Box 1.1

Impact of financial tsunami on small and medium-sized enterprises

The abrupt escalation of the financial turbulence in September 2008 has led to a deepening synchronized global economic downturn. It is one of the priorities of the Government to support enterprises, especially the small and medium-sized enterprises (SMEs)[1], which absorb around half of all the persons engaged in Hong Kong, in the midst of difficult times like this. To attain a better understanding on the impact of the financial tsunami on the business receipts, employment and credit situations of the SMEs, an ad-hoc weekly 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 on a sample panel of around 500 SMEs to solicit their relevant feedback information.

The consultation exercise covered ten economic sectors, including retail trade, import and export trades, restaurants, wholesale trade, transport services (mainly logistics), travel agents, financing institutions, insurance agents and brokers, real estate and construction, and business services.

According to the results of the consultation up till early February 2009, SMEs across different sectors reported significant declines in business receipts as compared with the normal situation (***Table 1***). Among the ten sectors surveyed, business situation in the logistics, real estate and construction, retail trade, import and export trades, and financing institutions had been severely hit. Results of the latest rounds suggested that business situation in logistics and import and export trades had deteriorated further, in line with the steep decline in external trade in the more recent months. But wholesale and retail trades showed some relative improvement in their business situation. The picture was in line with the recent figures on retail sales and inbound tourism.

It is worth noting that in order to minimise the respondents' burden and to compile the findings within the very short period (i.e. one week), the sampled SMEs are only asked to provide their crude assessment of the impact of financial tsunami on business receipts, employment and credit situation, without referring to their actual business data. A similar ad hoc survey on business receipts was conducted during the SARS crisis, and the reported declines from that survey when matched against the actual declines obtained from the regular survey with more comprehensive coverage indicate that the results of the ad hoc survey overstated the impact on business receipts by a considerable extent. Also, with the scope of the survey covering only the SMEs within a range of selected sectors which took up around 73% of SMEs' total employment, the results of the survey should not be treated as representing a complete picture of the business and employment situations in Hong Kong. Thus, the results of the current ad hoc survey should be interpreted with considerable caution, though they can serve as rough indicator to enable high frequency monitoring of SMEs' situations.

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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   Impact on business receipts as compared with normal situation

| | % decline as compared with normal situation for the week ending:- | | | | | | | | |
SMEs by sectors	28 Nov	5 Dec	12 Dec	19 Dec	26 Dec and 2 Jan	9 Jan	16 Jan	23 Jan	30 Jan and 6 Feb
Wholesale trade	-24.7	-16.0	-16.4	-16.4	-10.8	-7.6	-8.5	-6.3	-7.2
Retail trade	-24.8	-23.8	-24.2	-22.9	-23.2	-22.4	-21.9	-20.4	-18.4
Import and export trades	-17.8	-19.4	-18.3	-16.9	-18.9	-19.3	-20.9	-21.9	-19.4
Restaurants	-13.9	-14.7	-13.9	-13.1	-12.1	-13.1	-12.0	-11.3	-12.2
Logistics	-29.7	-39.0	-34.7	-36.9	-33.5	-38.5	-40.6	-37.1	-47.2
Travel agents	-15.2	-11.4	-12.2	-12.1	-12.6	-11.9	-10.6	-11.5	-11.4
Financing institutions	-23.3	-24.1	-24.5	-23.2	-20.7	-18.9	-18.5	-16.1	-20.9
Insurance agents and brokers	-9.2	-9.6	-9.4	-9.7	-9.9	-9.5	-10.0	-9.3	-9.2
Real estate and construction	-32.5	-28.9	-31.7	-31.4	-30.6	-30.4	-31.6	-28.3	-31.7
Business services	-8.9	-7.6	-8.0	-11.4	-10.9	-10.3	-10.7	-10.6	-13.5
All the above sectors	-18.5	-19.3	-18.4	-17.3	-18.5	-18.5	-19.9	-20.3	-18.6

The financial tsunami also had a notable impact on employment.   In the latest rounds, the SMEs surveyed on the whole reported a decline of slightly less than 2% in employment as compared with the normal situation.   More notable declines in employment were reported by SMEs in real estate and construction, logistics, business services, and restaurants (***Table 2***).   The SMEs surveyed generally expected some further decline in employment in the near term.

Regarding the credit access situation, the results of the consultation exercise showed some visible improvement in the credit market conditions in the latest rounds, especially for business services, wholesale trade, real estate and construction, and to some extent restaurants.   In overall terms, the proportion of SMEs reporting very tight/tighter than usual credit access fell to about 10% in the more recent weeks from slightly above 12% in late November last year (***Table 3*** and ***Chart 1***).   One of the important measures taken by the Government to support enterprises was the setting up of the Special Loan Guarantee Scheme, which has been in full effect since mid-December last year. This timely measure should help to ease the credit access situations facing many SMEs.   Nevertheless, SMEs in some harder-hit sectors, especially import and export trades, and logistics, continued to face tighter assess to credit amid the increasingly adverse trading environment.

Box 1.1 (Cont'd)

Table 2   Impact on employment as compared with normal situation

SMEs by sectors	% change as compared with normal situation for the week ending:-								
	28 Nov	5 Dec	12 Dec	19 Dec	26 Dec and 2 Jan	9 Jan	16 Jan	23 Jan	30 Jan and 6 Feb
Wholesale trade	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Retail trade	-0.6	-0.4	-0.8	-0.4	-0.6	-0.9	-0.4	-0.2	-0.7
Import and export trades	-2.3	-1.6	-0.8	-0.8	-0.9	-1.1	-0.7	-0.7	-1.1
Restaurants	-2.8	-3.1	-3.3	-2.8	-3.4	-2.9	-3.3	-3.0	-3.4
Logistics	-5.8	-6.0	-6.7	-6.7	-4.1	-4.1	-3.9	-2.8	-2.9
Travel agents	+0.5	+0.6	0.0	0.0	-0.4	0.0	0.0	0.0	0.0
Financing institutions	-0.3	-0.3	-1.0	-1.3	-0.7	-0.9	-0.7	-0.4	-1.2
Insurance agents and brokers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real estate and construction	-7.3	-6.2	-7.6	-8	-8.1	-8.4	-8.4	-7.8	-7.9
Business services	-4.5	-2.7	-3.1	-3.2	-3.1	-3.0	-2.8	-2.9	-3.9
All the above sectors	-2.4	-1.9	-1.8	-1.7	-1.7	-1.8	-1.6	-1.4	-1.8

Table 3   Impact on assess to credit as compared with normal situation

SMEs by sectors	% SMEs reporting very tight/tighter credit assess for the week ending:-								
	28 Nov	5 Dec	12 Dec	19 Dec	26 Dec and 2 Jan	9 Jan	16 Jan	23 Jan	30 Jan and 6 Feb
Wholesale trade	12.0	9.1	9.1	9.5	10.0	5.0	5.0	5.0	5.3
Retail trade	10.0	8.5	10.1	8.5	8.8	8.0	8.0	7.1	6.5
Import and export trades	17.1	17.1	15.8	17.0	17.0	15.6	15.4	16.3	15.7
Restaurants	19.0	15.3	13.6	14.3	10.7	10.5	14.8	13.0	11.8
Logistics	0.0	15.0	5.6	11.1	11.8	11.8	11.1	16.7	17.6
Travel agents	3.3	3.6	3.6	3.7	3.8	3.7	3.6	3.6	3.7
Financing institutions	12.5	12.5	12.5	13.2	10.8	10.8	10.3	11.1	7.9
Insurance agents and brokers	15.0	11.1	10.5	5.0	10.0	10.5	5.3	10.0	5.6
Real estate and construction	11.4	11.4	8.6	9.1	5.9	2.9	5.7	5.9	5.7
Business services	5.7	5.7	5.7	6.1	6.1	0.0	0.0	0.0	0.0
All the above sectors	12.5	12.5	11.6	12.1	11.9	10.0	10.2	10.7	10.2

Box 1.1 (Cont'd)

Chart 1   Assess to credit showed some relative improvement in the more recent weeks

Impact on Access to Credit

Share of SMEs surveyed (%)

Percentage share of SMEs indicating that current Access to Credit was very tight/tighter as compared with the normal situation

Percentage share of SMEs expecting tighter Access to Credit in the coming month

28 Nov   5 Dec   12 Dec   19 Dec   26 Dec and 2 Jan   9 Jan   16 Jan   23 Jan   30 Jan and 6 Feb

Week ending