

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 *First Quarter Economic Report 2015*.

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 remained lacklustre in recent months and enterprises surveyed generally turned more cautious about the outlook (*Table 1*). The overall index, after trending up successively from April to June, retreated again in July to 46.9, the lowest level since November 2014. Sectoral breakdown shows that the diffusion indices for the wholesale trade and logistics sectors declined most visibly in July. Meanwhile, the reading for import/export trade also trended lower, mainly reflecting the sluggish trade performance amid the unsteady external environment. The reading for the business services sector weakened considerably and fell below 50.0. The retail trade and restaurant sectors remained subdued, in tandem with the continued weakness in inbound tourism. 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 stood below the boom-bust threshold of 50.0 in July, notwithstanding a rebound from a recent low of 45.3 in May, conceivably reflecting the still rather sluggish global demand conditions.

The proportion of SMEs reporting tight credit access reached a low of 0.2% in July, thanks mainly to 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**

	<u>2014</u>						<u>2015</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>	<u>May</u>	<u>Jun</u>	<u>Jul</u>
<i>Local segments</i>													
Restaurants	47.1	48.1	47.1	38.2	46.1	52.0	50.0	47.7	47.7	48.4	47.6	48.4	49.2
Real estate	47.0	47.0	46.9	40.6	54.7	45.3	48.5	47.1	51.5	45.5	53.2	50.0	50.0
Retail trade	46.1	48.4	48.0	40.3	43.9	48.8	47.5	47.9	44.4	43.9	45.6	46.0	44.1
Wholesale trade	36.8	44.4	41.7	33.3	44.4	44.4	50.0	44.4	44.4	41.7	47.2	50.0	38.9
Business services	48.4	48.4	45.3	45.2	46.8	48.4	45.6	50.0	47.0	48.4	53.2	51.6	46.8
<i>External segments</i>													
Import/export trade	48.8	49.6	49.2	42.6	47.9	50.8	50.0	47.5	49.6	49.6	46.2	50.4	49.6
Logistics	47.2	44.4	47.2	36.1	41.7	41.7	50.0	50.0	44.7	52.8	50.0	52.9	44.1
All the above sectors*	47.0	48.3	47.6	41.0	46.7	48.9	48.8	47.8	47.4	47.3	47.7	49.4	46.9

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>2014</u>						<u>2015</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>	<u>May</u>	<u>Jun</u>	<u>Jul</u>
<i>Local segments</i>													
Restaurants	49.0	50.0	48.0	46.1	50.0	49.0	49.2	48.5	50.0	49.2	50.0	49.2	50.0
Real estate	50.0	50.0	50.0	50.0	51.6	50.0	48.5	50.0	51.5	47.0	46.8	50.0	48.3
Retail trade	49.6	50.4	50.0	49.2	50.8	49.6	49.6	50.0	50.0	50.0	49.6	50.4	48.6
Wholesale trade	47.4	52.8	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Business services	50.0	53.1	50.0	46.8	50.0	50.0	50.0	50.0	50.0	48.4	50.0	48.4	51.6
<i>External segments</i>													
Import/export trade	49.2	50.0	50.0	49.2	50.0	50.0	50.0	49.2	50.8	50.4	49.2	50.0	49.6
Logistics	50.0	50.0	47.2	50.0	47.2	50.0	47.1	47.1	47.4	50.0	50.0	50.0	52.9
All the above sectors*	49.3	50.6	49.8	48.9	50.2	49.8	49.6	49.5	50.3	49.7	49.4	49.9	49.7

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

Table 3 : Diffusion index on current new export orders

	<u>2014</u>						<u>2015</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>	<u>May</u>	<u>Jun</u>	<u>Jul</u>
Import/export trade	49.6	50.4	50.0	44.7	46.7	51.3	50.0	48.3	48.3	48.7	45.3	48.7	48.7

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

	<u>2014</u>						<u>2015</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>	<u>May</u>	<u>Jun</u>	<u>Jul</u>
All selected sectors*	0.8	0.8	0.8	0.8	0.8	1.0	0.8	0.7	0.7	0.7	0.9	0.2	0.2

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