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 1.2*** in the ***Half-yearly Economic Report 2013.***

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 2013, the readings for most of the surveyed sectors stayed in the contractionary zone, reflecting a sluggish business situation. The diffusion index for the real estate sector came in at a still depressed level of 41.2, as trading in the property market declined visibly after the government's rolling out of further demand-side management measures earlier this year. The reading for the retail sector weakened slightly, those for the wholesale trade and business services reverted to 50. As regards the external segment, SMEs in the import/export trades and logistics trade still faced a rather challenging trading environment, with the diffusion indices of these sectors staying below 50. As to the employment situation, the feedback from SMEs indicated broadly stable development in recent months (***Table 2***).

Specifically for SMEs in the import and export sector, their views on new export orders were sought separately to help gauge the likely export performance in the near term. The diffusion index on new export orders came in at 49.5 in October, marking the seventh consecutive month of below-50 reading, signifying that the sluggish external demand conditions could continue amid the tepid recovery of the advanced economies, the uncertainty arising from US monetary and fiscal policies as well as the mixed performance across the major emerging market economies.

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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)

The proportion of SMEs reporting tight credit access held low, at 0.7% in October 2013, 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		2013									
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Local segments												
Restaurants	48.0	48.4	49.2	48.4	48.3	45.8	46.7	45.8	48.2	48.2	47.4	47.4
Real estate	39.7	50.0	51.5	39.7	39.7	38.2	42.6	44.1	44.1	35.3	35.3	41.2
Retail trade	48.6	48.1	46.3	47.7	48.1	47.6	47.6	47.1	49.0	50.0	49.0	47.5
Wholesale trade	47.2	47.2	47.2	47.2	47.2	44.4	50.0	47.1	41.2	44.1	47.1	50.0
Business services	45.5	47.0	50.0	53.0	47.0	43.9	48.5	48.5	45.5	43.9	45.5	50.0
External segments												
Import/export trade	50.5	50.0	50.0	49.0	51.0	49.0	50.0	50.0	48.1	47.6	48.5	49.0
Logistics	43.8	45.0	50.0	44.7	47.4	47.4	44.7	50.0	47.4	44.7	44.7	44.7
All the above sectors*	**48.2**	**48.7**	**48.9**	**48.2**	**48.6**	**47.0**	**48.4**	**48.3**	**47.3**	**46.8**	**47.3**	**48.1**

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		2013									
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Local segments												
Restaurants	48.0	48.4	49.2	49.2	49.2	49.2	50.0	48.3	50.0	50.0	49.1	49.1
Real estate	47.1	51.5	50.0	50.0	50.0	50.0	50.0	48.5	50.0	45.6	48.5	47.1
Retail trade	50.0	49.5	50.5	50.0	50.0	50.0	50.0	50.0	50.0	50.0	49.5	50.0
Wholesale trade	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	47.1	50.0	50.0
Business services	51.5	48.5	50.0	54.5	53.0	51.5	50.0	50.0	48.5	51.5	48.5	50.0
External segments												
Import/export trade	49.1	50.0	49.1	50.0	50.5	50.0	50.5	51.0	49.0	49.5	49.5	50.0
Logistics	50.0	50.0	50.0	50.0	50.0	50.0	50.0	47.4	47.4	50.0	47.4	47.4
All the above sectors*	**49.5**	**49.7**	**49.7**	**50.4**	**50.5**	**50.1**	**50.2**	**50.1**	**49.3**	**49.5**	**49.3**	**49.7**

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

Table 3 : Diffusion index on current new export orders

	2012		2013									
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Import/export trade	49.1	50.0	49.1	50.0	50.5	49.0	49.5	49.5	48.5	48.5	48.1	49.5

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

	2012		2013									
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
All selected sectors*	0.9	1.3	1.3	1.2	0.7	0.9	0.6	0.6	0.6	0.7	0.7	0.7

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