

**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)<sup>(1)</sup>, 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 *2011 Economic Background and 2012 Prospects*.

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, while 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 has consequently been reduced to around 400.

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. While the findings should be interpreted with considerable caution given the coverage and nature of the consultation exercise, 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 saw some relative improvement in the more recent months over late 2011 and early 2012 (*Table 1*). In April 2012, while a larger proportion of SMEs in the business services sector reported improvement in business receipts, the remaining six sectors reported still relatively weak business situations. However, compared with end-2011, the real estate sector saw the most visible improvement, in line with the revival in local property market after the Lunar New Year, while the externally-oriented sectors such as import/export trades and logistics also saw relative improvement in recent months, reflecting the more positive developments in the global economic prospects of late. Separately, the feedback from SMEs indicated that their employment situation remained largely stable 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 climbed up further from the low in late 2011, to 50.0 in April 2012, on par with the boom-bust dividing line. The relative improvement in reading reflects a somewhat less grim near-term export outlook in light of the more positive signs of recovery exhibited by the US economy and the stabilisation of the euro debt crisis following the approval of the second bailout for Greece and the European Central Bank's liquidity injection.

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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)**

Credit access situation remained favourable in recent months, with only 0.7% of SMEs reporting tight current access to credit in April 2012, 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<sup>^</sup> on business receipts**

|                               | 2011        |             |             |             |             |             |             | 2012        |             |             |             |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                               | <u>Jun</u>  | <u>Jul</u>  | <u>Aug</u>  | <u>Sep</u>  | <u>Oct</u>  | <u>Nov</u>  | <u>Dec</u>  | <u>Jan</u>  | <u>Feb</u>  | <u>Mar</u>  | <u>Apr</u>  |
| <i>Local segments</i>         |             |             |             |             |             |             |             |             |             |             |             |
| Restaurants                   | 48.3        | 50.0        | 48.3        | 45.6        | 47.4        | 49.1        | 50.0        | 49.1        | 50.9        | 49.1        | 48.1        |
| Real estate                   | 33.8        | 42.9        | 45.7        | 35.7        | 41.4        | 42.6        | 39.7        | 44.1        | 60.3        | 54.4        | 47.1        |
| Retail trade                  | 45.1        | 49.1        | 48.7        | 46.9        | 49.1        | 48.6        | 46.8        | 48.6        | 47.9        | 47.9        | 47.4        |
| Wholesale trade               | 50.0        | 45.0        | 47.5        | 50.0        | 42.5        | 42.5        | 47.5        | 47.5        | 52.5        | 50.0        | 47.4        |
| Business services             | 46.8        | 43.3        | 45.5        | 47.0        | 50.0        | 46.9        | 45.3        | 46.9        | 51.5        | 51.5        | 51.5        |
| <i>External segments</i>      |             |             |             |             |             |             |             |             |             |             |             |
| Import/export trades          | 46.1        | 47.9        | 49.6        | 45.3        | 45.7        | 43.1        | 47.4        | 47.8        | 47.8        | 48.7        | 48.6        |
| Logistics                     | 47.4        | 47.5        | 45.0        | 42.5        | 45.0        | 42.5        | 36.1        | 41.7        | 38.9        | 44.4        | 44.4        |
| <b>All the above sectors*</b> | <b>45.7</b> | <b>47.4</b> | <b>48.3</b> | <b>45.6</b> | <b>46.6</b> | <b>45.1</b> | <b>46.3</b> | <b>47.5</b> | <b>49.1</b> | <b>49.0</b> | <b>48.2</b> |

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.

**Table 2 : Diffusion indices on employment situation**

|                               | 2011        |             |             |             |             |             |             | 2012        |             |             |             |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                               | <u>Jun</u>  | <u>Jul</u>  | <u>Aug</u>  | <u>Sep</u>  | <u>Oct</u>  | <u>Nov</u>  | <u>Dec</u>  | <u>Jan</u>  | <u>Feb</u>  | <u>Mar</u>  | <u>Apr</u>  |
| <i>Local segments</i>         |             |             |             |             |             |             |             |             |             |             |             |
| Restaurants                   | 50.0        | 50.0        | 49.1        | 50.0        | 50.0        | 50.0        | 49.1        | 50.0        | 50.9        | 50.0        | 48.1        |
| Real estate                   | 50.0        | 54.3        | 51.4        | 50.0        | 50.0        | 51.5        | 48.5        | 47.1        | 50.0        | 51.5        | 51.5        |
| Retail trade                  | 50.0        | 50.0        | 50.0        | 50.0        | 50.0        | 50.0        | 49.1        | 50.5        | 50.0        | 49.6        | 50.0        |
| Wholesale trade               | 50.0        | 50.0        | 50.0        | 50.0        | 50.0        | 50.0        | 50.0        | 50.0        | 50.0        | 50.0        | 50.0        |
| Business services             | 50.0        | 50.0        | 51.5        | 48.5        | 50.0        | 50.0        | 50.0        | 50.0        | 50.0        | 51.5        | 50.0        |
| <i>External segments</i>      |             |             |             |             |             |             |             |             |             |             |             |
| Import/export trades          | 49.6        | 49.6        | 50.0        | 49.6        | 49.6        | 48.7        | 50.0        | 49.1        | 50.0        | 50.0        | 50.0        |
| Logistics                     | 50.0        | 50.0        | 50.0        | 50.0        | 50.0        | 50.0        | 50.0        | 50.0        | 50.0        | 50.0        | 50.0        |
| <b>All the above sectors*</b> | <b>49.8</b> | <b>50.1</b> | <b>50.2</b> | <b>49.7</b> | <b>49.8</b> | <b>49.5</b> | <b>49.6</b> | <b>49.6</b> | <b>50.1</b> | <b>50.1</b> | <b>50.0</b> |

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

**Table 3 : Diffusion index on current new export orders**

|                      | 2011       |            |            |            |            |            |            | 2012       |            |            |            |
|----------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
|                      | <u>Jun</u> | <u>Jul</u> | <u>Aug</u> | <u>Sep</u> | <u>Oct</u> | <u>Nov</u> | <u>Dec</u> | <u>Jan</u> | <u>Feb</u> | <u>Mar</u> | <u>Apr</u> |
| Import/export trades | 47.8       | 48.7       | 49.2       | 45.7       | 45.7       | 43.1       | 45.7       | 48.2       | 47.8       | 49.1       | 50.0       |

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

|                       | 2011       |            |            |            |            |            |            | 2012       |            |            |            |
|-----------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
|                       | <u>Jun</u> | <u>Jul</u> | <u>Aug</u> | <u>Sep</u> | <u>Oct</u> | <u>Nov</u> | <u>Dec</u> | <u>Jan</u> | <u>Feb</u> | <u>Mar</u> | <u>Apr</u> |
| All selected sectors* | 1.6        | 1.6        | 1.6        | 1.6        | 1.2        | 1.2        | 1.2        | 1.3        | 0.9        | 0.7        | 0.7        |

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