

GBA – Businesses brace for Trump impact

- Q4-2024 GBAI indices show a drop in ‘expectations’ index while ‘current performance’ remains weak
- Gauge for credit conditions shows worsening bank financing costs and cash flow despite policy easing
- Thematic questions confirm the need for a continued boost from more pro-growth policy measures

Waiting for policy easing to set in

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), posted a second quarter of weak current business performance, which has started to weigh on the forward-looking index. Q4 business sentiment for ‘current performance’ stayed largely unchanged, at 50.7 vs 50.6 prior, while the corresponding ‘expectations’ index fell to 52.9 from 55.2. All but one of the eight index components contributed to the latter’s setback to a two-year low, possibly capturing early reactions to Trump’s re-election and newly heightened worries over tariff hikes and worsening US-China tensions. However, a breakdown showed that the deterioration in sentiment extended beyond externally oriented sectors. For example, by city, Hong Kong and Shenzhen saw a material weakening in their ‘retail and wholesale’ sub-indices. Our finance and tech respondents showed the highest scores among sectors.

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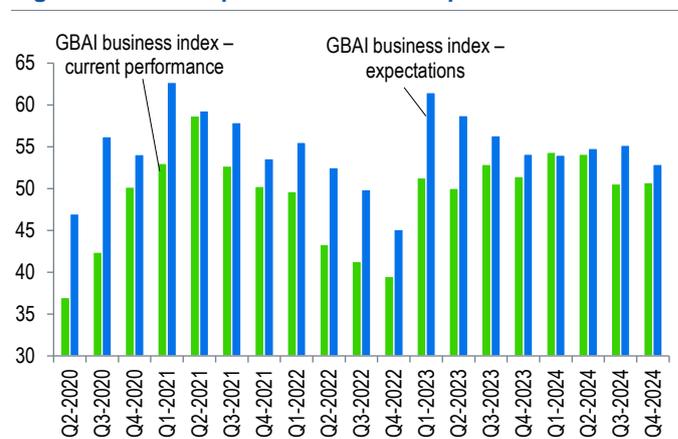
In terms of credit conditions, both the current and expectations indices fell to their lowest levels since Q3-2022. In addition to a continued rise in ‘bank financing costs’, respondents’ ‘surplus cash’ and ‘receivables turnover’ worsened, further confirming the challenging business conditions. The ramp-up in monetary easing efforts since late September has yet to lift credit expectations, but our thematic questions reflected moderating concerns over financing costs and credit access due to policy-makers’ pro-growth policy pivot, while respondents cited deflation and employment as top concerns. We think further stimulus could prolong the policy tailwind in the coming quarters, providing the key to an eventual rebound in GBA business sentiment.

Figure 1: GBAI business index and its sub-components

	Current performance			Expectations		
	Q4-2024	Q3-2024	Q2-2024	Q4-2024	Q3-2024	Q2-2024
Business index	50.7	50.6	54.1	52.9	55.2	54.8
1. Production/sales	55.1	52.1	59.0	58.4	58.5	57.6
2. New orders	50.0	51.5	58.3	53.3	58.0	59.2
3. Capacity utilisation	49.3	49.3	53.5	50.0	54.0	55.4
4. Raw material inventory	45.3	43.3	42.5	50.3	46.2	46.1
5. Prices of finished goods/services	55.3	57.4	54.4	54.9	59.9	55.0
6. Fixed asset investment	52.9	52.0	54.6	51.1	54.5	55.0
7. Financing scale	48.5	50.7	52.7	50.7	51.8	47.8
8. Profit	49.2	48.1	57.8	54.2	58.6	62.2

Source: HKTDC, Standard Chartered Research

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



Source: HKTDC, Standard Chartered Research

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On the Ground

Survey timing captured early reaction to Trump's re-election**Something has to give**

Expectations were bound to adjust lower this past quarter given that there was no improvement in current performance. The 'current performance' sub-index was largely unchanged at 50.7 (vs 50.6 in Q3), but lower than the average readings in 2023 (51.4) and H1-2024 (54.2). This persistent weakness in short-term business confidence makes it difficult to justify elevated longer-term expectations – the 'expectations' index therefore fell to 52.9 (an eight-quarter low) in Q4 from 55.2 in the previous quarter. A key reason for the latest drop in sentiment was Trump's re-election, and hence an increased risk of tariff shocks and worsening US-China trade tensions. However, a breakdown of the indices reflected sentiment weakness beyond just 'manufacturing and trading'; in particular, 'retail and wholesale' posted a steeper q/q drop and lower 'expectations' than the manufacturing component.

Our Q4 credit sub-indices reflected worsening cash flows and the need for further monetary easing to lower bank borrowing costs. Recent policy signalling of a shift to a 'moderately loose' monetary stance (not captured by this latest survey, which was conducted between early November and early December), could potentially lift the next quarter's GBAI survey results. We list below the detailed Q4-2024 survey findings:

Short-term business performance remained weak

- **Current performance stayed soft:** Our GBAI current performance index for business activity remained largely steady at 50.7 in Q4 versus 50.6 in Q3. The absence of a material rebound after the Q3 setback (the 3.5pts q/q drop was the largest in nine quarters) reflects still-weak economic momentum short-term. A breakdown showed that an improvement in 'production/sales' (+3.0pts), 'raw material inventory' (+2.0pts) and 'profits' (+1.1pts) was offset by the drag from 'financing scale' (-2.2pts) 'finished goods/services prices' (-2.1pts) and 'new orders' (-1.5pts). Four of the eight index components now stand below the 50 neutral mark (versus three in Q3, and only one in Q2). Better immediate business performance (in the form of production, sales and inventory rebuilding) did not spill over into more orders, financing or higher capacity utilisation.
- **Expectations fell to a two-year low:** The GBAI expectations index for business activity fell to 52.9 in Q4 from 55.2 in Q3. This 2.3pt setback reversed all the gains in 9M-2024 (+1.1pts) and more, bringing the expectations index to its lowest since Q4-2022. All but one of the eight index components contributed to this renewed weakness; we note that the rebound in 'raw material inventory' (the biggest underperformer in the previous year) was likely more due to businesses preparing to front-load purchases ahead of likely US tariff hikes under Trump 2.0. 'Finished goods/services prices' (-5.0pts), 'new orders' (-4.7pts) and 'profits' (-4.4pts) saw

No improvement in bank financing costs so far**Figure 3: Cashflow-related sub-indices worsened in Q4**

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

	Current performance			Expectations		
	Q4-2024	Q3-2024	Q2-2024	Q4-2024	Q3-2024	Q2-2024
Credit index	48.0	49.2	52.2	50.0	50.9	52.8
1. Bank financing cost *	46.0	48.0	46.7	46.7	48.9	51.0
2. Non-bank financing cost *	50.3	50.4	51.2	53.4	51.7	52.4
3. Banks' attitude towards lending	51.2	52.1	54.2	50.9	50.6	53.0
4. Surplus cash	44.8	47.8	55.8	50.9	52.8	56.3
5. Receivables turnover	47.6	47.6	52.9	48.0	50.7	51.4

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



On the Ground

the biggest sequential drops; ‘capacity utilisation’ (-4.0pts to 50.0) was the lowest-scoring component this time, reflecting expectations of a weak demand outlook prolonging excess capacity.

- Credit conditions worsened again:** The current performance index for credit fell again from 49.2 in Q3 to 48.0 in Q4 – the lowest since Q3-2022 and far from the record 52.5 posted in Q2. Our latest survey period did not capture the step-up in positive policy messages at the recent Politburo meeting and the Central Economic Work Conference (including the shift to a ‘moderately loose’ monetary policy from a long-standing ‘prudent’ stance). We had expected some notable changes in credit sentiment in this survey, as a result of the Fed’s jumbo rate cut (50bps) in mid-September and the People’s Bank of China’s (PBoC’s) subsequent cuts to the policy rate (20bps) and reserve requirement ratio (50bps). Instead, we saw a noticeable worsening of ‘bank financing costs’ (46.0 versus 48.0 prior) and ‘surplus cash’ (44.8 versus 47.8 prior); ‘receivables turnover’ (unchanged at 47.6) stayed weak, reflecting challenging business conditions.

Looking ahead, the headline expectations index for credit worsened to 50.0 – the lowest since Q3-2022 – from 50.9 prior. ‘Bank financing costs’ (-2.2pts to 46.7), ‘surplus cash’ (-1.9pts to 50.9) and ‘receivables turnover’ (-2.7pts to 48.0) were again the main drags, confirming the importance of more aggressive counter-cyclical measures if GBA businesses are to see a quicker turnaround.

Industry sub-indices echoed mixed signals from macro data

- Broad-based cautiousness across industries:** The ‘current performance’ sub-index for manufacturing respondents rebounded modestly to 50.1 from 49.5 in Q3, while ‘retail and wholesale’ fell the most by 3.9pts q/q to 51.9 over the same period. This echoed the mixed signals from real activity performance in November, with production activity still resilient (industrial production growth picked up 0.1ppt to 5.4% y/y in November, versus the Q3 average of 5%) while retail sales growth moderated (to 3% y/y) in November after growing by 4.8% in October. On the

Figure 4: GBAI business sub-indices by sector

Business activity	Current performance			Expectations		
	Q4-2024	Q3-2024	Q2-2024	Q4-2024	Q3-2024	Q2-2024
Manufacturing and trading	50.1	49.5	53.9	52.9	54.1	54.3
Retail and wholesale	51.9	55.8	57.9	51.5	58.6	61.6
Financial services	57.9	55.4	57.3	57.6	60.1	55.0
Professional services	51.1	53.8	53.2	47.1	58.7	59.1
Innovation and technology	56.3	52.6	43.9	57.3	69.7	38.1

Source: HKTDC, Standard Chartered Research

Figure 5: GBAI credit sub-indices by sector

Credit	Current performance			Expectations		
	Q4-2024	Q3-2024	Q2-2024	Q4-2024	Q3-2024	Q2-2024
Manufacturing and trading	47.5	49.0	52.2	50.2	51.3	53.0
Retail and wholesale	49.3	50.1	53.6	48.6	48.7	54.0
Financial services	53.8	49.2	50.7	54.8	51.3	51.4
Professional services	50.5	50.4	49.8	50.0	50.7	48.8
Innovation and technology	49.1	48.6	46.4	46.2	50.3	45.8

Source: HKTDC, Standard Chartered Research



On the Ground

other hand, 'innovation and technology' (+3.7pts to 56.3) advanced further and closed the gap with the leading 'financing services' component (+2.5pts to 57.9).

All five industry sub-indices for 'expectations' fell in Q4, most noticeably 'innovation and technology' (-12.4pts to 57.3), 'professional services' (-11.6pts to 47.1) and 'retail and wholesale' (-7.1pts to 51.5). While the setback in the tech component may be more due to a normalisation effect after a strong Q3 surge, weakening in the other two components indicates a broader softening of GBA sentiment beyond the impact of Trump's tariffs on manufacturers.

- **Most cities continue to struggle:** Except for 'Macau and other cities', all city sub-indices contributed to the setback in the headline 'expectations' index. This was no surprise, considering the GBA's export-oriented nature, which makes it vulnerable to likely worsening US-China trade tensions under Trump 2.0. However, a breakdown showed that other industries' sentiment also worsened in most GBA cities, including retail businesses in Hong Kong, Shenzhen and Dongguan (-14.0pts on average), and professional services across all three core cities (-12.4pts). Hong Kong remained the underperformer both in terms of 'current performance' (the only one with a sub-50 score) and 'expectations' (dropping back to 50.8 after a jump to 58.8 in Q3).

Key takeaways from our thematic questions

We gauge the impact of policy-makers' pro-growth policy pivot since September

The PBoC announced outsized RRR and policy rate cuts on 24 September, and new measures to support the equity and real estate markets. Subsequent Politburo meetings have continued to send out strong pro-growth signals, indicating that a comprehensive package to support the economy (beyond monetary easing) is likely in the works. In view of such a policy pivot, our Q4 thematic questions focused on the related impact so far, and how it could shape respondents' future business decisions.

Figure 6: GBAI business sub-indices by city

Business activity	Current performance			Expectations		
	Q4-2024	Q3-2024	Q2-2024	Q4-2024	Q3-2024	Q2-2024
Hong Kong	48.7	47.3	47.1	50.8	58.8	49.7
Guangzhou	52.7	53.0	53.6	53.4	56.6	56.6
Shenzhen	50.0	50.4	57.3	53.8	55.7	57.1
Foshan	53.3	49.8	55.3	50.4	51.5	57.3
Dongguan	50.3	52.0	46.8	52.2	53.6	46.1
Macau and other cities	51.5	50.2	58.2	53.2	52.1	56.7

Source: HKTDC, Standard Chartered Research

Figure 7: GBAI credit sub-indices by city

Credit	Current performance			Expectations		
	Q4-2024	Q3-2024	Q2-2024	Q4-2024	Q3-2024	Q2-2024
Hong Kong	47.2	45.7	48.7	49.3	50.1	49.1
Guangzhou	48.4	49.5	52.1	48.5	49.7	53.8
Shenzhen	47.2	49.5	54.8	50.9	50.4	54.8
Foshan	49.3	50.6	52.3	47.0	51.9	52.5
Dongguan	48.3	50.1	47.5	50.9	54.3	50.3
Macau and other cities	50.0	49.7	50.4	50.3	52.0	50.9

Source: HKTDC, Standard Chartered Research

Implications for the economy

We asked respondents whether policy-makers' clear shift to a more pro-growth policy approach would materially impact China's growth trajectory in the coming year. Over two-thirds of respondents (68%) expect a positive impact on the economy; of these, 25% said such a policy pivot could slow the economy's deceleration; 39% expected only marginal assistance via short-term boost to sentiment; only 20% (14% of all respondents) said the policy easing would help the economy reaccelerate; and another 15% (11%) said it would help the economy bottom out soon (Figure 8).

Implications for businesses

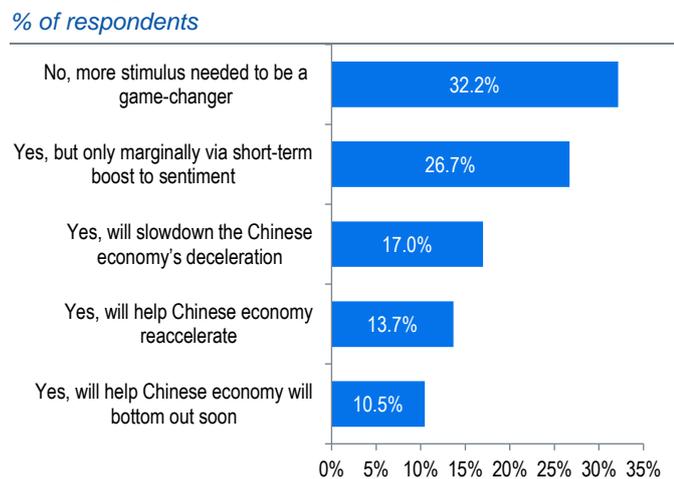
We asked respondents whether and how the recent shift in policy action and signals affected their business outlook in the coming years. Here, the responses were encouraging, with 33% seeing some degree of positive impact versus 7% negative on a 12-month outlook; these numbers remained largely unchanged when the outlook timeframe is extended beyond the coming year (Figure 9). Among the positive respondents, 62% and 47% said they would either significantly or marginally upgrade their sales and investment plans, respectively, in 2025, in view of the recent supportive policy developments (Figure 10). These numbers exceeded those who chose 'no impact on upgrading plans' (19%, 32%) and 'too early to tell' (19%, 21%).

Policy easing is having a positive impact on long-term business plans

Different means of policy support

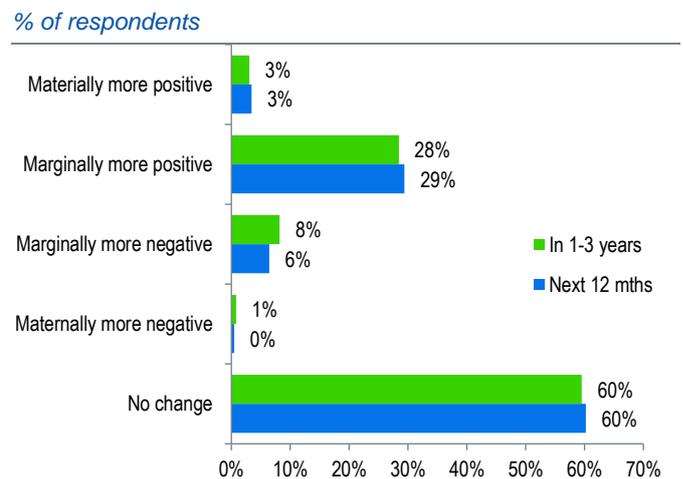
When asked which policy measures would positively impact their business the most, the most votes went to 'introduce more corporate tax concessions and subsidies' (almost 49%), followed by 'more initiatives to support SMEs financing' (40%), and 'new measures on strengthening international trade activities' (33%); Figure 11. Meanwhile, domestically oriented industries like 'retail and wholesale' and 'financial services' directed more votes to 'additional stimulus to boost domestic consumption' compared with the broader survey population (32%). We note that these top choices were clearly preferred over the more 'top-down' policy initiatives aimed at furthering monetary easing (20%) and expanding fiscal spending (21%). This indicates businesses' desire for follow-up measures that are concrete, pragmatic and targeted after major policy pivots.

Figure 8: Do you see the recent positive policy pivot impacting China's growth trajectory in the coming year?



Source: HKTDC, Standard Chartered Research

Figure 9: How has the recent shift in policy affected the outlook of your business in the coming year(s)?



Source: HKTDC, Standard Chartered Research

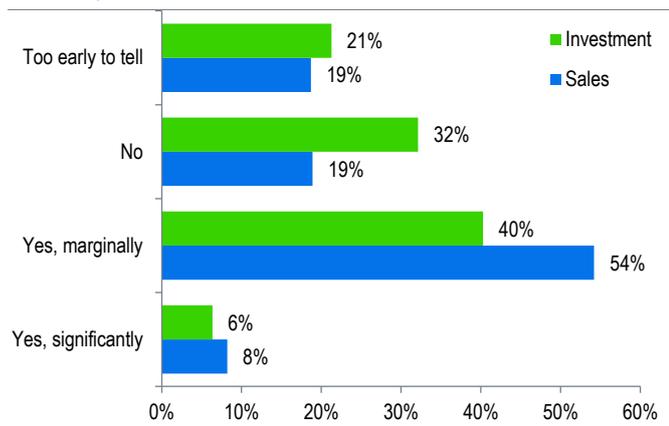
On the Ground

What keeps you up at night?

Following the recent wave of positive policy developments, we take stock of what our respondents' main worries are. 'Deflation' and 'employment' top the list of business concerns, with net votes of -5% and -1%, respectively (Figure 12). On the other end of the spectrum, 'financing channels' (+24%) and 'financing costs' (+17%) had the highest net scores – indicating that despite the lack of a sustained rebound in our GBAI credit indices in recent quarters, policy efforts have had a notable impact on GBA businesses.

Figure 10: Are you ready to upgrade your plans for 2025 in view of the recent positive policy developments?

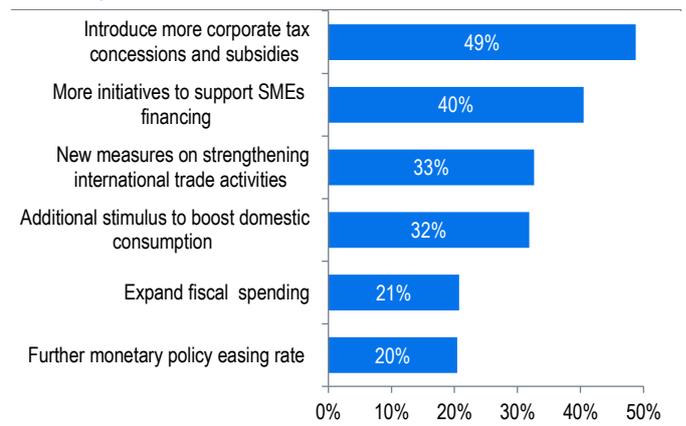
% of respondents



Source: HKTDC, Standard Chartered Research

Figure 11: Which policy measures would positively impact your business the most?

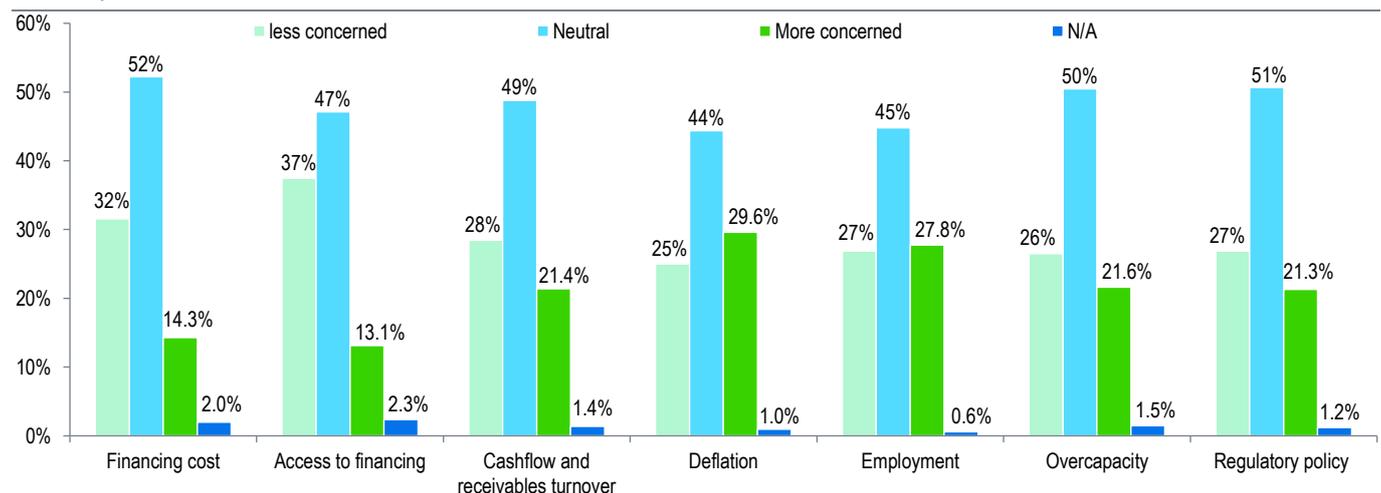
% of respondents



Source: HKTDC, Standard Chartered Research

Figure 12: In view of the recent wave of positive policy developments, how have your views changed for the followings China issues?

% of respondents



Source: HKTDC, Standard Chartered Research



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