Global Research
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GBA – Survey points to further tariff drag in H2

- **Front-loading supported current performance index; expectations index softened but remained positive**
- **Sentiment among tech respondents stayed resilient; retailers struggling just as much as manufacturers**
- **Hong Kong underperformed; thematic questions focused on the impact of, and response to, tariff shocks**

Softening expectations, despite decent current momentum

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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), showed resilient current business performance a month or more after the Liberation Day shock. The headline index tracking short-term business momentum came in at 53.1 in Q2, broadly unchanged from 53.5 in Q1. The improved 'production/sales' sub-index was the main bright spot, confirming that looming tariff uncertainty fuelled the front-loading of orders and production. Looking ahead, however, our expectations indices painted a more cautious picture for H2. The headline expectations score softened to 52.0 – a 10-quarter low – from 54.3 in Q1. Seven of the eight expectations sub-components fell (and the other one was flat). This broad-based setback is a reminder that GBA businesses are set to face more challenges ahead.

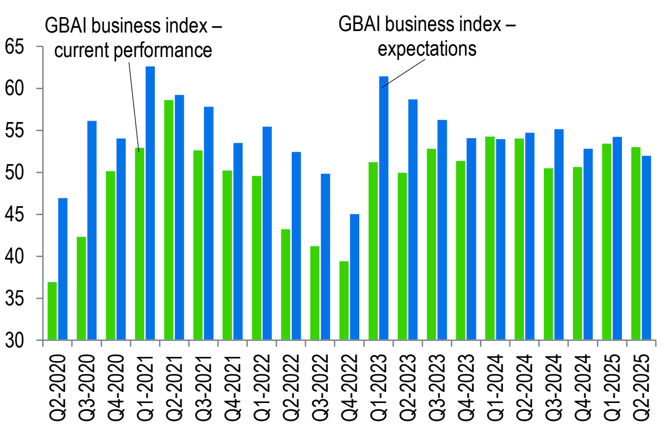
By sector, 'innovation and technology' outperformed, while 'manufacturing and trading' showed short-term resilience. 'Retail and wholesale' disappointed, despite the perceived effectiveness of China's consumer goods trade-in programme. Survey results showed further evidence of Hong Kong's domestic consumption struggles, while Shenzhen got a sizeable boost from tech respondents. Gauges of credit conditions remained mixed, despite an improvement in bank financing costs following China's latest round of monetary easing in May. For thematic questions, we asked respondents about the expected impact of US tariffs and their likely actions. Over 40% said US tariff hikes would delay the implementation of their business plans.

Figure 1: GBAI business index and its sub-components

	Current performance			Expectations		
	Q2-2025	Q1-2025	Q4-2024	Q2-2025	Q1-2025	Q4-2024
Business index	**53.1**	**53.5**	**50.7**	**52.0**	**54.3**	**52.9**
1. Production/sales	57.1	52.9	55.1	54.5	57.1	58.4
2. New orders	49.5	52.6	50.0	52.1	54.6	53.3
3. Capacity utilisation	50.3	52.5	49.3	51.0	51.0	50.0
4. Raw material inventory	54.4	54.3	45.3	51.1	53.2	50.3
5. Prices of finished goods/services	54.7	59.0	55.3	51.7	56.5	54.9
6. Fixed asset investment	54.8	52.8	52.9	51.5	52.1	51.1
7. Financing scale	50.2	51.7	48.5	47.6	52.7	50.7
8. Profit	53.3	52.2	49.2	56.8	57.4	54.2

Source: HKTDC, Standard Chartered Research

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



Source: HKTDC, Standard Chartered Research

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Poor visibility

The latest survey captures the immediate aftermath of Liberation Day, as well as the early phase of de-escalation

Our latest survey was conducted between early May and mid-June, capturing the fallout from Trump's Liberation Day shock as well as the relief provided by the 90-day pause and other walk-backs that soon followed. The survey window covered the early US-China tariff truce in May (the Geneva talks where both sides agreed to suspend most new bilateral tariffs for 90 days) but not the early-June London dialogue (which led to the two sides agreeing on a new framework to further defuse trade tensions). Our index performance reflects this tension between positive short-term news and longer-term uncertainty – the Q2 decline in the GBAI headline expectations index is a reminder of the highly uncertain business outlook for H2, while current performance readings were supported by the rush to front-load orders, production and shipments.

We list the detailed Q2-2025 survey findings below:

Front-loading has helped for now…

Front-loading supported current performance: Our GBAI current performance index for business activity eased marginally to 53.1 in Q2 from 53.5 in Q1 – surprisingly resilient considering frequent changes in the global tariff landscape since Trump announced 'reciprocal tariffs' in early April. The latest headline print remained comfortably above the 52.2 average for the prior two-year-period. A further breakdown of index components supports the front-loading narrative; 'production/sales' was the strongest performer among the eight main sub-indices, in terms of both absolute score (57.1, the highest in a year) and q/q change (+4.2pts); see Figure 1. Other positive drivers include 'fixed asset investment' (+2.0pts), 'profits' (+1.1pts) and 'raw material inventory' (+0.1pts); these gains helped to offset drags from 'new orders' (-3.1pts), 'capacity utilisation' (-2.2pts), 'finished goods/services prices' (-4.3pts) and 'financing scale' (-1.5pts).

…but is expected to fade

- **Expectations reflect lingering caution**: The GBAI expectations index for business activity fell to 52.0 in Q2 from 54.3 in Q1. This is the weakest level since Q4-2022, when the region was still reeling from lingering COVID disruptions, drags from China's housing-market contraction, and destocking pressure from weak external demand. That said, the fact that expectations stayed above the 50 neutral mark provides some relief. The broad-based deterioration across sub-components, however, indicates that bilateral trade deals between the US and its trade partners may need to deliver clearly positive news to convince GBA companies that peak US policy uncertainty is over. This may be a tall order considering Trump's 'America first' approach. Seven of our eight GBAI expectations sub-indices fell q/q in Q2; the exception was 'capacity utilisation', which was unchanged q/q and had the lowest Q1 score to begin with. 'Financing scale' (-5.1pts), 'finished goods/services price' (-4.8pts) and 'production/sales' (-2.6pts) saw the biggest q/q declines this time, reflecting worries about the fading boost from front-loading, persistent deflationary pressure, and limited appetite to expand capacity for now.

- **Credit indices convey mixed messages:** The current performance index for credit improved marginally to 49.3 in Q2 from 48.8 in Q1, but the corresponding expectations index weakened to 48.7 from 49.7 (Figure 3). Both the current performance and expectations sub-indices saw improvements in the 'bank financing costs' component (+5.1pts and +1.8pts, respectively). This may reflect the PBoC's decision to cut policy rates (-10bps) and the reserve requirement ratio (RRR, -50bps) in early May, just before the start of our survey period. Along with policy makers' strong pro-growth stance, CNY resilience since the Liberation Day shock has helped to ease outflow concerns and provided headroom for monetary easing. Against this backdrop, the current score for 'banks' attitude towards lending' stayed broadly steady in Q2, while its expectations score improved (+2.4pts). However, these easing expectations did not spill over to 'non-bank financing' (-3.6pts for both the current and expectation sub-indices). Our gauges of GBA companies' current cash-flow position were also mixed (+2.1pts for 'surplus cash', and -1.0pts for 'receivables turnover'). The corresponding expectations indices, on the other hand, showed much larger declines in 'surplus cash' (-5.0pts) than in 'receivables turnover' (-0.5pts).

Manufacturers saw a steeper drop in expectations than in their current performance score

- **Manufacturing resilience (for now) and a tech surprise**: By sector, the Q2 scores for 'manufacturing and trading' echoed the broader story mentioned above, given their common exposure to US tariff uncertainty (Figure 5). The current performance score for manufacturing and trading respondents fell only marginally to 52.7 from 53.1, and it stayed materially above Q4-2024's 50.1. Rush orders ahead of US tariff implementation have kept manufacturers busy for now. However, the H2 outlook will depend on the outcome of bilateral trade deals after the 90-day pauses end in July and August, as well as the shifting US stance on Section 232 investigations. This helps to explain the drop in the 'manufacturing and trading' expectations index to 52.0 from 54.1.

  Front-loading also benefited the 'innovation and technology' sector given fast-expanding AI development; the sector's current performance score rose 6.3pts to 62.6, and its expectations score rose 5.5pts to 61.3. More services-oriented sectors failed to see a similar boost. 'Retail and wholesale' saw declines in both the current and expectations sub-indices, to 54.4 (-1.0pts) and 51.5 (-4.1pts), respectively – despite China's consumer goods trade-in programme proving effective in boosting retail sales in recent months. 'Financial services' was the clear underperformer across sectors, with its Q2 current and expectations sub-indices both falling below the 50 neutral mark to 46.6 (-7.4pts) and 46.3 (-7.3pts), respectively.

- **Setback for Hong Kong and Guangzhou**: Hong Kong saw the biggest q/q drops of the cities in our survey (-9.8pts for current performance and -10.5pts for expectations) and was the only city with sub-50 scores. This partly reflects its disproportionally large external sector relative to GDP size, making it vulnerable to a tariff-induced slowdown in global trade. But Hong Kong's retail sector has been struggling just as much, if not more. Residents have a strong tendency to

Improving bank financing costs have yet to spill over to broader credit conditions

Figure 3: Latest survey captured China's May policy rate and RRR cuts

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

	Current performance			Expectations		
	Q2-2025	Q1-2025	Q4-2024	Q2-2025	Q1-2025	Q4-2024
Credit index	**49.3**	**48.8**	**48.0**	**48.7**	**49.7**	**50.0**
1. Bank financing cost *	47.6	42.5	46.0	47.2	45.4	46.7
2. Non-bank financing cost *	47.5	51.1	50.3	48.0	51.6	53.4
3. Banks' attitude towards lending	51.8	51.9	51.2	51.0	48.6	50.9
4. Surplus cash	50.4	48.3	44.8	48.7	53.7	50.9
5. Receivables turnover	49.3	50.3	47.6	48.6	49.1	48.0

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

travel and spend money overseas or across the border, while mainland visitors are returning only gradually, with weaker per-head spending than before. Hong Kong's unemployment and bankruptcy petition rates have also crept higher YTD (albeit from very low levels), keeping household spending cautious. Hong Kong's 'retail and wholesale' reading dipped to 38.9 for current performance and 38.5 for expectations, the only two sub-40 prints across sectors and cities.

Guangzhou did not fare much better (Figure 4). Like Hong Kong, all eight of its current performance sub-components recorded q/q declines; expectations indices for six of them also fell. The 'manufacturing and trading', 'retail and wholesale', and 'innovation and technology' sectors led the setback. Shenzhen, in contrast, saw material q/q improvements across these three sectors.

Key takeaways from our thematic questions

A deep dive into tariff impact on GBA businesses

For our Q2 thematic questions, we asked GBA companies about the impact of US reciprocal tariffs so far and how they are adapting to greater global trade uncertainty. Our survey questions were drafted shortly after Liberation Day in April, so they did not capture all of the tariff developments since; even so, we believe the responses provide valuable insights into companies' current vulnerabilities and future actions.

Gauging the impact of reciprocal tariffs

Only c.10% of respondents saw a material direct impact from US tariff hikes; pauses and exemptions provided relief

US reciprocal tariffs are considered highly disruptive due to the large size of the hikes (tariff rates on China were raised to triple digits at one stage before being scaled back) as well as their geographical breadth. Most of our respondents (927 out of 1,024) have business operations outside Hong Kong and China (HK/CN), which are just as exposed to reciprocal tariffs as their HK/CN operations. 27.6% of respondents with HK/CN operations and 23.2% of respondents with overseas operations said they

Figure 4: GBAI business sub-indices by city

Business activity	Current performance			Expectations		
	Q2-2025	Q1-2025	Q4-2024	Q2-2025	Q1-2025	Q4-2024
Hong Kong	**43.7**	53.5	48.7	**46.4**	56.9	50.8
Guangzhou	**51.0**	60.3	52.7	**51.7**	58.0	53.4
Shenzhen	**52.0**	49.2	50.0	**51.9**	52.5	53.8
Foshan	**54.7**	57.6	53.3	**52.8**	52.5	50.4
Dongguan	**64.5**	55.2	50.3	**57.5**	55.6	52.2
Macau and other cities	**56.7**	54.9	51.5	**52.9**	54.5	53.2

Source: HKTDC, Standard Chartered Research

Figure 5: GBAI business sub-indices by sector

Business activity	Current performance			Expectations		
	Q2-2025	Q1-2025	Q4-2024	Q2-2025	Q1-2025	Q4-2024
Manufacturing and trading	**52.7**	53.1	50.1	**52.0**	54.1	52.9
Retail and wholesale	**54.4**	55.4	51.9	**51.5**	55.6	51.5
Financial services	**46.6**	54.0	57.9	**46.3**	53.6	57.6
Professional services	**51.6**	55.7	51.1	**49.7**	55.8	47.1
Innovation and technology	**62.6**	56.3	56.3	**61.3**	55.8	57.3

Source: HKTDC, Standard Chartered Research

expect a 'material negative impact from a sizeable surge in tariff rates on China'; but more than half of them also said they expect 'tariff pause/exemptions to help limit the otherwise material negative impact' (Figure 6). This underscores the importance of maintaining the recent US-China trade truce and quickly finalising other bilateral trade deals in Q3. Another 13.7% (HK/CN) and 13.4% (overseas) said reciprocal tariffs had a limited direct impact but a material indirect impact (mainly via weaker aggregate demand and increased uncertainty) on their businesses. A majority of 50.1% (HK/CN) and 55.1% (overseas) reported limited or no impact, either direct or indirect, suggesting that years of diversification since Trump's first term could be coming to fruition.

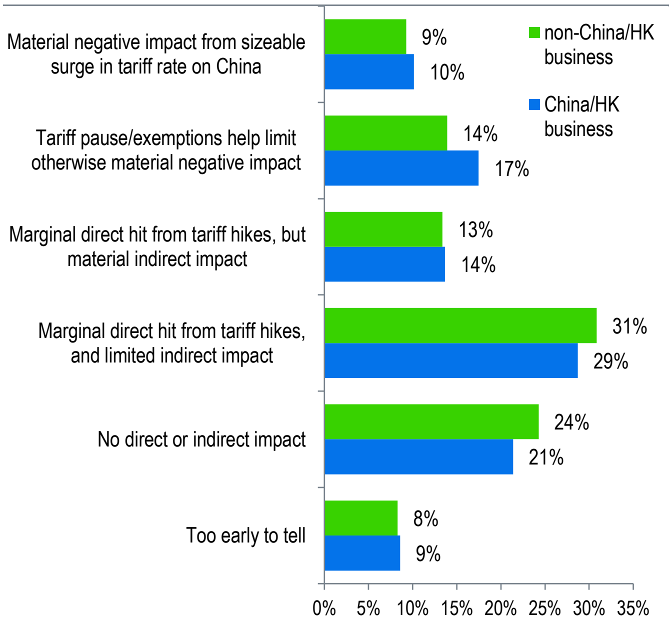
Tariffs are putting business plans on hold

Targeting the respondents who did not choose 'no direct or indirect impact', we asked a follow-up question: 'In what ways is your business most impacted by US tariff hikes?' 41% of respondents chose 'delay in business plan implementation due to tariff policy uncertainty'. This is an important reminder that one needs to look beyond short-term changes in external trade numbers, in either direction, when gauging the economic impact of tariffs (Figure 7). The other top responses were 'difficult to navigate high level of logistical/customs disruption/uncertainty' (35%) and 'losing business to other markets with lower tariff impact' (30%). Breaking down responses by location and industry, Hong Kong respondents and those in the retail/wholesale sector cited 'higher input costs due to China's retaliatory tariffs on the US' as one of their top impacts. Respondents in Dongguan and in the 'manufacturing and trade' sector cited 'profit margin compression due to limited passthrough to end buyers'.

Many ways to deal with tariff uncertainty

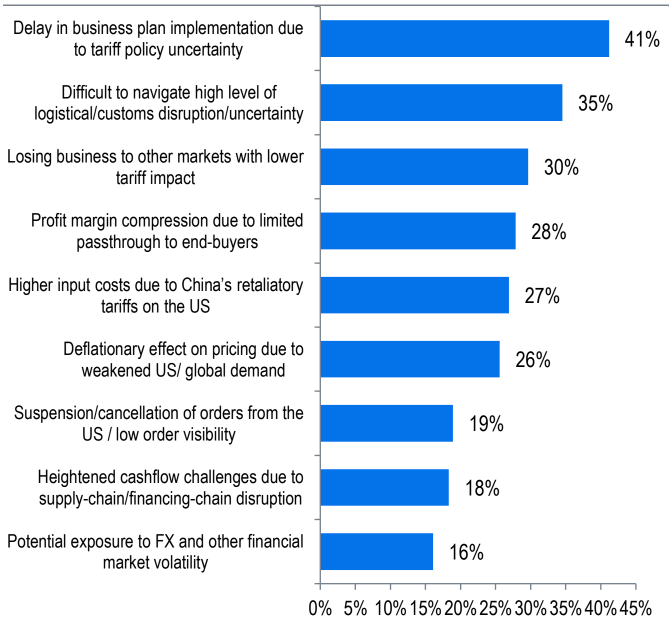
We then asked the same subset of respondents how they are addressing the US tariff shock and/or related uncertainty. The top response was 'selling more into the domestic market', selected by 32% of respondents. Beyond that, though, there was little consensus; the next four most popular responses were all chosen by c.22% of respondents. They included 'front-loading shipments/procurement', 'diversifying

Figure 6: What is the expected impact of Trump reciprocal tariff hikes on your domestic and overseas business?
% of respondents



Source: HKTDC, Standard Chartered Research

Figure 7: In what ways is your business most impacted by US tariff hikes? *(% of respondents that did not choose 'no direct or indirect impact' for prior question)*



Source: HKTDC, Standard Chartered Research

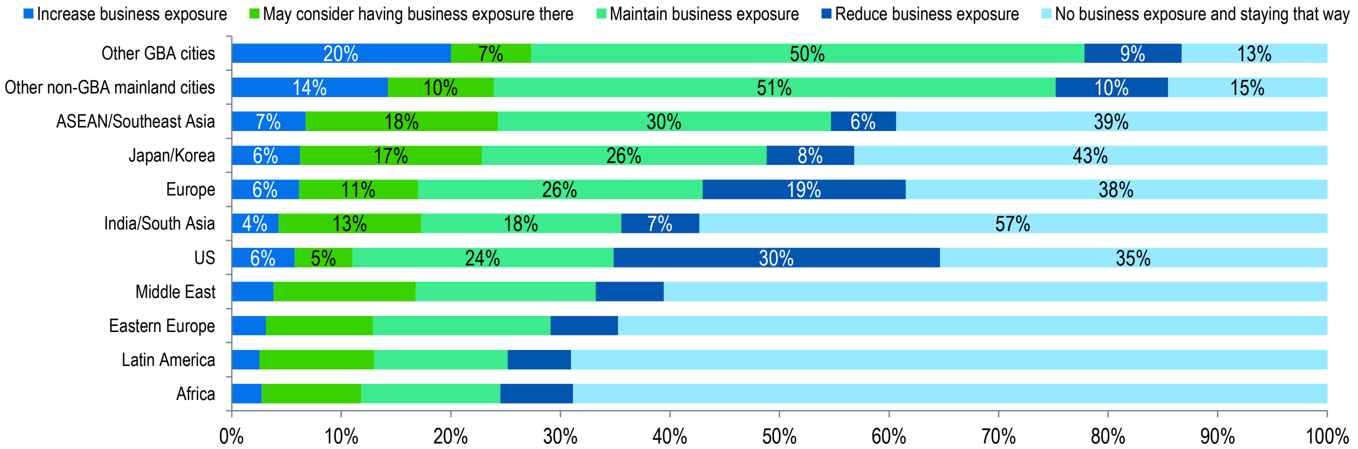
production to other offshore locations', 'changing products/business model' and 'selling more to emerging markets/new overseas markets' (Figure 9).

Mainland cities and ASEAN are favoured destinations for business expansion amid tariff uncertainty

The next question is 'where'

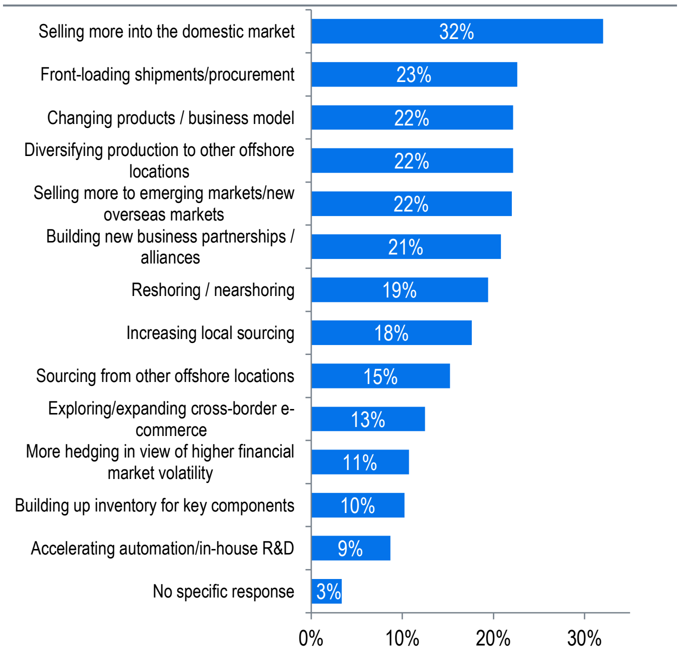
We then asked all respondents where they would do more (or less) business in this new era of US tariff policy. 'Other GBA cities' was the most popular choice for 'increase business exposure' and 'may consider having business exposure there' (27.3%); 'other non-GBA mainland cities' (23.9%) and 'ASEAN/Southeast Asia' (24.3%) rounded out the top three. Unsurprisingly, US had the highest share of votes for 'reduce business exposure' (29.8%), followed by Europe (18.6%); see Figure 8.

Figure 8: Would you consider doing more or less business (where applicable) with these markets/regions in this new era of US tariff policy?
% of respondents



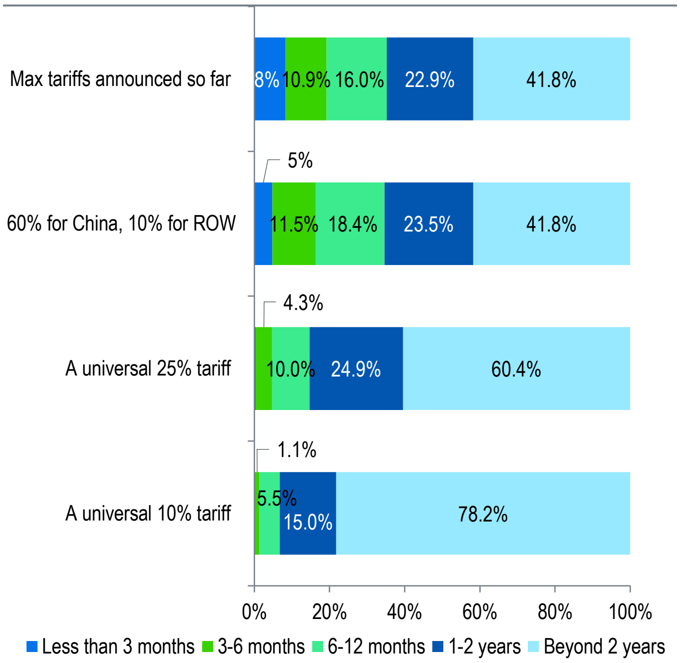
Source: HKTDC, Standard Chartered Research

Figure 9: How are you addressing the US tariff shock and/or related uncertainty? *(% of respondents that did not choose 'no direct or indirect impact' for prior question)*



Source: HKTDC, Standard Chartered Research

Figure 10: How long can your business continue to operate at the following US reciprocal tariff levels?
% of respondents



Source: HKTDC, Standard Chartered Research

Survivability, measured in months/years

Finally, we asked all respondents how long their businesses can continue to operate if US reciprocal tariffs stay at various elevated levels for most trade partners. In the most benign scenario, with all non-US markets facing a universal 10% tariff, 78.2% said they could survive beyond the next two years (Figure 10). This fell to 60.4% if the universal rate is raised to 25%. At the other end of the spectrum, 41.8% said they could survive for more than two years if reciprocal tariffs were to stay at the maximum levels announced so far for most markets, with no exemptions/pauses; in this scenario, 8.3% said they would not survive for more than three months and 35.3% said they would not survive for more than a year. Assuming a more moderate scenario of 60% tariff rate on China and 10% for the rest of the world, the same share of respondents (41.8%) said they could survive for more than two years, and 34.7% said not longer than one year. This suggests that if there is no clarity on further tariff de-escalation between the US with China and the rest of the world, the onus will remain on government support to keep many GBA companies afloat.

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