

**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)<sup>(1)</sup>, 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 *Half-yearly 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 enterprises surveyed generally remained cautious about the outlook, but with some relative improvement in recent months (*Table 1*). The overall index, albeit still below the boom-bust threshold of 50.0, rose successively from 43.6 in July to 46.6 in September, before moving down marginally to 46.3 in October. Specifically, both the diffusion indices for the import/export trade and logistics generally increased over the past three months, plausibly mirroring signs of improvement in the external trading environment. In regard to the local segments, their performances were mixed, among which the retail trade and business services sectors showed more discernible relative improvements in October as compared to July. As to the employment situation, the feedback from SMEs suggested an overall 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 moved up from 44.9 in July to 47.4 in October, amid the stabilisation in regional trade flows in recent periods (*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. The overall credit situation remained highly accommodative in recent months. In October, 9.2% of SMEs reported current need for credit, and only 0.7% reported tight access to credit. Apart from the generally accommodative monetary conditions, the Government's continued efforts to support SMEs through various loan guarantee schemes also helped (*Table 4*).

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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<sup>^</sup> on business receipts**

	2015			2016									
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
<i>Local segments</i>													
Restaurants	42.5	43.3	48.3	41.5	45.7	46.6	44.0	41.4	40.2	49.2	45.0	47.5	44.1
Real estate	41.4	36.2	43.1	41.4	50.0	55.2	46.6	53.4	43.8	50.0	47.4	55.3	42.1
Retail trade	47.7	41.9	44.7	42.2	48.5	41.9	38.8	44.2	37.2	39.7	43.3	45.3	47.9
Wholesale trade	41.7	50.0	47.2	38.9	44.4	32.4	32.4	35.3	38.9	41.7	50.0	47.2	41.7
Business services	50.0	48.4	48.4	45.2	51.7	51.7	50.0	51.8	48.5	45.6	48.5	47.1	47.2
<i>External segments</i>													
Import/export trade	46.0	46.0	46.9	46.4	45.0	49.1	50.9	46.3	41.4	44.0	45.2	45.2	46.9
Logistics	46.9	50.0	50.0	50.0	50.0	46.7	46.7	46.4	37.5	39.5	47.4	50.0	47.1
<b>All the above sectors*</b>	<b>46.1</b>	<b>45.0</b>	<b>46.5</b>	<b>44.2</b>	<b>47.2</b>	<b>46.8</b>	<b>45.7</b>	<b>45.9</b>	<b>41.0</b>	<b>43.6</b>	<b>45.7</b>	<b>46.6</b>	<b>46.3</b>

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									
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
<i>Local segments</i>													
Restaurants	49.2	49.2	50.8	50.0	47.4	50.0	50.9	48.3	45.9	50.0	51.7	48.3	51.7
Real estate	51.7	46.6	46.6	43.1	50.0	51.7	50.0	50.0	50.0	46.1	50.0	51.3	51.3
Retail trade	50.0	50.0	50.0	51.0	48.5	50.0	47.4	49.5	48.7	48.3	49.6	49.6	49.6
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	50.0	48.4	54.8	48.4	48.3	50.0	50.0	50.0	48.5	48.5	48.5	48.6	50.0
<i>External segments</i>													
Import/export trade	50.0	48.2	49.1	49.1	48.2	49.5	50.5	49.5	48.8	48.7	49.1	48.2	48.2
Logistics	50.0	50.0	50.0	50.0	50.0	46.7	43.3	50.0	50.0	44.7	50.0	44.4	47.1
<b>All the above sectors*</b>	<b>50.1</b>	<b>48.8</b>	<b>50.1</b>	<b>49.2</b>	<b>48.6</b>	<b>49.8</b>	<b>49.4</b>	<b>49.6</b>	<b>48.8</b>	<b>48.4</b>	<b>49.5</b>	<b>48.8</b>	<b>49.3</b>

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

**Table 3 : Diffusion index on current new export orders**

	2015			2016									
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Import/export trade	46.9	47.3	49.1	46.8	46.8	49.5	48.6	47.7	41.4	44.9	46.9	46.5	47.4

**Table 4 : Percentage of SMEs with current credit need and reporting tight credit access<sup>&</sup>**

	2016				
	Jun	Jul	Aug	Sep	Oct
All selected sectors*					
With current credit need	13.0	8.9	8.4	9.3	9.2
Reported tight access to credit	1.2	0.8	0.3	0.9	0.7

Notes : (&) The questions on access to credit have been enhanced for better understanding of the current credit need and credit access situation of SMEs. 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”. Thus the results should be interpreted with caution.

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