

GBA – Survey says expectations tempered by reality

- Our GBA indices fell to a nine-quarter low in Q3; evident slowdown weighed on recovery expectations
- Lower borrowing costs, outperformance of financing services and Hong Kong were bright spots
- We took a closer look at COVID disruptions, US-China trade tariffs, housing market downturn and global outlook

Pricing out a swift Q4 rebound

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’ weakened for a fifth straight quarter in Q3, to 41.3 from 43.3 in Q2 (Figure 1). This is the lowest print since the inaugural survey in Q2-2020, reflecting a more challenging reality as both external (rising interest rates and recession risk) and domestic (COVID disruptions and weak housing market) headwinds worsened in recent months. This in turn prompted respondents to turn more cautious towards the Q4 outlook – the expectations index for business activity fell to 49.9 in Q3 from 52.5 in Q2 (Figure 2). Though only a hair below the 50 neutral mark, this was still the first sub-50 print in nine quarters, indicating little hope of a swift pick-up in momentum.

That said, there were some bright spots. Our credit sub-indices showed another quarter of an evident fall in borrowing costs in Q3 (although further improvements from here are not expected). This, together with outperformance of the financial services sector, suggests that the recent wave of (monetary and housing) policy easing has had a positive impact. Hong Kong has managed to stay on a continued recovery path, while other GBA cities continue to struggle – a testimony to the importance of orderly unwinding of COVID restrictions to lifting the GBA’s collective recovery ceiling. Responses to our thematic questions show that respondents have been most affected by COVID disruptions to transportation and logistics. We also asked about their views on the prospect of a reduction in US-China trade tariffs, the impact of a real-estate market downturn, and their exposure to and outlook across countries/regions.

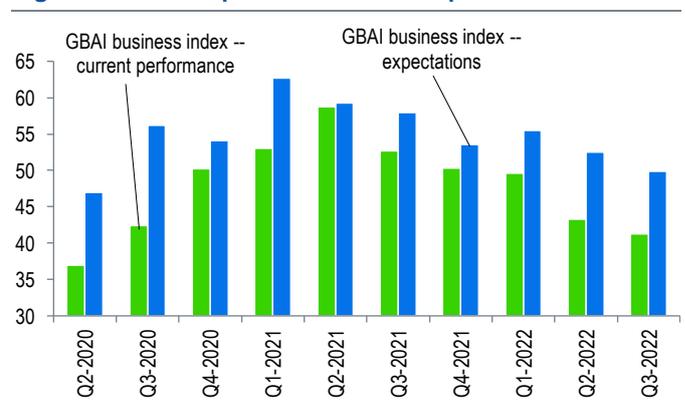
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Figure 1: GBAI business index and its sub-components

	Current performance			Expectations		
	Q3-2022	Q2-2022	Q1-2022	Q3-2022	Q2-2022	Q1-2022
Business index	41.3	43.3	49.6	49.9	52.5	55.5
1. Production/sales	37.8	40.4	48.1	49.5	55.1	55.9
2. New orders	39.1	42.2	47.9	50.9	56.3	55.8
3. Capacity utilisation	41.3	43.4	45.5	51.5	51.5	54.5
4. Raw material inventory	41.4	40.7	50.4	46.0	46.9	53.1
5. Prices of finished goods/services	50.8	54.8	61.4	55.1	57.8	61.7
6. Fixed asset investment	44.2	46.3	48.3	49.0	53.6	52.9
7. Financing scale	38.1	39.7	49.6	47.1	46.2	55.0
8. Profit	37.5	38.8	45.8	50.5	52.8	55.4

Source: HKTDC, Standard Chartered Research

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



Source: HKTDC, Standard Chartered Research

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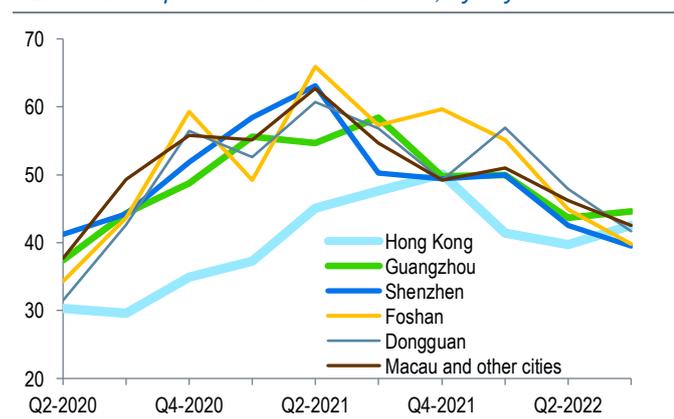
Detailed findings of the GBAI survey for Q3-2022

Our last report highlighting the GBAI's Q2 results showed that the GBA region suffered a setback as businesses faced a confluence of headwinds, headlined by renewed COVID-related disruptions to production, logistics and sales. The expectations indices had suggested a modest recovery in Q3 at the time; however, that has not been the case. Instead, still-stringent COVID measures and a weak housing market have kept domestic growth momentum soft, while elevated inflation, aggressive central bank tightening, and rising recession risk have increased external uncertainties. The result is a further deterioration in both the current performance and the expectations indices, with the latter dipping below the 50 neutral mark for the first time since our inaugural survey in Q2-2020, indicating that weak sentiment is likely to persist for a while longer. We, however, do see three bright spots: (1) Hong Kong, which has been a persistent underperformer over the years, saw the biggest q/q increase in both the current performance and the expectations indices among GBA cities (Figure 3); (2) headline current credit conditions index improved q/q, reflecting effective policy relief, at least in the short term (Figure 4); and (3) financial institutions were the industry outperformers this time, a relief considering that their sensitivity to lending demand and credit quality tends to make them bellwethers of economic health.

Current business sentiment weakened for a fifth straight quarter in Q3

- Current performance index continued to fall:** The GBAI current performance index for business activity plunged to a nine-quarter low of 41.3 in Q3 from 43.3 in Q2 (Figures 1 and 2). This marks a fifth straight quarterly drop and the third straight sub-50 print. The -4.6% q/q change – having dropped from a much lower base – was much smaller than the last print of -12.8%; nonetheless, the absence of a rebound this time is in itself a timely reminder of the many challenges GBA companies faced (and are still facing). The latest survey – conducted between late July and early September – also confirms *our more sceptical view towards the seemingly improved macro numbers in August* after a broad-based slowdown in July. We believe China's recovery remains fragile as COVID restrictions and a worsening housing market continue to affect the economy, driving consumer confidence to record lows since April. Not to mention the slowdown in external trade, reflecting not only falling commodity prices but also slowing global growth as household demand and investment appetite wane on elevated inflation and the surge in global interest rates.

Figure 3: China cities converging towards Hong Kong
GBAI 'current performance' sub-indices, by city



Source: HKTDC, Standard Chartered Research

Figure 4: Bank financing costs expected to fall
Sub-components of our GBAI credit indices

	Current performance			Expectations		
	Q3-2022	Q2-2022	Q1-2022	Q3-2022	Q2-2022	Q1-2022
Credit Index	47.2	46.7	49.1	48.8	51.7	51.8
1. Bank financing cost *	51.7	52.4	49.4	47.9	49.1	48.4
2. Non-bank financing cost *	50.0	53.3	50.1	48.9	51.5	48.8
3. Banks' attitude towards lending	46.4	46.2	50.2	48.0	51.0	51.3
4. Surplus cash	43.9	39.3	47.0	50.7	53.3	55.9
5. Receivables turnover	44.0	42.1	48.6	48.4	53.3	54.6

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



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We were therefore not surprised to see a deterioration in seven out of our eight main sub-components of the GBAI current performance index for business activity (the exception being 'raw material inventory'; however, this was likely due to weak sales leading to an inventory pile-up rather than in anticipation of a pick-up in orders), including sub-40 prints across production (-2.6pts), new orders (-3.1pts), financing scale (-1.6pts) and profit (-1.3pts). Operational slack continued to worsen as a result (with capacity utilisation falling 2.1pts to 41.3) and appetite for investment stayed weak (fixed-asset investment was down 2.1pts to 44.2). The rise in prices of finished goods/services also slowed down, possibly reflecting lower commodity prices, as well as weakening macro demand making any pass-through more difficult.

Current challenges spilling over to weaker expectations towards Q4

- **Expectations indices pricing out a swift Q4 rebound:** The GBAI expectations index for business activity fell to 49.9 in Q3 from 52.5 in Q2. Though only a hair below the 50 neutral mark, it was still the first sub-50 print since Q2-2020, indicating a general expectation of 'more of the same' in the coming quarter after a weak Q3. Recent developments suggest that many of the headwinds are likely to linger, including the struggling onshore housing market, slow relaxation of COVID measures (if any) even after the 20th Party Congress, and concerns about the external growth outlook amid stubborn inflation, persistent USD strength, and the coordinated surge in policy interest rates. The latest bout of Chinese yuan (CNY) weakness and resulting outflow concerns may also limit China's ability to further ease monetary policy to support growth – also reflected in our expectations indices for credit conditions (more on this later).

Six of our eight main expectations sub-components fell q/q for a second straight quarter; among them were sizeable drops in production (-5.6pts) and fixed-asset investment (-4.6pts), pushing them below the 50 neutral mark. New orders (-5.4pts to 50.9) were still expected to expand, but at a much slower rate; this suggests a weak demand outlook, which alongside slower growth in final prices (-2.7pts) likely capped profit expectations (-2.3pts). This cautious outlook echoes what we saw on the national level, with [our headline China SME Index](#) easing a second straight month to 50.9 in September from 51.3 in August, predominantly dragged down by COVID-sensitive services sectors.

Lower financing costs in Q3 a bright spot

- **Policy easing brought some reprieve in financial conditions:** The current performance index for credit rebounded to 47.2 in Q3 from 46.7 in Q2 (Figure 4). The disappointment of it still being below 50 (or even Q1's 49.1), however, masked otherwise notable bright spots among its components; in particular, 50 or above readings for both bank financing costs (where the higher the number is above 50 indicates a more notable fall in costs) and non-bank financing costs for a second straight quarter suggest that policy efforts to bring down companies' cost of borrowing (for example, the unexpected 10bps cut to the 1Y MLF rate in mid-August) continued to bear fruit. That said, our latest survey results continued to show weak appetite for banks to lend (46.4) and weak company cash positions (43.9 for surplus cash and 44.0 for receivables turnover), mirroring the challenging business operating environment.

More importantly, any policy reprieve is expected to be short-lived. Our expectations index for credit plunged to 48.8 in Q3 from 51.7 in Q2, with all five sub-components contributing to the drop. Respondents seemed to be cautious in expecting the recent improvements in financing costs to continue in the coming

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quarter; in fact, the expectations print for non-bank financing costs dipped back to 48.9 after a brief jump to 51.5 in Q2, while bank financing eased to 47.9 from 49.1 prior, suggesting that both are expected to worsen again. The rest of the expectations index components took a similar pessimistic turn in their scores, mirroring the more subdued business outlook.

Tech companies saw the biggest plunge in current performance and expectation indices

- Financial services surprisingly showing resilience:** Financial services was the only industry that saw both its 'current performance' (+7.9pts to 47.3) and its 'expectations' (+9.1 to 51.5) sub-index for business activity improving from Q2 (Figure 5). The sector likely benefited from recent policy easing, be it via the lowering of banks' own borrowing costs or relaxation towards the real-estate sector, which could help banks mitigate some of the related downside risks to asset quality and loan growth. 'Retail and wholesale' was the only other sector that saw a rise in its current performance sub-index (+3.6pts), but only to 41.3; its expectations index dropped below the 50 mark to 47.7, echoing earlier views that the COVID-vulnerable services sectors – including retail sales, accommodation and catering and transport – were the main drags on our China SMEI, our monthly measure of SME sentiment across the nation.

'Manufacturing' did not do much better than 'retail', with current performance standing at a similarly weak 41.2, suggesting production disruptions from COVID resurgence, as well as softening external demand amid elevated inflation and aggressive monetary tightening outside of China. The expectations index for manufacturing eased to 50.4 in Q3 from 52.9 in Q2, with little reacceleration expected in the coming quarter on rising recession risk in the US and Europe; [we recently cut our 2023 US GDP forecast to -0.2% from +0.3%](#), anticipating not just a technical but a 'real' recession in H1-2023.

We see 'innovation and technology' facing its own confluence of global headwinds, including slowing consumer demand, strong capacity growth and high inventories. This adds to lingering domestic concerns stemming from prior regulatory

Figure 5: GBAI business sub-indices by sector

Business activity	Current performance			Expectations		
	Q3-2022	Q2-2022	Q1-2022	Q3-2022	Q2-2022	Q1-2022
Manufacturing and trading	41.2	44.1	50.3	50.4	52.9	55.8
Retail and wholesale	41.3	37.7	48.0	47.7	51.1	55.2
Financial services	47.3	39.4	50.6	51.5	42.4	58.4
Professional services	42.3	45.0	37.0	47.0	49.9	45.3
Innovation and technology	39.6	50.3	47.1	46.0	61.3	58.1

Source: HKTDC, Standard Chartered Research

Figure 6: GBAI credit sub-indices by sector

Credit	Current performance			Expectations		
	Q3-2022	Q2-2022	Q1-2022	Q3-2022	Q2-2022	Q1-2022
Manufacturing and trading	47.5	47.1	49.3	49.2	52.2	52.5
Retail and wholesale	46.5	44.3	47.8	47.4	49.2	48.3
Financial services	45.2	42.9	51.8	46.9	46.5	51.2
Professional services	43.9	44.5	43.6	43.9	47.8	46.5
Innovation and technology	47.1	49.6	50.9	46.8	53.0	54.7

Source: HKTDC, Standard Chartered Research

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tightening, which resulted in layoffs (according to media reports) and cost cuts among tech companies. Our tech respondents reported the largest q/q plunge to the lowest levels in both current performance (-10.7pts to 39.6) and expectations (-15.3pts to 46.0) among our industry sub-indices in Q3, making them the biggest underperformers. This in turn likely contributed to the drop in Shenzhen's score, while the other two core GBA cities improved over the past quarter.

Hong Kong's normalisation from COVID disruptions helped set it on a different GBAI path versus other GBA cities

- Hong Kong is done being a laggard:** Hong Kong and Guangzhou were the only two cities reporting q/q improvements in their current performance sub-index – a stark contrast to Shenzhen, which ranked last at 39.5 after a 3pts drop (Figure 7). Shenzhen being more prone to the above-mentioned tech setback could be an explanation for its underperformance, along with the city's brief lockdown during late August/early September (when our survey was conducted). In comparison, Guangzhou saw less direct COVID disruptions, while Hong Kong even relaxed its quarantine rules for inbound visitors to a '3+4' arrangement over the same period (the 3+4 model refers to three days of compulsory quarantine at a designated hotel, followed by four days of 'medical surveillance' at home). With the latest move to further relax to a '0+3' requirement, we expect Hong Kong to remain on a recovery path in the coming quarters. That said, a recovery is likely to be modest, given the intensifying external (looming recessions in the West and a slowing China) and domestic (higher interest rates and a weak housing market) drags.

For non-core GBA cities, all business activity sub-indices deteriorated from Q2, with Foshan having the lowest current performance sub-index for business activity (39.8) and Dongguan the clear underperformer in expectations (45.5). We believe this is further evidence of an actual and perceived slowdown in the external environment, as both cities are manufacturing-centric and more export-oriented, making them bellwethers of the external outlook.

Figure 7: GBAI business sub-indices by city

Business activity	Current performance			Expectations		
	Q3-2022	Q2-2022	Q1-2022	Q3-2022	Q2-2022	Q1-2022
Hong Kong	42.5	39.7	41.4	46.3	43.3	47.5
Guangzhou	44.6	43.7	50.0	52.0	52.1	58.6
Shenzhen	39.5	42.5	50.0	50.8	54.6	56.5
Foshan	39.8	44.9	55.1	50.1	51.0	56.2
Dongguan	41.7	47.9	56.9	45.5	55.0	57.4
Macau and other cities	42.5	46.2	51.0	51.8	57.2	56.5

Source: HKTDC, Standard Chartered Research

Figure 8: GBAI credit sub-indices by city

Credit	Current performance			Expectations		
	Q3-2022	Q2-2022	Q1-2022	Q3-2022	Q2-2022	Q1-2022
Hong Kong	46.4	42.1	45.1	47.2	45.5	47.8
Guangzhou	46.1	45.7	49.0	48.2	49.4	53.5
Shenzhen	47.9	47.9	49.4	49.3	54.7	52.7
Foshan	46.6	44.7	52.7	48.6	49.0	51.5
Dongguan	46.4	47.9	51.5	48.2	51.4	53.0
Macau and other cities	48.2	49.7	49.6	50.1	53.7	51.1

Source: HKTDC, Standard Chartered Research



Key takeaways from our thematic questions

Our thematic questions this time focused on four key areas: (1) how recent renewed COVID disruptions and policy changes affected respondents' business; (2) the impact of a potential reduction in US-China trade tariffs; (3) respondents' exposure and views towards different countries/regions in the world; and (4) the business and economic impact of China's real-estate market downturn.

More on COVID implications

We looked at the different types of COVID-related disruptions

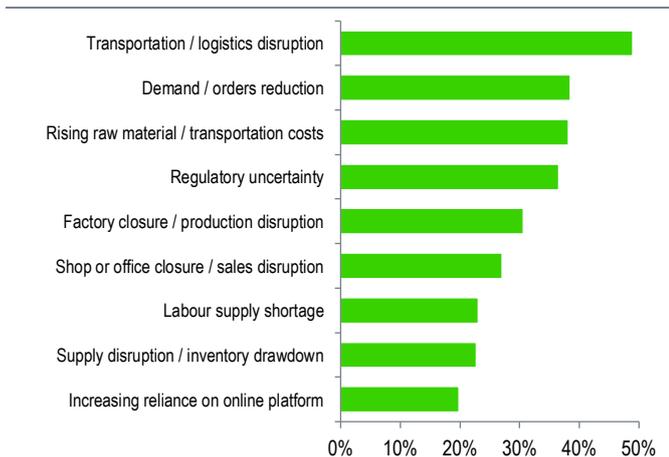
Having already witnessed the impact of prior COVID resurgence on our GBAI results, we asked our respondents how their businesses have been affected by the pandemic in recent months (Figure 9). 'Transportation/logistics disruption' topped the list at 49.0%, garnering the most votes across all our industry sub-indices other than financial service providers (which helps explain their overall outperformance too). Financial services saw regulatory uncertainty as the biggest disruption, echoed by professional services (which had that at a close second). Across all respondents and industries, 'demand/order reduction' (38.5%) and 'rising raw material/transportation costs' (38.2%) rounded up the top three spots.

We also asked how their business would be impacted by China's recent shortening of the quarantine period for inbound travellers to seven-day centralised quarantine followed by three-day home health-monitoring ('7+3' from '14+7' prior). Encouragingly, 40.9% said 'smoother transportation and logistics'; this suggests that a further relaxation in quarantine requirements could be the way to go in addressing GBA companies' biggest COVID-related challenge (Figure 10). 'Gradually resuming sales activity' (39.1%), 'gradually resuming cross-border economic activity' (37.5%) and 'greater demand/better consumer sentiment' (35.8%) rounded up the top four spots. Interestingly, only a mere 6.0% chose 'no improvement', meaning more good news could be in store as and when COVID measures are relaxed further.

Benefits of tariff reduction

At the time of designing this latest survey, market expectations for a potential reduction in US-China trade tariffs were rising, partly fuelled by hopes of an improvement in US-China relations, and the perceived view for the US to find ways to cool down its fast-climbing inflation. Since then, however, cross-strait developments

Figure 9: In what ways has your business been affected by the pandemic in recent months?
% of respondents



Source: HKTDC, Standard Chartered Research

Figure 10: How do you think China's recent shortening of quarantine to '7+3' will improve your business?
% of respondents



Source: HKTDC, Standard Chartered Research



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have kept the US-China relationship from improving, while the US has also turned towards more aggressive monetary tightening to curb inflationary pressures. That said, it is still insightful to gauge how respondents see the benefits from such a tariff reduction, if and when that happens (Figure 11). 20.1% saw at least some positive impact, versus 6.0% for negative. A majority of 41.5%, however, thought the impact will be largely neutral, as any tariff reduction is likely to be small in scale and scope. This, together with another 6.1% saying that they were not expecting any tariff reduction, highlighted the underlying strong sense of pragmatism (or scepticism) towards a material breakthrough in US-China relations any time soon. But ultimately, if a reduction is to happen, only 26.2% of respondents said they see no impact on their business at all, as tariffs matter little to their business.

Respondents also saw tariff reduction going a long way in benefiting the economy, most evidently in the form of more bilateral trade as US-China relations improve (39.1%), followed by a likely rebound in the CNY (38.1%), a return of (potentially larger) customer orders (36.3%), and a relief for global inflation (36.0%). Less than 20% said they see no material impact on the economy (Figure 12).

Property market slowdown

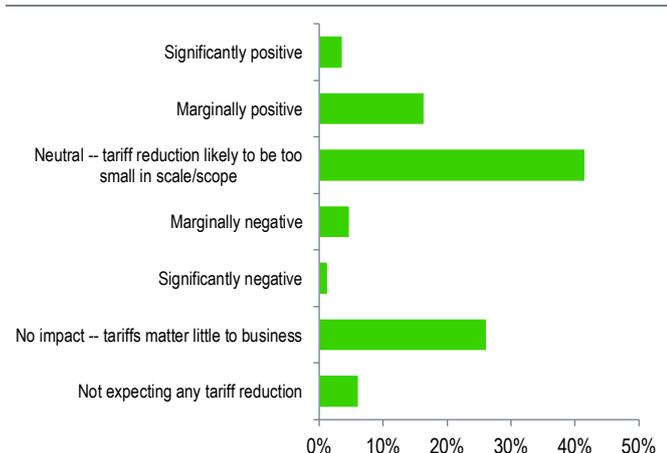
No quick end to real-estate woes

The downturn in China's real-estate market has been a clear drag on the broader economy in recent quarters. Housing floor space sold fell 24.5% y/y in August and 26.8% y/y in 8M-2022. The decline in real-estate investment deteriorated to -13.8% y/y in August from -12.1% in July. The risk is for many mainland developers to stay cash-strapped and real-estate investment to continue contracting evidently for longer, *despite the government recently stepping up supportive measures* (via lowering mortgage rates and tax incentives) to promote home demand, and also asking banks to extend more loans to homebuyers and developers.

There appears to be no easy fix for China's housing market woes, making them a key headwind for GBA companies in the coming quarters. 23% of respondents said they were affected by the latest property downturn (Figure 13). And in terms of broader implications, 18.5% said the real-estate downturn would have a significant impact on the overall economy, while 68.4% said there would be limited impact (Figure 14). The remaining 13.1% said there would be no impact.

Figure 11: How would a possible reduction in US-China trade tariffs impact your business?

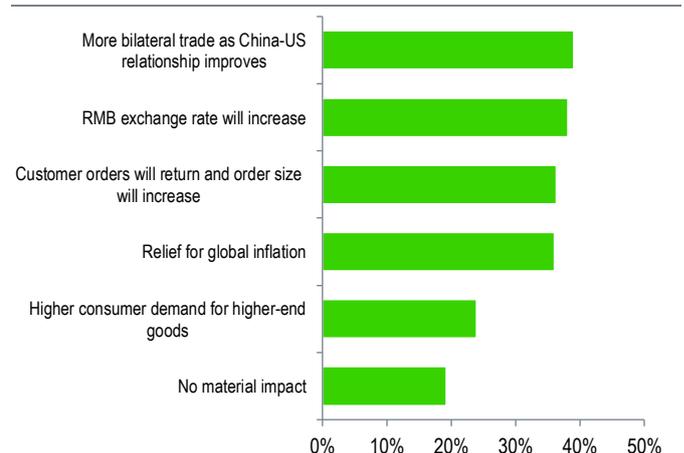
% of respondents



Source: HKTDC, Standard Chartered Research

Figure 12: How will the economy benefit if US-China trade tariffs are reduced?

% of respondents



Source: HKTDC, Standard Chartered Research



On the Ground

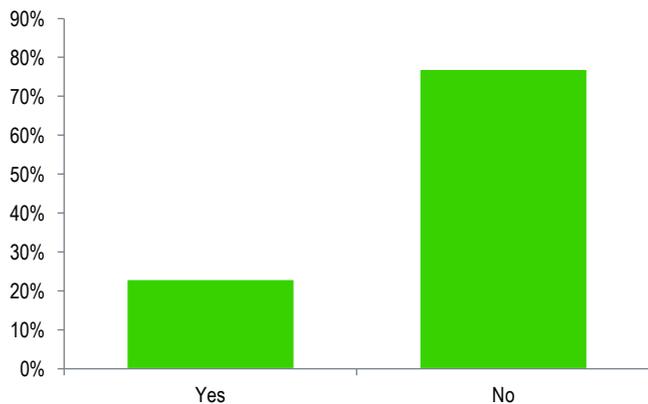
Growth concerns are rising

Our final set of thematic questions focused on respondents' actual exposure to, and their outlook on, the various countries/regions around the world. Unsurprisingly, mainland China (82.4%) and Hong Kong (43.2%) were the two markets respondents had most exposure to (Figure 15). This was followed by traditional developed markets (the EU at 19.5% and the US at 17.9%) and regional neighbours (ASEAN at 17.0% and rest of Asia excluding Japan and Korea at 14.8%).

Respondents remained relatively upbeat towards mainland China, which saw the highest share of gross positive responses (36%), followed by Hong Kong and Macao (both 24%), ASEAN (23%) and 'rest of Asia' (22%) (Figure 16). But on a net basis (those choosing positive options minus those choosing negative ones), all countries/region were in negative territory, the lowest ranked being Russia (-50.8%), followed by Hong Kong, the EU and the UK (more than -30%). Mainland China (-7.8%) was among the relative outperformers, bested only by ASEAN (-5.5%) and 'rest of Asia' (-3.5%) and the Middle East (-2.4%). This reflects broad-based growth concerns.

Figure 13: Is your company's business affected by the latest China real-estate market downturn?

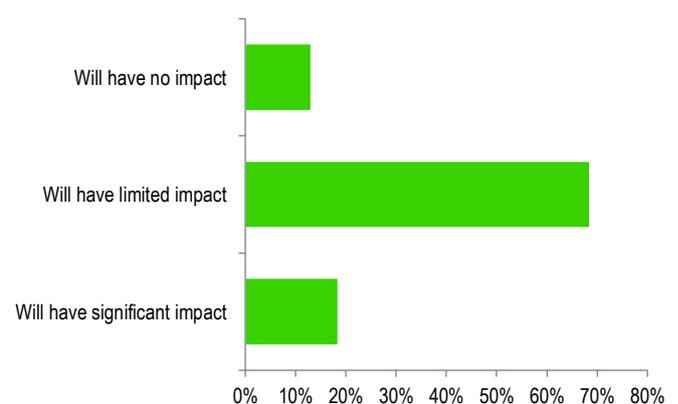
% of respondents



Source: HKTDC, Standard Chartered Research

Figure 14: How do you see the latest China real-estate market downturn affecting the overall economy?

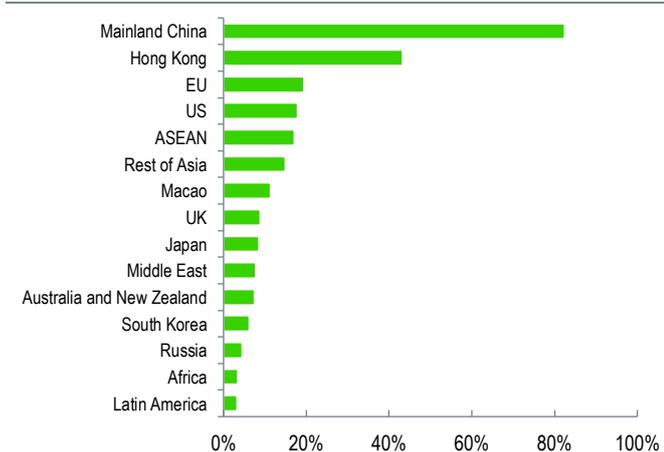
% of respondents



Source: HKTDC, Standard Chartered Research

Figure 15: Which countries/regions do you have business exposure to?

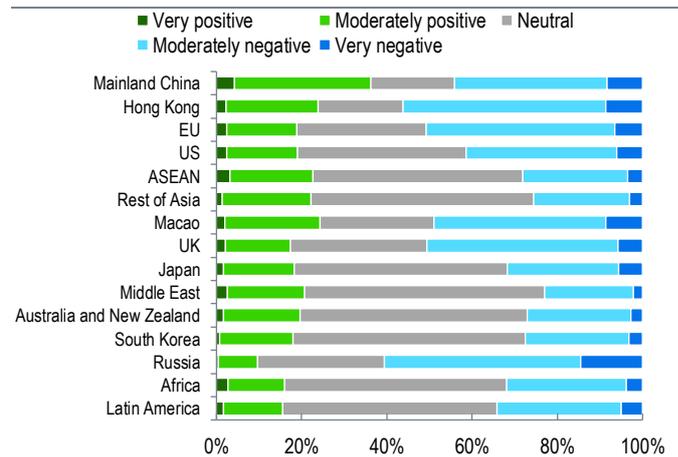
% of respondents



Source: HKTDC, Standard Chartered Research

Figure 16: What is your view on the following markets' performance this year?

% of respondents



Source: HKTDC, Standard Chartered Research



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The fact that all countries/regions saw net negative prints was a stark contrast to the results we got from [a similar question we asked for our 13th annual GBA client survey](#), where we surveyed 200+ manufacturers in the region during April-May 2022. In that annual survey, China (+33%), ASEAN (+21%), rest of Asia (+15%) and the US (+2%) all saw net positive responses; even the EU was at a neutral 0%. This confirmed our call at that time, that “we believe the scores for China, the US and Europe could be less favourable if the survey were conducted today”, as many of the domestic and external headwinds lingered or even worsened since Q2.



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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 Q3-2022), and the other looking at 'expectations' (Q4-2022). 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 17: 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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