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 360 SMEs. This note provides a further update of the results reported in *Box 1.2* in the *Half-yearly 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 stayed cautious about the outlook (*Table 1*). After falling to 45.3 in August, the overall index stood at 46.1 in October, and was lower than the reading three months ago. With the exception of business services, all other sectors recorded readings below the boom-bust level of 50.0 in October. The diffusion index for real estate slackened quite visibly in recent months compared to July. The still-weak readings for the retail trade and restaurant sectors reflected continued contraction of inbound tourism. The readings for import/export trade and logistics remained subdued, given the drag from sluggish trade performance under the austere external environment. As to the employment situation, the feedback from SMEs suggested broadly stable conditions 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 weakened to 46.9 in October, conceivably reflecting the still-strong external headwinds amid the persistently weak global demand conditions.

The proportion of SMEs reporting tight credit access remained low, at 0.2% in October, 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 1.3 (Cont'd)

Table 1 : Diffusion indices^ on business receipts

	2014			2015									
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Local segments													
Restaurants	38.2	46.1	52.0	50.0	47.7	47.7	48.4	47.6	48.4	49.2	46.8	46.7	42.5
Real estate	40.6	54.7	45.3	48.5	47.1	51.5	45.5	53.2	50.0	50.0	38.3	33.3	41.4
Retail trade	40.3	43.9	48.8	47.5	47.9	44.4	43.9	45.6	46.0	44.1	45.0	43.9	47.7
Wholesale trade	33.3	44.4	44.4	50.0	44.4	44.4	41.7	47.2	50.0	38.9	41.7	38.9	41.7
Business services	45.2	46.8	48.4	45.6	50.0	47.0	48.4	53.2	51.6	46.8	46.8	56.5	50.0
External segments													
Import/export trade	42.6	47.9	50.8	50.0	47.5	49.6	49.6	46.2	50.4	49.6	46.9	47.3	46.0
Logistics	36.1	41.7	41.7	50.0	50.0	44.7	52.8	50.0	52.9	44.1	40.6	46.9	46.9
All the above sectors*	**41.0**	**46.7**	**48.9**	**48.8**	**47.8**	**47.4**	**47.3**	**47.7**	**49.4**	**46.9**	**45.3**	**46.1**	**46.1**

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									
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Local segments													
Restaurants	46.1	50.0	49.0	49.2	48.5	50.0	49.2	50.0	49.2	50.0	50.0	50.0	49.2
Real estate	50.0	51.6	50.0	48.5	50.0	51.5	47.0	46.8	50.0	48.3	51.7	45.0	51.7
Retail trade	49.2	50.8	49.6	49.6	50.0	50.0	50.0	49.6	50.4	48.6	49.5	50.0	50.0
Wholesale trade	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Business services	46.8	50.0	50.0	50.0	50.0	50.0	48.4	50.0	48.4	51.6	51.6	51.6	50.0
External segments													
Import/export trade	49.2	50.0	50.0	50.0	49.2	50.8	50.4	49.2	50.0	49.6	48.2	50.0	50.0
Logistics	50.0	47.2	50.0	47.1	47.1	47.4	50.0	50.0	50.0	52.9	50.0	50.0	50.0
All the above sectors*	**48.9**	**50.2**	**49.8**	**49.6**	**49.5**	**50.3**	**49.7**	**49.4**	**49.9**	**49.7**	**49.5**	**49.9**	**50.1**

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

Table 3 : Diffusion index on current new export orders

	2014			2015									
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Import/export trade	44.7	46.7	51.3	50.0	48.3	48.3	48.7	45.3	48.7	48.7	47.4	47.3	46.9

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

	2014			2015									
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
All selected sectors*	0.8	0.8	1.0	0.8	0.7	0.7	0.7	0.9	0.2	0.2	0.2	0.2	0.2

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