

Box 1.1**Impact of financial tsunami on small and medium-sized enterprises (an update)**

To gain a better understanding of the impact of the financial tsunami on business receipts, employment and credit access situations of 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 on a sample panel of around 500 SMEs to solicit their feedback. This note provides a further update of the results reported in *Box 1.2* in the *Half-yearly Economic Report 2010*.

From June 2010 onwards, the SMEs surveyed were asked to compare their business and employment situation with that *in the previous month* instead of that *under normal situation*, to improve the relevance of the survey. A set of diffusion indices is thus compiled to indicate the general directions of change in the respondents' views on business receipts and employment compared with the prior month. It should be noted that the findings should be interpreted with considerable caution given the coverage and nature of the consultation exercise. Nevertheless, they can serve as a rough indicator to enable high frequency monitoring of SMEs' situation.

Business receipts of the SMEs surveyed, as depicted by the new set of diffusion indices, showed a slight tapering in September and held largely steady in October (*Table 1*). In October, a larger proportion of SMEs in seven out of the ten sectors surveyed reported stable or some improvement in business receipts. Among these sectors, the rise in reading for real estate, financing institutions and business services was particularly notable, in tandem with the robust pickup in public sector construction activity and commercial activity. On the other hand, SMEs in import/export trades, logistics, and travel reported some declines in business in October. Separately, the results of the consultation indicated that SMEs' employment situation held largely stable (*Table 2*).

Specifically for import and export firms, from the June round onwards, their views on new export orders were sought, at weekly intervals, in order to better gauge the impact of the European debt problem on export performance. The diffusion index on new export orders rose to 50.9 in August but dipped again to 48.7 in September and 48.3 in October, below the boom-bust dividing line of 50, in tandem with the slowing growth in the advanced economies.

(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)

Credit access situation improved further in recent months. The proportion of SMEs reporting very tight/tighter-than-normal credit access came down successively to 3.0% in October 2010 from above 12% in late November 2008, the lowest since the consultation exercise started (*Chart 1*). Moreover, the proportion of SMEs expecting tighter credit access in the coming month had remained at zero since June 2010, while credit pricing continued to hold broadly stable over the past few months, thanks to the accommodative monetary conditions and also to the Government's efforts to relieve credit strains through the enhanced and special loan guarantee schemes. As at the end of October, some 20 200 companies benefited under these schemes, involving approved loan amount of over \$98 billion. This also indirectly helped to secure the jobs of those employed by these companies, totaling over 330 000.

Table 1 : Diffusion indices[^] on business receipts

	<u>2010</u>				
	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>
<i>Local segments</i>					
Restaurants	47.5	49.1	50.8	49.2	51.8
Travel	46.6	53.4	53.4	48.3	48.3
Real estate	47.0	56.1	48.5	45.6	57.4
Retail trade	43.9	50.0	50.0	51.3	50.0
Wholesale trade	47.5	47.4	47.4	47.4	52.6
Insurance	45.3	45.0	47.5	47.5	52.5
Business services	43.8	50.0	45.5	45.5	51.5
<i>External segments</i>					
Import/export trades	50.0	50.0	50.9	47.3	48.3
Logistics	52.6	44.7	42.5	44.7	44.7
Financing institutions	47.2	44.7	44.9	50.0	56.6
All the above sectors*	47.5	49.7	49.3	48.1	49.8

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.

Box 1.1 (Cont'd)

Table 2 : Diffusion indices^ on employment situation

	2010				
	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>
<i>Local segments</i>					
Restaurants	49.2	49.1	49.2	49.2	50.0
Travel	48.3	50.0	50.0	50.0	50.0
Real estate	50.0	48.5	48.5	51.5	50.0
Retail trade	50.0	49.6	50.0	50.0	50.0
Wholesale trade	50.0	50.0	50.0	50.0	50.0
Insurance	54.8	50.0	50.0	50.0	50.0
Business services	48.4	53.0	48.5	48.5	50.0
<i>External segments</i>					
Import/export trades	50.5	50.0	50.0	50.0	50.0
Logistics	47.4	47.4	47.5	47.4	50.0
Financing institutions	50.0	51.3	51.3	51.3	55.3
All the above sectors*	49.9	49.9	49.6	49.8	50.0

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.

Chart 1 : Access to credit improved further

