In collaboration with:

GBA – Survey shows sentiment holding up

- **Q2 GBAI headline indices stayed largely unchanged in Q2, confirming sustained momentum from Q1**
- **Falling 'raw material inventory' appears less worrying when all other sub-indices are expanding**
- **We also look into tech companies' underperformance, and impact of 'new quality productive forces'**

Nuances behind the steady headline numbers

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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 Q2 business sentiment was largely unchanged from Q1's solid prints, indicating steady economic momentum (Figures 1 and 2). 'Current performance' and 'expectations' headline indices for business activity both stayed above 54 (50 being neutral), with the latter registering its first rise in five quarters. A further breakdown shows that the component scores of 'production/sales', 'new orders' and 'profits' – our best proxies for short-term business performance – maintained their top three spots. 'Raw material inventory' stayed below 50 for a fifth straight quarter, though we note that inventory tends to fall in the early stages of a demand cycle rebound. We also see room for financing and investment expectations to play catch-up, with more policy support likely to help.

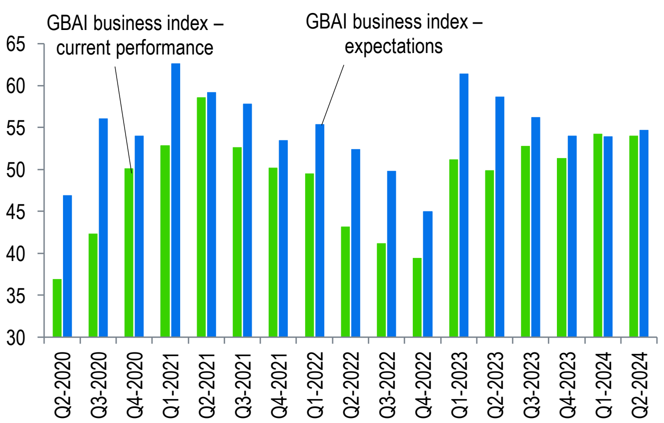
Our GBAI credit indices suggest improving cash flow positions and expectations of falling bank financing costs. By industry, 'innovation and technology' is the lone underperformer, likely reflecting concerns over the rise in Western tariffs on imports from China. That said, despite being known for its high I&T content, Shenzhen's overall index score rose on the strong performance of its other industries. On the thematic questions, almost half our respondents said China's "new quality productive forces" policy push was relevant to their business. Moreover, less than 12% of respondents saw 'a very high risk' of overinvestment in some of the new industries. We noted plans for more industrial upgrading and a reduction in foreign tech reliance.

Figure 1: GBAI business index and its sub-components

	Current performance			Expectations		
	Q2-2024	Q1-2024	Q4-2023	**Q2-2024**	Q1-2024	Q4-2023
Business index	**54.1**	54.3	51.4	**54.8**	54.0	54.1
1. Production/sales	**59.0**	61.2	56.0	**57.6**	56.8	57.6
2. New orders	**58.3**	60.8	55.3	**59.2**	57.7	57.9
3. Capacity utilisation	**53.5**	52.5	49.4	**55.4**	53.7	51.3
4. Raw material inventory	**42.5**	46.1	45.0	**46.1**	44.8	48.4
5. Prices of finished goods/services	**54.4**	53.8	51.5	**55.0**	56.0	54.2
6. Fixed asset investment	**54.6**	52.0	52.2	**55.0**	55.5	52.5
7. Financing scale	**52.7**	47.4	47.4	**47.8**	50.0	48.4
8. Profit	**57.8**	60.9	54.7	**62.2**	57.5	62.7

Source: HKTDC, Standard Chartered Research

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



Source: HKTDC, Standard Chartered Research

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Steady as she goes

Largely unchanged headline indices consistent with steady growth momentum

Our Q2 headline GBAI indices remain largely unchanged from Q1 – we do not view this as negative. Both the 'current performance' (54.1) and 'expectations' (54.8) headline prints for business activity are still comfortably above the 50 neutral mark, reflecting sustained expansionary growth momentum following a solid start to 2024. The expectations index also ceased to decline after correcting for four consecutive quarters, which reflects a stabilisation in growth expectations. Recent nationwide macro data supports the view that China's growth, while not accelerating, remains at a solid pace YTD. Exports have been strong, albeit offset by the lingering drag from weak domestic demand, including for retail sales and investment. Credit growth softened further in May, but the prospect of more monetary and fiscal support on the horizon should keep deflationary expectations from becoming entrenched. Moreover, with our latest survey being conducted between early May-early June, the GBAI likely benefited from the announcement of additional measures supporting the real estate market during the period. The new measures make mortgages cheaper and are aimed at reducing the stock of unsold properties, thus putting a floor under prices and stabilising consumer confidence. However, we expect this process to take time to materialise given prevailing weak demand.

A further breakdown of our GBAI echoes a more nuanced picture beneath the steady headline index prints. We list our detailed survey findings below:

Breakdown of 'current performance' shows more for a mixed bag

- **Current performance shows a glass half-full:** Our GBAI current performance index for business activity fell marginally from 54.3 in Q1 to 54.1 in Q2 – staying above 54 for a second straight month, near its strongest level since Q2-2021. Four of the eight index components fell q/q, but these were mostly the same components that outperformed in Q1; in particular, 'production' (59.0), 'new orders' (58.3) and 'profits' (57.8) remained the three highest-performing components after correcting from strong Q1 levels. The only exception was 'raw material inventory' (42.5), which has been the weakest component for some quarters, falling further below 50 in the latest survey. Even so, we think this result reflects a 'glass half-full' because raw material inventory typically falls in the early stages of a demand cycle rebound as production picks up while restocking comes with a lag.

  Among the other four index components that rose q/q in Q2, all stayed comfortably above the 50 neutral mark. We are particularly encouraged by the +5.3pts jump in 'financing scale' to 52.7 from 47.4 prior; this, together with the +2.6pts rise in 'fixed asset investments' to 54.6 from 52.0 prior, could be an early sign of urgency returning among our GBA respondents to start rebuilding production capacity after years of COVID disruptions. For now, 'capacity utilisation' is on the mend, rising by 1pt to 53.5 from 52.5 prior; the latest two quarters were the only two 50+ prints since Q2-2021.

First rise in expectations index in five quarters

- **Expectations stay modestly positive**: The GBAI expectations index for business activity rose to 54.8 in Q2 from 54.0 in Q1. While the improvement remains too modest to see a widening in its gap above the current performance index (which was the norm for most quarters prior to 2024; Figure 2), the latest headline expectations print is still the highest in three quarters and the first q/q rise in five quarters. By component, five of eight sub-indices showed a sequential improvement, led by 'profits' (+4.7pts to 62.2), 'capacity utilisation' (+1.6pts to

55.4) and 'new orders' (+1.4pts to 59.2). Even the weakest component, 'raw material inventory', became less of a drag in Q2 (+1.3pts to 46.1).

The q/q setback to 'financing scale' (-2.2pts to 47.8) prevented the expectations gauge from rebounding further. Both 'financing scale' and 'fixed asset investments' have not benefited from their respective stronger 'current performance' prints. We interpret this as a sign of lingering caution towards the longer-term business outlook despite solid short-term activity.

Monetary easing and improving cash flows create tailwinds

- **Credit conditions expected to improve further:** We think additional policy support is needed to materially lift the expectations indicators in the coming quarters. We expect fiscal policy to do the heavy lifting, given that the immediate room to pursue substantial monetary policy easing appears constrained by FX stability and banking-sector profitability considerations. On a positive note, however, our respondents see credit conditions improving this quarter and the next (Figure 3).

  The current performance index for 'credit' stayed at 52.5 for a second straight quarter, matching the highest print since records started in July 2020. A drop in 'bank financing cost' to 46.7 from 49.7 prior (a print below 50 indicates rising cost) was mostly offset by q/q improvements across 'non-bank financing costs' (+0.9pts to 51.2), 'banks' attitude towards lending (+2.1pts to 54.2) and 'receivables turnover' (+0.5pts to 52.9). 'Surplus cash' was even higher at 55.8 (albeit down from 56.3 in Q1), indicating that respondents see solid business activity supporting better cash flow positions.

  Looking ahead, the headline expectations index for 'credit' improved to 52.8 from 51.6 prior. Four of the five sub-indices rose q/q, led by a 2.2pt jump in 'bank financing cost' to 51.0, reflecting respondents' expectation of further monetary easing. We echo this expectation and forecast a 10bps medium-term lending facility (MLF) rate cut in Q3, though this is likely to be preceded by a round of deposit rate cuts to mitigate the impact on banks' shrinking net interest margins. 'Receivables turnover' was the lone sub-index that did not improve in Q2, but still indicated positive momentum by staying largely unchanged at 51.4.

- **Tech companies were the odd one out:** While headline indices remained largely steady in Q2, our industry sub-indices showed a more diverse performance (Figure 4). On the one hand. 'retail and wholesale' (+3.9pts for 'current

Both current and expected credit indices staying in expansion territory

Figure 3: Improving cash flow positions remain a bright spot

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

	Current performance			Expectations		
	Q2-2024	Q1-2024	Q4-2023	Q2-2024	Q1-2024	Q4-2023
Credit index	**52.2**	**52.2**	**49.5**	**52.8**	**51.6**	**50.9**
1. Bank financing cost *	46.7	49.7	48.5	51.0	48.8	46.8
2. Non-bank financing cost *	51.2	50.4	49.8	52.4	51.4	48.8
3. Banks' attitude towards lending	54.2	52.0	45.3	53.0	52.5	50.2
4. Surplus cash	55.8	56.3	53.4	56.3	53.6	56.7
5. Receivables turnover	52.9	52.4	50.3	51.4	51.5	52.2

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

performance' and +2.6pts for 'expectations'), 'financial services' (+15.0pts, +10.7pts) and 'professional services (+7.6pts, +12.3pts) all improved materially q/q, possibly due to catch-up play. Financial and professional services, which were clear underperformers in Q1, were likely due for a sentiment rebound. The outperformance of 'retail and wholesale' matched stronger nationwide retail sales numbers in May, with growth rebounding to 3.7% y/y from 2.3% in April, beating the 3% consensus estimate. The May Labour Day holidays and an early start to the '618' online shopping festival likely boosted household demand, allowing 'retail and wholesale' to beat 'manufacturing and trading' (-0.9pts, +0.7pts) despite the latter's stronger start to 2024. In particular, the export outlook could be increasingly tainted by renewed concerns over Western tariffs on imports from China; this was likely reflected by the official PMI new export orders sub-index falling below 50 in May.

Tech companies turn more cautious

'Innovation and technology' (I&T) appeared to take an even bigger hit from tariff concerns; its 'current performance' sub-index plunged to 43.9 from 57.8 prior, and 'expectations' fell sharply to 38.1 from 54.6 in Q1. This did not come as a surprise, as during the survey period, the US hiked tariffs on USD 18bn worth of imports from China, targeting strategic sectors such as electric vehicles (EVs), batteries and steel as part of its Section 301 review. The same period also marked the run-up to the European Commission's more recent decision to impose anti-subsidy tariffs on Chinese EVs. Some of our I&T respondents are probably part of such EV and lithium battery supply chains, and their reliance on external demand could be a lingering concern going into the US elections.

Shenzhen doing well despite downbeat tech respondents

- **Shenzhen weathering I&T headwinds**: We saw varied levels of confidence across I&T respondents in the three key cities of Shenzhen (42.0 for 'current performance', and 33.7 for 'expectations'), Guangzhou (50.0, 59.4) and Hong Kong (63.2, 76.0). This shows that not all tech companies are equally vulnerable to the tariff hikes from Western countries. Hong Kong's I&T outperformance likely reflects the city's recent innovation and technology push via attracting strategic enterprises and related talent. Meanwhile, Shenzhen posted the highest prints for

Figure 4: GBAI business sub-indices by sector

Business activity	Current performance			Expectations		
	Q2-2024	Q1-2024	Q4-2023	Q2-2024	Q1-2024	Q4-2023
Manufacturing and trading	**53.9**	54.7	51.5	**54.3**	53.6	54.2
Retail and wholesale	**57.9**	53.9	50.5	**61.6**	59.1	52.5
Financial services	**57.3**	42.4	52.6	**55.0**	44.4	56.7
Professional services	**53.2**	45.6	50.8	**59.1**	46.8	48.2
Innovation and technology	**43.9**	57.8	54.6	**38.1**	54.6	60.8

Source: HKTDC, Standard Chartered Research

Figure 5: GBAI credit sub-indices by sector

Credit	Current performance			Expectations		
	Q2-2024	Q1-2024	Q4-2023	Q2-2024	Q1-2024	Q4-2023
Manufacturing and trading	**52.2**	52.4	49.1	**53.0**	51.5	51.0
Retail and wholesale	**53.6**	50.8	51.4	**54.0**	51.2	50.8
Financial services	**50.7**	50.5	50.9	**51.4**	49.7	47.6
Professional services	**49.8**	49.5	48.7	**48.8**	50.1	48.6
Innovation and technology	**46.4**	52.7	52.0	**45.8**	58.7	54.5

Source: HKTDC, Standard Chartered Research

'current performance' (57.3) and 'expectations' (57.1) of the three cities despite the drag from its I&T sector, underscoring the resilience of other sectors such as 'retail and wholesale' and 'manufacturing and trading' (Figure 6). Hong Kong also likely benefited from its high skew towards financial and professional services while Guangzhou's drivers are more well-rounded.

Beyond the core cities, Foshan improved in Q2, while Dongguan plunged and ranked last. The contrast in performance between the two cities could be explained by their different manufacturing focus, with Foshan being more focused on machinery and equipment manufacturing, which likely got a boost from China's nationwide equipment upgrading campaign, while Dongguan has traditionally been a stronger base for manufacturing consumer products.

Key takeaways from our thematic questions

We asked respondents how much they might benefit from China's push to promote innovation and equipment upgrades

For our Q2 thematic questions, we take a closer look at the potential impact of China's 'new quality productive forces' policy on GBA businesses through the lens of our respondents. 'New quality productive forces' is China's latest push to modernise its economic growth model via technology innovation and transformation. The policy's thrust is to boost productivity and promote high-quality development through upgrading production, fostering new strategic industries, and becoming more self-reliant on technology. We believe this shift in China's long-term growth priorities will go a long way in reshaping the GBA's business landscape, given the region's leading role in innovation.

Policy tailwinds for industrial upgrading

Almost half of respondents said the 'new quality productive forces' push is relevant to their business

We asked respondents how and in what ways the 'new quality productive forces' push was relevant to their business. 3.7% respondents said it was 'very relevant' and 33.9% said it was 'somewhat relevant'; this, along with 14.3% choosing 'too early to tell', suggests that a material number of GBA companies could be impacted by the new productivity boosting policy to some degree in the coming years (Figure 8). While I&T companies are likely to be the most impacted (with 46% of respondents choosing 'very

Figure 6: GBAI business sub-indices by city

Business activity	Current performance			Expectations		
	Q2-2024	Q1-2024	Q4-2023	Q2-2024	Q1-2024	Q4-2023
Hong Kong	**47.1**	43.3	50.0	**49.7**	44.2	49.0
Guangzhou	**53.6**	57.1	51.7	**56.6**	60.6	55.6
Shenzhen	**57.3**	55.9	49.5	**57.1**	55.9	54.3
Foshan	**55.3**	53.8	55.6	**57.3**	53.4	57.3
Dongguan	**46.8**	59.6	51.7	**46.1**	54.4	56.4
Macau and other cities	**58.2**	53.9	53.8	**56.7**	49.4	53.0

Source: HKTDC, Standard Chartered Research

Figure 7: GBAI credit sub-indices by city

Credit	Current performance			Expectations		
	Q2-2024	Q1-2024	Q4-2023	Q2-2024	Q1-2024	Q4-2023
Hong Kong	**48.7**	50.4	46.3	**49.1**	50.6	45.9
Guangzhou	**52.1**	53.3	51.8	**53.8**	52.6	51.7
Shenzhen	**54.8**	52.9	48.4	**54.8**	51.9	51.1
Foshan	**52.3**	50.8	48.8	**52.5**	50.1	51.9
Dongguan	**47.5**	50.8	53.7	**50.3**	50.7	56.5
Macau and other cities	**50.4**	51.6	49.9	**50.9**	51.7	49.4

Source: HKTDC, Standard Chartered Research

relevant' or 'somewhat relevant'), respondents from other industries find the new policy relevant as well (ranging from 32.5% for financial services to 41.5% for professional services; Figure 9). By city, Guangzhou (41%) and Shenzhen (39%) are among the cities with the highest share of 'relevant' votes; Hong Kong received 34% 'relevant' votes, indicating that the city's own innovation and tech push aligns its transformation well with the national strategy.

We asked the 37.6% of respondents that voted 'very relevant' and 'somewhat relevant' how they expected their business to benefit from the 'new quality productive forces' push. 'Increasing capacity/ efficiency via tech adoption' (39.1%) ranked as the top response, followed by 'upgrading existing supply chains/business models' (34.8%) and 'increasing supply of tech-savvy workers' (32.2%); Figure 10.

Catalyst for further investment

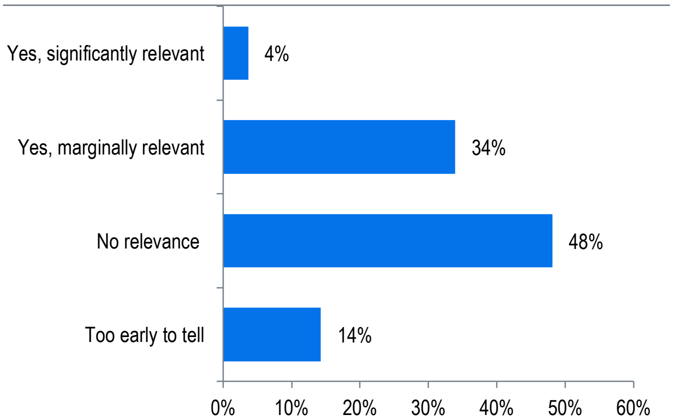
A majority of respondents did not see overcapacity as a high risk

One of the main concerns over China's strong 'new quality productive forces' push is whether there will be enough demand to absorb the impending increase in production capacity (Figure 11). Only 11.7% of respondents saw 'a very high risk' of overinvestment and potential overcapacity in some of the new industries, while a more substantial 36.7% described them as 'only a low risk' while acknowledging that the risks existed. The latter group almost matched those opting 'no, not worried' (35.2%), with the remaining 16.4% saying it was 'too early to tell'. The risk of overcapacity (or macro concerns such as an uncertain economic outlook) did not seem to deter GBA companies from upgrading equipment and making other business investments in the next 12 months. A total 26.1% of respondents said they planned to increase such investment materially or marginally, versus just 6.9% planning a decrease (Figure 12). While a majority 67% opted for no change, we believe strong policy support still gave the results a prominent positive bias.

Longer-term, 71% respondents said they have multi-year plans and targets for 'tech training for staff' (Figure 13), followed by 'increase level of digitalisation' (56%) and 'increase AI/big data application' (48%). It makes sense to us that the latter two responses were chosen more than 'increasing tech R&D' and 'venturing into new/emerging industries' given the relative ease to adopt new technology into existing processes/business models versus creating something new from scratch. Lastly, with 'large-scale equipment upgrading' already well underway, it was not surprising that this response garnered the fewest votes.

Figure 8: Is the 'new quality productive forces' policy push relevant to your business?

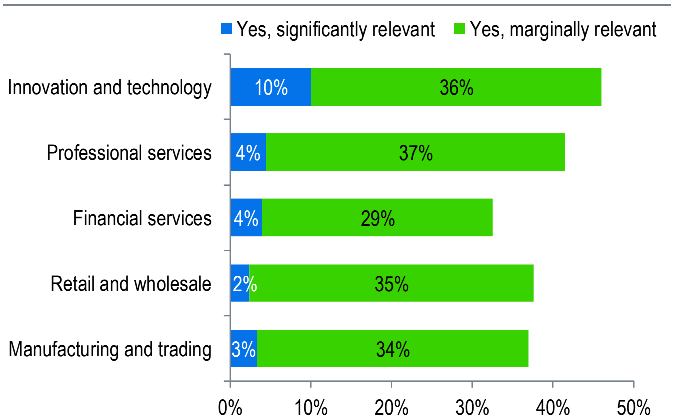
% of respondents



Source: HKTDC, Standard Chartered Research

Figure 9: Is the 'new quality productive forces' policy push relevant to your business?

% of respondents that answered 'yes', by industry



Source: HKTDC, Standard Chartered Research

Reliance on foreign technology

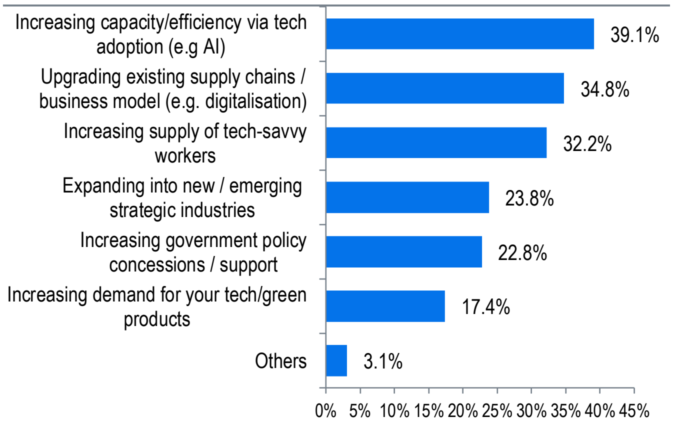
We asked respondents how dependent their businesses are on imported foreign technology (Figure 14). A majority 56.8% of respondents said over 20% of their total technology demand is met by foreign tech imports (almost 27% of respondents for 40%+ of foreign tech content). This implies plenty of room for GBA companies to increase their locally sourced technology content; building a more holistic and self-reliant tech ecosystem domestically is a key focus for China's 'new quality productive forces' push. Looking three to five years ahead, 6.3% respondents said they see a 'material increase' in the adoption of local technology content in their businesses, with another 39.2% seeing a 'marginal increase'. This contrasts with a mere 4.1% seeing an increase in foreign tech reliance (Figure 15).

Challenges and required support

We asked respondents what their biggest hurdles were to accelerating innovation and transforming their business model with technology. The top two clear picks were an 'uncertain economic outlook to justify investment' and 'lack of expertise/talent to pursue innovation', garnering around one-third of votes each (Figure 16). Sizeable and costly initial investment was also a concern, with 'expensive financing/tight credit conditions' and 'not ready to commit to large initial investment' rounding out the top four spots. Interestingly, 'rise in geopolitical risk and trade/non-trade barriers', 'no/limited local

Figure 10: In what way do you see your company benefit from the 'new quality productive forces' push?

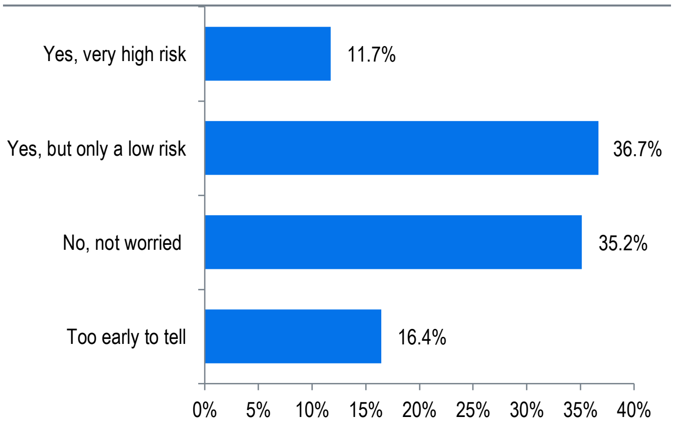
% of respondents



Source: HKTDC, Standard Chartered Research

Figure 11: Do you see risk of overinvestment and potential overcapacity in some of the new industries?

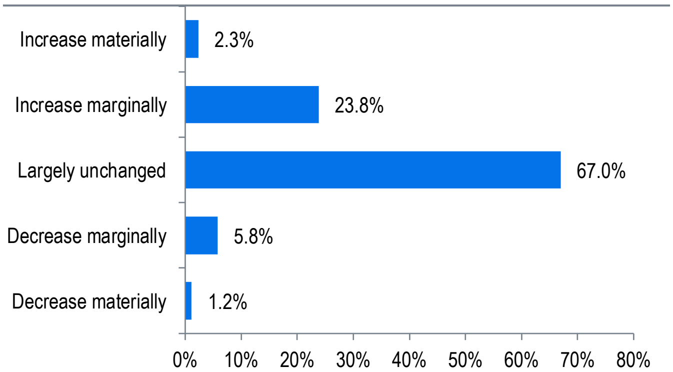
% of respondents



Source: HKTDC, Standard Chartered Research

Figure 12: What are your plans for equipment upgrading and other business investments over the next 12 months?

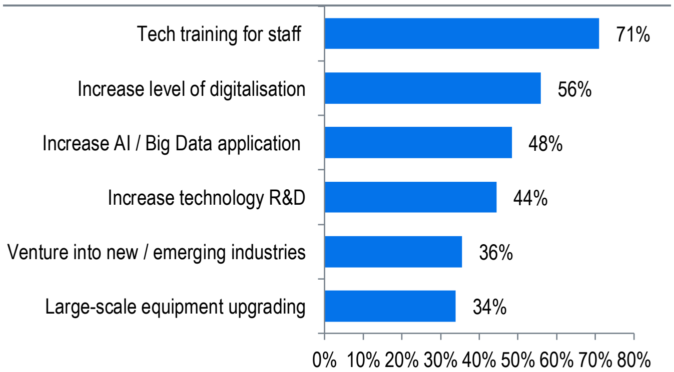
% of respondents



Source: HKTDC, Standard Chartered Research

Figure 13: Do you have long-term (multi-year) plans and targets for the followings?

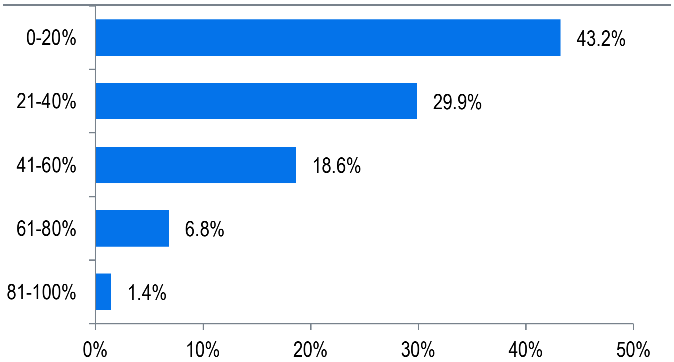
% of respondents saying 'yes'



Source: HKTDC, Standard Chartered Research

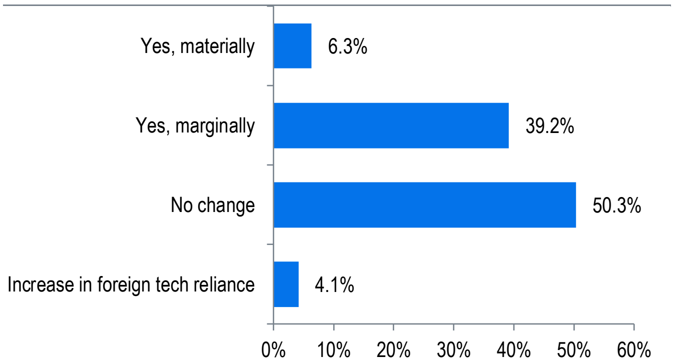
substitute for technology' and 'no/limited access to foreign technology' ranked lower at 6th, 10th and 12th places, respectively. When asked what support they needed to accelerate innovation and business upgrades, the top answer by far was 'better development of young IT talent' at 38.9% of votes, followed by 'more regulatory support/clarity' and 'cheaper/better access to funding' (Figure 17).

Figure 14: How dependent is your business on imported foreign technology? *(% of respondents, by foreign tech imports as % of total technology demand)*



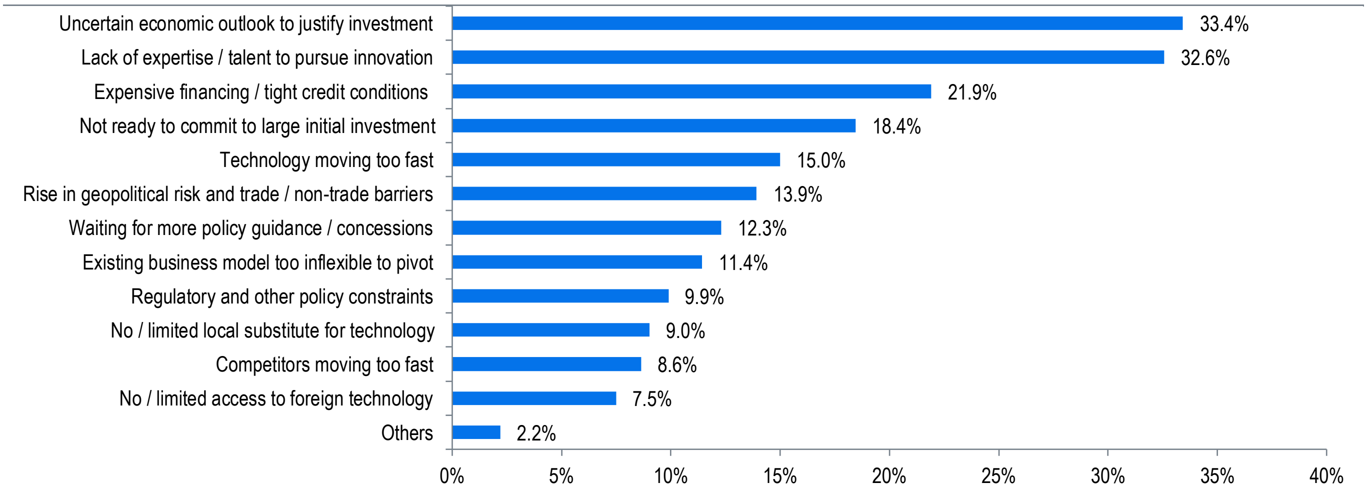
Source: HKTDC, Standard Chartered Research

Figure 15: Do you see an increase in adoption of local technology content in your business in the coming 3-5 years? *(% of respondents)*



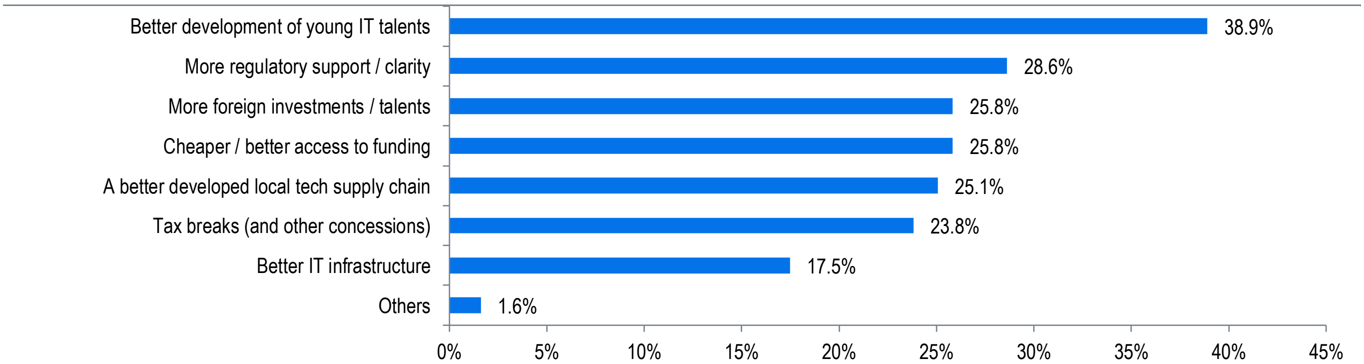
Source: HKTDC, Standard Chartered Research

Figure 16: What are the biggest hurdles for accelerating innovation and transforming your business model with technology? *(% of respondents)*



Source: HKTDC, Standard Chartered Research

Figure 17: What support do you need to accelerate innovation and business upgrading?
% of respondents



Source: HKTDC, Standard Chartered Research

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