Box 1.3

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 2012.*

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 remained weak in recent months (*Table 1*).   In October 2012, a larger proportion of SMEs in all the sectors surveyed except business services reported a generally unfavourable business situation.   In tandem with a difficult external environment, the import/export trades, logistics and wholesale sectors remained sluggish, while domestic sectors such as restaurants and real estates also saw mixed performance in recent months. Nevertheless, despite the relatively difficult business situation, 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 rose slightly to 46.8 in October from 46.4 in August, albeit still below the 50-threshold, reflecting the sluggish external demand against the background of the fragile US economy, the depressed EU market, and further moderation in activities across many major Asian markets.

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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 1.3 (Cont'd)

The proportion of SMEs reporting tight credit access remained low at 0.7% in October 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^ on business receipts

	2012 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Local segments										
Restaurants	49.1	50.9	49.1	48.1	49.1	49.1	49.1	51.0	47.1	49.0
Real estate	44.1	60.3	54.4	47.1	42.6	41.2	50.0	55.9	54.4	47.1
Retail trade	48.6	47.9	47.9	47.4	45.3	46.1	46.4	46.8	49.1	47.2
Wholesale trade	47.5	52.5	50.0	47.4	44.7	44.7	47.4	44.7	44.7	42.1
Business services	46.9	51.5	51.5	51.5	48.5	48.5	45.5	48.5	45.5	50.0
External segments										
Import/export trades	47.8	47.8	48.7	48.6	47.7	46.8	47.7	45.9	47.2	47.7
Logistics	41.7	38.9	44.4	44.4	47.1	50.0	50.0	38.2	44.1	41.2
All the above sectors*	**47.5**	**49.1**	**49.0**	**48.2**	**46.7**	**46.6**	**47.5**	**46.9**	**47.6**	**47.2**

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

	2012 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Local segments										
Restaurants	50.0	50.9	50.0	48.1	49.1	49.1	50.0	50.0	48.1	50.0
Real estate	47.1	50.0	51.5	51.5	50.0	50.0	50.0	52.9	50.0	50.0
Retail trade	50.5	50.0	49.6	50.0	50.0	50.0	50.0	49.5	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
Business services	50.0	50.0	51.5	50.0	48.5	50.0	50.0	50.0	50.0	53.0
External segments										
Import/export trades	49.1	50.0	50.0	50.0	49.5	49.1	50.0	49.5	50.0	50.0
Logistics	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	47.1	47.1
All the above sectors*	**49.6**	**50.1**	**50.1**	**50.0**	**49.6**	**49.6**	**50.0**	**49.9**	**49.7**	**50.2**

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

Table 3 : Diffusion index on current new export orders

	2012 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Import/export trades	48.2	47.8	49.1	50.0	46.4	46.4	46.8	46.4	46.8	46.8

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

	2012 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
All selected sectors*	1.3	0.9	0.7	0.7	0.7	1.1	1.1	0.7	0.7	0.7

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