

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. In the recent past, the exercise has been conducted on a sample panel of around 350 SMEs. This note provides a further update of the results reported in **Box 1.3** in the *Third Quarter Economic Report 2015*.

A set of diffusion indices is compiled to indicate the general directions of change in the respondents' views on business receipts, employment and new export orders versus the preceding month. The percentage of SMEs reporting tight access to credit is also reported. 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 measured by the set of diffusion indices, suggested that the surveyed companies continued to take a more cautious view on business situation, with the overall diffusion index falling to 44.2 in January 2016, well below the boom-bust threshold of 50 (*Table 1*). After reaching a recent high of 49.4 in June 2015, the diffusion index has become more lacklustre in the second half of 2015, and the situation deteriorated further recently. Analysing the sectoral breakdown shows that, apart from the logistics sector, all other sectors registered readings below 50 in January 2016. In particular, the retail trade and restaurant sectors reported worsening business situation amid the sustained weakness in inbound tourism. The recent local asset market corrections may also have dampened consumption sentiment. Business situation of wholesale trade also deteriorated visibly. Moreover, the reading of the real estate sector hovered at low levels, as the local property market consolidated and turned quiet in the recent past. Meanwhile, the reading for import/export trade was still rather sluggish, reflecting the weak external demand conditions and slow regional trade flows. As regards the employment situation, the feedback from SMEs suggested a broadly stable development in recent months across most selected sectors, except that the real estate sector saw a visible slackening (*Table 2*).

Specifically for the import/export trade sector, SMEs' 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 fell further below the neutral mark of 50, to 46.8 in January 2016, indicating that external demand remained rather lacklustre.

The proportion of SMEs reporting tight credit access still hovered at very low levels, at 0.2% in January 2016, thanks mainly to the continued accommodative monetary conditions and the Government's continued efforts to support SMEs through various loan guarantee schemes.

(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)**Table 1 : Diffusion indices[^] on business receipts**

	<u>2015</u>												<u>2016</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	50.0	47.7	47.7	48.4	47.6	48.4	49.2	46.8	46.7	42.5	43.3	48.3	41.5
Real estate	48.5	47.1	51.5	45.5	53.2	50.0	50.0	38.3	33.3	41.4	36.2	43.1	41.4
Retail trade	47.5	47.9	44.4	43.9	45.6	46.0	44.1	45.0	43.9	47.7	41.9	44.7	42.2
Wholesale trade	50.0	44.4	44.4	41.7	47.2	50.0	38.9	41.7	38.9	41.7	50.0	47.2	38.9
Business services	45.6	50.0	47.0	48.4	53.2	51.6	46.8	46.8	56.5	50.0	48.4	48.4	45.2
<i>External segments</i>													
Import/export trade	50.0	47.5	49.6	49.6	46.2	50.4	49.6	46.9	47.3	46.0	46.0	46.9	46.4
Logistics	50.0	50.0	44.7	52.8	50.0	52.9	44.1	40.6	46.9	46.9	50.0	50.0	50.0
All the above sectors*	48.8	47.8	47.4	47.3	47.7	49.4	46.9	45.3	46.1	46.1	45.0	46.5	44.2

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

	<u>2015</u>												<u>2016</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	48.5	50.0	49.2	50.0	49.2	50.0	50.0	50.0	49.2	49.2	50.8	50.0
Real estate	48.5	50.0	51.5	47.0	46.8	50.0	48.3	51.7	45.0	51.7	46.6	46.6	43.1
Retail trade	49.6	50.0	50.0	50.0	49.6	50.4	48.6	49.5	50.0	50.0	50.0	50.0	51.0
Wholesale trade	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Business services	50.0	50.0	50.0	48.4	50.0	48.4	51.6	51.6	51.6	50.0	48.4	54.8	48.4
<i>External segments</i>													
Import/export trade	50.0	49.2	50.8	50.4	49.2	50.0	49.6	48.2	50.0	50.0	48.2	49.1	49.1
Logistics	47.1	47.1	47.4	50.0	50.0	50.0	52.9	50.0	50.0	50.0	50.0	50.0	50.0
All the above sectors*	49.6	49.5	50.3	49.7	49.4	49.9	49.7	49.5	49.9	50.1	48.8	50.1	49.2

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

Table 3 : Diffusion index on current new export orders

	<u>2015</u>												<u>2016</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	50.0	48.3	48.3	48.7	45.3	48.7	48.7	47.4	47.3	46.9	47.3	49.1	46.8

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

	<u>2015</u>												<u>2016</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*	0.8	0.7	0.7	0.7	0.9	0.2	0.2	0.2	0.2	0.2	1.0	0.2	0.2

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