

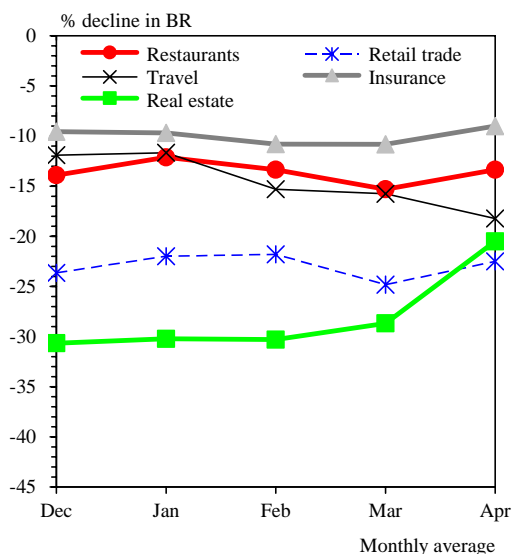
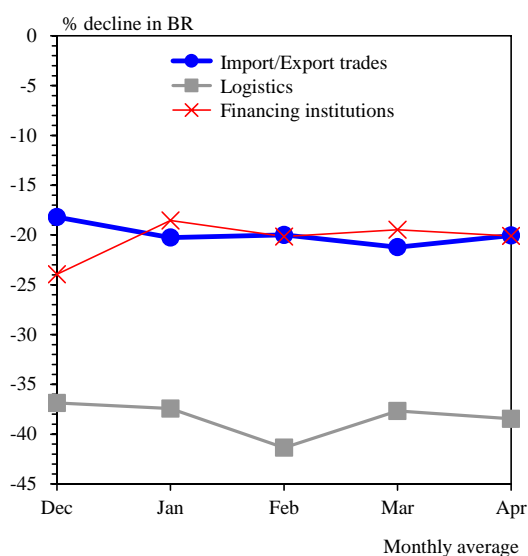
**Box 1.2****Impact of financial tsunami on small and medium-sized enterprises (An update)**

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)<sup>1</sup>. To attain a better understanding on the impact of the financial tsunami on the business receipts, employment and credit access 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. This note provides an update of the results reported in Box 1.1 in the 2008 Economic Background and 2009 Prospects.

The results of the weekly consultation covering the period from December 2008 to April 2009 indicate that SMEs' business situation in overall terms was significantly hit by the financial tsunami from December to March, with the overall reading successively down during this four-month period (*Table 1*). However, some relative improvement was spotted in around the third week of March and this trend sustained into April, especially so for sectors which were related to local demand in the economy. Specifically, business situation in the retail trade and restaurants showed more discernible improvements after around mid-March (*Chart 1a*), thanks to relatively stable inbound tourism and some revival in property market activities. On the other hand, business situation for SMEs in import/export trades and financing institutions remained much depressed with no sign of improvement. The situation in the logistics sector was especially difficult (*Chart 1b*). As explained in the Highlights section of this chapter, the main shocks on Hong Kong economy were inflicted through the trade and financial channels, and the findings of the SME consultation exercise were largely in line with this assessment. Clearly, given the coverage and nature of the consultation exercise, the consultation findings should be interpreted with considerable caution, yet they generally can serve as rough indicator to enable high frequency monitoring of SMEs' situation.

Concerning the employment situation, the results of the consultation indicated that as a result of the financial tsunami, employment had declined by 1-2%. Among the various sectors, employment in real estate and construction, business services, logistics, financing institutions, and restaurants had been affected the most (*Table 2*). But the pressures for retrenchment and downsizing in staffing amongst the SMEs surveyed seemed to have tapered somewhat in the recent weeks, and whether this can be sustained needs to be further monitored.

(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)****Chart 1 Impact of Financial Tsunami on SMEs' Business Receipts (BR)****(a) Local Segments****(b) External Segments****Table 1 Impact on business receipts as compared with normal situation**% decline as compared with normal situation (Monthly average)

<u>SMEs by sectors</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>
Wholesale trade	-16.3	-8.3	-9.3	-16.2	-18.7
Retail trade	-23.6	-22.0	-21.8	-24.8	-22.5
Import and export trades	-18.2	-20.3	-20.0	-21.2	-20.1
Restaurants	-13.9	-12.1	-13.4	-15.3	-13.4
Logistics	-36.9	-37.4	-41.4	-37.7	-38.5
Travel agents	-11.9	-11.7	-15.3	-15.8	-18.2
Financing institutions	-23.9	-18.6	-20.2	-19.5	-20.1
Insurance agents and brokers	-9.6	-9.7	-10.8	-10.8	-9.0
Real estate and construction	-30.7	-30.2	-30.3	-28.7	-20.5
Business services	-9.0	-10.6	-14.2	-14.8	-15.1
All the above sectors	-18.3	-19.3	-19.4	-20.9	-20.0

Note: The monthly figures refer to the averages of declines reported weekly by the SMEs in the month concerned.

**Box 1.2 (Cont'd)****Table 2 Impact on employment as compared with normal situation**

	% change as compared with normal situation (Monthly average)				
<u>SMEs by sectors</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>
Wholesale trade	0.0	0.0	0.0	0.0	0.0
Retail trade	-0.5	-0.5	-0.6	-0.4	-0.2
Import and export trades	-1.1	-0.9	-1.0	-0.6	-0.9
Restaurants	-3.1	-3.2	-3.7	-2.6	-1.7
Logistics	-6.5	-3.7	-3.0	-3.2	-3.4
Travel agents	0.2	-0.1	0.1	0.2	0.2
Financing institutions	-0.9	-0.7	-1.4	-1.6	-2.3
Insurance agents and brokers	0.0	0.0	0.0	0.0	0.0
Real estate and construction	-7.3	-8.2	-8.0	-8.0	-8.0
Business services	-3.0	-3.0	-3.7	-3.8	-3.8
All the above sectors	-1.8	-1.6	-1.8	-1.5	-1.5

One encouraging development is the improving trend in credit access situation on entering 2009. This is clear from the progressive fall in the proportion of SMEs reporting very tight/tighter than usual credit access, from above 12% in late November last year to around 8-9% in the more recent weeks (*Table 3* and *Chart 2*). Amongst the sectors covered in the consultation, SMEs in restaurants, retail trade and wholesale trade saw more discernible improvements. SMEs in import and export trades also reported mild improvement in credit access situation. It appears that the measures taken by the Government to support enterprises, including the Special Loan Guarantee Scheme, have helped to ease the credit access situations facing the SMEs. Nevertheless, SMEs in some harder-hit sectors, especially logistics, continued to face notably tighter access to credit than other sectors.

**Box 1.2 (Cont'd)****Table 3 Impact on access to credit as compared with normal situation**

	% SMEs reporting very tight/tighter credit access					
<u>SMEs by sectors</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>
Wholesale trade	12.0	10.0	5.3	0.0	0.0	0.0
Retail trade	10.0	8.8	6.5	6.6	4.6	3.5
Import and export trades	17.1	17.0	15.7	14.0	14.5	13.7
Restaurants	19.0	10.7	11.8	11.8	8.6	7.1
Logistics	0.0	11.8	17.6	12.5	26.3	16.7
Travel agents	3.3	3.8	3.7	3.6	3.7	3.7
Financing institutions	12.5	10.8	7.9	7.7	8.3	7.9
Insurance agents and brokers	15.0	10.0	5.6	10.0	10.5	10.0
Real estate and construction	11.4	5.9	5.7	6.1	8.8	8.8
Business services	5.7	6.1	0.0	0.0	2.9	3.1
All the above sectors	12.5	11.9	10.2	9.0	9.7	8.5

**Chart 2 Access to credit showed some gradual improvement****Impact on Access to Credit**