

GBA – Survey shows reassuring sentiment uptick

- A reassuring rebound in current performance indices adds conviction to the growth stabilisation story
- Easing expectations indices are a reminder of lingering cautiousness; more credit easing would help
- Respondents are upbeat on AI development, and are gearing up for related opportunities and challenges

The evidence (of stabilisation) is stacking up

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' improved to 52.9 in Q3-2023 after easing to 50.0 in Q2 (Figures 1 and 2). This reflects a rebound in business activity after a Q2 slowdown, likely helped by strong summer holiday demand, as well as some lift from the earlier rounds of policy easing. The corresponding GBAI expectations index slipped to 56.3 from 58.7 prior, albeit well above 50 and higher than the 52.9 current performance index, suggesting further recovery ahead. That said, despite the government's ramp-up in economic stimulus in recent months, the narrowing gap between Q3 current performance and expectations scores does suggest lingering cautiousness towards the strength and sustainability of future recovery. Headline credit indices worsened q/q, but surplus cash (and to a lesser extent bank financing costs) appears to be improving.

By industry, 'innovation and technology' staged the strongest rebound after underperforming in Q2, sharing the top spot with 'retail and wholesale' in terms of current performance. This combination of a recovery in tech sentiment and ongoing retail resilience worked in Shenzhen and Guangzhou's favour, boosting their current performance scores. The expectations sub-indices stayed above the 50 neutral mark across all cities and industries, meaning that the underlying post-COVID recovery trend is expected to remain intact. For thematic questions, we took a closer look at how GBA companies see and deal with rapid technology developments; in particular, we asked respondents how ready they are to take advantage of accelerated AI adoption.

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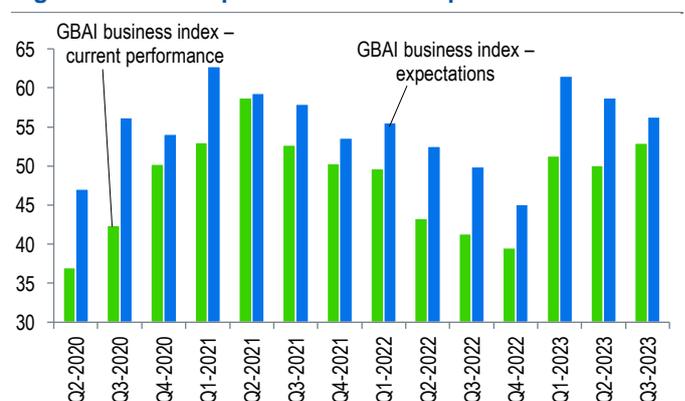
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Figure 1: GBAI business index and its sub-components

	Current performance			Expectations		
	Q3-2023	Q2-2023	Q1-2023	Q3-2023	Q2-2023	Q1-2023
Business index	52.9	50.0	51.3	56.3	58.7	61.5
1. Production/sales	54.8	49.4	49.7	59.9	63.1	67.8
2. New orders	55.2	49.8	53.1	59.4	60.8	67.1
3. Capacity utilisation	49.1	49.9	49.8	58.0	59.8	60.2
4. Raw material inventory	53.1	47.1	46.3	52.4	53.6	54.0
5. Prices of finished goods/services	52.4	51.9	54.3	56.1	59.7	60.5
6. Fixed asset investment	52.8	52.9	53.6	53.0	58.7	57.9
7. Financing scale	51.9	49.3	51.0	51.0	51.7	55.3
8. Profit	53.8	49.9	52.5	60.8	62.7	69.0

Source: HKTDC, Standard Chartered Research

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


Source: HKTDC, Standard Chartered Research

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GBA, reaccelerate!

Latest GBAI adds to recent list of positive data surprises

The GBAI surprised positively for a second straight quarter. In the last report, it was the ability of both the Q2 current performance and expectations indices for business confidence to stay at or above 50, despite growth clearly decelerating over the same period. For the latest set of Q3 GBAI prints, we are pleasantly surprised by the quick rebound in the current performance component, to 52.9 from 50.0 in Q2; this, in our view, is a strong sign that businesses are at least stabilising (if not starting to reaccelerate) after the Q2 setback. This provides added reassurance, following [a stronger-than-expected set of official August macro data](#) for the whole of China, plus [an evident uptick in our proprietary China SME sentiment index \(SMEI\)](#) in September. There remain notable headwinds on the horizon (the weak housing market and export orders being the two obvious ones), as echoed by the slip in our GBAI expectations index to 56.3 in Q3 from 58.7 prior. However, this is still comfortably above the 50 mark, suggesting further recovery ahead, likely to be fuelled by continued policy stimulus (which has been going strong since the July Politburo meeting).

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

Ongoing reopening boost, summer holiday demand and a pinch of early policy easing efforts helped Q3 growth stabilisation

- **Current performance improving after Q2 slowdown:** The GBAI current performance index for business activity rose to 52.9 in Q3 after easing to 50.0 in Q2-2023. This strong q/q rebound – to a nine-quarter high no less – is a welcome sign that growth is likely reaccelerating following a Q2 setback. The latest survey was conducted between early August and early September; a number above 50 indicates more respondents seeing their current business performance improving from three months prior (May/June). Strong summer holiday demand likely helped, as tourism-related spending fuelled better services production and catering sales in August. Lifts from earlier rounds of policy stimulus could also be at play, although we believe the expectations index could be a better gauge of the sentiment impact from the more recent and substantial policy easing since the late-July Politburo meeting (more on the expectations index later).

A further breakdown shows that six of the eight current performance components improved q/q, reflecting a broad-based rebound (Figure 1). ‘Capacity utilisation’ was the only sub-index showing a q/q drop and staying below 50 (versus six components with sub-50 prints in Q2). ‘Production/sales’ and ‘new orders’ saw the biggest q/q jumps (both +5.4pts); these two sub-indices, together with ‘profits’, rounded out the top three spots. The outperformance of these three specific components – which are more reflective of immediate business performance than, say, ‘fixed asset investment’ and ‘financing scale’ – further supports the view that a nascent recovery in real activity is already underway.

- **Expectations indices show cautious optimism:** The GBAI expectations index for business activity eased to 56.3 in Q3 from 58.7 in Q2 and 61.5 in Q1. Despite the q/q drop, it is still well above 50 and higher than the 52.9 current performance index, suggesting further recovery ahead. The narrowing gap between current performance and expectations, however, does reflect little additional ‘policy premium’ being priced in for now, despite the government’s ramp-up in economic stimulus since July (including a surprise interest rate cut, an increase in special deductions in individual income tax, a set of measures to boost consumer spending and some aggressive relaxation in mortgage rules). To avoid lingering cautiousness becoming entrenched again, we believe more policy easing is needed in the coming quarter(s) to sustain the prevailing nascent recovery.



The sub-indices reflect a similar picture, with ‘profits’ (60.8), ‘production/sales’ (59.9) and ‘new orders’ (59.4) topping the list, indicating a further uptick in momentum as we enter the final quarter of 2023. This underpins our view that China can achieve its c.5% full-year growth target. On the other hand, ‘raw material inventory’ (52.4) and ‘financial scale’ (51.0) not only underperformed, but also fell below their current performance counterparts (53.1 and 51.9, respectively). These two sub-indices together with ‘fixed asset investment’ (53.0) rounding out the bottom three spots, tend to be better indicators of longer-term business confidence; their underperformance therefore is a reminder that a full-fledged recovery in business confidence back to strong pre-COVID levels could remain challenging as we enter 2024, given lingering structural (e.g. a weak housing market) and external (geopolitical uncertainty) headwinds.

Credit conditions remain challenging despite lift from monetary policy easing

- Credit conditions showing a mixed picture:** Both the current performance (48.9 vs 49.3 prior) and expectations (50.9 vs 51.6 prior) indices for credit worsened in Q3 (Figure 3). This is despite the (modest) q/q improvements in their respective ‘banking financing cost’ components – a reflection of recent policy efforts to lower companies’ borrowing costs, including interest rate cuts in June and August. The effect of such easing, however, has so far fallen short in lifting other credit sub-indices. The current performance prints for ‘non-bank financial cost’ and ‘banks’ attitude towards lending’ saw the steepest q/q drops (-3.9pts and -2.4pts, respectively). Their expectations did not fare much better, with ‘non-bank financial cost’ coming in last at 44.6 (which is lower than 45.6 for current performance; a below-50 reading still means rising costs), and ‘banks’ attitude towards lending’ falling the most (-4.1pts) among sub-indices to 50.8. In the absence of a swift improvement in the efficacy of monetary policy transmission, we see room for more easing. We expect the People’s Bank of China (PBoC) to cut the medium-term lending facility (MLF) rate two more times, by 10bps each in Q4-2023 and Q1-2024. We also expect another 25bps cut to the reserve requirement ratio (RRR) in Q1-2024 to ensure ample liquidity for future credit growth.

The story is also mixed on the cash flow front. The improvement in short-term business performance we noted earlier has not translated into better receivables turnover (staying unchanged at 48.9 for current performance, and -1.9pts to 54.7 for expectations). Expectations for ‘surplus cash’ also fell to 58.1 from 60.0, but its current performance counterpart improved to 54.3 from 51.2 prior; most importantly, both measures for surplus cash remain head-and-shoulders above other index components, indicating little cash flow stress for the time being. This could also explain the overall weak financing appetite noted earlier.

Figure 3: Respondents expecting better cash flow but higher borrowing costs
Five sub-components of our GBAI credit indices – current vs expectations

Stronger surplus cash position is a bright spot

	Current performance			Expectations		
	Q3-2023	Q2-2023	Q1-2023	Q3-2023	Q2-2023	Q1-2023
Credit Index	48.9	49.3	51.6	50.9	51.6	54.2
1. Bank financing cost *	48.0	46.9	48.6	46.4	42.6	44.8
2. Non-bank financing cost *	45.6	49.5	47.8	44.6	43.8	47.2
3. Banks’ attitude towards lending	47.6	50.1	54.8	50.8	54.9	58.4
4. Surplus cash	54.3	51.2	52.9	58.1	60.0	62.8
5. Receivables turnover	48.9	48.9	53.9	54.7	56.6	57.7

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



On the Ground

- Services sector leading the way** • **Devil is in the detail for industry sub-indices:** Starting with current performance, four of our five industry sub-indices contributed to the headline GBAI improvement (Figure 4). Among those four, an improvement in ‘retail and wholesale’ (R&W) to 55.1 from 51.2 is the least surprising, considering that the services-oriented sectors have been the main beneficiaries from continued post-COVID economic normalisation, as well as the short-term boost from summer holiday demand. The sector’s +3.9pts q/q increase was only behind ‘innovation and technology’ (I&T; more on this below). On the face of it, ‘manufacturing and trading’ (M&T) and ‘financial services’ (FS) are not that far behind, with a +2.5pts (to 52.4) and +2.0pts increase, respectively; that said, they do not have all their sub-components improving q/q (like R&W). Similarly, in terms of expectations indices, not only did M&T fall more evidently than R&W (-2.9pts and -0.8pts, respectively), the former’s drop was also much more broad-based across all eight of the sub-indices; In contrast, R&W only worsened due to weaker raw material inventory, investment, and financing scale (again the three components most associated with longer-term confidence).

The expectations sub-index for FS (57.1) improved from Q2, to almost as strong as R&W’s print (57.5). The government’s more proactive use of monetary tools to encourage lending and support growth likely helped; the improvement in its ‘profits’ component was particularly noticeable, possibly a reflection of banks being able to drive down/enjoy lower cost of funding while bringing down lending rates. Also encouraging was the significant turnaround for I&T, which staged the biggest q/q rebound across its current performance and expectations indices. The low base from Q2 certainly helped; and while many of the headwinds mentioned in our last report (e.g. ongoing global semiconductor downcycle and more tightening of tech export controls from the US) remain, the tech industry could also make a good leading indicator for a long-awaited return of post-COVID production capacity rebuilding and economic upgrading. In contrast, and with the benefit of hindsight, ‘professional services’ seems to lag the broader cycle, only to enter a soft patch now, when others are recovering out of one.

Figure 4: GBAI business sub-indices by sector

Business activity	Current performance			Expectations		
	Q3-2023	Q2-2023	Q1-2023	Q3-2023	Q2-2023	Q1-2023
Manufacturing and trading	52.4	49.9	51.0	56.2	59.1	61.3
Retail and wholesale	55.1	51.2	51.4	57.5	58.3	61.2
Financial services	53.5	51.5	59.8	57.1	54.8	67.4
Professional services	48.8	56.1	52.1	53.9	61.9	65.2
Innovation and technology	58.8	43.7	54.3	55.0	49.0	61.0

Source: HKTDC, Standard Chartered Research

Figure 5: GBAI credit sub-indices by sector

Credit	Current performance			Expectations		
	Q3-2023	Q2-2023	Q1-2023	Q3-2023	Q2-2023	Q1-2023
Manufacturing and trading	49.0	49.0	51.5	50.9	51.4	54.1
Retail and wholesale	48.2	51.2	52.5	51.1	51.9	54.4
Financial services	49.8	46.5	53.4	50.2	50.3	56.2
Professional services	45.6	52.1	49.9	48.6	53.8	53.7
Innovation and technology	50.2	52.5	50.0	52.3	55.3	54.4

Source: HKTDC, Standard Chartered Research



On the Ground

Shenzhen and Guangzhou came out on top

- Core mainland GBA cities outperformed:** For current performance of business activity, Guangzhou and Shenzhen came out on top, at 54.9 and 54.8, respectively (Figure 6). Both are higher than their respective Q1 and Q2 numbers – another sign that the reopening boost still has legs. While not a direct beneficiary of onshore policy stimulus and the summer travelling frenzy, we believe sentiment in Hong Kong will start to catch up soon, especially via the cross-border tourism and business investment channels. Beyond the core cities, Foshan rose to 52.4 from 47.6 prior, while Dongguan eased to 53.8 from 56.4 prior – both likely a convergence to trend after their respective under- and outperformance in Q2. Macau and other cities came in last for a third straight quarter.

For the expectations indices, Shenzhen and Dongguan gave back some ground after outperforming by quite a margin in Q2. Guangzhou was the only city sub-index that staged a q/q rebound this time, likely driven by its sizeable services sector. Interestingly, the score for Guangzhou’s tech respondents weakened after showing surprising resiliency in Q2. Shenzhen and Hong Kong, therefore, did the heavy lifting to raise the headline I&T sub-index this time. In any case, we continue to take comfort from the fact that all city expectations indices remain in the 50+ expansionary territory, consistent with our view of a sustained recovery momentum in the coming quarters.

Key takeaways from our thematic questions

Our thematic questions for Q3 focused on gauging (1) the impact of various global tech-related developments on GBA businesses; (2) how accelerated application of artificial intelligence (AI), in particular, would reshape industries in the region, and how ready our respondents are to take advantage of AI adoption.

Tech-related opportunities and challenges

We asked respondents how their businesses have been affected over the past year by (1) the global slowdown in tech demand; (2) rising tech-related trade and non-trade barriers; and (3) accelerated AI developments (Figure 8). Over 60% of respondents

Figure 6: GBAI business sub-indices by city

Business activity	Current performance			Expectations		
	Q3-2023	Q2-2023	Q1-2023	Q3-2023	Q2-2023	Q1-2023
Hong Kong	49.0	49.3	51.6	52.6	54.7	58.7
Guangzhou	54.9	48.6	49.9	59.7	55.7	67.7
Shenzhen	54.8	51.9	51.5	56.6	60.4	60.8
Foshan	52.4	47.6	55.1	58.3	58.5	59.0
Dongguan	53.8	56.4	53.5	59.1	64.3	69.6
Macau and other cities	48.5	43.6	48.9	51.7	58.0	56.8

Source: HKTDC, Standard Chartered Research

Figure 7: GBAI credit sub-indices by city

Credit	Current performance			Expectations		
	Q3-2023	Q2-2023	Q1-2023	Q3-2023	Q2-2023	Q1-2023
Hong Kong	48.0	47.2	51.5	49.1	49.3	51.8
Guangzhou	50.2	51.9	52.4	53.2	51.9	54.7
Shenzhen	49.1	48.2	51.8	50.8	52.1	55.9
Foshan	49.5	49.6	49.9	50.9	51.9	53.1
Dongguan	48.2	50.9	53.1	51.6	51.9	56.0
Macau and other cities	47.6	50.5	50.4	49.7	51.5	50.6

Source: HKTDC, Standard Chartered Research



On the Ground

chose ‘no impact’ for each of these options, which is understandable given that ‘manufacturing and trading’ and ‘innovation of technology’ together only account for 55% of our sampling population; one could imagine not all manufacturers are doing electronics, and that the remaining 45% of the sample are services-oriented sectors that are much less directly exposed to the global tech cycle and/or related trade restrictions. Beyond that, while more respondents did choose (material and marginal) ‘negative impact’ over ‘positive impact’ for global tech slowdown (14.2% vs 12.2%, respectively) and trade and non-trade barriers (21.6% vs 15.9%), their difference in votes is surprisingly modest, considering how these tech developments are normally associated with being economic headwinds. For AI, responses were more one-sidedly optimistic, with 29.1% reporting a positive impact versus 8.5% negative.

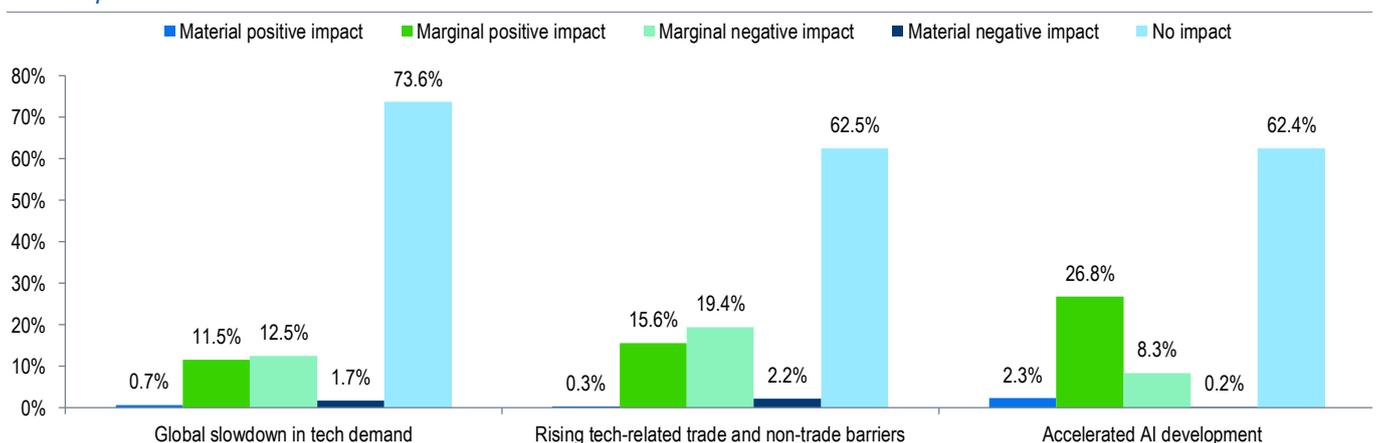
Diversifying production capacity and exploring local solutions are the ways to go

Respondents remain upbeat on the tech demand outlook. A collective 29.2% see rapid tech-related (including AI) developments having a positive impact on tech demand in 2024, versus 4.9% seeing a negative impact. These numbers go up to 46.8 and 9.0%, respectively, when we push the outlook timeline out to 2025-27 (Figure 9). On the challenges side, when asked how they are responding to the rise in tech-related trade and non-trade barriers, the top three answers were ‘exploring new sales markets’ (35.0%), ‘increasing local tech hiring’ (34.3%) and ‘changing products/business models’ (27.4%). ‘Increasing local sourcing’ (16.7%) and ‘accelerated in-house R&D’ (16.0%) also garnered a decent number of votes (Figure 10). Most importantly, only 17.4% said they are not doing anything (or see no response needed), suggesting more transformation afoot, possibly through a combination of external diversification and domestic sourcing to better navigate geopolitical risks.

Urgency and potential of AI transformation

We then asked respondents whether and how the accelerated application of AI (or more generally the adoption of digital transformation strategy) would reshape the way businesses are run in their industry in the GBA (Figure 12). A total 29.1% said AI would bring about changes, although within that only less than 10% (or 2.7% of all respondents) said such changes are material and are already underway. Add to that another 8.7% of all responses if we include those that see material changes but only happening over time. For the remaining ones (17.7% of all respondents) that see AI bringing about changes, they believe those changes will only be minor/non-disruptive. Separately, 46.8% respondents expect no evident change to business models, and 24.1% think it is too early to tell, or need more information.

Figure 8: How has your business been affected by the following tech-related developments over the past year?
% of respondents



Source: HKTDC, Standard Chartered Research



On the Ground

GBA companies are gearing up for AI adoption

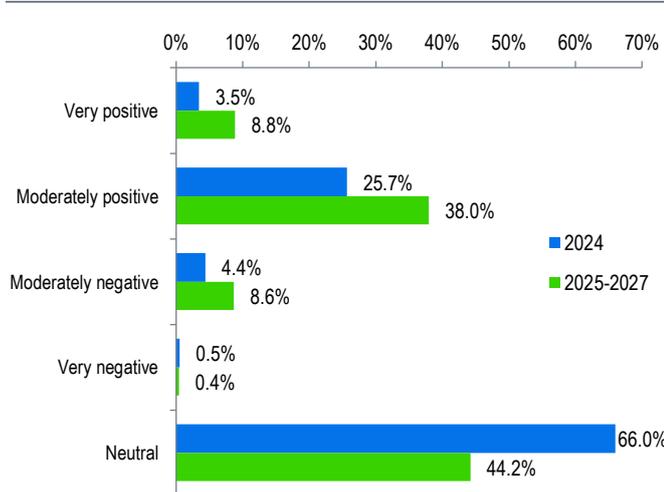
We got largely consistent answers when we asked the follow-up question: ‘how ready/equipped is your company to take advantage of accelerated AI developments/ adoption of digital transformation strategy?’ (Figure 13). A total 24.2% of respondents said some form of business response is already underway: 6.8% (of all respondents) being already well-prepared and well-positioned, 8.2% with preparation/ upgrading plans well underway, and 9.2% just beginning to upgrade their AI/digital capacities. While this fell short of the aforementioned 29.1% that said they expect AI to bring about changes, this is more than made up for by the high number of responses for those already having some planning/strategising underway (46.3%). Only just under 30% of respondents have no plans for AI/digital upgrading for now.

When asked how different business areas are likely to be impacted by AI/digital adoption in the coming years, ‘future orders’, ‘sales and marketing strategy’ and ‘business operations/production efficiency’ saw the most ‘more opportunities than challenges’ votes, not just in absolute terms but also (and arguably more tellingly) after netting off with the ‘more challenges than opportunities’ votes (Figure 11). On the other end of the spectrum, ‘R&D’, ‘cost control’ and ‘hiring and capital expenses’ are the three areas seeing the least (absolute and net) upside business potential, with the need for huge capital and human investment to power any AI/digital strategy being the likely common denominator. This is confirmed by the list of hurdles/challenges for AI adoption/digital transformation, with ‘too costly to upgrade/implement’ and ‘lack of expertise/talent to pursue innovation’ the number one and three choice, respectively. ‘Uncertain economic /business outlook to justify investment’ and ‘technology moving too fast’ rounded out the top four spots (Figure 13).

(One final note on how GBA businesses see and respond to rapid technology developments. We recently asked a similar set of survey questions to over 180 of our GBA manufacturing clients as part of our long-running (14 years and counting) annual deep-dive (see [GBA shop talk – Diversify and integrate](#)). Overall, among this more manufacturing-centric sample population, ‘sanctions and tariffs’ was their seventh biggest challenge for 2023, with ‘technology disruption’ coming in dead last (19th). Those in the electronics sector were more negatively exposed to tech-related trade barriers in recent years, but their outlook for the sector remains predominantly positive.

Figure 9: In view of rapid tech developments, how do you see the outlook for tech-related demand?

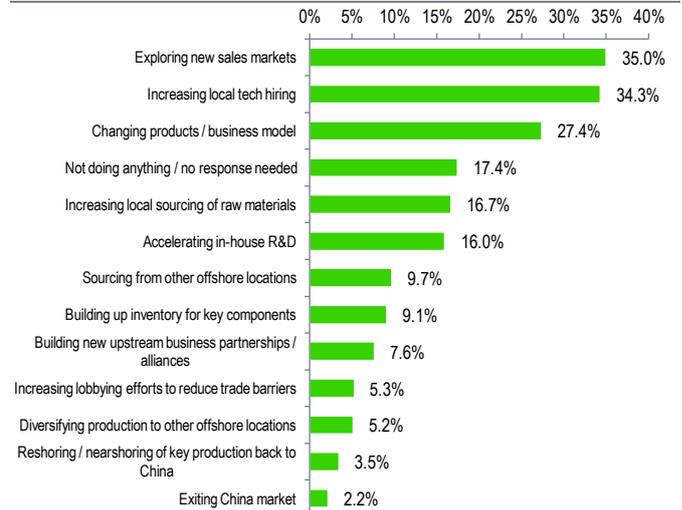
% of respondents



Source: HKTDC, Standard Chartered Research

Figure 10: How are you responding to the rise in tech-related trade and non-trade barriers in recent years?

% of respondents

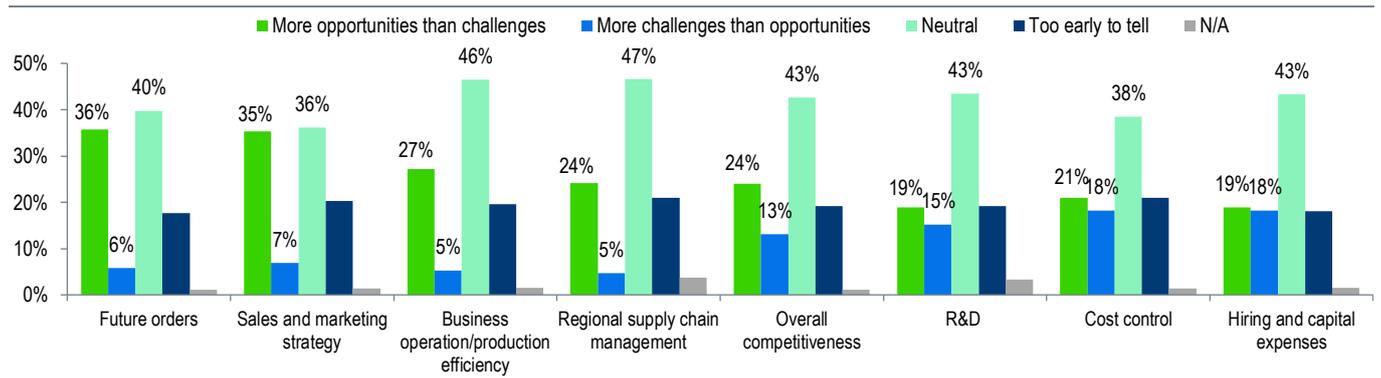


Source: HKTDC, Standard Chartered Research

On the Ground

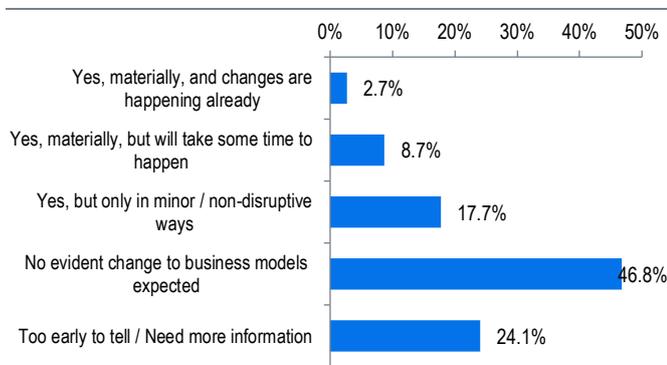
Similar to our GBAI findings, diversifying production overseas and increasing local sourcing are the preferred ways to address such challenges; ‘sanctions and tariffs’ was seen as the biggest driver for manufacturers to actively considering moving capacity outside of China. We also see a subtle rise in respondents’ participation rate in technological upgrading since 2020, and AI is expected to contribute to sustaining this trend going forward, hopefully with the help of more government policy support.)

Figure 11: How would the adoption of AI (or a more broad-based digital transformation strategy) impact the running of your business in the following areas in the coming years? (% of respondents)



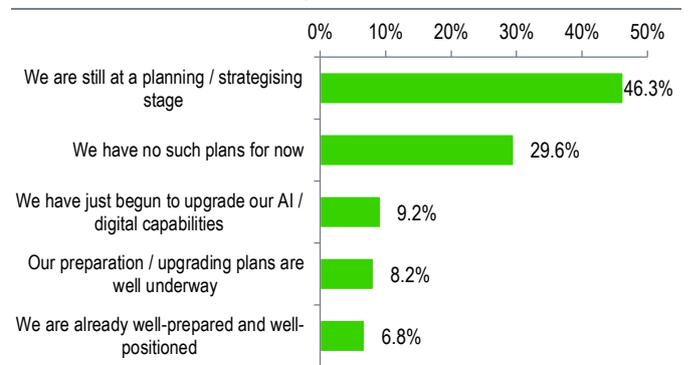
Source: HKTDC, Standard Chartered Research

Figure 12: Would the accelerated application of AI (or adoption of digital transformation strategy) reshape how businesses are run in your industry in the GBA? % of respondents



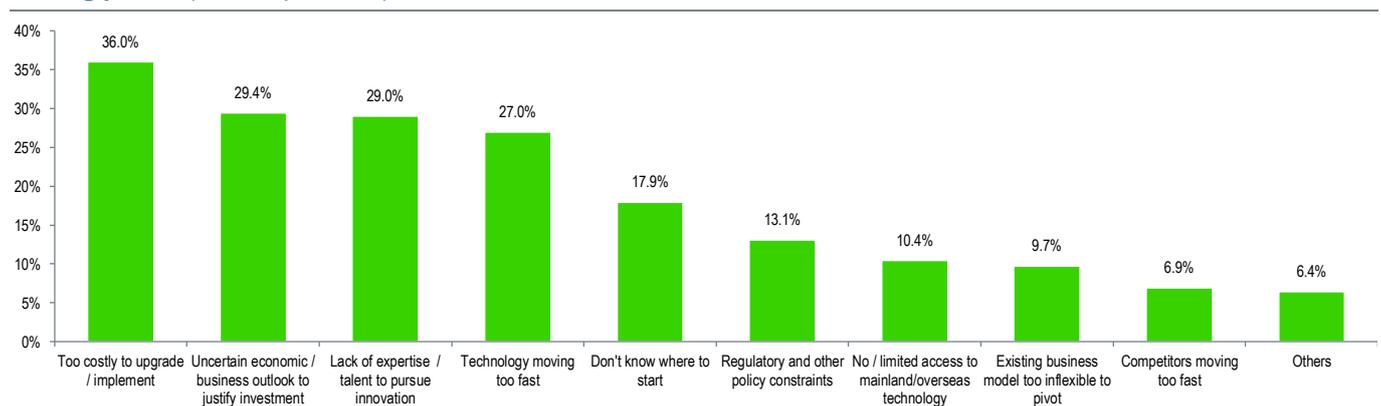
Source: HKTDC, Standard Chartered Research

Figure 13: How ready/equipped is your company to take advantage of accelerated AI developments/adoption of digital transformation strategy? % of respondents that said yes in the prior question



Source: HKTDC, Standard Chartered Research

Figure 14: What are the biggest hurdles/challenges to your business when adopting AI (or digital transformation) in the coming years? (% of respondents)



Source: HKTDC, Standard Chartered Research



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