

Box 6.2**Recent employment and vacancy situation
of small and medium-sized enterprises**

Small and medium-sized enterprises⁽¹⁾ (SMEs) are the fundamental building blocks of the Hong Kong economy. According to the Census and Statistics Department, there were 276 100 SMEs in Q3 2006, representing 98% of all the enterprises⁽²⁾ in Hong Kong. This was virtually the same as the share seen in the previous years. In terms of employment, SMEs' share was also significant at 50% in Q3 2006, though somewhat reduced from 53% in Q3 2000. Thus apparently, SMEs predominate in number and roughly match large enterprises in employment share on the local business scene.

SMEs' recent employment situation

In Q3 2006, employment at SMEs grew by only 0.2% over a year earlier to 1.2 million, smaller than the 2.3% increase in total employment. This was essentially a continuation of the trend since 2000, when SME employment mostly recorded below-average growth.

Relative to the large enterprises, employment at SMEs seemed to be more sensitive to economic cycles especially the downward phase. This was borne out by the larger reductions in SME employment in the recession years of 2001 and 2003, when there were widespread retrenchment and lay-offs of staff among such enterprises. On the other hand, during the years of economic upswing in 2000 and 2004-2006, while SME employment bounced up in tandem with the overall trend, the employment gain recorded was generally smaller than that for large enterprises. Thus comparing Q3 2006 with Q3 2000, the number of workers at SMEs actually shrank by an average of 0.9% per annum, in contrast to the average increase of 1.5% for large enterprises.

Employment by size of enterprise

	<u>SME</u>		<u>Large enterprises</u>		<u>Total</u>	
	(' 000)	% change	(' 000)	% change	(' 000)	% change
Q3 2000	1 248	2.6	1 093	6.5	2 341	4.4
Q3 2001	1 203	-3.6	1 117	2.2	2 320	-0.9
Q3 2002	1 207	0.3	1 079	-3.4	2 286	-1.5
Q3 2003	1 135	-5.9	1 081	0.1	2 216	-3.1
Q3 2004	1 148	1.1	1 128	4.4	2 276	2.7
Q3 2005	1 181	2.9	1 148	1.7	2 329	2.3
Q3 2006	1 184	0.2	1 198	4.4	2 382	2.3
Average annual % growth (Q3 2000 – Q3 2006)		-0.9		1.5		0.3

Analysed by economic sector, the wholesale, import and export trades were the sector where the highest concentration of SME employment was found, with a share of 81% in Q3 2006. This was followed by the retail trade (60%), manufacturing (59%), restaurants and hotels (42%), and financing, insurance, real estate and business services (39%).

(1) Manufacturing enterprises with below 100 employees and non-manufacturing enterprises with below 50 employees are classified as SMEs in Hong Kong. Yet establishments with the same main business registration number (BRN) and engaging in activities of the same sector are considered as one business unit for the purpose of calculating the number of SMEs. Thus, a business entity with a lot of small chain stores each employing a small number of employees are regarded as one large enterprise, instead of separate SMEs.

(2) Figures in this box are based on the data compiled from the Quarterly Survey of Employment and Vacancies, which covers only selected major sectors.

Box 6.2 (cont'd)**SMEs' recent vacancy situation**

On vacancies, a total of 21 900 job openings were found at SMEs in Q3 2006, up by 1.4% over a year earlier, in contrast to the 1.2% decrease observed for large enterprises. This was partly attributable to the relatively higher take-up rate for job vacancies at large enterprises during the period.

Compared with large enterprises, growth in SME vacancies exhibited greater fluctuations in recent years, ranging from -46.9% (in Q3 2001) to 55.2% (in Q3 2004). This indicated higher flexibility of SMEs in adjusting their labour demand to the changing economic conditions.

Vacancies by size of enterprise

	<u>SME</u>		<u>Large enterprises</u>		<u>Total</u>	
	<u>Number</u>	<u>% change</u>	<u>Number</u>	<u>% change</u>	<u>Number</u>	<u>% change</u>
Q3 2000	18 900	38.4	16 800	51.0	35 800	44.0
Q3 2001	10 100	-46.9	11 200	-33.6	21 200	-40.6
Q3 2002	10 200	1.7	8 600	-23.5	18 800	-11.6
Q3 2003	11 700	14.3	9 400	10.4	21 100	12.5
Q3 2004	18 100	55.2	14 700	55.5	32 800	55.3
Q3 2005	21 600	19.2	22 000	49.5	43 600	32.7
Q3 2006	21 900	1.4	21 700	-1.2	43 600	0.1
Average annual % growth (Q3 2000 – Q3 2006)		2.5		4.3		3.4

Growth in SMEs' employment and vacancies during the current economic upturn

A comparison between Q3 2003 and Q3 2006 will show how SMEs have fared in the current economic recovery thus far, relative to the larger enterprises. Over this period, employment at SMEs went up by 48 900, much smaller than the 116 800 increase recorded for large enterprises. When matched against the total employment gain (165 700), the contribution of SMEs was estimated at 30%. The majority share of contribution (i.e. 70%) therefore came from large enterprises. This suggests that SMEs as a whole have had a smaller capacity in creating jobs than large enterprises during the current economic revival.

As for vacancies, both SMEs and large enterprises recorded substantial increases by 87.5% and 129.8% respectively over Q3 2003 – Q3 2006. Yet SMEs' contribution to the overall vacancy growth (22 500), estimated at 45%, was smaller than large enterprises', at 55%.

Thus while SMEs and large enterprises have both witnessed remarkable growth in employment and vacancies since Q3 2003, the latter played a greater part in boosting the overall labour demand in recent years.

Changes between Q3 2003 and Q3 2006

	<u>Q3 2003</u>	<u>Q3 2006</u>	<u>Change</u>		<u>Contribution to overall change</u>	
			<u>Number</u>	<u>%</u>	<u>% point</u>	<u>% share</u>
<u>Employment</u>						
SMEs	1 135 300	1 184 200	48 900	4.3	2.2	30
Large enterprises	1 080 800	1 197 600	116 800	10.8	5.3	70
<i>Total</i>	<i>2 216 100</i>	<i>2 381 800</i>	<i>165 700</i>	<i>7.5</i>	<i>7.5</i>	<i>100</i>
<u>Vacancies</u>						
SMEs	11 700	21 900	10 200	87.5	48.4	45
Large enterprises	9 400	21 700	12 300	129.8	58.0	55
<i>Total</i>	<i>21 100</i>	<i>43 600</i>	<i>22 500</i>	<i>106.4</i>	<i>106.4</i>	<i>100</i>