8**	**48.9**	**50.2**	**49.8**	**49.6**	**49.5**	**50.3**	**49.7**

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

Table 3 : Diffusion index on current new export orders

	2014									2015			
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Import/export trade	50.0	49.6	49.2	49.6	50.4	50.0	44.7	46.7	51.3	50.0	48.3	48.3	48.7

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

	2014									2015			
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
All selected sectors*	0.9	1.1	1.1	0.8	0.8	0.8	0.8	0.8	1.0	0.8	0.7	0.7	0.7

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