

GBA – Improving performance yet to lift outlook

- Our GBAI current performance index rebounded in Q1, but the expectations index did not follow higher
- Weak appetite to rebuild inventory and add financing echoes still-weak sentiment after solid start to 2024
- Mixed city/industry-level performance; we asked respondents about their e-commerce views and plans

‘Current performance’ rallying past ‘expectations’

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 current business activity is picking up. The current performance index for business activity rose to 54.3 in Q1-2024 from 51.4 in Q4-2023, led by strong rallies above the 60 mark (50 being neutral) across the ‘profits’, ‘new orders’ and ‘production/sales’ sub-indices. This shows that GBA businesses are off to a solid start to 2024; that said, some of the more forward-looking sub-indices like ‘raw material inventory’ and ‘financing scale’ remained soft. This, together with the inability of the expectations indices to benefit from better current performance, is a clear sign of still-cautious business sentiment. With the prevailing recovery momentum still looking fragile, we see room for more policy support to continue to narrow the output gap and dispel deflation expectations.

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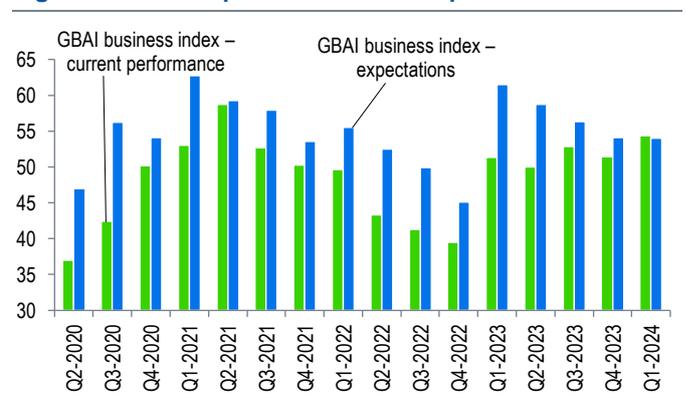
Our survey confirmed that credit conditions are becoming more favourable and the improvement is increasingly broad-based. However, a breakdown by industry shows a mixed picture, with ‘financial services’ and ‘professional services’ not sharing the improved optimism across our manufacturing, retail and technology respondents. Similarly, performance diverged across core GBA cities, with Guangzhou and Shenzhen outperforming while Hong Kong’s scores worsened. Responses to our thematic questions showed rising business participation in e-commerce, not only in China but increasingly with other Asian buyers. Our existing and future e-commerce users also shared their views on the related opportunities and challenges.

Figure 1: GBAI business index and its sub-components

	Current performance			Expectations		
	Q1-2024	Q4-2023	Q3-2023	Q1-2024	Q4-2023	Q3-2023
Business index	54.3	51.4	52.9	54.0	54.1	56.3
1. Production/sales	61.2	56.0	54.8	56.8	57.6	59.9
2. New orders	60.8	55.3	55.2	57.7	57.9	59.4
3. Capacity utilisation	52.5	49.4	49.1	53.7	51.3	58.0
4. Raw material inventory	46.1	45.0	53.1	44.8	48.4	52.4
5. Prices of finished goods/services	53.8	51.5	52.4	56.0	54.2	56.1
6. Fixed asset investment	52.0	52.2	52.8	55.5	52.5	53.0
7. Financing scale	47.4	47.4	51.9	50.0	48.4	51.0
8. Profit	60.9	54.7	53.8	57.5	62.7	60.8

Source: HKTDC, Standard Chartered Research

Figure 2: ‘Current performance’ vs ‘expectations’ indices



Source: HKTDC, Standard Chartered Research

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Our headline index for business activity expectations struggled to rally in Q1-2024

Rising tide yet to lift the expectations boat

GBA businesses are off to a solid start to 2024. Our latest survey, which was conducted between 1 February-6 March, showed that the GBAI current performance index for business activity rose to a 11-quarter high in Q1. This matches *the recent wave of macro indicators indicating that industrial production (IP) and services activity accelerated in 2M-2024*. In particular, demand driven by (1) the front-loading of March production to February due to this year's late Lunar New Year; (2) the rising need for equipment and technological upgrading; and (3) strong Lunar New Year holiday spending likely contributed to the 7.0% y/y IP increase in January-February, exceeding market consensus' estimated 5.3% and the 6.8% increase in December. Manufacturing and infrastructure investment growth improved to 9.4% y/y and 6.3% y/y, respectively, in 2M-2024, from 7.2% and 5.2% in Q4-2023, offsetting the continued drag from weak real estate activity.

Nonetheless, the consistent positive message of short-term business improvement has yet to lift expectations – a reminder that it may be too early to sound the 'all-clear' on China's economy. We expect more monetary easing, possibly in H2, and see the potential for future GBAI surveys to reflect *the many supportive messages from the recent National People's Congress* (including China's c.5% official growth target, an expansionary budget, and action plans to promote large-scale equipment renewal and consumer goods trade-ins).

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

'Profits', 'new orders' and 'production/sales' all rose above 60, indicating improving business performance short-term

- **Current performance off to a good start:** The survey confirmed that current business conditions are improving, although this did little to lift the outlook. Our GBAI current performance index for business activity rose to 54.3 in Q1 from 51.4 in Q4; this 2.9pt q/q increase brought the headline index to a 11-quarter high, and the second-highest since the COVID outbreak. A further breakdown shows that all but one index component rose q/q, led by 'profits' (+6.2pts), 'new orders' (+5.5pts) and 'production/sales' (+5.1pts) reaching above the 60 mark. We think this bodes well for short-term economic momentum as these three components are our best proxies for immediate business performance, indicating a solid start to 2024 for the entire GBA region.

On the other end of the spectrum, 'raw material inventory' (+1.1pts to 46.1) and 'financing scale' (+0.1pts to 47.4) were the only sub-50 prints despite q/q improvements; this, together with 'fixed asset investment' (-0.2pts to 52.0) being the only component with a q/q drop, indicated that (1) companies see little urgency to rebuild production capacity after years of COVID disruption; and (2) confidence in the demand outlook remains weak. The widening gap between the top-scoring and bottom-scoring GBAI components is a concern, although the reasons why some components underperformed could be partly structural, such as the need for less inventory as businesses move towards more of a just-in-time model, and less urgency to borrow as cash flow continues to improve (more on this on the next page).

- **No rebound in expectations indices for now:** The GBAI expectations index for business activity stayed largely unchanged in Q1 at 54.0, vs 54.1 in Q4. The absence of a rebound in expectations led to a lower headline expectations print than the current performance index – for the first time since we inaugurated our GBAI survey in 2020. While a reading above 50 indicates further recovery ahead, respondents in general did not expect much of an acceleration in the recovery momentum in the coming quarter.



On the Ground

Expectations sub-indices had some bright spots

A further breakdown showed a mixed performance among the expectations index components. 'Raw material inventory' was the biggest drag, posting the lowest (and only sub-50) score of 44.8 and the second-largest q/q drop (-3.6pts) among the main components. Only 'profits' had a larger sequential drop (-5.2pts to 57.5), albeit from a much higher level (62.7); similarly, 'production/sales' (56.8) and 'new orders' (57.7) remained the highest scoring components despite their q/q setbacks. On the positive side, we noted improvements in some of the more forward-looking components, including 'fixed asset investment' (+2.9pts), 'capacity utilisation' (+2.4pts) and 'finished goods/services prices' (+1.8pts) and 'financing scale' (+1.6pts). 'Financing scale' returned to the 50 neutral mark (from 48.4 prior), potentially indicating early signs of looser credit conditions after months of monetary policy easing.

- Credit conditions becoming more favourable:** The current performance index for credit rose from 49.5 in Q4-2023 to 52.2 in Q1, the first 50+ reading in a year and the highest print on record (Figure 3). The improvement was broad-based, led by a +6.7pt jump in 'banks' attitude towards lending' to 52.0. Better short-term business performance also helped boost respondents' cash flow positions further to 56.3 (from 53.4) for 'surplus cash' and 52.4 (from 50.3) for 'receivables turnover'. But the biggest positive surprise this time came from the improvement in financing costs – up 1.2pts to 49.7 for borrowing from banks, and up 0.6pts to 50.4 for borrowing from non-banks (a sub-index above 50 means falling borrowing costs, and vice versa). Both of our borrowing cost gauges now stand at the highest level since Q4-2022. These improvements reflect the impact of the latest reserve requirement ratio (RRR) cut in late January (just ahead of our survey period of 1 February-6 March), the collective lift from previous monetary loosening measures, and rising expectations of further easing in the run-up to the National People's Congress (NPC) meetings.

Looking ahead, the headline expectations index for credit improved to 51.6 from 50.9 prior. The expectations sub-indices for 'bank financing cost', 'non-bank financing cost' and 'banks' attitude towards lending' rose a solid 2.0pts, 2.6pts and 2.3pts q/q, respectively, but this was partially offset by weaker 'surplus cash' and 'receivables turnover' expectations. We view this as further evidence of still-cautious growth expectations, and the need for authorities to maintain an easing bias and an overall accommodative credit environment to remain supportive of businesses. We expect more RRR and MLF rate cuts, possibly in Q3, which could coincide with the Fed embarking on its own easing cycle.

Figure 3: Financing costs and banks' lending appetite did not worsen
Five sub-components of our GBAI credit indices – current vs expectations

Current credit conditions saw broad-based improvement

	Current performance			Expectations		
	Q1-2024	Q4-2023	Q3-2023	Q1-2024	Q4-2023	Q3-2023
Credit index	52.2	49.5	48.9	51.6	50.9	50.9
1. Bank financing cost *	49.7	48.5	48.0	48.8	46.8	46.4
2. Non-bank financing cost *	50.4	49.8	45.6	51.4	48.8	44.6
3. Banks' attitude towards lending	52.0	45.3	47.6	52.5	50.2	50.8
4. Surplus cash	56.3	53.4	54.3	53.6	56.7	58.1
5. Receivables turnover	52.4	50.3	48.9	51.5	52.2	54.7

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

On the Ground

Three industry sub-indices improved, while two worsened

- Uneven industrial performance:** Not all industries saw improved business performance in the short term. The current performance indices for business activity for 'financial services' (-10.2pts) and 'professional services' (-5.2pts) bucked the trend by registering sizeable q/q declines, falling below the 50 neutral mark (Figure 4). The underperformance of financial services may reflect the ongoing margin compression amid the authorities' commitment to lower borrowing costs, and their expectation for banks to take on a bigger role in supporting the real economy and ensuring the continued delivery of new apartments. All this seems to be working, judging by the improvements in current performance indices for business activity in 'manufacturing and trading' (+3.2pts), 'retail and wholesale' (+3.4pts) and 'innovation and technology' (+3.2pts). Innovation and technology remained in the top spot for a third straight quarter, adding conviction to calls of a bottoming-out in the global tech demand cycle, which bodes well for the government's pursuit of "high-quality" growth with innovation and high-end manufacturing.

Four of our five industry expectations indices fell q/q. Financial services underperformed again, falling sharply by 12.3pts to an industry-low of 44.4. Interestingly, innovation and technology posted the second-largest drop by industry (-6.2pts) despite its second-highest print of 54.6, exceeded only by retail and wholesale, which rose an impressive 6.6pts to 59.1.

- Guangzhou and Shenzhen outperformed:** Guangzhou and Shenzhen were the only two cities that registered improvements in both current performance and expectations sub-indices (Figure 6). Shenzhen likely benefited from the persistent resilience of the innovation and technology sector, while Guangzhou's diverse economy was likely lifted from the rebound in the manufacturing and trading, and retail and wholesale sectors. Dongguan also did well in terms of current performance (59.6), but was middle of the pack on expectations (54.4).

Figure 4: GBAI business sub-indices by sector

Business activity	Current performance			Expectations		
	Q1-2024	Q4-2023	Q3-2023	Q1-2024	Q4-2023	Q3-2023
Manufacturing and trading	54.7	51.5	52.4	53.6	54.2	56.2
Retail and wholesale	53.9	50.5	55.1	59.1	52.5	57.5
Financial services	42.4	52.6	53.5	44.4	56.7	57.1
Professional services	45.6	50.8	48.8	46.8	48.2	53.9
Innovation and technology	57.8	54.6	58.8	54.6	60.8	55.0

Source: HKTDC, Standard Chartered Research

Figure 5: GBAI credit sub-indices by sector

Credit	Current performance			Expectations		
	Q1-2024	Q4-2023	Q3-2023	Q1-2024	Q4-2023	Q3-2023
Manufacturing and trading	52.4	49.1	49.0	51.5	51.0	50.9
Retail and wholesale	50.8	51.4	48.2	51.2	50.8	51.1
Financial services	50.5	50.9	49.8	49.7	47.6	50.2
Professional services	49.5	48.7	45.6	50.1	48.6	48.6
Innovation and technology	52.7	52.0	50.2	58.7	54.5	52.3

Source: HKTDC, Standard Chartered Research



On the Ground

On the other end of the spectrum, Hong Kong was a clear underperformer, posting the steepest drops among all city sub-indices (-6.7pts for current performance and -4.8pts for expectations), making it the only city with sub-50 scores. Hong Kong's inability to share the sentiment improvement across the GBA could be explained by the city's high financial services content; the recent supportive policies announced in the 2024 budget (including the scrapping of demand-side management measures for residential properties) may need more time to feed through to local sentiment and real activity.

Key takeaways from our thematic questions

Survey results echo a promising outlook for e-commerce in the GBA

For our Q1 thematic questions, we take a closer look at GBA companies' current participation and their future plans in cross-border e-commerce/online sales. E-commerce is increasingly becoming an integral part to many businesses in China, which is currently the world's top online retail market and home to some of the largest e-commerce marketplaces globally. We take this opportunity to understand the types of hurdles participants face when expanding their online business, and what is needed to promote further development. We also see cross-border e-commerce as an increasingly important channel for GBA companies to extend their reach to new overseas markets, boosting their revenue as well as brand image.

Most companies with an e-commerce presence said it accounts for c.21-40% of sales

Growing GBA business online

As a start, we asked respondents whether they currently generate online sales and/or conduct cross-border e-commerce, and if so, how much does online contribute to their total sales (Figure 8). 44.6% of respondents said they have current online operations, with over half of these reporting that online sales account for 21-40% of their total sales (27.8% reported 21-30% of total sales; and 25.8% reported 31-40%). These categories also got the most votes across most GBA cities, plus the manufacturing and trade and retail and wholesale sectors. Financial services and professional services had more respondents in the 11-20% bracket, possibly because their operations are services-oriented. Shenzhen (by city) and innovation and technology (by sector) posted the lowest scores for 'no online business'.

Figure 6: GBAI business sub-indices by city

Business activity	Current performance			Expectations		
	Q1-2024	Q4-2023	Q3-2023	Q1-2024	Q4-2023	Q3-2023
Hong Kong	43.3	50.0	49.0	44.2	49.0	52.6
Guangzhou	57.1	51.7	54.9	60.6	55.6	59.7
Shenzhen	55.9	49.5	54.8	55.9	54.3	56.6
Foshan	53.8	55.6	52.4	53.4	57.3	58.3
Dongguan	59.6	51.7	53.8	54.4	56.4	59.1
Macau and other cities	53.9	53.8	48.5	49.4	53.0	51.7

Source: HKTDC, Standard Chartered Research

Figure 7: GBAI credit sub-indices by city

Credit	Current performance			Expectations		
	Q1-2024	Q4-2023	Q3-2023	Q1-2024	Q4-2023	Q3-2023
Hong Kong	50.4	46.3	48.0	50.6	45.9	49.1
Guangzhou	53.3	51.8	50.2	52.6	51.7	53.2
Shenzhen	52.9	48.4	49.1	51.9	51.1	50.8
Foshan	50.8	48.8	49.5	50.1	51.9	50.9
Dongguan	50.8	53.7	48.2	50.7	56.5	51.6
Macau and other cities	51.6	49.9	47.6	51.7	49.4	49.7

Source: HKTDC, Standard Chartered Research



On the Ground

Building on that, we asked respondents about their plans for cross-border e-commerce and/or online sales in 2024. Among 450 respondents that already have online operations, 24.7% see an increase, while 68.9% expect no change and the remaining 6.4% expect a decrease. The net-increase bias bodes well for the continued development of the GBA's digital economy. Among the remaining 558 respondents that currently do not have e-commerce operations, 2.5% said they will start in 2024, and another 27.1% said they are considering going online (Figure 9).

ASEAN and the rest of Asia are the most attractive e-commerce markets outside of China

Geographical reach of e-commerce

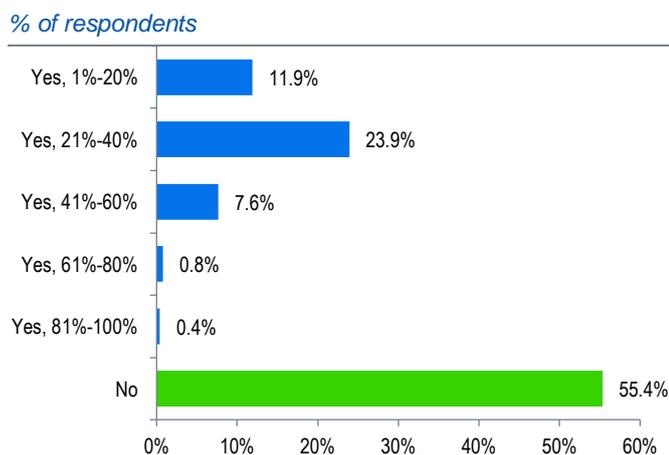
We asked about respondents' top three buyer locations for cross-border e-commerce/online sales. China received the most votes (86.4%), followed by 'rest of Asia' (42.2%, including Japan and Korea, and excluding ASEAN and India which are listed as separate choices), the US (32.9%), ASEAN (30.7%) and Europe (29.8%). China got even more votes (89.7%) from those that will/or plan to start online operations this year, with other Asian destinations rounding out the top three spots (Figures 10-11). Looking ahead, responses for ASEAN and 'rest of Asia' stayed strong when asked which locations will be the most attractive e-commerce markets for the next two years (Figures 12-13). While fewer respondents (both those with existing and planned online operations) picked China as the market with the most growth potential in the next two years, it was still top-ranked on this metric by a substantial majority. Moreover, China's e-commerce potential is being currently tapped the most, compared to other destinations.

The responses were consistent with (1) China's perceived high e-commerce penetration, reflecting the ease as well as pressure for non-participants to get on board; and (2) our long-standing view that growing diversification needs are driving GBA businesses to build shorter and more resilient supply chains and explore nearby markets amid lingering economic and geopolitical uncertainty.

Challenges, opportunities and support needed

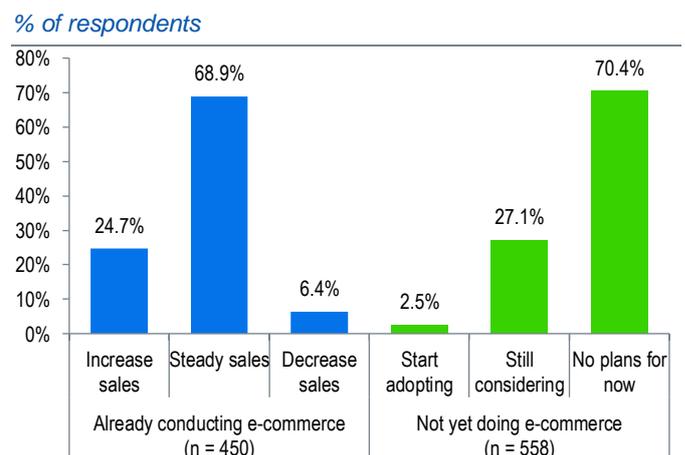
'Lack of online marketing expertise', 'intense price competition and narrow margins' and 'lack relevant technical supports' were cited as the top three hurdles for conducting/expanding cross-border e-commerce/online sales; this result was consistent across all groups of respondents, i.e., those participating in e-commerce, those that plan to do so, or those that have no plans for now (Figure 13). This shows that companies still face a number of structural barriers and would benefit from a

Figure 8: Are you currently conducting cross-border e-commerce/online sales? If so, what is its % of sales?



Source: HKTDC, Standard Chartered Research

Figure 9: What is your expectation for cross-border e-commerce/online sales in 2024?



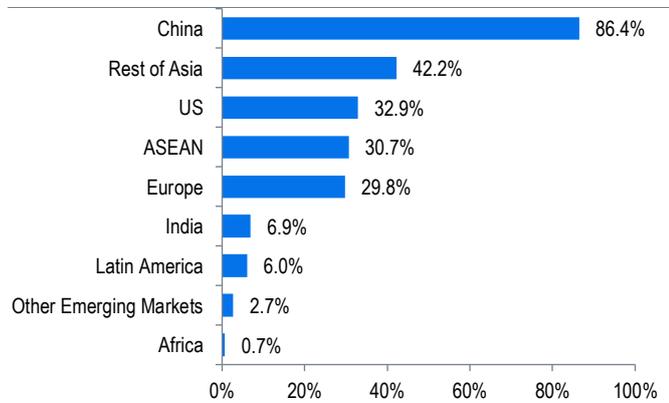
Source: HKTDC, Standard Chartered Research



On the Ground

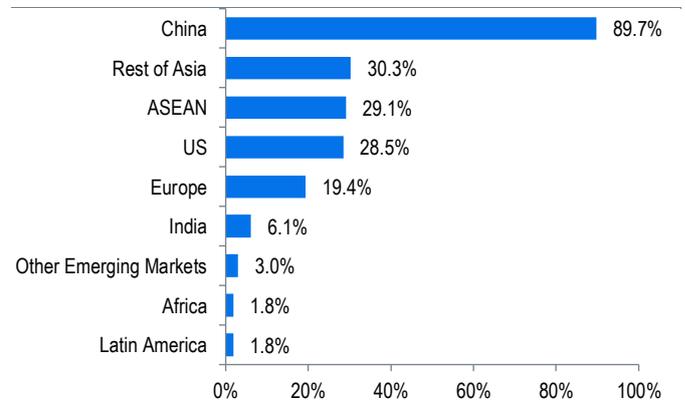
wider range of external support measures. 'Technical support' (42.7%) was, unsurprisingly, the top choice, followed by 'logistical services for cross-border delivery/customs clearance' (32.2%) and 'financial services support' (31.8%) for all existing online sales practitioners; interestingly, non-practitioners share the same top three choices (Figure 14). Finally, in terms of opportunities, our respondents identified 'additional sale channels and revenue' as the undisputed top benefit of going online, with 'enhanced access to mainland China's domestic/overseas markets and clients', 'increase brand visibility and company reputation' and 'maximise promotional efforts' rounding out the top four spots (Figure 15).

Figure 10: For your cross-border e-commerce/online sales, where are the top 3 locations of your buyers?
% of respondents already conducting e-commerce



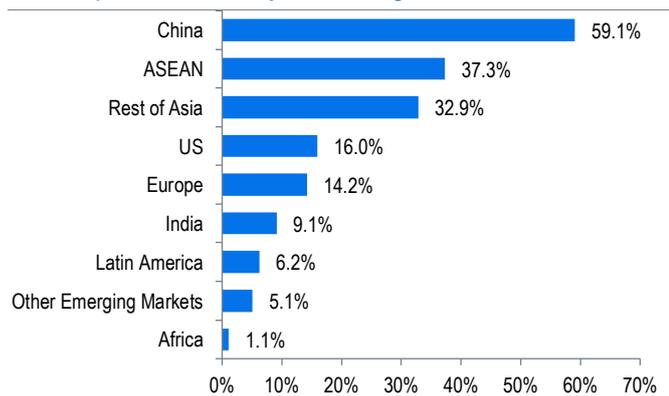
Source: HKTDC, Standard Chartered Research

Figure 11: For your cross-border e-commerce/online sales, where are the top 3 locations of your buyers?
% of respondents that will / plan to conduct e-commerce



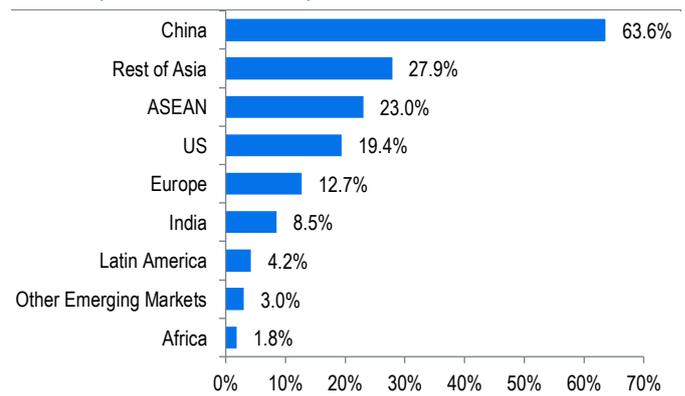
Source: HKTDC, Standard Chartered Research

Figure 12: Which market(s) do you expect to have the biggest growth potential for the next 2 years?
% of respondents already conducting e-commerce



Source: HKTDC, Standard Chartered Research

Figure 13: Which market(s) do you expect to have the biggest growth potential for the next 2 years?
% of respondents that will / plan to conduct e-commerce



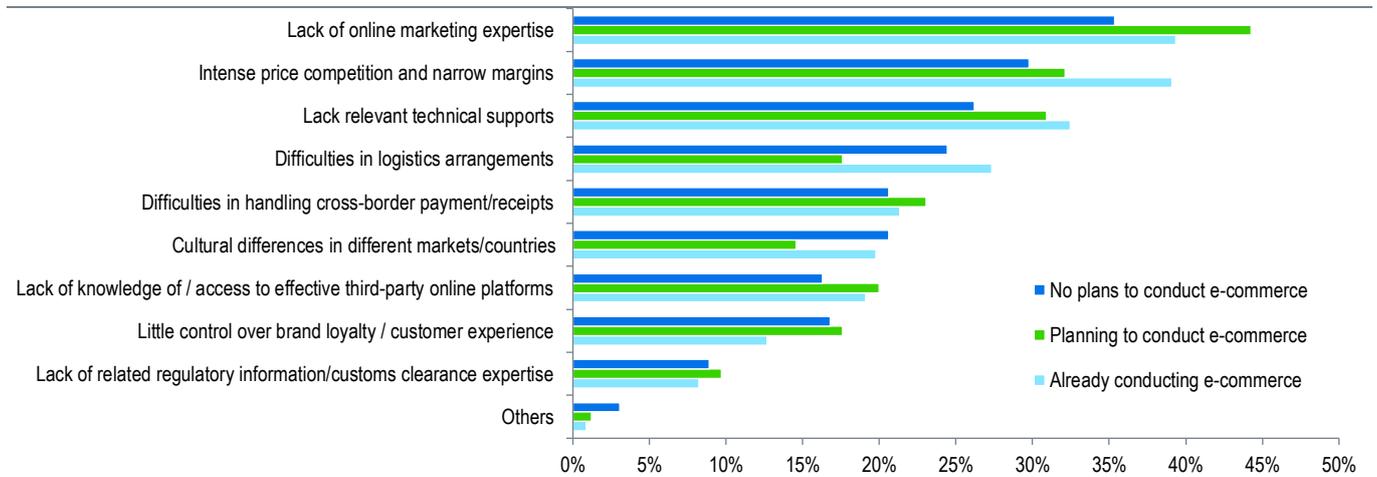
Source: HKTDC, Standard Chartered Research



On the Ground

Figure 14: What are the biggest hurdles for conducting / expanding cross-border e-commerce/online sales?

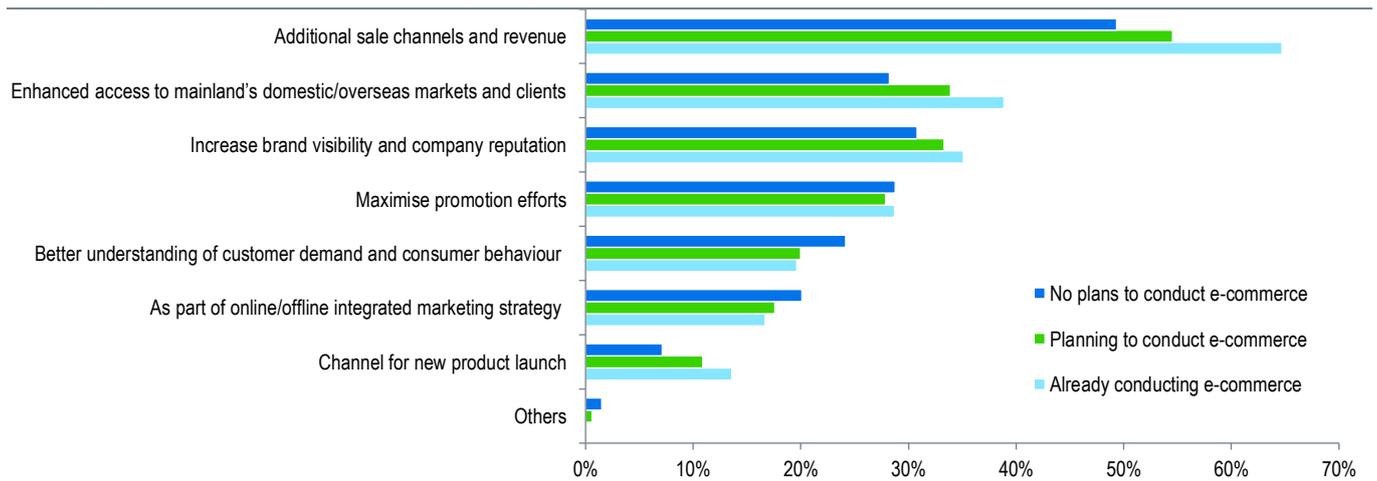
% of respondents, by current e-commerce participation



Source: HKTDC, Standard Chartered Research

Figure 15: What are the benefits/opportunities in developing cross-border e-commerce/online channels?

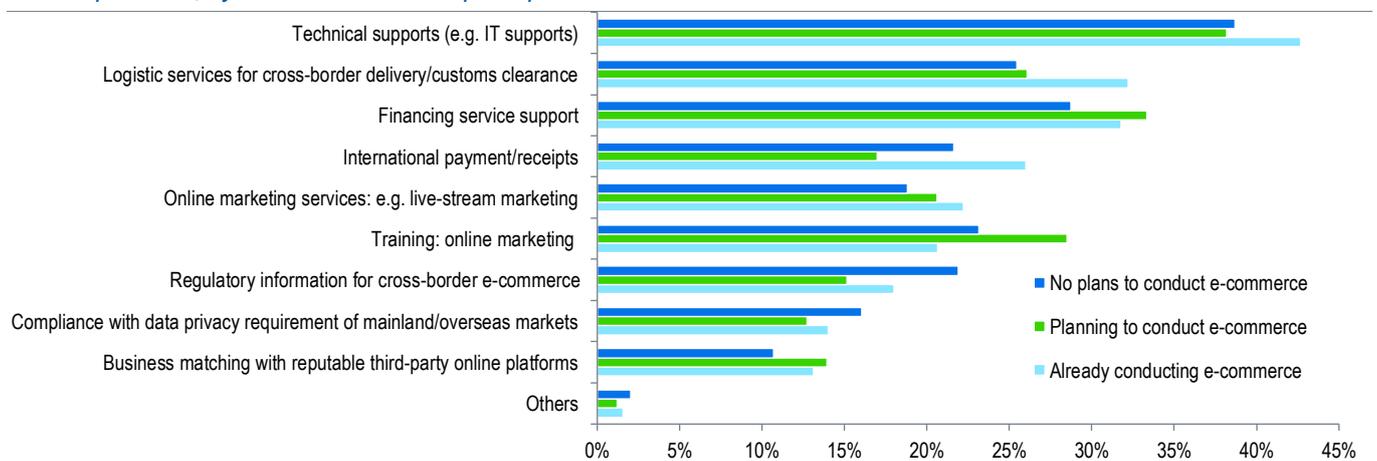
% of respondents, by current e-commerce participation



Source: HKTDC, Standard Chartered Research

Figure 16: Do your companies need any service support for developing cross-border e-commerce/online channels?

% of respondents, by current e-commerce participation



Source: HKTDC, Standard Chartered Research



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