

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 *Third Quarter 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 consulted, as depicted by the set of diffusion indices, showed that the overall situation remained weak in January 2014, with the readings for all the selected sectors below the boom-bust threshold of 50 (*Table 1*). Among all the selected sectors, the diffusion indices for retail trade and restaurants performed relatively better, in line with continued solid growth of retail sales. The reading for the real estate sector was still the lowest, reflecting a quiet property market under the influence of the Fed's tapering and the sustained effects of the Government's demand-side management measures. As regards the external segment, the diffusion indices for the import/export trades and logistics sectors receded, conceivably indicating the cautiousness among SMEs in these sectors in the face of renewed gyrations in the financial markets at the start of this year. 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 inched lower in January 2014, but was still close to the boom-bust threshold of 50, pointing to broadly stable external demand conditions. However, uncertainties remain, particularly those arising from the US monetary policy and its possible negative impacts on the growth of emerging market 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)

The proportion of SMEs reporting tight credit access, while rising back to 1.5% in January 2014 from 0.6% in the preceding month, was still at a relatively low level, thanks to the generally accommodative monetary conditions and the Government's continued efforts to support SMEs through various loan guarantee schemes. Nevertheless, whether this rising trend would continue in the coming months still warrants monitoring.

Table 1 : Diffusion indices[^] on business receipts

	<u>2013</u>												<u>2014</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>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>
<i>Local segments</i>													
Restaurants	49.2	48.4	48.3	45.8	46.7	45.8	48.2	48.2	47.4	47.4	48.2	49.1	48.1
Real estate	51.5	39.7	39.7	38.2	42.6	44.1	44.1	35.3	35.3	41.2	36.8	44.1	42.4
Retail trade	46.3	47.7	48.1	47.6	47.6	47.1	49.0	50.0	49.0	47.5	48.0	49.0	47.4
Wholesale trade	47.2	47.2	47.2	44.4	50.0	47.1	41.2	44.1	47.1	50.0	44.1	47.1	44.7
Business services	50.0	53.0	47.0	43.9	48.5	48.5	45.5	43.9	45.5	50.0	48.5	53.0	47.0
<i>External segments</i>													
Import/export trade	50.0	49.0	51.0	49.0	50.0	50.0	48.1	47.6	48.5	49.0	49.5	49.0	47.9
Logistics	50.0	44.7	47.4	47.4	44.7	50.0	47.4	44.7	44.7	44.7	52.8	50.0	47.2
All the above sectors*	48.9	48.2	48.6	47.0	48.4	48.3	47.3	46.8	47.3	48.1	48.0	49.0	47.0

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.

Table 2 : Diffusion indices on employment situation

	<u>2013</u>												<u>2014</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>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>
<i>Local segments</i>													
Restaurants	49.2	49.2	49.2	49.2	50.0	48.3	50.0	50.0	49.1	49.1	49.1	48.2	49.1
Real estate	50.0	50.0	50.0	50.0	50.0	48.5	50.0	45.6	48.5	47.1	47.1	47.1	50.0
Retail trade	50.5	50.0	50.0	50.0	50.0	50.0	50.0	50.0	49.5	50.0	50.0	50.0	49.6
Wholesale trade	50.0	50.0	50.0	50.0	50.0	50.0	50.0	47.1	50.0	50.0	50.0	47.1	50.0
Business services	50.0	54.5	53.0	51.5	50.0	50.0	48.5	51.5	48.5	50.0	51.5	50.0	50.0
<i>External segments</i>													
Import/export trade	49.1	50.0	50.5	50.0	50.5	51.0	49.0	49.5	49.5	50.0	51.0	50.0	50.4
Logistics	50.0	50.0	50.0	50.0	50.0	47.4	47.4	50.0	47.4	47.4	50.0	50.0	50.0
All the above sectors*	49.7	50.4	50.5	50.1	50.2	50.1	49.3	49.5	49.3	49.7	50.3	49.5	50.0

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

Table 3 : Diffusion index on current new export orders

	<u>2013</u>												<u>2014</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>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>
Import/export trade	49.1	50.0	50.5	49.0	49.5	49.5	48.5	48.5	48.1	49.5	50.5	49.5	49.2

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

	<u>2013</u>												<u>2014</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>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>
All selected sectors*	1.3	1.2	0.7	0.9	0.6	0.6	0.6	0.7	0.7	0.7	0.4	0.6	1.5

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