Box 1.1

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 350 SMEs.   This note provides a further update of the results reported in ***Box 1.1*** in the ***2015 Economic Background and 2016 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 remained weak in recent months and enterprises surveyed in both local and external segments generally stayed cautious about the outlook (***Table 1***). After a mild relative improvement in February, the overall index moved lower to 45.7 in April, with most sectors registering readings below the boom-bust mark of 50.0. Specifically, the readings for the wholesale and retail sectors deteriorated notably since February, reflecting weaker local consumption spending and the drag from the slowdown in inbound tourism.   The reading for real estate also weakened in April along with the property market consolidation, while that for business services fared better, hovering within the range of 50.0 – 51.7 in recent months.   As regards the more externally-oriented sectors, the reading for logistics remained sluggish in recent months, mirroring the unsteady external environment.   Yet, the reading for import/export trade showed some relative improvement, moving slightly above 50.0 in April.   As to the employment situation, the feedback from SMEs suggested a broadly stable development in recent months in most selected sectors. However, the readings for such sectors as retail trade and logistics fell visibly in April, suggesting weaker demand for labour in these sectors (***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 stayed below the boom-bust mark of 50.0, at 48.6 in April, partly reflecting the still-subdued external demand conditions.

The proportion of SMEs reporting tight credit access stood unchanged at a low level of 0.2% in April, 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 1.1 (Cont'd)

Table 1 : Diffusion indices^ on business receipts

	2015									2016			
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Local segments													
Restaurants	48.4	47.6	48.4	49.2	46.8	46.7	42.5	43.3	48.3	41.5	45.7	46.6	44.0
Real estate	45.5	53.2	50.0	50.0	38.3	33.3	41.4	36.2	43.1	41.4	50.0	55.2	46.6
Retail trade	43.9	45.6	46.0	44.1	45.0	43.9	47.7	41.9	44.7	42.2	48.5	41.9	38.8
Wholesale trade	41.7	47.2	50.0	38.9	41.7	38.9	41.7	50.0	47.2	38.9	44.4	32.4	32.4
Business services	48.4	53.2	51.6	46.8	46.8	56.5	50.0	48.4	48.4	45.2	51.7	51.7	50.0
External segments													
Import/export trade	49.6	46.2	50.4	49.6	46.9	47.3	46.0	46.0	46.9	46.4	45.0	49.1	50.9
Logistics	52.8	50.0	52.9	44.1	40.6	46.9	46.9	50.0	50.0	50.0	50.0	46.7	46.7
All the above sectors*	**47.3**	**47.7**	**49.4**	**46.9**	**45.3**	**46.1**	**46.1**	**45.0**	**46.5**	**44.2**	**47.2**	**46.8**	**45.7**

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

	2015									2016			
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Local segments													
Restaurants	49.2	50.0	49.2	50.0	50.0	50.0	49.2	49.2	50.8	50.0	47.4	50.0	50.9
Real estate	47.0	46.8	50.0	48.3	51.7	45.0	51.7	46.6	46.6	43.1	50.0	51.7	50.0
Retail trade	50.0	49.6	50.4	48.6	49.5	50.0	50.0	50.0	50.0	51.0	48.5	50.0	47.4
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	48.4	50.0	48.4	51.6	51.6	51.6	50.0	48.4	54.8	48.4	48.3	50.0	50.0
External segments													
Import/export trade	50.4	49.2	50.0	49.6	48.2	50.0	50.0	48.2	49.1	49.1	48.2	49.5	50.5
Logistics	50.0	50.0	50.0	52.9	50.0	50.0	50.0	50.0	50.0	50.0	50.0	46.7	43.3
All the above sectors*	**49.7**	**49.4**	**49.9**	**49.7**	**49.5**	**49.9**	**50.1**	**48.8**	**50.1**	**49.2**	**48.6**	**49.8**	**49.4**

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

Table 3 : Diffusion index on current new export orders

	2015									2016			
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Import/export trade	48.7	45.3	48.7	48.7	47.4	47.3	46.9	47.3	49.1	46.8	46.8	49.5	48.6

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

	2015									2016			
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
All selected sectors*	0.7	0.9	0.2	0.2	0.2	0.2	0.2	1.0	0.2	0.2	0.2	0.2	0.2

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