

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 1.1* in the *First Quarter Economic Report 2016*.

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. From the June 2016 round onwards, SMEs are asked to report whether they have credit need, in addition to whether the access to credit is tight. 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 weakened visibly in recent months and enterprises surveyed generally turned more cautious about the outlook (*Table 1*), conceivably reflecting dimmer global economic prospects after the UK vote in favour of leaving the EU in late June. The overall index fell distinctly from 45.9 in May to 41.0 in June, the lowest level since October 2014, before moving up slightly to 43.6 in July. Most sectors registered readings below the boom-bust mark of 50.0. Specifically, the diffusion indices for the import/export trade and logistics sectors declined visibly since April, before stabilising somewhat in July. Meanwhile, the readings for the retail and wholesale trades remained subdued. The reading for real estate displayed large fluctuations in recent months, but bounced back to the 50.0 neutral mark in July, alongside some rebound in property market activity during the second quarter. As to the employment situation, the feedback from SMEs suggested slightly weaker demand for labour in recent months, which warrants close monitoring (*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 deteriorated distinctly from 47.7 in May to 41.4 in June, before moving somewhat higher to 44.9 in July, partly reflecting the increased uncertainties in the external environment after the UK vote and the still-sluggish external demand conditions (*Table 3*).

Starting in June, as mentioned above, the questions on access to credit have been enhanced for better understanding of the current credit need and credit access situation of SMEs. It is observed that 8.9% of SMEs reported current need for credit in July, among which 69.8% reported easy to fair access to credit, thanks mainly to the generally accommodative monetary conditions and the Government's continued efforts to support SMEs through various loan guarantee schemes. Meanwhile, 9.2% of those SMEs having a credit need reported tight credit access, and 20.9% did not apply for credit (*Table 4*).

(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**

	2015						2016						
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
<i>Local segments</i>													
Restaurants	49.2	46.8	46.7	42.5	43.3	48.3	41.5	45.7	46.6	44.0	41.4	40.2	49.2
Real estate	50.0	38.3	33.3	41.4	36.2	43.1	41.4	50.0	55.2	46.6	53.4	43.8	50.0
Retail trade	44.1	45.0	43.9	47.7	41.9	44.7	42.2	48.5	41.9	38.8	44.2	37.2	39.7
Wholesale trade	38.9	41.7	38.9	41.7	50.0	47.2	38.9	44.4	32.4	32.4	35.3	38.9	41.7
Business services	46.8	46.8	56.5	50.0	48.4	48.4	45.2	51.7	51.7	50.0	51.8	48.5	45.6
<i>External segments</i>													
Import/export trade	49.6	46.9	47.3	46.0	46.0	46.9	46.4	45.0	49.1	50.9	46.3	41.4	44.0
Logistics	44.1	40.6	46.9	46.9	50.0	50.0	50.0	50.0	46.7	46.7	46.4	37.5	39.5
All the above sectors*	46.9	45.3	46.1	46.1	45.0	46.5	44.2	47.2	46.8	45.7	45.9	41.0	43.6

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						
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
<i>Local segments</i>													
Restaurants	50.0	50.0	50.0	49.2	49.2	50.8	50.0	47.4	50.0	50.9	48.3	45.9	50.0
Real estate	48.3	51.7	45.0	51.7	46.6	46.6	43.1	50.0	51.7	50.0	50.0	50.0	46.1
Retail trade	48.6	49.5	50.0	50.0	50.0	50.0	51.0	48.5	50.0	47.4	49.5	48.7	48.3
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	51.6	51.6	51.6	50.0	48.4	54.8	48.4	48.3	50.0	50.0	50.0	48.5	48.5
<i>External segments</i>													
Import/export trade	49.6	48.2	50.0	50.0	48.2	49.1	49.1	48.2	49.5	50.5	49.5	48.8	48.7
Logistics	52.9	50.0	50.0	50.0	50.0	50.0	50.0	50.0	46.7	43.3	50.0	50.0	44.7
All the above sectors*	49.7	49.5	49.9	50.1	48.8	50.1	49.2	48.6	49.8	49.4	49.6	48.8	48.4

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

Table 3 : Diffusion index on current new export orders

	2015						2016						
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Import/export trade	48.7	47.4	47.3	46.9	47.3	49.1	46.8	46.8	49.5	48.6	47.7	41.4	44.9

Table 4 : Percentage of SMEs with current credit need and their views on credit access[&]

	2016	
	Jun	Jul
All selected sectors* with current credit need	13.0	8.9
<i>Of which:</i>		
Reported easy access to credit	28.0	31.4
Reported fair access to credit	39.7	38.4
Reported tight access to credit	9.6	9.2
Did not apply for credit	22.8	20.9

Notes : (&) The questions on access to credit have been enhanced for better understanding of the current credit need and credit access situation of SMEs. Hence, the results presented in this table are not comparable to those presented in previous reports. It should be noted that the assessment of credit access situation might display great fluctuations from month to month given the small number of SMEs involved, as a great majority of SMEs reported “no credit need” and some did not apply for credit despite having such need; thus the results should be interpreted with caution.

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