

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 over 500 SMEs. This note provides a further update of the results reported in *Box 1.1* in the *Third 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 generally remained stable, but enterprises surveyed were still cautious about the outlook (*Table 1*). The overall index hovered below the boom-bust threshold of 50.0, dipping from 46.4 in November 2016 to 45.2 in December, before improving slightly to 46.0 in January 2017. Analysed by sector, the readings for retail and wholesale trades and restaurants showed some relative improvements in January 2017 from the preceding month amid the recent recovery in inbound tourism. The diffusion index for real estate stabilised somewhat in January 2017, after some visible deterioration in late 2016 conceivably due to the introduction of the latest round of demand-side management measures in November last year. Meanwhile, the business services sector fared better, with its reading staying steadily above the 50.0 boom-bust line in the past three months. As for the external segments, the diffusion indices for the import/export trade and logistics sectors were still rather weak, notwithstanding the recent improvements in global and regional trade flows. As to the employment situation, the feedback from SMEs suggested a broadly steady development in recent months in most 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 moved slightly lower from 48.6 in November 2016 to 47.3 in January 2017, plausibly affected by the lingering uncertainties in the external environment (*Table 3*).

The overall credit situation remained highly accommodative in recent months. In January 2017, 8.4% of SMEs reported current need for credit, and only 0.2% reported tight access to credit, thanks to the generally accommodative monetary conditions and the Government's continued efforts to support SMEs through various loan guarantee schemes (*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**

	<u>2016</u>												<u>2017</u>
	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>
<i>Local segments</i>													
Restaurants	41.5	45.7	46.6	44.0	41.4	40.2	49.2	45.0	47.5	44.1	41.9	42.4	45.1
Real estate	41.4	50.0	55.2	46.6	53.4	43.8	50.0	47.4	55.3	42.1	33.3	40.4	45.2
Retail trade	42.2	48.5	41.9	38.8	44.2	37.2	39.7	43.3	45.3	47.9	47.1	43.2	45.2
Wholesale trade	38.9	44.4	32.4	32.4	35.3	38.9	41.7	50.0	47.2	41.7	48.1	41.1	46.4
Business services	45.2	51.7	51.7	50.0	51.8	48.5	45.6	48.5	47.1	47.2	51.2	51.1	51.1
<i>External segments</i>													
Import/export trade	46.4	45.0	49.1	50.9	46.3	41.4	44.0	45.2	45.2	46.9	47.2	47.2	45.2
Logistics	50.0	50.0	46.7	46.7	46.4	37.5	39.5	47.4	50.0	47.1	45.7	38.3	43.5
All the above sectors*	44.2	47.2	46.8	45.7	45.9	41.0	43.6	45.7	46.6	46.3	46.4	45.2	46.0

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>2016</u>												<u>2017</u>
	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>
<i>Local segments</i>													
Restaurants	50.0	47.4	50.0	50.9	48.3	45.9	50.0	51.7	48.3	51.7	46.3	48.2	50.0
Real estate	43.1	50.0	51.7	50.0	50.0	50.0	46.1	50.0	51.3	51.3	44.8	47.1	47.1
Retail trade	51.0	48.5	50.0	47.4	49.5	48.7	48.3	49.6	49.6	49.6	50.0	49.1	49.4
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	48.3	50.0	50.0	50.0	48.5	48.5	48.5	48.6	50.0	50.0	50.0	50.0
<i>External segments</i>													
Import/export trade	49.1	48.2	49.5	50.5	49.5	48.8	48.7	49.1	48.2	48.2	50.7	49.1	50.0
Logistics	50.0	50.0	46.7	43.3	50.0	50.0	44.7	50.0	44.4	47.1	52.2	51.7	51.6
All the above sectors*	49.2	48.6	49.8	49.4	49.6	48.8	48.4	49.5	48.8	49.3	49.8	49.2	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>2016</u>												<u>2017</u>
	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>
Import/export trade	46.8	46.8	49.5	48.6	47.7	41.4	44.9	46.9	46.5	47.4	48.6	48.1	47.3

Table 4 : Percentage of SMEs with current credit need and reporting tight credit access[&]

	<u>2016</u>							<u>2017</u>
	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>
<i>All selected sectors*</i>								
With current credit need	13.0	8.9	8.4	9.3	9.2	9.4	9.8	8.4
Reported tight access to credit	1.2	0.8	0.3	0.9	0.7	0.6	0.5	0.2

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.