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Global Research
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GBA – Steady as she goes, survey says

- **Q4 GBAI current performance and expectations indices eased, hinting at moderating recovery momentum**
- **But we see bright spots in strong 'production/sales' and 'profits' performance, rebounding tech industry**
- **Survey shows need for more policy easing to improve credit conditions and reduce labour-market slack**

Cautiously upbeat towards 2024

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Our GBA Business Confidence Index (GBAI), based on quarterly surveys of over 1,000 companies operating in the Guangdong-Hong Kong-Macau Greater Bay Area (GBA) and conducted in collaboration with the Hong Kong Trade Development Council (HKTDC), shows more cautious business sentiment compared with Q3, but is still consistent with a modest recovery story as we enter 2024. The current performance index for business activity eased to 51.4 in Q4-2023 after a brief rebound to 52.9 in Q3, while the corresponding expectations index also slipped to 54.1 from 56.3 prior (Figure 1). We continue to take comfort from the fact that both indicators remain above the neutral 50 mark, plus the narrow nature of the latest index setback (predominantly due to raw material inventory drawdown and weaker financing needs; components that are more reflective of immediate business performance – namely 'production/sales' and 'profits' – remained resilient). All that said, for a second straight quarter the gap between the current performance and expectations scores remained narrow; this indicates that little 'policy premium' is being priced in for now, despite the government stepping up efforts to support the economy (Figure 2). We think more policy easing is required in 2024 to avoid lingering cautiousness becoming entrenched.

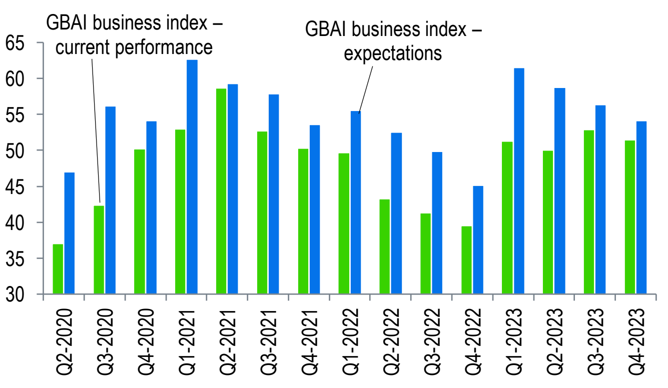
In the meantime, credit conditions in the GBA appear to be improving, albeit slowly. By industry, 'innovation and technology' looks likely to start 2024 on a stronger footing as the growth driver rotates away from 'retail and wholesale'. Despite this growing sign that the global tech cycle is turning a corner, Shenzhen underperformed in Q4 due to larger drags from its manufacturers and retailers. For thematic questions, we had confirmation of ongoing labour-market slack, but GBA companies still plan to hire more in 2024. Our respondents also shared their views on youth employment and other labour-related challenges.

Figure 1: GBAI business index and its sub-components

	Current performance			Expectations		
	Q4-2023	Q3-2023	Q2-2023	**Q4-2023**	Q3-2023	Q2-2023
Business index	**51.4**	52.9	50.0	**54.1**	56.3	58.7
1. Production/sales	**56.0**	54.8	49.4	**57.6**	59.9	63.1
2. New orders	**55.3**	55.2	49.8	**57.9**	59.4	60.8
3. Capacity utilisation	**49.4**	49.1	49.9	**51.3**	58.0	59.8
4. Raw material inventory	**45.0**	53.1	47.1	**48.4**	52.4	53.6
5. Prices of finished goods/services	**51.5**	52.4	51.9	**54.2**	56.1	59.7
6. Fixed asset investment	**52.2**	52.8	52.9	**52.5**	53.0	58.7
7. Financing scale	**47.4**	51.9	49.3	**48.4**	51.0	51.7
8. Profit	**54.7**	53.8	49.9	**62.7**	60.8	62.7

Source: HKTDC, Standard Chartered Research

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



Source: HKTDC, Standard Chartered Research

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A modest recovery, but a recovery nonetheless

The latest survey was conducted between early November and early December

After an impressive rebound in Q3-2023 following a mid-year slowdown, the GBAI eased again in Q4. But with both the current performance and expectations sub-indices still staying above 50, we remain confident that the region is entering 2024 with modest recovery momentum. A further breakdown shows a narrow set of drivers for the Q4 setback, namely an accelerated raw material inventory drawdown and weak appetite for fresh financing. Other components like ‘production/sales’ and ‘new orders’ improved q/q in current performance terms; ‘profits’ also posted a higher expectations sub-index. And if GBA sentiment is a barometer for the whole of China, our call for a slightly above-consensus 2024 national growth forecast of 4.8% looks very much valid still. This sanguine view hinges on several assumptions, namely (1) more policy support; (2) less of a property-sector drag; and (3) renewed consumer willingness to draw down savings.

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

Immediate business performance still improving, only to be overshadowed by quicker inventory drawdown and weaker financing needs

- **Current performance still in expansion mode:** On the face of the latest prints, momentum softened again in Q4-2023 after the region convincingly climbed out of a mid-year slump in Q3. Our GBAI current performance index for business activity fell to 51.4 in Q4 after rebounding to 52.9 in Q3. This 2.7% q/q drop, however, was only driven by half of its eight main components, namely ‘raw material inventory’ (-8.1ppt), ‘financing scale’ (-4.5ppt), ‘finished goods/services prices’ (-0.9ppt) and ‘fixed asset investment’ (-0.6ppt), as Figure 1 shows. Among these underperforming GBAI components, only ‘raw material inventory’ (45.0) and ‘financing scale’ (47.4) fell below 50. Although they indicate weak confidence in the 2024 demand outlook (more on this below in the expectations indices text), we also believe that at least part of this reluctance to build up inventory could reflect GBA businesses moving towards a more just-in-time model post-COVID, while the reduced urgency to borrow could be a result of improved cash flow.

  There are also outright bright spots among the current performance sub-indices. In particular, we welcome the 1.2ppt and 0.9ppt increase in ‘production/sales’ and ‘profits’, respectively. These two components, together with ‘new orders’, had the highest current performance prints; this confirms that immediate business performance has improved of late, keeping the recovery narrative alive even when the more forward-looking components appear less rosy.

Expectations for ‘profits’ bucked the falling trend, rising to 62.7

- **Expectations indices fall for a third straight quarter:** The GBAI expectations index for business activity eased to 54.1 in Q4 from 56.3 in Q3; this is also the third straight quarterly drop from 61.5 in Q1. Despite the consecutive q/q drop, it is still well above 50 and higher than the 51.4 current performance index, suggesting further recovery ahead, albeit with weakening conviction. This setback is also rather broad-based, with seven of the eight components falling q/q; ‘capacity utilisation’ (-6.7ppt) and ‘raw material inventory’ (-4.0ppt) declining the most. ‘Profits’ was the exception, extending its lead over the others by rising to a component-best 62.7 from 60.8 prior; easing operating costs (or expectations thereof) likely helped, in our view. All this also bodes well for the official nationwide industrial profits growth to keep improving, at least in early 2024; profits growth has been easing after a strong rebound in August.

We wait for more signs of recent policy easing finally spilling over into GBA business confidence

Also of note was the narrowed gap between the headline sub-indices for current performance and expectations for a second straight quarter (Figure 2). We believe this reflects little additional 'policy premium' being priced in for now, despite the government ramping up economic stimulus since July. Admittedly, some of the more prominent positive developments of late only came halfway through our survey period (e.g., the Biden-Xi meeting at the APEC summit, or the white-list of property developers eligible for additional financing support), or after it was concluded (the strong pledges from China's top leaders at the Central Economic Work Conference to maintain policy support in 2024 to further revive the economy). In any case, to avoid lingering cautiousness becoming entrenched again, we believe more policy easing is likely in the coming quarter(s).

- **Credit conditions slowly improving:** The current performance index for credit came in at 49.5 in Q4, up from 48.9 in Q3 and surpassing Q2's 49.3 (Figure 3). The improvement came despite worsening drags from the 'banks' attitude towards lending' component – possibly reflecting ongoing compression pressure on banks' net interest margins, plus the additional burden banks are expected to shoulder in supporting the property sector. We continue to take comfort from the fact that borrowing costs (both bank and non-bank) are rising at a slower pace (i.e., a rising sub-index while staying below 50), and our respondents' better cash-flow positions, including a 50.3 print for 'receivables turnover' after two straight quarters below 50, at 48.9.

  Looking ahead, the headline expectations index for credit was unchanged at 50.9, consistent with a likely further easing in financing conditions in the coming quarter. 'Banks' attitude towards lending' (50.2 versus 50.8 prior), 'surplus cash' (56.7 vs 58.1) and 'receivables turnover' (52.2 vs 54.7) are expected to rebound/improve but more modestly, while upward pressure on non-bank financing costs is likely to ease more than for banks.

- **Rotating industry drivers:** The current performance indices for business activity for 'retail and wholesale' (R&W, -4.6ppt) and 'innovation and technology' (I&T, -4.2ppt) saw the biggest q/q drops in Q4 among our five industry categories. On the face of it, their scores could merely be normalising from a high base, as they were strong outperformers in Q3. However, in terms of ranking, I&T (54.6) managed to cling on to the top spot despite this steep q/q drop, while R&W (50.5) fell to last place from being second in Q3 (bested by 'manufacturing and trading' (M&T, 51.5) for the first time since Q2-2022).

Still-evident upward pressure on borrowing costs is keeping overall financing conditions from improving faster

Figure 3: Respondents expect better cash flow but higher borrowing costs

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

	Current performance			Expectations		
	Q4-2023	Q3-2023	Q2-2023	Q4-2023	Q3-2023	Q2-2023
Credit index	**49.5**	**48.9**	**49.3**	**50.9**	**50.9**	**51.6**
1. Bank financing cost *	48.5	48.0	46.9	46.8	46.4	42.6
2. Non-bank financing cost *	49.8	45.6	49.5	48.8	44.6	43.8
3. Banks' attitude towards lending	45.3	47.6	50.1	50.2	50.8	54.9
4. Surplus cash	53.4	54.3	51.2	56.7	58.1	60.0
5. Receivables turnover	50.3	48.9	48.9	52.2	54.7	56.6

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

I&T looks to be the new guard as the R&W old guard underperforms

The expectations indices paint a similar picture, with I&T actually improving by 5.8ppt to 60.8, while R&W fell 5.1ppt to 52.5 (Figure 4). Only 'professional services' had a bigger q/q drop (-5.6ppt) and a lower score (48.2).

I&T's resilience adds conviction to calls for a bottoming in the global tech demand cycle, and bodes well for the government's pursuit of "high-quality" growth featuring innovation and high-end manufacturing on top of green and inclusive development. The setback to R&W, on the other hand, is a reminder that while consumption has been (and will continue to be) a key driver of the economy, headwinds such as slowing wage growth and weak asset markets are likely to keep consumers from drawing down savings quickly.

Shenzhen looks to rebound after a Q4 setback, while Hong Kong could struggle more

- **A short-term setback for Shenzhen:** For current business activity performance, Shenzhen fell the most by city, to 49.5 from 54.8 prior – it was also the only sub-50 print (Figure 6). The city underperformed despite its still-resilient I&T sub-index (54.5), and an outperformance in its 'professional services' score (67.0). Shenzhen had the lowest prints for M&T (49.3) and R&W (47.1) among our city sub-indices. At the other end of the spectrum, Guangzhou and Foshan lead the pack in terms of R&W, and Guangzhou alone sits above the 60 mark for its 'financial services' sub-index.

  For the expectations indices, five of our six city sub-indices fell q/q (the exception being 'Macau and other cities'). We, however, continue to take comfort from the fact that most – including Shenzhen – remained above the neutral 50 mark and above their respective current performance prints, indicating further recovery ahead. Hong Kong was the odd one out in Q4, falling to 49.0 from 52.6 prior, the main drags being M&T and 'professional services', while other industry components – including R&W – stayed largely steady. All this is consistent with our call for a cautious-at-best Hong Kong recovery in 2024. We believe a continued normalisation of tourist arrivals and a tight labour market can only do so much to offset the likely persistence of many local (weak property market and residents' tendency to travel and spend money abroad) and external (high US interest rates and sub-par China growth) headwinds.

Figure 4: GBAI business sub-indices by sector

Business activity	Current performance			Expectations		
	Q4-2023	Q3-2023	Q2-2023	Q4-2023	Q3-2023	Q2-2023
Manufacturing and trading	51.5	52.4	49.9	54.2	56.2	59.1
Retail and wholesale	50.5	55.1	51.2	52.5	57.5	58.3
Financial services	52.6	53.5	51.5	56.7	57.1	54.8
Professional services	50.8	48.8	56.1	48.2	53.9	61.9
Innovation and technology	54.6	58.8	43.7	60.8	55.0	49.0

Source: HKTDC, Standard Chartered Research

Figure 5: GBAI credit sub-indices by sector

Credit	Current performance			Expectations		
	Q4-2023	Q3-2023	Q2-2023	Q4-2023	Q3-2023	Q2-2023
Manufacturing and trading	49.1	49.0	49.0	51.0	50.9	51.4
Retail and wholesale	51.4	48.2	51.2	50.8	51.1	51.9
Financial services	50.9	49.8	46.5	47.6	50.2	50.3
Professional services	48.7	45.6	52.1	48.6	48.6	53.8
Innovation and technology	52.0	50.2	52.5	54.5	52.3	55.3

Source: HKTDC, Standard Chartered Research

Key takeaways from our thematic questions

GBA's labour market is a good gauge for China-wide economic health

Our thematic questions for Q4 focused on gauging (1) the current and future labour-market conditions in the GBA; (2) our respondents' 2024 hiring plans; and (3) perceived labour-market challenges, including youth unemployment. This section complements the findings from our annual manufacturing survey of our clients operating in the GBA, which provides a deep dive on labour and wages (in addition to other topical issues like factory relocation and industrial upgrading).

More hiring amid lingering labour-market slack

When asked how they would describe current labour supply conditions for their industry, a collective 53.2% chose 'somewhat loose' and 'very loose', which is materially more than those choosing 'somewhat/very tight' (11.4%). A further breakdown shows that the gap between 'loose' and 'tight' responses was the narrowest (i.e., least slack) when hiring 'professionals' (+29.0ppt), followed by 'technicians' (+34.4ppt); the gap was widest for 'sales persons' (+41.3ppt) and 'general workers/staff' (+43.4ppt) (Figure 8). Looking ahead, our GBA respondents see only marginal improvement in 2024, with those expecting overall looseness in supply falling to 51.4% from the current 53.2%, while those expecting some degree of tightness staying largely steady (11.1% vs 11.4%). This expected improvement is mirrored across all job types (Figure 9).

More encouraging are our GBA respondents' own hiring plans. 14.1% said they would increase hiring in Q1-2024, which is traditionally peak season for companies to expand their workforce; the number rises to 15.8% for the whole of 2024 (Figures 10-11). These are materially higher than those choosing 'decrease hiring' (7.3% for both Q1 and full-year 2024), meaning that more jobs are to be created still as the economy recovers further, chipping away excess labour supply in the process. The biggest net increase is for 'sales persons' (+8.1ppt) and 'professionals' (+7.9ppt) in Q1, and 'technicians' (+11.0ppt) and 'sales persons' (+9.9ppt) for full-year 2024; in both timeframes 'general workers/staff' has the fewest net increase votes.

Figure 6: GBAI business sub-indices by city

Business activity	Current performance			Expectations		
	Q4-2023	Q3-2023	Q2-2023	Q4-2023	Q3-2023	Q2-2023
Hong Kong	50.0	49.0	49.3	49.0	52.6	54.7
Guangzhou	51.7	54.9	48.6	55.6	59.7	55.7
Shenzhen	49.5	54.8	51.9	54.3	56.6	60.4
Foshan	55.6	52.4	47.6	57.3	58.3	58.5
Dongguan	51.7	53.8	56.4	56.4	59.1	64.3
Macau and other cities	53.8	48.5	43.6	53.0	51.7	58.0

Source: HKTDC, Standard Chartered Research

Figure 7: GBAI credit sub-indices by city

Credit	Current performance			Expectations		
	Q4-2023	Q3-2023	Q2-2023	Q4-2023	Q3-2023	Q2-2023
Hong Kong	46.3	48.0	47.2	45.9	49.1	49.3
Guangzhou	51.8	50.2	51.9	51.7	53.2	51.9
Shenzhen	48.4	49.1	48.2	51.1	50.8	52.1
Foshan	48.8	49.5	49.6	51.9	50.9	51.9
Dongguan	53.7	48.2	50.9	56.5	51.6	51.9
Macau and other cities	49.9	47.6	50.5	49.4	49.7	51.5

Source: HKTDC, Standard Chartered Research

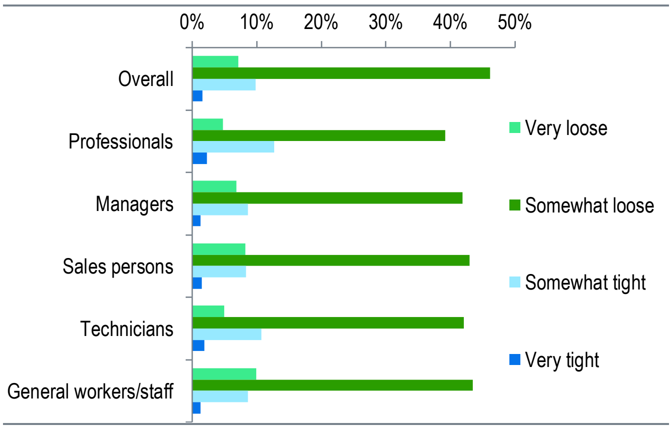
What drives hiring decisions

Among the 343 respondents that said they would increase hiring in 2024, 40.5% identified 'to meet an expected increase in orders' as their main reason to do so, followed by 'venturing into new business' (38.5%) and 'in anticipation of an increase in natural attrition' (33.8%). This is consistent with our view that there remains plenty of headroom for companies to rebuild their capacity/retool their business post-COVID. Fewer votes for 'previously unable to fill job vacancies' (19.5%) and 'to stay ahead of competitors in talent grab' (17.5%) also echo the aforementioned view of lingering labour-market slack (Figure 12). At the other end of the spectrum, we have 'cost-cutting pressure' (42.2%) and 'in anticipation of weaker orders/demand' (37.8%) topping the list of reasons for those expecting to hire less in 2024 (Figure 13). Cyclical factors, rather than structural considerations (e.g., automation, factory relocation), seem to be bigger drivers for hiring reduction at present.

Youth employment and other challenges

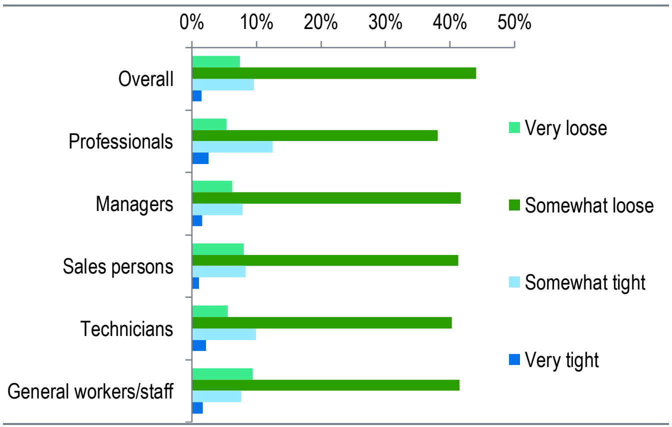
Much has been reported on China's high youth unemployment rate. What is reassuring, however, is that 71.2% of our respondents said they are willing to hire more youngsters/fresh graduates in 2024 (Figure 14). This suggests that the situation could improve with the right policy incentives, although many other gaps between what young

Figure 8: How would you describe the current labour market conditions for your industry *(% of respondents*)*



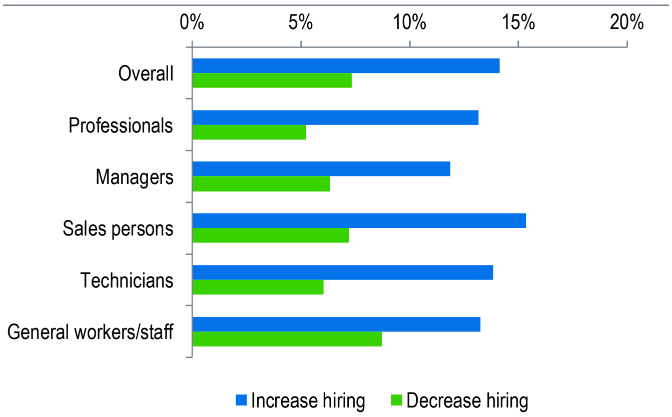
* Does not add up to 100%, difference being 'neutral' and 'n/a' responses. Source: HKTDC, Standard Chartered Research

Figure 9: What is your expectation for 2024 labour market outlook for your industry *(% of respondents*)*



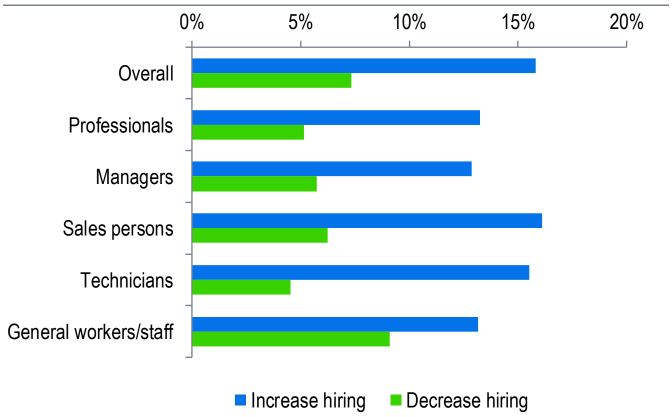
* Does not add up to 100%, difference being 'neutral' and 'n/a' responses. Source: HKTDC, Standard Chartered Research

Figure 10: What is your plan for managing your workforce in Q1-2024? *(% of respondents*)*



* Does not add up to 100%, difference being 'no change' and 'n/a' responses. Source: HKTDC, Standard Chartered Research

Figure 11: What is your plan for managing your workforce for the whole of 2024? *(% of respondents*)*



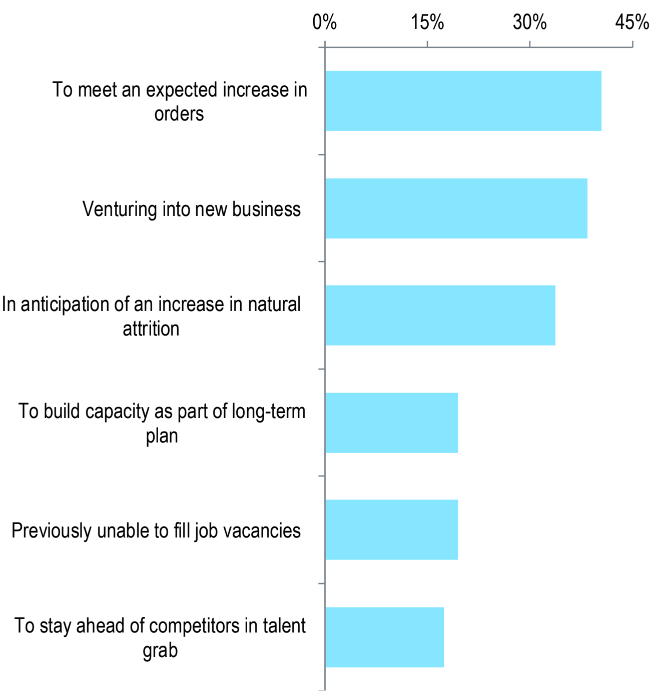
* Does not add up to 100%, difference being 'no change' and 'n/a' responses. Source: HKTDC, Standard Chartered Research

jobseekers are looking for and what GBA employers can offer could remain too wide to bridge. Allocating more resources to subsidies and vocational training should help, given that 'salary offered cannot meet youngsters' expectation' (36.9%) and 'we require more experienced workers' (35.9%) are the top-two hurdles when hiring young people (Figure 15). Beyond these, however, a significant number of votes were also given to more 'quality of life' considerations – e.g., young jobseekers demanding better work-life balance, more flexible working hours, or they have different work values from our GBA respondents.

In terms of dealing with longer-term labour-market challenges, most respondents turn to 'increasing retention effort to handle talent shortage' (48.0%) and 'enhancing automation to tackle the shrinking labour force problem' (39.8%). Providing more training to support youth employment and addressing technological disruption also got over one-fifth of the votes (Figure 16). In terms of walking the walk, GBA companies seem to be more actively pursuing 'talent retention' and 'enhance automation', than 'cross-border hiring', 'youth/graduate hiring' and other 'government-led employment initiatives' (Figure 17). All this implies that there is plenty of policy headroom to further boost company recruitment over time.

Figure 12: Reasons for increasing hiring

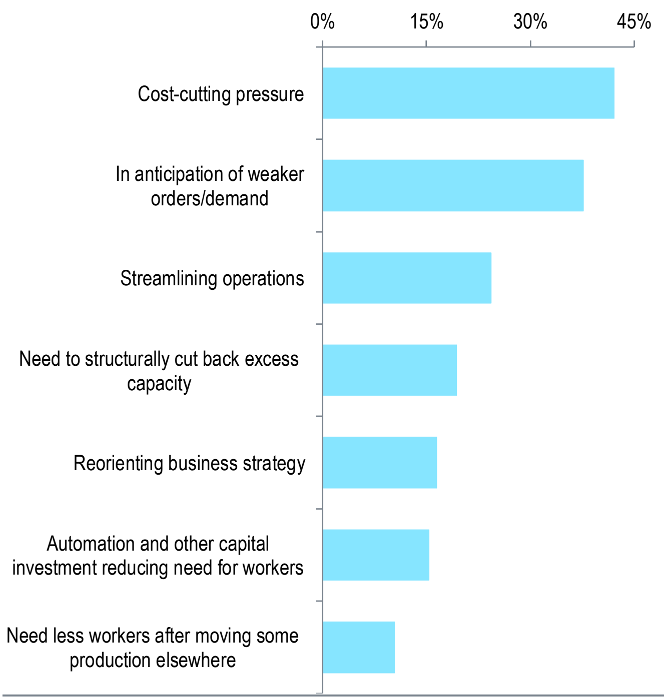
% of respondents choosing 'increase hiring' in Figures 10-11



Source: HKTDC, Standard Chartered Research

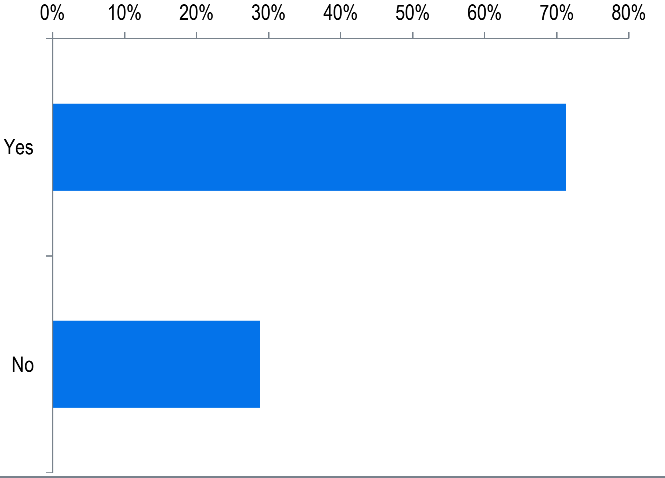
Figure 13: Reasons for decreasing hiring

% of respondents choosing 'decrease hiring' in Figures 10-11



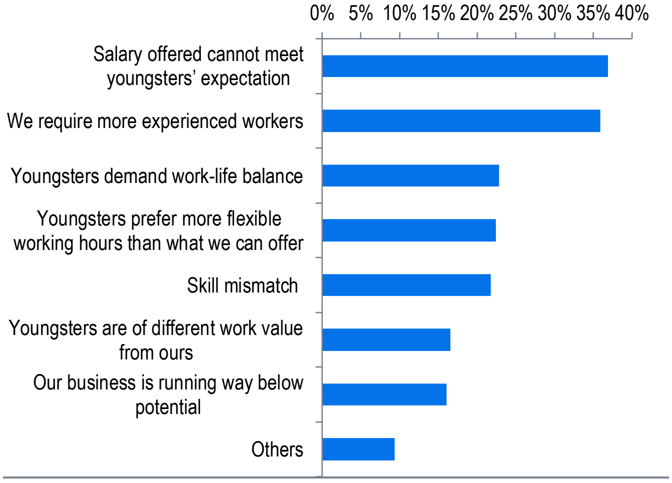
Source: HKTDC, Standard Chartered Research

Figure 14: Are you willing to hire more youngsters/fresh graduates in next one year? *(% of respondents)*



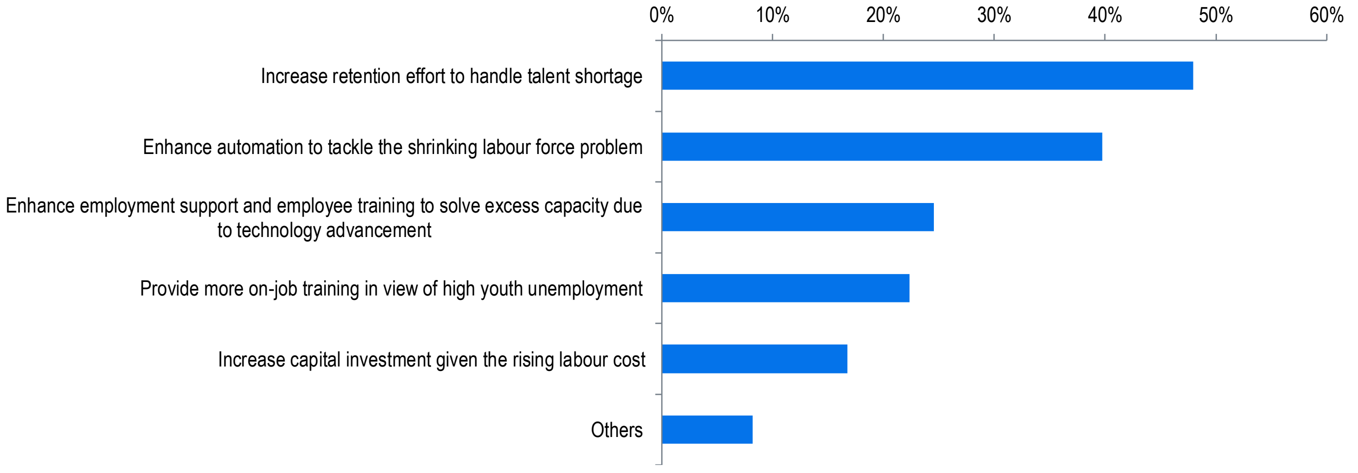
Source: HKTDC, Standard Chartered Research

Figure 15: Main challenges for your company to hire youngsters/graduates *(% of respondents)*



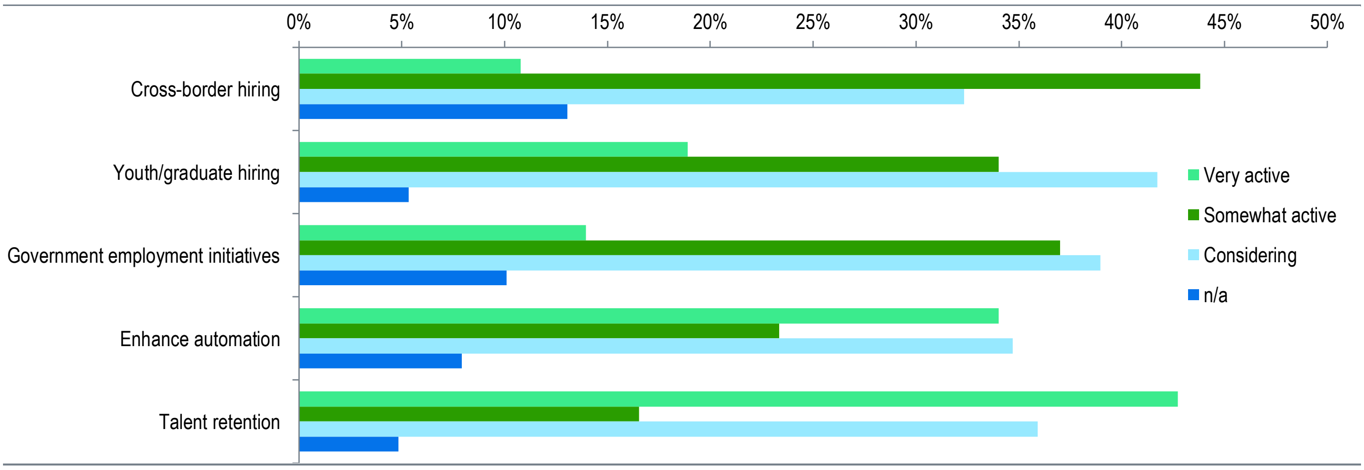
Source: HKTDC, Standard Chartered Research

Figure 16: How would you address the long-term challenges for the labour market?
% of respondents



Source: HKTDC, Standard Chartered Research

Figure 17: How active are you pursuing/participating in the following areas?
% of respondents



Source: HKTDC, Standard Chartered Research

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