

# GBA – Survey shows recovery from tariff shock

- Q3 GBAI indices rose to multi-year high levels, likely supported by reduced external uncertainty
- Recovery in manufacturing and trading, and financial services activity boosted Hong Kong performance
- Nearly two-thirds of respondents indicated no impact from excessive domestic competition

## Growing optimism

Our GBA Business Confidence Index (GBAI), based on quarterly surveys of over 1,000 companies operating in the Guangdong-Hong Kong-Macau Greater Bay Area (GBA) and conducted in collaboration with the Hong Kong Trade Development Council (HKTDC), showed a q/q acceleration in business activity in Q3 following a moderate setback in Q2 after the Liberation Day shock. The 'current performance' index for business activity edged up to a four-year high of 54.7 from 53.1 in Q2. In addition, the 'expectations' index rose to a two-year high of 55.7 in Q3, suggesting a broad-based recovery in business confidence.

External uncertainty appears to have diminished following the implementation of reciprocal tariffs by the US and the extension of the US-China trade truce, bolstering manufacturing and trading activity. Additionally, the financial services sector registered the largest q/q increase in the headline index among all sectors, likely benefiting from the buoyant equity market. Specifically, these improvements led to both the current and the expectations sub-indices returning to an above-50 level in Hong Kong.

Companies reported higher prices and improved profits compared to Q2, with expectations of a further uptick. This trend partly reflects strengthened efforts by the government and industry associations since July to manage excessive competition. The vast majority (nearly two-thirds) of respondents revealed that they have not been impacted by 'involution'. However, most expressed increased caution towards expanding their domestic business. To address the challenges, companies have adopted a variety of strategies, including enhancing product quality, strengthening brand building, and improving cost control.

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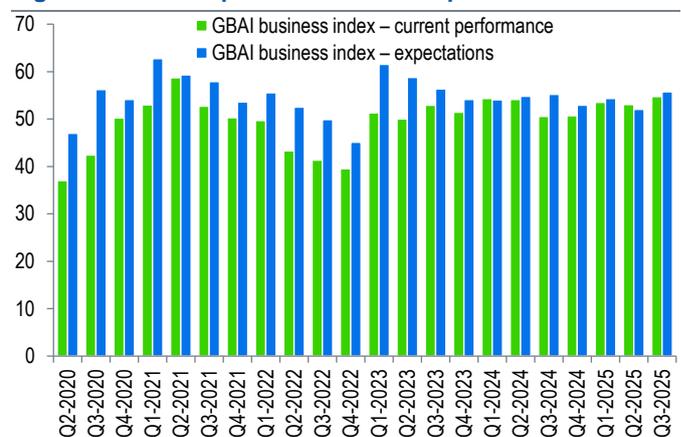
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**Figure 1: GBAI business index and its sub-components**

	Current performance			Expectations		
	Q3-2025	Q2-2025	Q1-2025	Q3-2025	Q2-2025	Q1-2025
<b>Business index</b>	<b>54.7</b>	<b>53.1</b>	<b>53.5</b>	<b>55.7</b>	<b>52.0</b>	<b>54.3</b>
1. Production/sales	58.5	57.1	52.9	59.8	54.5	57.1
2. New orders	57.5	49.5	52.6	57.0	52.1	54.6
3. Capacity utilisation	49.0	50.3	52.5	51.4	51.0	51.0
4. Raw material inventory	52.3	54.4	54.3	52.5	51.1	53.2
5. Prices of finished goods/services	58.8	54.7	59.0	56.3	51.7	56.5
6. Fixed asset investment	56.7	54.8	52.8	55.7	51.5	52.1
7. Financing scale	50.4	50.2	51.7	52.3	47.6	52.7
8. Profit	54.6	53.3	52.2	60.7	56.8	57.4

Source: HKTDC, Standard Chartered Research

**Figure 2: 'Current performance' vs 'expectations' indices**



Source: HKTDC, Standard Chartered Research

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*External environment turned relatively stable, with tariff uncertainty becoming a reality*

## Reduced uncertainty

Both our 'current performance' and 'expectations' sub-indices for business activity rebounded in Q3-2025 after a moderation in Q2-2025. During our survey period (early August to early September), the US imposed reciprocal tariffs, extended the trade truce with China by another 90 days to November, and reached multiple trade agreements with major trading partners. With tariff uncertainty fading, the overall external environment became relatively stable, supporting a q/q recovery in business sentiment. Front-loading trade activity appeared to have continued, with computers and semiconductor products remaining exempt from the additional tariffs. Sustained dialogue between China and the US, along with the prospect of a summit between their leaders, has helped anchor expectations.

We list below the detailed Q3-2025 survey findings:

- Current performance picked up on demand recovery:** Our GBAI current performance index for business activity edged up 1.7pts to 54.7 in Q3, the highest reading since Q2-2021. Demand improved broadly, with the 'new orders' sub-index rebounding sharply to 57.5 in Q3 from 49.5 in Q2, returning to an above-50 level. 'New export orders' also rose to an expansionary level. As such, 'production/sales' climbed higher by 1.3pts to 58.5. The push for orderly competition has driven corporates to adopt self-disciplinary measures in managing capacity and prices. The 'finished goods/services prices' sub-index edged up 4.1pts, while 'capacity utilisation' fell 1.3pts. Other positive factors include 'fixed asset investment' (+1.9pts) and 'profits' (+1.3pts), offsetting the decline in 'raw material inventory' (-2pts).
- Expectations improved amid the extension of the trade truce and continued trade talks:** The GBAI expectations index for business activity recovered to 55.7 in Q3 after falling to more than a two-year low reading of 52.0 in Q2. The 'new export orders' expectations sub-index jumped noticeably, indicating respondents expected external demand to improve amid the ongoing China-US trade talks. The recovery in sentiment was broad-based, according to the survey, with all sub-indices picking up from Q2, led by 'production/sales' (+5.3pts) and 'new orders' (+5pts). Investment appetite appears to have picked up (+4.2pts) along with increased financing scale expectations (+4.8pts), supported by a better profit outlook (+3.9pts).
- Credit and liquidity conditions tightened in Q3:** The current performance index for credit picked up 0.2pts from Q2 to 49.5 in Q3, mainly thanks to a jump in the 'non-bank financing cost' sub-index (+4.3pts). The above-50

**Figure 3: Credit and liquidity tightened further, while expectations improved**

*Five sub-components of our GBAI credit indices – current vs expectations*

	Current performance			Expectations		
	Q3-2025	Q2-2025	Q1-2025	Q3-2025	Q2-2025	Q1-2025
<b>Credit index</b>	<b>49.5</b>	<b>49.3</b>	<b>48.8</b>	<b>50.2</b>	<b>48.7</b>	<b>49.7</b>
1. Bank financing costs *	47.4	47.6	42.5	47.7	47.2	45.4
2. Non-bank financing costs *	51.8	47.5	51.1	49.6	48.0	51.6
3. Banks' attitude towards lending	49.6	51.8	51.9	50.2	51.0	48.6
4. Surplus cash	50.0	50.4	48.3	50.5	48.7	53.7
5. Receivables turnover	48.9	49.3	50.3	53.2	48.6	49.1

Index above 50 indicates lower cost; Source: HKTDC, Standard Chartered Research



## On the Ground

reading suggests lower funding costs from non-bank financial institutions in Q3. Meanwhile, all other current sub-indices dropped in Q3. Respondents suggested that while bank financing remains high, banks have become relatively more prudent towards lending compared to Q2, with the scores for 'banks' attitude towards lending' and 'bank financing costs' falling by 2.2 and 0.2 points, respectively, to readings below the 50 mark. In addition, liquidity conditions tightened modestly in Q3 compared to Q2, with current sub-indices for 'surplus cash' and 'receivables turnover' both falling 0.4pts.

The expectations index for credit rebounded 1.5pts to 50.2, the first above-50 reading since Q3-2024, mainly due to improved liquidity expectations. Expectations for 'receivables turnover' and 'cash surplus' jumped 4.6pts and 1.8pts, respectively. While expectations on 'banks' attitude towards lending' dropped, the sub-index stayed above 50, hinting at still-benign expectations.

- **Manufacturing stayed resilient; financial services reported a sharp improvement:** By industry, the current performance score for our manufacturing and trading respondents edged up to 54.6 in Q3 from 52.7 in Q2, as demand and prices picked up, partly due to persistent front-loading trade activity and the anti-involution campaign. Sentiment remained positive among manufacturing and trading GBA companies, with all expectations sub-indices rising.

**Stock market recovery appears to have supported financial services**

'Financial services' appears to have benefited from the recovery in the equity market. The current and expectations scores jumped 7.9pts and 10.2pts, respectively, returning to above-50 levels after retreating in Q2. In addition, 'retail and wholesale' recorded a q/q recovery with both current performance (+1.3pts) and expectations (+2.8pts) scores rising amid an improvement in new orders, after having eased in Q2.

**Figure 4: GBAI business sub-indices by sector**

Business activity	Current			Expectations		
	Q3-2025	Q2-2025	Q1-2025	Q3-2025	Q2-2025	Q1-2025
Manufacturing and trading	54.6	52.7	53.1	56.1	52.0	54.1
Retail and wholesale	55.8	54.4	55.4	54.3	51.5	55.6
Financial services	54.5	46.6	54.0	56.5	46.3	53.6
Professional services	48.6	51.6	55.7	50.3	49.7	55.8
Innovation and technology	58.1	62.6	56.3	54.6	61.3	55.8

Source: HKTDC, Standard Chartered Research

**Figure 5: GBAI business sub-indices by city**

Business activity	Current			Expectations		
	Q3-2025	Q2-2025	Q1-2025	Q3-2025	Q2-2025	Q1-2025
Hong Kong	52.2	43.7	53.5	53.6	46.4	56.9
Guangzhou	52.7	51.0	60.3	54.1	51.7	58.0
Shenzhen	56.7	52.0	49.2	58.9	51.9	52.5
Foshan	59.3	54.7	57.6	60.6	52.8	52.5
Dongguan	53.5	64.5	55.2	51.5	57.5	55.6
Macau and other cities	51.0	56.7	54.9	49.3	52.9	54.5

Source: HKTDC, Standard Chartered Research



## On the Ground

### *Key indices rebounded to above 50 for Hong Kong*

While both current and expectations scores for 'innovation and technology' fell in Q3, the readings stayed high at 58.1 and 54.6, respectively, suggesting a normalisation from Q2's surge; sentiment remains positive amid rapid AI development.

- **Hong Kong rebounded, Shenzhen accelerated:** Hong Kong saw a substantial recovery in the current and expectations sub-indices in Q3, edging up a respective 8.5pts and 7.3pts to 52.2 and 53.6. Manufacturing and trading activity rebounded, benefiting from the continued front loading trade activity. In addition, financial services activity picked up, thanks to strong IPO activity and the stock market rally. While the retail and wholesale performance sub-index improved, it remained at a low level, indicating persistent pressure.

Shenzhen and Foshan also recorded solid q/q activity acceleration in Q3 amid improving demand. The new orders sub-indices for both rose by more than double digits. The current performance index for Dongguan and other GBA cities retreated, normalising from Q2's outperformance.

### **Key takeaways from our thematic questions**

China's economy has been in deflation for over two years, gaining policy makers' attention. At the Central Financial and Economic Affairs Commission meeting on 1 July and the Politburo meeting on 30 July, President Xi urged the government to rectify disorderly competition and manage capacity in key industries. With increasing discussion and concern on 'anti-involution', our Q3 thematic questions examined the impact of excessive competition on businesses, as well as the strategies that GBA companies are adopting to address these challenges.

### *Nearly two-thirds of respondents indicated no impact from involution*

#### **Gauging the impact of excessive domestic competition**

The thematic questions revealed that a majority of respondents (63.5%) had not been affected by excessive domestic competition, while 3.1% of respondents said they benefited from it. About 29% reported a moderate impact and the remaining 5% indicated a significant impact. This finding was mostly consistent across sectors and cities.

Among those businesses affected by involution, over 70% saw a negative impact on profit and sales, while only around 40% indicated disruptions on hiring and investment. The result also applies across cities and sectors generally.

### *Plans to expand domestic business continue*

#### **Plans to expand domestic business were not significantly affected**

About half of the surveyed GBA companies plan to expand their domestic business in the next 12 months. This echoes the national strategy of strengthening 'internal circulation' amid rising external challenges. Among those with such plans, about 37% indicated that excessive competition in the domestic market would not alter their decision. 57% said they would be more cautious in expanding their domestic business, while a mere 6% suggested that the impact of involution is likely to be significant, hindering their expansion plans. By industry, more respondents in the 'manufacturing and trading' and 'financial services' sectors plan to promote domestic sales.



## On the Ground

### Handling the challenges from involution

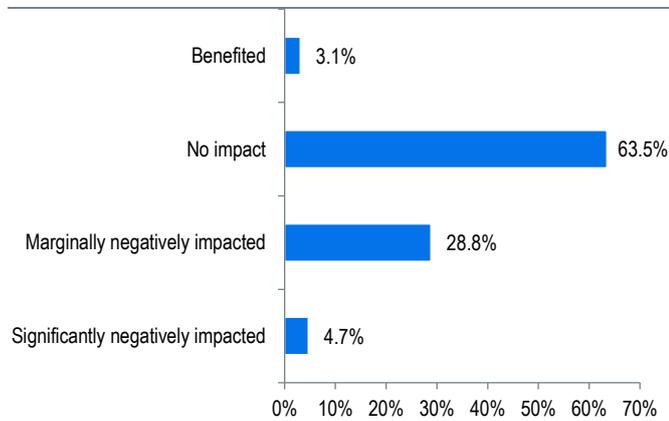
#### Multiple strategies to address the challenges from involution

Companies appear to be adopting a mix of strategies to deal with the impact of involution; these include strengthening brand building and marketing efforts, strengthening cost control and optimising inventory management, offering value-added services and developing unique products, and improving product quality.

More than half of the respondents believe that government measures, including drafting and revising rules and regulations to manage involutionary competition, are effective. They also suggested a further strengthening of policy measures, such as improving employment and income prospects, stabilising asset prices, and expanding social welfare, which would help improve the involution situation.

**Figure 6: Has your company's business been affected by excessive competition among enterprises?**

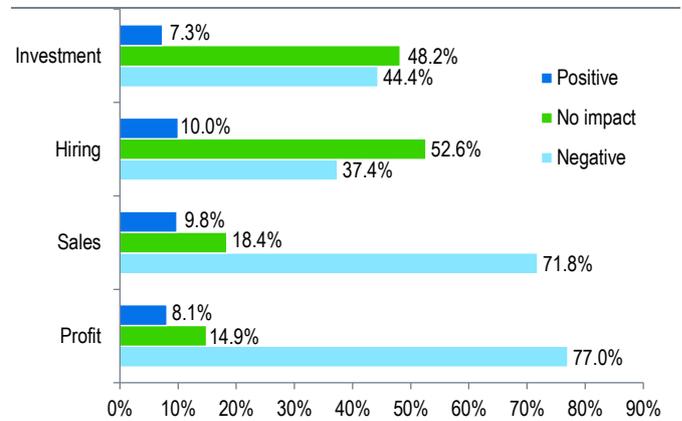
% of respondents



Source: HKTDC, Standard Chartered Research

**Figure 7: Which aspects of your business are affected?**

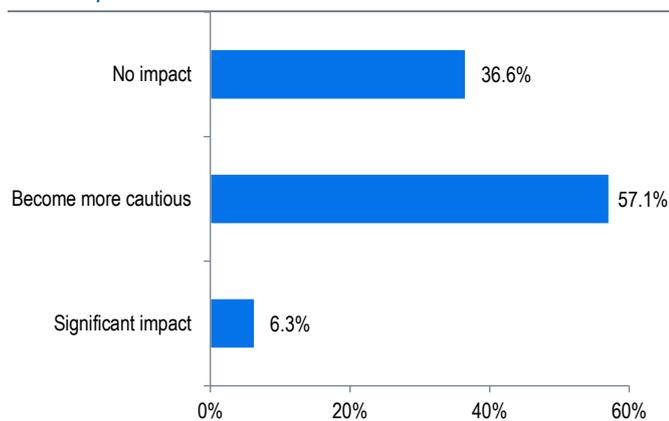
% of respondents affected by excessive competition, including positive impact



Source: HKTDC, Standard Chartered Research

**Figure 8: How much of an impact will involution have on plans to expand domestic sales in the next 12 months?**

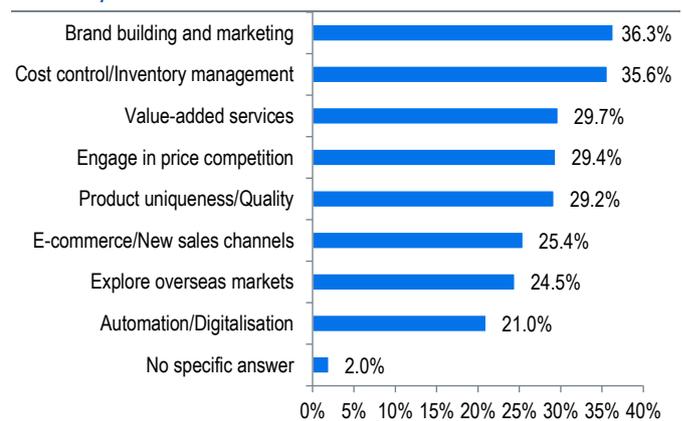
% of respondents



Source: HKTDC, Standard Chartered Research

**Figure 9: What strategies have been adopted to deal with the competition challenges**

% of respondents



Source: HKTDC, Standard Chartered Research



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