

GBA – Survey shows softer business performance

- Q3 GBAI indices show softer ‘current performance’; alongside modest rise in ‘expectations’
- By component, ‘profits’ saw the biggest q/q fall; by industry, ‘manufacturing’ had the lowest scores
- Respondents said ‘surplus cash’, ‘receivables turnover’ worsened, and bank borrowing costs rose
- Our thematic questions look into domestic and external risks, and the impact of trade barriers

More policy support likely needed

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 Q3 business sentiment worsened on balance after remaining largely unchanged in Q2 (Figure 1). The headline ‘current performance’ index for business activity fell to 50.6 from 54.1 in Q2, indicating a further weakening of economic momentum after a challenging H1. But the headline ‘expectations’ index of business activity performed better, rising for a second straight quarter to 55.2 from 54.8 in Q2, although we think the improvement was too modest to suggest a quick rebound on the horizon (Figure 2). A further breakdown shows that key components such as ‘profits’, ‘capacity utilisation’ and ‘new orders’ weighed on both the ‘current performance’ and ‘expectations’ indices; by industry, ‘manufacturing’ was the underperformer.

Our GBAI credit indices showed a worsening of current and expected performance of surplus cash and receivables turnover; the rise in market rate cut expectations prior to and during our survey period also failed to improve our survey respondents’ expectations of cheaper bank borrowing or easier access to bank credit. Responses to our thematic questions reflect the need for more policy support to help GBA companies address their domestic and external challenges. We think more sizeable monetary policy easing recently in both the US and China will provide some much-needed relief for GBA companies, creating a floor for our GBAI in the coming quarter.

Kelvin Lau

+852 3843 0711

Kelvin.KH.Lau@sc.com

Senior Economist, Greater China

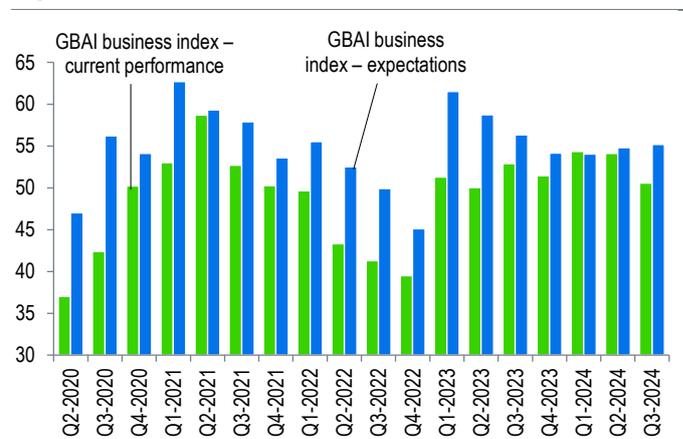
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Figure 1: GBAI business index and its sub-components

	Current performance			Expectations		
	Q3-2024	Q2-2024	Q1-2024	Q3-2024	Q2-2024	Q1-2024
Business index	50.6	54.1	54.3	55.2	54.8	54.0
1. Production/sales	52.1	59.0	61.2	58.5	57.6	56.8
2. New orders	51.5	58.3	60.8	58.0	59.2	57.7
3. Capacity utilisation	49.3	53.5	52.5	54.0	55.4	53.7
4. Raw material inventory	43.3	42.5	46.1	46.2	46.1	44.8
5. Prices of finished goods/services	57.4	54.4	53.8	59.9	55.0	56.0
6. Fixed asset investment	52.0	54.6	52.0	54.5	55.0	55.5
7. Financing scale	50.7	52.7	47.4	51.8	47.8	50.0
8. Profit	48.1	57.8	60.9	58.6	62.2	57.5

Source: HKTDC, Standard Chartered Research

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



Source: HKTDC, Standard Chartered Research

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On the Ground

'Current performance' worsened in Q3, indicating a further slowdown in growth momentum from Q2

Feeling down

Business sentiment in the GBA region worsened in Q3 after remaining largely steady in Q2. The 'current performance' sub-index fell to a five-quarter low of 50.6 from 54.1 prior. While the 'expectation' sub-index rose marginally for a second straight quarter to 55.2, we think the q/q change should have been stronger given the weak base of current business sentiment. This survey feedback is in line with the soft set of China macro data in July and August, showing little sign of a turnaround following a significant q/q slowdown in Q2. August industrial production, retail sales and fixed asset investment growth all fell short of expectations on subdued domestic demand and adverse weather. The Q3 GBAI headline print adds conviction to our view that our 2024 growth forecast of 4.8% faces downside risk.

A further breakdown of our GBAI survey shows more reasons behind companies' caution, including an outsized deterioration in the 'profits' sub-index, worse credit and cash flow conditions, and a clear underperformance particularly among our manufacturing-sector respondents. We list below the detailed survey findings.

The 'profits' sub-index worsened despite a faster rise in prices of finished goods/services

- **Current performance suffered another setback:** Our GBAI current performance index for business activity fell 3.6pts to 50.6 in Q3 from 54.1 in Q2 – the largest drop in nine quarters, or the third largest since we introduced our index in Q2-2020. Six of eight index components contributed to the q/q setback, led by weaker 'profits' (-9.8pts), 'production/sales' (-6.9pts) and 'new orders' (-6.8pts). 'Profits' (48.1) and 'capacity utilisation' (49.3) fell below the 50 neutral mark, joining the persistent underperformer 'raw material inventory' (43.3) in the worst-performing three components. We discount any positive implication from the jump in 'prices of finished goods/services' (to 57.4 from 54.4 prior), given that it did little to lift the 'profits' sub-index. We think this points to a further weakening in immediate business performance following a challenging H1-2024.

A softer demand outlook has limited the urgency for companies to expand their 'fixed asset investment' (-2.7pts q/q) and 'financing scale' (-2.0pts). However, these component readings still stand above the 50 neutral mark, indicating little room for any further reduction in investment and financing following COVID disruptions.

- **Expectations should have rebounded more strongly:** The GBAI expectations index for business activity rose for a second straight month q/q to 55.2 from 54.8 in Q2. This improvement was too modest for comfort, in our view, as a setback to the current quarter usually means a more favourable base for the next quarter to

Figure 3: Financing costs and banks' lending appetite worsened

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

No material lift from policy easing (or expectations thereof) during our survey period

	Current performance			Expectations		
	Q3-2024	Q2-2024	Q1-2024	Q3-2024	Q2-2024	Q1-2024
Credit index	49.2	52.2	52.2	50.9	52.8	51.6
1. Bank financing cost *	48.0	46.7	49.7	48.9	51.0	48.8
2. Non-bank financing cost *	50.4	51.2	50.4	51.7	52.4	51.4
3. Banks' attitude towards lending	52.1	54.2	52.0	50.6	53.0	52.5
4. Surplus cash	47.8	55.8	56.3	52.8	56.3	53.6
5. Receivables turnover	47.6	52.9	52.4	50.7	51.4	51.5

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



On the Ground

improve upon. Four of eight expectations sub-indices showed a sequential drop, led by 'profits' (-3.6pts), 'capacity utilisation' (-1.3pts) and 'new orders' (-1.1pts), with the silver lining being that only one component – 'raw material inventory' – dipped below 50. Expectations of 'financing scale' rebounded strongly to 51.8 from 47.8 prior, but was not matched by an expected easing in credit conditions (more below).

GBA companies see weaker cash flow and slower collection of account receivables

- Credit conditions worsened again:** The current performance index for credit fell to 49.2 after staying at 52.2 (the highest since records started in July 2020) for two straight quarters. 'Surplus cash' dropped the most, by 8.1pts q/q to 47.8, mirroring weaker current business performance; 'receivables turnover' also fell a sizeable 5.3pts to 47.6, suggesting an extension in payment terms which could strain cash flow along the supply chain. Policy easing moves since July (or the rise in expectations thereof) could have provided some much needed offset in our latest survey (conducted from early August to early September). The People's Bank of China (PBoC) cut its benchmark rate on 22 July and the Fed started its dovish pivot in late July (which has since driven HKD interest rates lower). However, the 'bank financing cost' sub-index stayed below 50 at 48.0 (46.7 in Q2, 49.7 in Q1), while 'non-bank financing cost' and 'banks' attitude towards lending' fell to 50.4 (51.2 in Q2) and 52.1 (54.2), respectively.

The headline expectations index for credit also worsened to 50.9 from 52.8 in Q2. All five sub-indices fell q/q, with the plunge in 'bank financing cost' being the most worrying, as it dropped to 48.9 from 51.0 prior. Once again, the rise in interest rate cut expectations since July appears to have failed to fuel expectations of cheaper actual bank borrowing in the coming quarter. Still, we think business and credit sentiment could benefit from the Fed's jumbo rate cut (of 50bps) in mid-September, and the PBoC's simultaneous cuts to the policy rate (20bps) and reserve requirement ratio (50bps) shortly thereafter.

Figure 4: GBAI business sub-indices by sector

Business activity	Current performance			Expectations		
	Q3-2024	Q2-2024	Q1-2024	Q3-2024	Q2-2024	Q1-2024
Manufacturing and trading	49.5	53.9	54.7	54.1	54.3	53.6
Retail and wholesale	55.8	57.9	53.9	58.6	61.6	59.1
Financial services	55.4	57.3	42.4	60.1	55.0	44.4
Professional services	53.8	53.2	45.6	58.7	59.1	46.8
Innovation and technology	52.6	43.9	57.8	69.7	38.1	54.6

Source: HKTDC, Standard Chartered Research

Figure 5: GBAI credit sub-indices by sector

Credit	Current performance			Expectations		
	Q3-2024	Q2-2024	Q1-2024	Q3-2024	Q2-2024	Q1-2024
Manufacturing and trading	49.0	52.2	52.4	51.3	53.0	51.5
Retail and wholesale	50.1	53.6	50.8	48.7	54.0	51.2
Financial services	49.2	50.7	50.5	51.3	51.4	49.7
Professional services	50.4	49.8	49.5	50.7	48.8	50.1
Innovation and technology	48.6	46.4	52.7	50.3	45.8	58.7

Source: HKTDC, Standard Chartered Research

On the Ground

Manufacturing was the only sector with a sub-50 'current performance' score

- The manufacturing sector underperformed: The 'current performance' sub-index for the manufacturing sector fell 4.4pts q/q to 49.5 in Q3, while 'expectations' remained largely steady at 54.1 versus 54.3 prior. By both measures, the manufacturing sub-indices came in last among industries, echoing the recent weak set of China manufacturing PMIs, which stayed below 50 for a fourth straight month in August. Industrial production growth also eased to a five-month low of 4.5% y/y in August from 5.1% in July. In terms of 'expectations', we think GBA manufacturers' confidence may have been affected by a potential surge in US tariffs against China-origin products in the event of a Trump win in the November US election.

On the other side of the spectrum, we have 'innovation and technology' staging the biggest q/q rallies among all sectors, up 8.7pts for 'current performance' and a substantial 31.7pts for 'expectations'; both markedly reversing their respective Q2 underperformance. In terms of absolute scores, for current performance, 'retail and wholesale' (55.8) surprisingly topped all sectors for a second straight quarter; for expectations, only 'financial services' (60.1) recorded a 60+ score, along with 'innovation and technology' (69.7).

- **Current setback in Shenzhen; expected rebound in Hong Kong:** Shenzhen saw a 6.9pt drop in its 'current performance' score despite enjoying a strong lift from stronger responses from the city's 'innovation and technology' companies, mirroring the broader industry score. All other industry sub-indices in Shenzhen fell in Q3, led by a 8.8pts drop in 'manufacturing'. Shenzhen's expectations sub-index was relatively resilient by contrast, falling only a modest 1.3pts to 55.7, albeit still below Hong Kong (58.8) and Guangzhou (56.6).

In a positive surprise, Hong Kong posted the highest 'expectations' reading among all city sub-indices, in part boosted by its low current performance score (47.3), which creates a low base for sentiment to rebound. We believe rising Fed rate cut expectations since late July also may also have supported sentiment.

Figure 6: GBAI business sub-indices by city

Business activity	Current performance			Expectations		
	Q3-2024	Q2-2024	Q1-2024	Q3-2024	Q2-2024	Q1-2024
Hong Kong	47.3	47.1	43.3	58.8	49.7	44.2
Guangzhou	53.0	53.6	57.1	56.6	56.6	60.6
Shenzhen	50.4	57.3	55.9	55.7	57.1	55.9
Foshan	49.8	55.3	53.8	51.5	57.3	53.4
Dongguan	52.0	46.8	59.6	53.6	46.1	54.4
Macau and other cities	50.2	58.2	53.9	52.1	56.7	49.4

Source: HKTDC, Standard Chartered Research

Figure 7: GBAI credit sub-indices by city

Credit	Current performance			Expectations		
	Q3-2024	Q2-2024	Q1-2024	Q3-2024	Q2-2024	Q1-2024
Hong Kong	45.7	48.7	50.4	50.1	49.1	50.6
Guangzhou	49.5	52.1	53.3	49.7	53.8	52.6
Shenzhen	49.5	54.8	52.9	50.4	54.8	51.9
Foshan	50.6	52.3	50.8	51.9	52.5	50.1
Dongguan	50.1	47.5	50.8	54.3	50.3	50.7
Macau and other cities	49.7	50.4	51.6	52.0	50.9	51.7

Source: HKTDC, Standard Chartered Research



On the Ground

What are GBA companies worrying about?

Key takeaways from our thematic questions

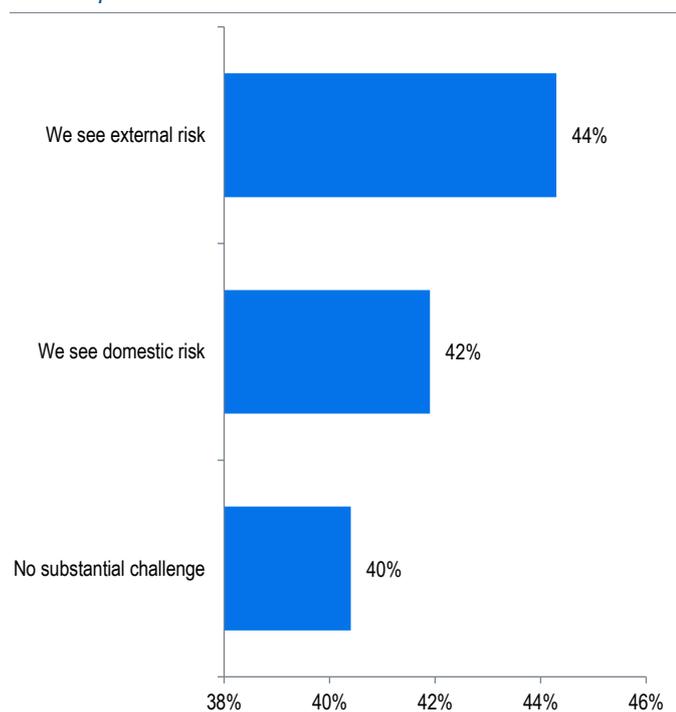
For our Q3 thematic questions, we take a closer look at the top risk factors for GBA businesses, and how these risks can be addressed, either by the companies or with the help of China's policy makers. We also asked respondents' about their exposure to trade barriers, and whether they have been front-loading their external trades in view of potential upcoming trade disputes between China and the US/EU.

External vs domestic risk

We first asked our respondents whether they see external (outside China) or domestic risks (within China) posing a substantial challenge to their overall business in the next 12 months (Figure 8). 44% respondents saw external risks, and 42% saw domestic risks, and these two groups were not mutually exclusive. 40% respondents saw no substantial challenge from either domestic or external risk. For those who selected 'we see external risk', we followed up asking them what their top three external concerns were (Figure 9). 47% for 'higher global inflation and interest rates', followed by 42% for 'trade tariffs and sanctions against China-origin products', and 29% for 'worsening geopolitical conflict'. The Fed's recent jumbo rate cut effectively signalled its victory in managing inflation and willingness to front-load monetary easing, thus also signalling potential relief for GBA companies; this likely offsets lingering trade and geopolitical risks in the run-up to the US presidential election.

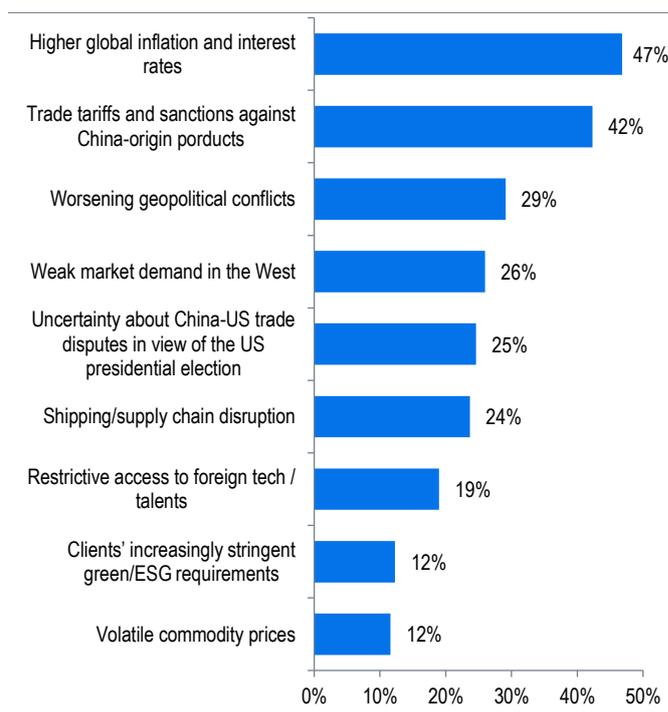
For those that saw domestic risks as key challenges, 'renewed China growth slowdown' (46%), 'weak consumer/business confidence' (39%), and 'intense competition within industry' (35%) were the top three choices (Figure 10). We think all this is consistent with the respondents' general concern over weak economic demand, pushing some of the more specific/well-publicised challenges like 'real estate market downturn' (14%) and 'risk of overinvestment/overcapacity' (10%) down the pecking order.

Figure 8: Do you see external (outside of China) or domestic risks (within China) posing a substantial challenge to your business over the next 12 months?
% of respondents



Source: HKTDC, Standard Chartered Research

Figure 9: What are the top three external concerns you see impacting your business in the next 12 months?
% of respondents that answered 'We see external risk'



Source: HKTDC, Standard Chartered Research



Addressing concerns

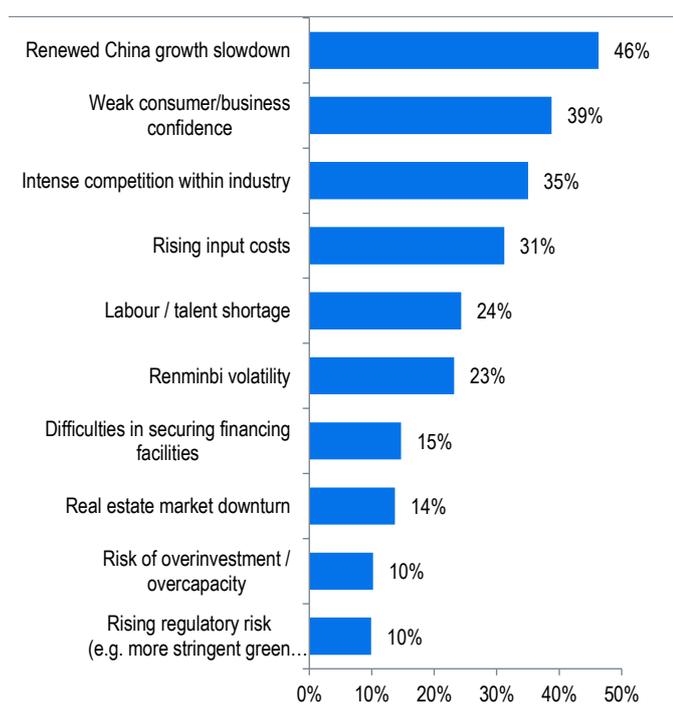
We then asked whether respondents expect any initiatives/regulatory support from the government to address domestic concerns (Figure 11). 35% said that policy makers could be doing more to improve jobs, incomes and social security; 31% called for more growth-friendly policies and reforms, and 30% for supporting the expansion of the private sector. Asked about how the companies are addressing external concerns, most responded with 'selling more to emerging markets/new overseas markets' (25%), 'selling more into the domestic market' (24%) and 'changing products/business model' (18%); see Figure 12. There was only a small gap between votes for the third-highest and the fourth-to-eighth-highest responses, reflecting GBA companies' varied diversification methods. Only 13% and 14% of respondents saw no domestic and external concerns, respectively.

Rising trade barriers

On the impact of various kinds of trade barriers against products of Chinese origin in recent years, 47.2% of respondents said they were negatively impacted by tariff hikes (e.g., anti-dumping/countervailing duties; additional Section 301 duties), versus 44.2% for sanctions, and 34.6% for non-tariff barriers (Figure 14). In view of a likely further rise in trade disputes between China and the US/EU, which may result in further increase in the above-mentioned trade barriers, we asked respondents whether they anticipate any changes to their external trade (goods or services) in the next few months (Figure 13). Of the 37% survey respondents involved in external trade and who said yes, 88% said they would front-load their H2 export orders and 81% said they would front-load their H2 imports. While these responses do not represent the majority, such front-loading – if it occurs – could potentially hamper future export and import growth.

Figure 10: What are the top three domestic concerns you see impacting your business in the next 12 months?

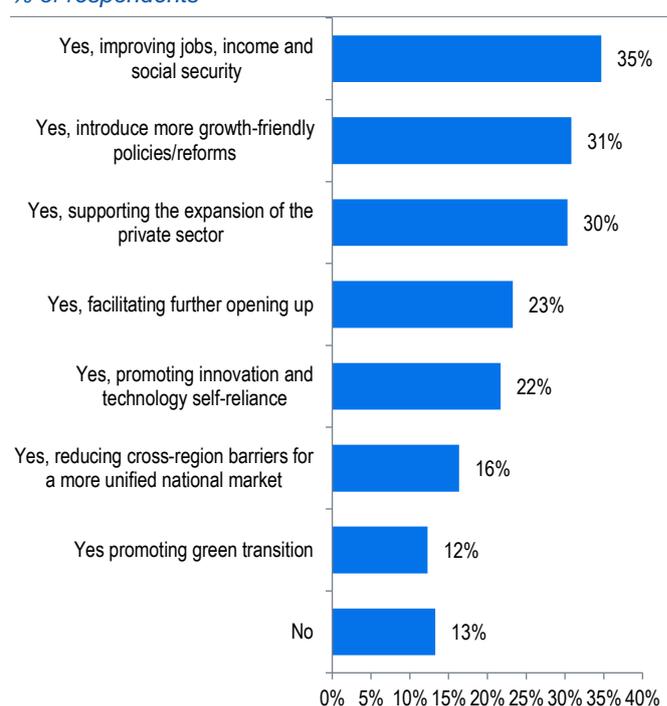
% of respondents that answered 'We see domestic risk'



Source: HKTDC, Standard Chartered Research

Figure 11: Do you expect initiatives/regulatory support from the China government to address your domestic concerns?

% of respondents



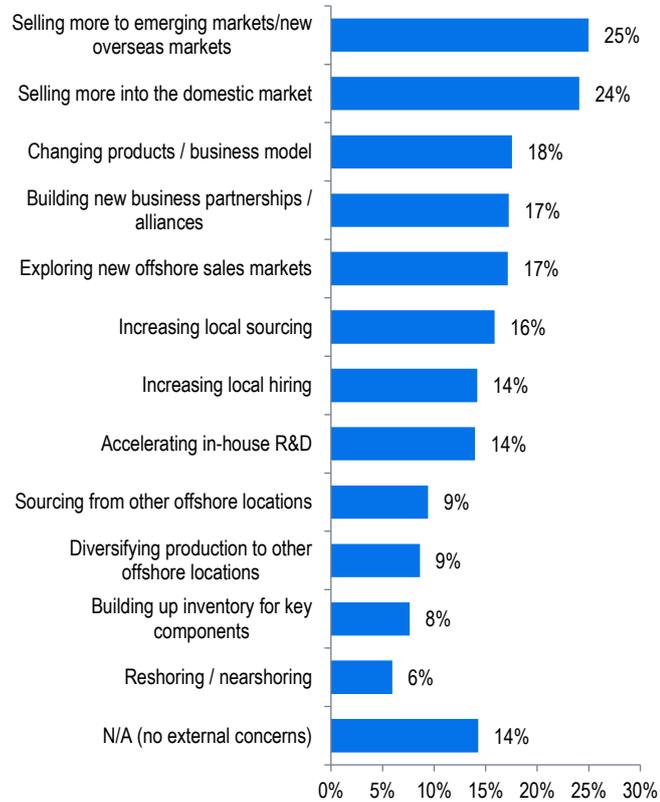
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On the Ground

Figure 12: How are you addressing your external concerns?

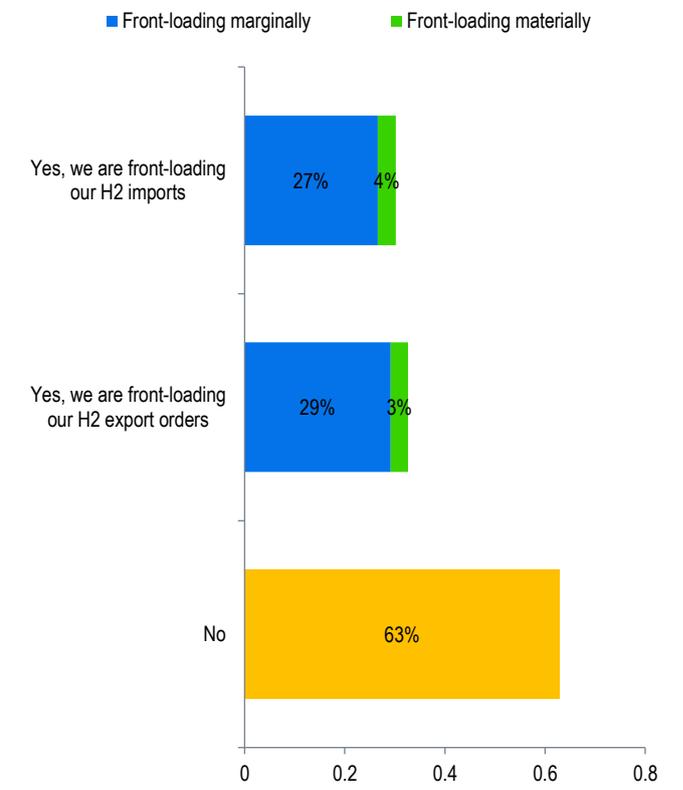
% of respondents



Source: HKTDC, Standard Chartered Research

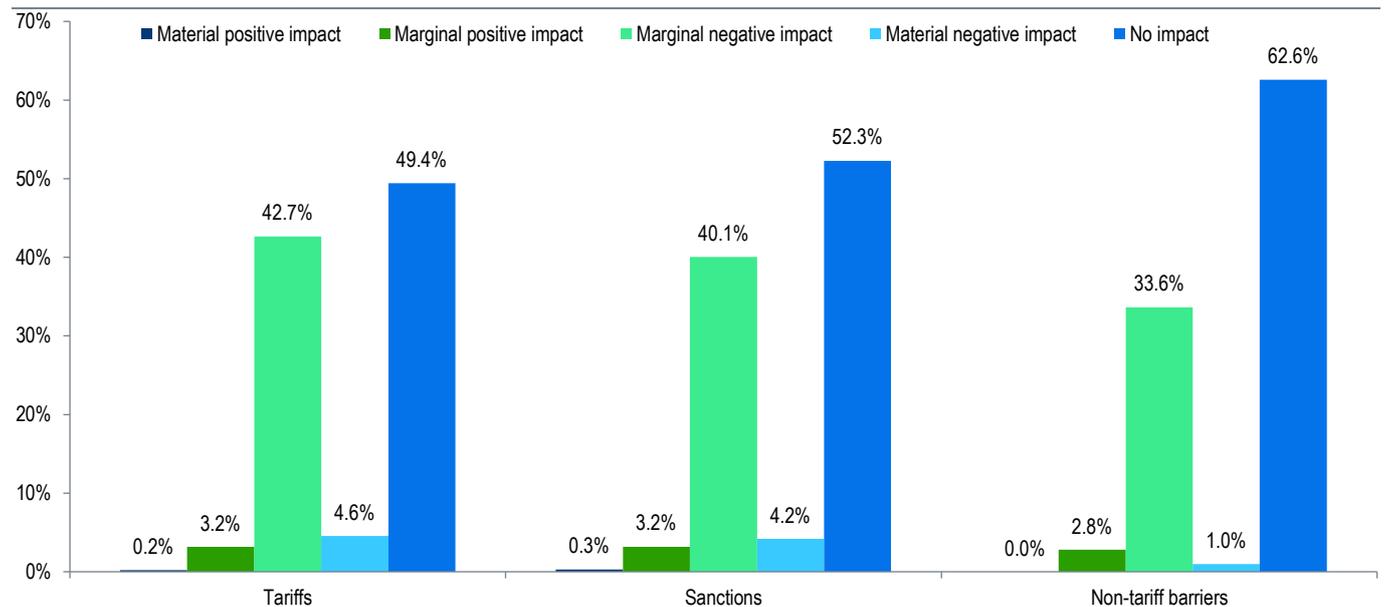
Figure 13: In view of the looming China vs US/EU trade disputes, do you see changes to your external trade in the next few months?

% of applicable respondents (n = 888)



Source: HKTDC, Standard Chartered Research

Figure 14: How has your business been directly affected by trade barriers against products of Chinese origin in recent years? (% of respondents)



Source: HKTDC, Standard Chartered Research



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Document approved by

Shuang Ding

Chief Economist, Greater China and North Asia

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