

GBA – Survey shows strong Q1 sentiment rebound

- Our GBA indices staged record q/q jumps in Q1, confirming a swift and broad post-COVID recovery
- Expectation indices point to further acceleration in Q2; credit indices show improving cash flows
- Respondents see plenty of headroom for normalisation; 53% raise their 2023 business targets

No major red flags for recovery sustainability either

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), shows that the current performance of 'business confidence' rose for the first time in seven quarters, to 51.3 in Q1-2023 from 39.5 in Q4-2022. This matches the recent string of positive macro data, confirming that China's economy has turned the corner post-COVID. With market focus recently turning towards the sustainability of this recovery, the sharper rise in the GBAI expectations index to 61.5 from 45.1 in the previous survey is encouraging, in our view. All eight of our GBAI components rose, and the credit sub-indices showed improving cash flow positions and better access to bank lending. A further breakdown showed that by industry, 'manufacturing and trading' did not underperform despite looming external recessionary headwinds; by city, Guangzhou more than made up for its weak current performance index showing with outperformance in the expectations sub-index.

Going forward, the performance of these sentiment sub-indices may become more differentiated after a quarter of uniform increases, especially if the novelty of reopening wears off. On a positive note, China's overall economic activity has some ways to go until it returns to the pre-COVID trend, implying there is room to improve. Almost 60% of respondents expect to operate at over 90% of pre-COVID levels by Q4, versus less than 40% saying they currently operate at 90% (at least). In addition to gauging how far post-COVID normalisation has come (and could go), our thematic questions looked for changes to business targets, perceived risks and key policy expectations following recent domestic political events and external financial-market shocks.

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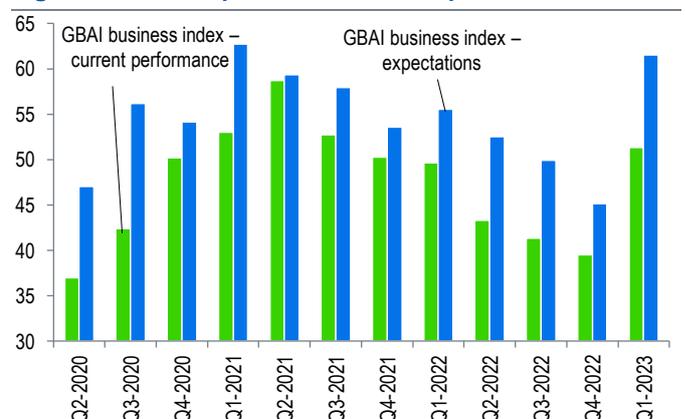
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Figure 1: GBAI business index and its sub-components

	Current performance			Expectations		
	Q1-2023	Q4-2022	Q3-2022	Q1-2023	Q4-2022	Q3-2022
Business index	51.3	39.5	41.3	61.5	45.1	49.9
1. Production/sales	49.7	38.4	37.8	67.8	45.1	49.5
2. New orders	53.1	36.9	39.1	67.1	47.6	50.9
3. Capacity utilisation	49.8	42.0	41.3	60.2	47.1	51.5
4. Raw material inventory	46.3	31.8	41.4	54.0	36.8	46.0
5. Prices of finished goods/services	54.3	52.2	50.8	60.5	52.1	55.1
6. Fixed asset investment	53.6	43.8	44.2	57.9	47.7	49.0
7. Financing scale	51.0	30.9	38.1	55.3	35.6	47.1
8. Profit	52.5	40.1	37.5	69.0	48.7	50.5

Source: HKTDC, Standard Chartered Research

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



Source: HKTDC, Standard Chartered Research

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Our latest survey captured the strong post-COVID surge in business sentiment and activity after the Lunar New Year

Detailed findings of the GBAI survey for Q1-2023

In our last report we cautioned that the weak set of GBAI results from our Q4-2022 survey – conducted between late October and early December – came too early to capture much of China’s rapid post-COVID recovery. Since reopening, China swiftly reached peak COVID infections and acquired herd immunity, allowing economic activity to normalise and borders to be reopened. Unsurprisingly, our Q1-2023 GBAI survey results – conducted between early February and mid-March – showed a different picture. Both the headline current performance and expectation indices posted their strongest q/q gains in the Q1 survey since the GBAI was launched three years ago. In particular, expectations rebounded to a highly expansionary 61.5, suggesting little reason to doubt the sustainability of the post-COVID recovery for now.

Our thematic questions also add colour to the GBA’s recovery sustainability story. Currently, less than 40% of respondents said that their business (in terms of capacity utilisation, orders, sales or workforce size) was operating at over 90% of pre-COVID (or Q4-2019) levels. But almost 60% expect to be operating at over 90% of pre-COVID levels by Q4 this year. This points to plenty of room for GBA businesses to play catch-up and return to trend; we think the speed at which this occurs will depend on the effectiveness of the release of pent-up demand/savings, the return of jobs and the durability of policy support in offsetting the lingering drags from a weak real estate market domestically and growing recession risks externally.

We list below the detailed findings from our latest GBAI survey:

Current business activity is turning the corner, led by more forward-looking indicators such as investment and new orders

- **Current performance index back in expansionary territory:** The GBAI current performance index for business activity rose to 51.3 – the highest in six quarters – in Q1-2023 from 39.5 in Q4-2022 (Figures 1 and 2). This was also the first above-50 print since Q4-2021, suggesting that economic activity is back in expansionary mode after a challenging 2022, battered by COVID disruptions. The improvement was also very broad-based, with all current performance sub-indices rising q/q and only three of the eight sub-indices staying below 50. Encouragingly, the more forward-looking parts of the current activity index – ‘fixed asset investment’ (53.6), ‘new orders’ (53.1) and ‘profits’ (52.5) – ranked among the top performers, alongside ‘finished goods/services prices’ (54.3).

All this matched the latest set of macro data for China: growth in industrial production, the services sector and fixed asset investment all reaccelerated in 2M-2023, versus December 2022. High-frequency data indicated that the transportation, accommodation and catering sectors continued to reflect improved mobility in March, adding up to a stronger-than-expected set of China PMIs for the month (the non-manufacturing PMI, in particular, rose to its highest level since May 2011, reflecting the strong reopening boost).

But if one is to nit-pick, the GBAI’s latest Q1 improvement could have been even stronger, considering our index measures q/q changes in business sentiment and the prior quarter’s headline print was one of the weakest on record at under 40. One possible explanation could be the slow ramp-up in business activity after the Lunar New Year, affecting some of the early survey results. Separately, despite the +14.5pts q/q headline jump, ‘raw material inventory’ remained the lowest-scoring GBAI component (46.3), suggesting lingering (albeit lessening) pressure to destock, which in turn likely limited a bigger rise in ‘production/sales’ and ‘capacity utilisation’.



On the Ground

We have fielded questions on the sustainability of China's recovery; the GBAI survey's expectations index provides some relief

- **Expectations indices saw a powerful rebound:** The GBAI expectations index for business activity rose for the first time in a year, and the +16.4pts jump was the biggest on record, to 61.5 in Q1-2023 from 45.1 in Q4-2022, and just shy of the previous peak of 62.7 in Q1-2021 (Figures 1 and 2). While the current activity indices finally showed signs of business sentiment turning the corner, market focus has already turned to the sustainability of China's post-COVID recovery. As such, we think it was just as (if not more) positive that respondents expect further improvements in the coming quarter.

Respondents also expect a further broadening of the recovery. All eight expectations sub-indices stood comfortably above 50, with five exceeding 60. 'Production/sales' (67.8), 'new orders' (67.1) and 'profit' (69.0) ranked the highest, and even the lowest-scoring 'raw material inventory' (54.0) score suggests that companies will be done with destocking soon.

Still, we see a need for China to continue to shore up its domestic economy and reinvigorate 'animal spirits' to consume and invest in order to carry this positive momentum into H2-2023. This is especially true against the backdrop of US-China decoupling concerns and the fattening tail risk of a glob'al banking-sector crisis exacerbating recessionary pressure in developed economies. Given this, it was constructive to see pledges from China's new premier Li Qiang at the Boao Forum that policy makers would continue to expand China's opening-up efforts, create a first-class business environment, provide "unswerving" support for the private sector, and deliver steady and high-quality development. The importance of the GBA in driving these aspirations was recently reinforced by the announcement of 30 new high-level measures on financial reforms and innovation to support Qianhai and Hengqin's integration with Hong Kong and Macau, respectively.

- **Credit conditions easing amid the growth recovery:** The current performance index for credit rose for a third straight quarter, surpassing the 50 neutral mark for the first time since Q3-2021 – to 51.6 in Q1 from 48.6 in Q4 (Figure 3). The breakdown shows a strong rebound across the 'banks' attitude towards lending' (54.8), 'surplus cash' (52.9) and 'receivables turnover' (53.9) components. These sub-indices tend to correlate well with the broader business cycle; as such, the fact that they are now at a seven-quarter high underscores the strength of the GBA's post-COVID normalisation upswing so far.

The drop back below 50 for the bank and non-bank financing cost sub-indices suggests that borrowing costs could be bottoming out after improving briefly in H2-

Figure 3: Improving cash-flow positions and better access to bank lending
Five sub-components of our GBAI credit indices – current vs expectations

Respondents generally expected financing costs to start to rebound, but this was before the recent RRR cut

	Current performance			Expectations		
	Q1-2023	Q4-2022	Q3-2022	Q1-2023	Q4-2022	Q3-2022
Credit Index	51.6	48.6	47.2	54.2	50.6	48.8
1. Bank financing cost *	48.6	52.2	51.7	44.8	52.5	47.9
2. Non-bank financing cost *	47.8	53.8	50.0	47.2	52.6	48.9
3. Banks' attitude towards lending	54.8	45.6	46.4	58.4	46.9	48.0
4. Surplus cash	52.9	44.5	43.9	62.8	51.3	50.7
5. Receivables turnover	53.9	46.9	44.0	57.7	49.9	48.4

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



On the Ground

2022. This, together with respondents' stronger cash-flow positions and easier access to bank lending, might have reduced some urgency to expand 'financing scale', explaining why this sub-index for business activity did not score among the highest in Q1.

The expectations indices for credit point to even more evident improvements across 'banks' attitude towards lending' (58.4), 'surplus cash' (62.8) and 'receivables turnover' (57.7) components in the quarter ahead. Respondents also expect a further rise in borrowing costs. That said, we note that the announcement of the latest reserve requirement ratio (RRR) cut – which we believe was a strong signal from the authorities that monetary conditions should remain supportive of growth short-term – came only after our survey concluded.

The overall recovery has been boosting the industry/city sub-indices

- **Subtle differences in industry sub-indices (or the lack thereof):** All 10 of our industry sub-indices for business activity (five industries, each having their own current performance and expectations sub-indices) strongly improved q/q in Q1-2023 (Figure 4). The broadness of this recovery is of little surprise, as most industries are likely to benefit from a return-to-trend story. Notably, though, there was little difference in the final scores for 'manufacturing and trading' and 'retail and wholesale'; this was surprising because based on the latest PMI prints, services should have outperformed on the post-COVID recovery. We also expected exporters to have stayed a bit more cautious given looming recessionary risks in developed economies. Instead, manufacturers had a bigger q/q improvement than retailers in the Q1 survey, allowing them to catch up after falling behind in Q4-2022.

Also interesting, but more understandable, was the relative underperformance of the expectations index for 'innovation and technology' – its 61.0 print was substantial but the lowest among our five industry groups. We see this as a timely reminder of the many headwinds still faced by the tech sector. One, the demand outlook is weak. The global semiconductor cycle seems unlikely to turn the corner near-term and has been on a downcycle for a while now. Two, there have been

Figure 4: GBAI business sub-indices by sector

Business activity	Current performance			Expectations		
	Q1-2023	Q4-2022	Q3-2022	Q1-2023	Q4-2022	Q3-2022
Manufacturing and trading	51.0	39.0	41.2	61.3	44.3	50.4
Retail and wholesale	51.4	42.2	41.3	61.2	48.8	47.7
Financial services	59.8	45.4	47.3	67.4	50.5	51.5
Professional services	52.1	38.5	42.3	65.2	46.1	47.0
Innovation and technology	54.3	42.5	39.6	61.0	49.8	46.0

Source: HKTDC, Standard Chartered Research

Figure 5: GBAI credit sub-indices by sector

Credit	Current performance			Expectations		
	Q1-2023	Q4-2022	Q3-2022	Q1-2023	Q4-2022	Q3-2022
Manufacturing and trading	51.5	48.5	47.5	54.1	50.7	49.2
Retail and wholesale	52.5	49.0	46.5	54.4	49.9	47.4
Financial services	53.4	46.9	45.2	56.2	52.4	46.9
Professional services	49.9	49.1	43.9	53.7	49.3	43.9
Innovation and technology	50.0	53.1	47.1	54.4	54.8	46.8

Source: HKTDC, Standard Chartered Research

lingering concerns over regulatory tightening domestically and US-China tech bifurcation externally. Lastly, the recent global banking-sector crisis likely had a spillover effect on China start-ups, possibly making access to funding more costly/difficult short-term. As such, only the 'technology and innovation' sub-index recorded q/q drops (albeit modestly) in both credit sub-indices (Figure 5).

- China's post-COVID rebound leaves no cities behind:** All five of our GBA city sub-indices staged strong q/q jumps after the speedy reopening of borders in particular, allowing cities to share the substantial boost from each other's COVID policy pivots and the resulting economic normalisation. Two-way visitor arrivals have risen rapidly YTD, including and especially business visitor arrivals, by our estimate. Among the three core GBA cities, Guangzhou may have underperformed for a second straight quarter, with its current performance sub-index marginally missing the 50 mark (49.9) while Hong Kong and Shenzhen improved to 51.6 and 51.5, respectively. However, Guangzhou more than made up for its weak 'current performance' index showing with its expectations sub-index outperformance (67.7; Figure 6).

Key takeaways from our thematic questions

This time, our thematic questions focused on gauging (1) the extensiveness of the post-COVID normalisation so far; (2) respondents' post-COVID target adjustments; and (3) fundamental changes to how businesses are run in the GBA following the recent series of major political events and policy announcements, including the 20th Party Congress last October, the COVID and housing policy pivots since last November, and the National People's Congress meeting in early March this year.

The breadth and extent of post-COVID normalisation

GBA can probably run on post-COVID normalisation fuel for longer

We asked our respondents how the recent change to China's COVID-zero policy has affected their business so far, and what further impact they expect for the rest of 2023. Unsurprisingly, a majority 55% said they have been either marginally or very positively

Figure 6: GBAI business sub-indices by city

Business activity	Current performance			Expectations		
	Q1-2023	Q4-2022	Q3-2022	Q1-2023	Q4-2022	Q3-2022
Hong Kong	51.6	41.7	42.5	58.7	48.4	46.3
Guangzhou	49.9	37.6	44.6	67.7	43.1	52.0
Shenzhen	51.5	38.8	39.5	60.8	47.1	50.8
Foshan	55.1	43.9	39.8	59.0	44.2	50.1
Dongguan	53.5	34.5	41.7	69.6	37.1	45.5
Macau and other cities	48.9	41.9	42.5	56.8	42.8	51.8

Source: HKTDC, Standard Chartered Research

Figure 7: GBAI credit sub-indices by city

Credit	Current performance			Expectations		
	Q1-2023	Q4-2022	Q3-2022	Q1-2023	Q4-2022	Q3-2022
Hong Kong	51.5	45.9	46.4	51.8	48.4	47.2
Guangzhou	52.4	47.6	46.1	54.7	49.1	48.2
Shenzhen	51.8	50.7	47.9	55.9	54.4	49.3
Foshan	49.9	47.5	46.6	53.1	49.2	48.6
Dongguan	53.1	48.3	46.4	56.0	46.5	48.2
Macau and other cities	50.4	47.3	48.2	50.6	47.0	50.1

Source: HKTDC, Standard Chartered Research



On the Ground

impacted by the relaxation, versus a mere 4% negatively impacted (Figure 8). The share of positive responses rose to 65% for 'impact expected for the rest of 2023'. A further breakdown shows that Guangzhou (74%), Macau (73%), and Dongguan (70%) had the highest percentage of positive responses for the forward-looking question. On the flip side, 'innovation and technology' had the lowest positive response (48%) for the same question – mirroring the rest of the world where reopening could also mean less work-from-home demand for tech products and less e-commerce traffic.

In any case, more gains are likely in all cities and industries, as China's post-COVID recovery appears to still have legs, according to our respondents. We asked them what levels their businesses are operating at right now compared with pre-COVID – in terms of capacity utilisation, orders, sales or workforce size. At least 60% of respondents said they were still at 90% or below Q4-2019 levels (and c.20% said they were operating below 50% pre-COVID levels). These numbers are expected to improve (i.e. lower) to just over 40% of respondents still at 90% or below pre-COVID levels, or c.15% for those operating at less than 50% (Figure 10). All this indicates plenty of headroom for improvement, which is good news for respondents seeing continued normalisation from prior disruptions and the unleashing of pent-up demand/savings (even if this is likely to be a gradual rather than quick process) as the main bright spots for the region to offset external uncertainties and headwinds.

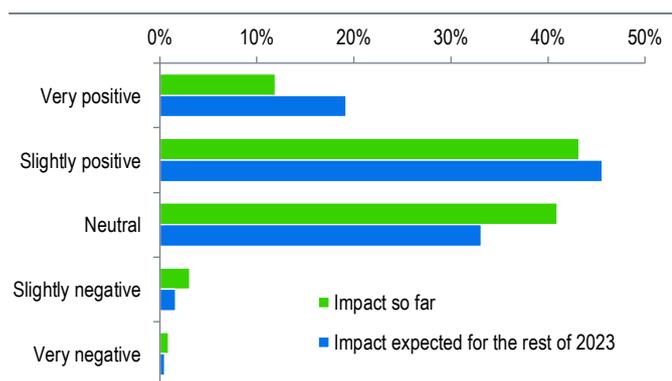
53% of respondents have raised their business targets since the COVID policy pivot

Setting their sights on newer, higher targets?

We then asked respondents whether they have raised their 2023 business projections/targets since the relaxation of COVID measures and accelerated border reopening. A majority 43% said they raised their targets marginally, while another 10% said they did so materially (Figure 9). 16% said they had not raised their business targets but are planning to do so. Another 30% combined said they had not raised targets, and either did not plan any changes for now, or were not sure.

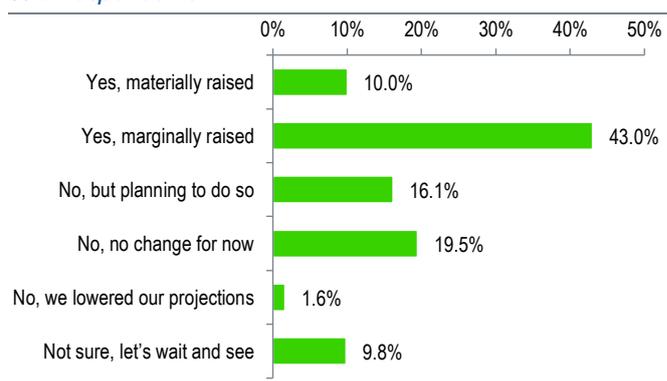
So at what levels are they setting their targets? Among the nine measures of business performance outlined in Figure 11, an average 29% of respondents expect 1-10% improvements in 2023, 8% expect 11-20% increases, and another 4% expect over 20% increases. This compares to only a total 5% of all respondents expecting negative changes for the year. Sales, orders and profits were the three business matrixes garnering the most positive responses. All this was also (unsurprisingly) materially

Figure 8: How has the recent change to China's COVID-zero policy affected, or how will it affect, your business?
% of respondents



Source: HKTDC, Standard Chartered Research

Figure 9: Have you raised your 2023 business projections/targets since the relaxation of COVID measures and the acceleration of border reopening?
% of respondents



Source: HKTDC, Standard Chartered Research



On the Ground

better than respondents' actual performance last year, when an average 14% saw improvements in business performance versus 19% seeing deteriorations.

Reassessing key risk factors and key policy asks

Less concerned about domestic consumption growth and more worried about geopolitical tensions

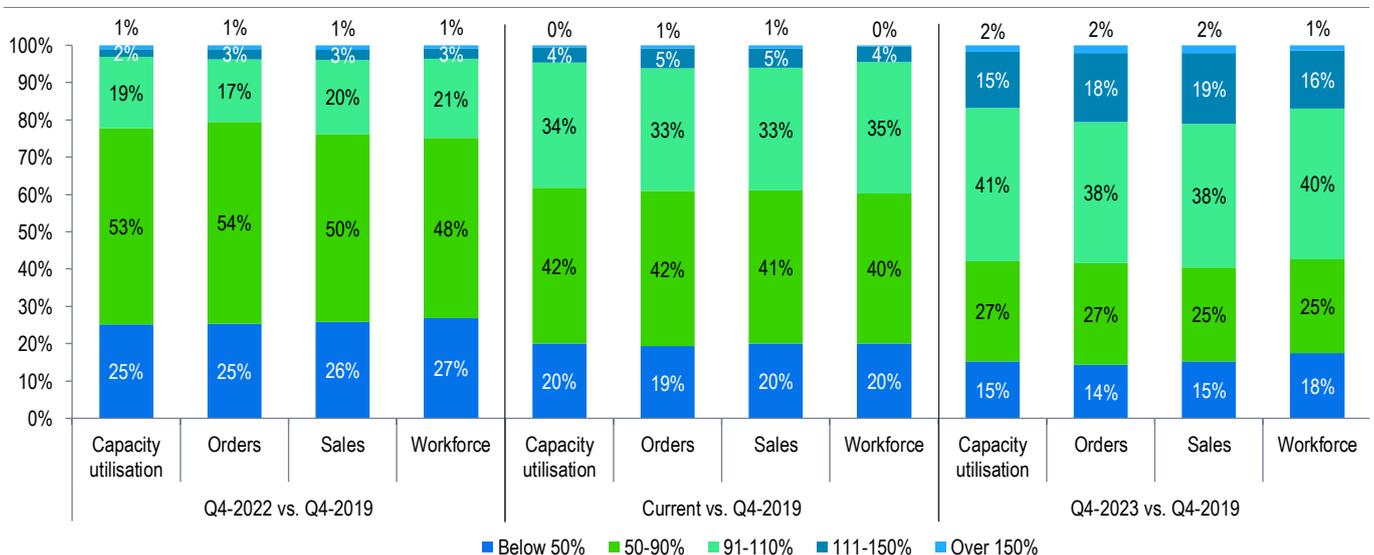
In recent months, China has seen a series of major political events outlining key policy pledges and setting future policy directions. At the same time, the country has faced heightened financial uncertainty/volatility and geopolitical tensions. We asked respondents how their views have changed YTD towards a number of non-COVID risk factors to their businesses. 'Persistently weak domestic consumption' saw the most positive responses, with 39% saying this metric had 'materially improved' or 'marginally improved'. This was followed by 'international supply chain disruptions' (26%), 'Renminbi volatility' (26%) and 'real estate downturn' (24%). The same answers dominated the top four spots when we measure the net response (those answer improved minus those saying worsened; Figure 12). On the other end of the spectrum, 'geopolitical tensions', 'raw material costs' and 'competition within industry' garnered the most votes for having worsened, both in gross and net terms. Again due to the timing of our survey, which probably did not fully capture the financial (and increasingly economical) fallout of the global banking-sector crisis, the response choices 'recession in the West' and 'global liquidity tightening/asset market sell-off' would likely have been picked more if the survey were repeated today.

Respondents in general want to see more policy support for the economy, the private sector and foreign investment

Finally, in view of recent statements by policy makers on improving the business operating environment to complement China's post-COVID recovery, we asked respondents what improvements they would want to see most in 2023 (Figure 13). 'Expanding domestic demand' topped the list with 28% of votes, followed by 'new GBA-specific policies' (26%), 'more attraction for foreign investment' (24%) and 'more support to the private sector' (22%). It seemed respondents in general (1) favour outright policy concession/support over more deep-seated reforms; and (2) seemed less concerned about the fallout from further drops in the property or financial markets.

Figure 10: What levels were your business operating at, or /will operate at, compared with pre-COVID times?

% of respondents



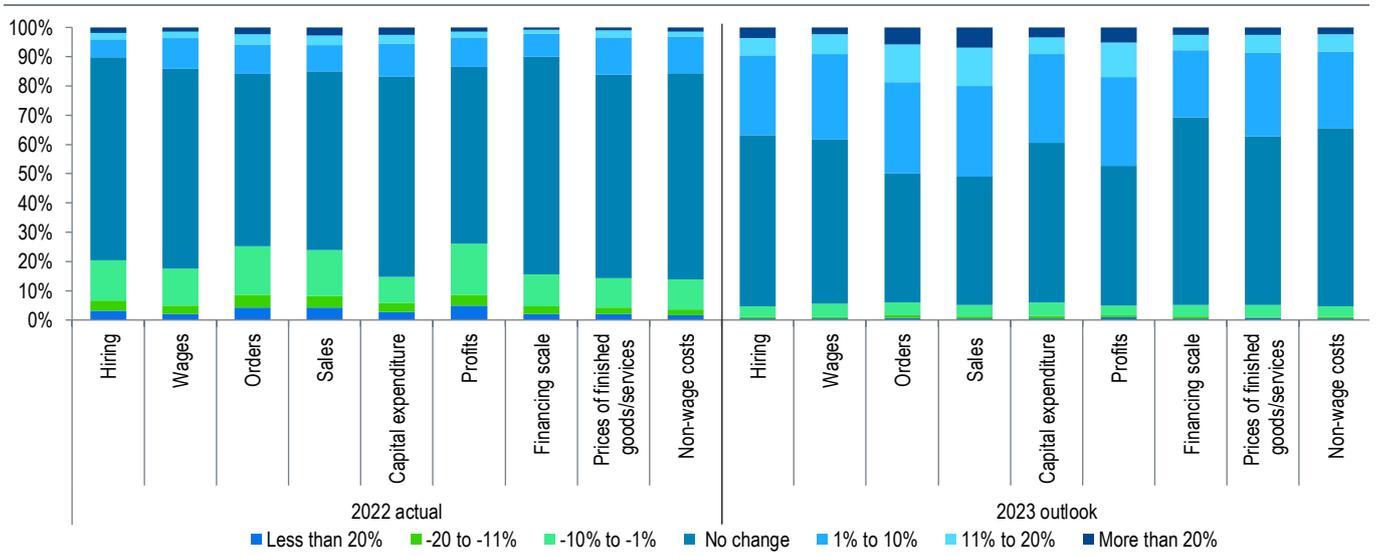
Source: HKTDC, Standard Chartered Research



On the Ground

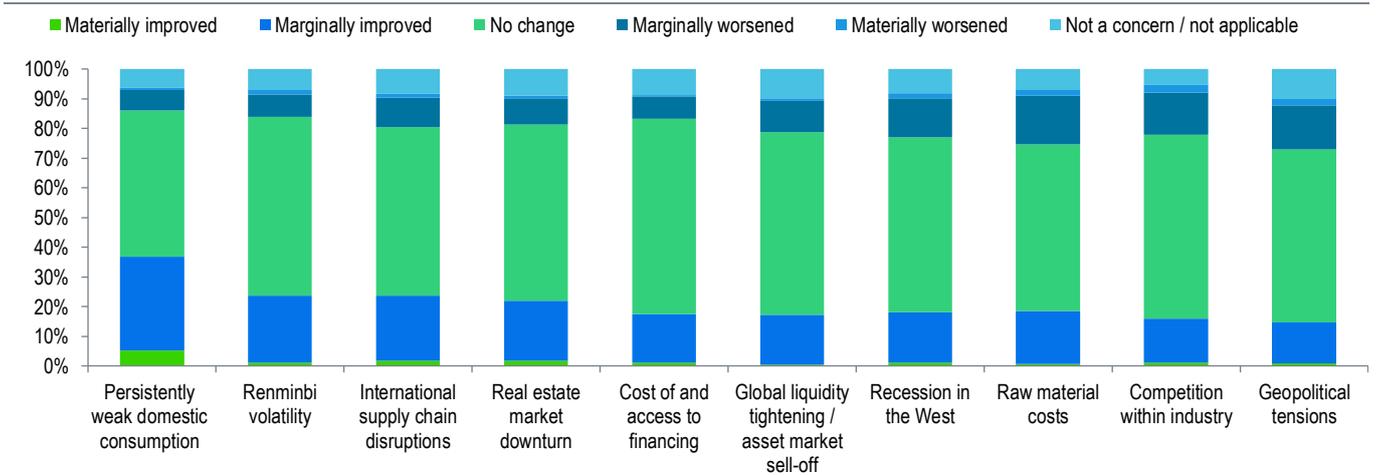
Figure 11: How did the following metrics change in 2022, and what are your expectations for them in 2023?

% of respondents



Source: HKTDC, Standard Chartered Research

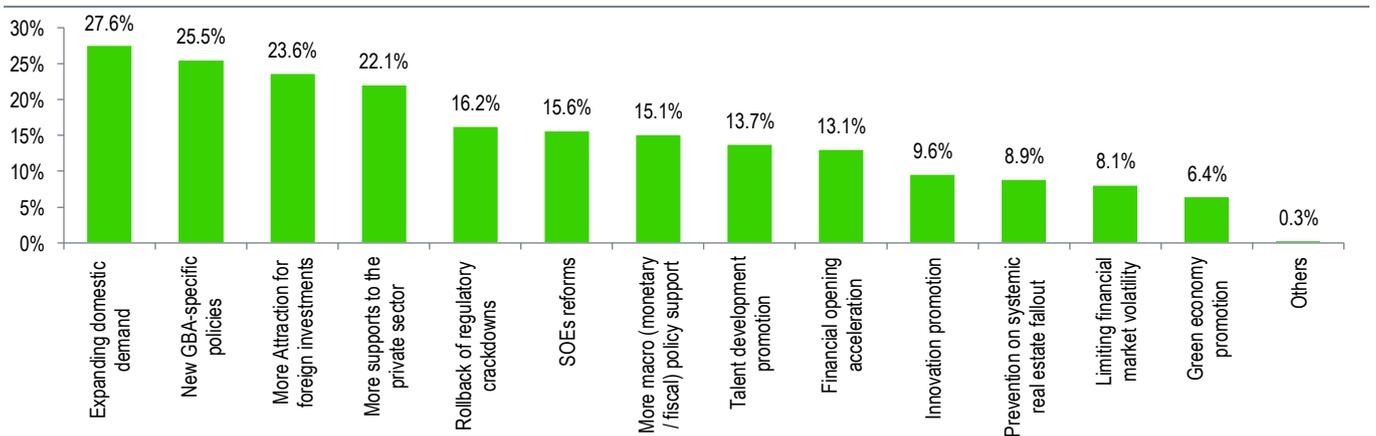
Figure 12: Since the beginning of the year, how have your views changed towards the following non-COVID risk factors to your business? (% of responses)



Source: HKTDC, Standard Chartered Research

Figure 13: In which of the following areas do you most prefer to see improvements in 2023?

% of responses (no more than three choices)



Source: HKTDC, Standard Chartered Research



On the Ground

Appendix: How the GBAI works

The GBAI is a diffusion index based on responses from no less than 1,000 enterprises across 11 GBA cities and key industry sectors

The GBAI is compiled based on a quarterly survey conducted by the HKTDC in collaboration with Standard Chartered. Every quarter, no less than 1,000 enterprises in key business sectors across the GBA provide valuable feedback on a range of subjects, including their current business situation and credit conditions, and their outlooks on these subjects for the coming quarter. The GBAI also asks respondents thematic questions that help us understand what drives their business decisions and plans, and how this might shape the GBA's future.

Index calculation: The GBAI comprises two main business indices, one gauging 'current performance' (in this case Q1-2023), and the other looking at 'expectations' (Q2-2023). Each index is calculated as an average of eight sub-indices that reflect different aspects of business activity, as outlined in Figure 1. Respondents indicate the corresponding changes, actual or expected, in three ways: up, same or down; a diffusion index is then calculated using the following formula:

$$\text{Up}\% \times 100 + \text{Same}\% \times 50 + \text{Down}\% \times 0$$

An index reading above 50.0 means that respondents are generally optimistic about the business environment in the coming quarter, while a reading below 50.0 indicates predominantly pessimistic sentiment. A reading of 50 is neutral.

The two credit indices are calculated in the same way, but with five of their own sub-components that focus on measuring the costs and ease of obtaining credit, and respondents' willingness and/or eagerness to do so (Figure 4).

Figure 14: GBAI

Number of respondents

By city		By industry	
	Targeted respondents		Targeted respondents
Hong Kong	200	Manufacturing and trading	500
Guangzhou	200	Retail and wholesale	200
Shenzhen	200	Financial services	125
Foshan	100	Professional services	125
Dongguan	100	Innovation and technology	50
Huizhou		Total	1,000
Zhongshan			
Jiangmen	200		
Zhuhai			
Zhaoqing			
Macau			
Total	1,000		

Source: HKTDC, Standard Chartered Research



Disclosures appendix

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