

Box 1.1**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 on a sample panel of around 500 SMEs to solicit their feedback. This note provides a further update of the results reported in *Box 1.1* in the *Half-yearly Economic Report 2011*.

From June 2011 onwards, the industry coverage and questionnaire design for the exercise have been modified. Specifically, three sectors (viz. travel agents, financing institutions, and insurance agents and brokers) are dropped from the exercise, whilst questions on access to credit have been modified to gauge SMEs' views as to whether the current and expected credit access situation are "easy", "fair" or "tight", rather than in respect of a comparison with the normal times. The sample size of the panel is consequently reduced to around 410.

A set of diffusion indices is compiled to indicate the general directions of change in the respondents' views on business receipts and employment versus the preceding month. Given the changes in questions and sample, the results regarding their views on business receipts and employment since the June 2011 round onwards are not strictly comparable with those in the preceding rounds. The findings should also 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 set of diffusion indices, showed that the overall situation deteriorated quite visibly in recent months (*Table 1*). In September and October 2011, a larger proportion of SMEs in almost all of the seven sectors surveyed reported some deterioration in business receipts, in face of a more difficult external environment. Among them, more notable declines were seen in the real estate sector, due to a quieter property market, as well as the logistics and import/export trade sectors, due to the rapidly slowing global economy. In addition, the feedback from SMEs indicated some marginal deterioration in overall employment situation in recent months (*Table 2*).

Specifically for import and export trading firms, their views on new export orders were sought separately to gauge the export performance. The diffusion index on new export orders came down to 45.7 in both September and October 2011, the lowest since the series was launched in June 2010. This reflects a bleaker export outlook due to increased headwinds stemming from the weaknesses in the US and Europe.

(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 remained good in recent months, with only 1.2% of SMEs reporting tight current access to credit in October 2011 and a similar proportion of SMEs expecting tight credit access in the coming month, thanks to the generally accommodative monetary conditions and the Government's continued efforts to support SMEs through various loan guarantee schemes.

Table 1 : Diffusion indices[^] on business receipts

	2011									
	<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>
<i>Local segments</i>										
Restaurants	50.0	50.0	49.1	50.0	50.0	48.3	50.0	48.3	45.6	47.4
Travel	48.3	48.3	48.3	50.0	51.7	--	--	--	--	--
Real estate	60.6	52.9	48.5	45.6	41.2	33.8	42.9	45.7	35.7	41.4
Retail trade	50.0	48.3	50.4	50.0	49.5	45.1	49.1	48.7	46.9	49.1
Wholesale trade	50.0	50.0	52.8	50.0	50.0	50.0	45.0	47.5	50.0	42.5
Insurance	60.5	57.9	57.9	50.0	52.8	--	--	--	--	--
Business services	51.6	48.5	47.0	48.5	50.0	46.8	43.3	45.5	47.0	50.0
<i>External segments</i>										
Import/export trades	49.2	50.0	50.0	50.0	49.1	46.1	47.9	49.6	45.3	45.7
Logistics	50.0	52.8	50.0	50.0	50.0	47.4	47.5	45.0	42.5	45.0
Financing institutions	50.0	48.7	52.6	52.6	47.4	--	--	--	--	--
All the above sectors*	50.4	49.8	50.0	49.7	49.1	45.7	47.4	48.3	45.6	46.6

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.

(--) Not applicable.

(*) Weighted average using total number of SMEs in individual sectors as weights.

Table 2 : Diffusion indices on employment situation

	2011									
	<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>
<i>Local segments</i>										
Restaurants	50.0	50.0	50.0	50.0	50.0	50.0	50.0	49.1	50.0	50.0
Travel	50.0	50.0	50.0	50.0	51.7	--	--	--	--	--
Real estate	50.0	50.0	50.0	48.5	50.0	50.0	54.3	51.4	50.0	50.0
Retail trade	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Wholesale trade	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Insurance	55.3	52.6	52.6	50.0	50.0	--	--	--	--	--
Business services	50.0	50.0	50.0	51.5	51.5	50.0	50.0	51.5	48.5	50.0
<i>External segments</i>										
Import/export trades	50.0	50.0	50.0	50.0	50.0	49.6	49.6	50.0	49.6	49.6
Logistics	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Financing institutions	52.6	53.8	52.6	51.3	50.0	--	--	--	--	--
All the above sectors*	50.1	50.1	50.1	50.1	50.1	49.8	50.1	50.2	49.7	49.8

Notes: (--) Not applicable.

(*) Weighted average using total number of SMEs in individual sectors as weights.

Box 1.1 (Cont'd)**Table 3 : Diffusion index on current new export orders**

	<u>2011</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>
Import and export trades	49.2	50.0	50.0	50.0	49.1	47.8	48.7	49.2	45.7	45.7

Table 4 : Percentage of SMEs reporting tight current access to credit

	<u>2011</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>
All selected sectors*	2.8	2.8	3.2	3.2	3.2	1.6	1.6	1.6	1.6	1.2

Notes: (*) Weighted average using total number of SMEs in individual sectors as weights.

(#) Prior to June 2011, the question posed to the SMEs was framed in relation to the normal situation.