

CKGSB Business Sentiment Index Report, Q1 2025

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Key findings

The Q1 2025 CKGSB China Industrial Economy Survey has returned an overall business sentiment score of 55, consistent with the last period, and giving a general picture of smooth business operations. Of the indices that make up the overall score, the operating conditions diffusion index remained stable (66), and at a relatively high level. Operating prospects (49) reduced somewhat, falling under the boom-bust confidence threshold. The investment timing diffusion index (51) rose since Q4 of last year (47). Uncertainty is still the main factor holding back economic recovery, under the impact of intensified geopolitics. This quarter, the indices measuring production volume (45) and finished product inventory (44) fell sharply. Companies reported actively changing production levels to respond to shifting market demand. Greater investment confidence however shows that enterprises have a good feeling about long-term prospects. In Q1, the costs diffusion index (64) rose four percentage points over Q4 2024, while the prices diffusion index (51) dampened. Companies have greater cost pressures, and the profit space has been squeezed. Under the influence of countercyclical monetary policy adjustments, companies reporting new corporate loans (4%) fell 1% from the previous quarter, while the willingness of financial institutions to lend (100) rose. Survey respondents said that China's macroeconomic conditions were relatively cold (Figure 10). In the face of turbulent global conditions, inputting certainty into the market and boosting consumer and producer confidence may aid in economic recovery and stimulate resilience and potential in the Chinese economy.

The industrial prosperity index remained unchanged, the investment opportunity diffusion index increased, and the production volume diffusion index fell sharply ^{1,2}

In the first quarter, the industrial prosperity index (55) remained above the confidence level of 50 and unchanged from the last quarter, showing a degree of sustainability in economic recovery (Figure 1). The five regions topping the industrial prosperity index are: Shanxi, Beijing, Sichuan, Zhejiang and Chongqing (Table 1), with Shanxi province still in first place. Sichuan, Zhejiang and Chongqing replaced Hunan, Guangdong and Hubei in the top five, and Beijing rose from third to second place.

1 CKGSB BSI = (Operating conditions diffusion index + Operating prospects diffusion index + Investment timing diffusion index)/3.

2 Diffusion indices are based on questions to which there are multiple possible responses, including "good", "average", "poor", or "improving", "level", "falling" – three choice options. Diffusion indices are calculated as: proportion of companies reporting "improving" plus "level" *0.5. Diffusion indices are from 0-100 with the higher the score the better the conditions, and 50 as the boom-bust threshold.

Shanxi has stepped up its support of industrial production and increased its guarantee of resources, enabling the rapid growth of industrial production. In January to February, the province saw value added to its industries above a certain size, growing by 6.4%. This was 6.4 percentage points faster than the whole of last year and 0.5 percentage points faster than the national average, showing strong provincial economic recovery. In the first quarter of 2025, the GDP of Sichuan and Zhejiang increased by 5.5% and 5.4% year-on-year, respectively, reflecting dynamic economic movements in China's regional economies and the impact of industrial upgrading and government support. The BSI shows that the top five industries in the industrial prosperity index are: water production and supply; gas production and supply; pharmaceutical manufacturing; ferrous metal mining and sorting; IT, communications, and electronics manufacturing (Table 2). Compared with the previous period, pharmaceutical manufacturing and ferrous metal mining and sorting replaced electricity and heat production and supply, coal mining and washing in the top five. Water production and supply rose to first place in Q1.

Movement in the Business Sentiment Index depends on changes to the three main diffusion indexes, namely, operating conditions, operating prospects, and investment timing (Table 3). The operating conditions diffusion index (66) remained almost on a par with the last quarter (65), with companies showing more vitality. The operating prospects diffusion index (49) fell below 50 for the first time after 16 consecutive positive readings, with the gap with current operating conditions further widening. The divergence between the two shows a contradiction between actual performance and expectations regarding the near future. The factors restricting the production and operation of enterprises in the next quarter are similar to those in the previous quarter, namely weak market demand, fierce competition, and strong policy uncertainty (Figure 2). Respectively, 76.75%, 68.88% and 20.76% of the surveyed enterprises are concerned that weak demand, fierce competition, and strong uncertainty on a policy level will have a major impact on short-term production and operations, and 6.59% of companies believe that high raw material and parts costs will curtail short-term business. In the medium to long-term, limiting factors are more extensive, including policy uncertainty (54.37%), technological bottlenecks (46.68%), geopolitics (39.05%) and green production (30.21%) (Figure 3). Given the turbulent international situation, Chinese companies have become adept at focusing attention on policy uncertainty when considering short-term operations and medium to long-term development.

The short and long-term restrictive factors faced by enterprises of different ownership types (state-owned or with state holdings, private, foreign-funded, and collective) have both similarities and differences (Table 4). Of factors deemed to inhibit production and operations in the next quarter, fierce competition and insufficient market demand are the top two choices for enterprises of four ownership

types; and as for factors affecting the medium- and long-term development of enterprises, technological innovation and policy uncertainty are felt to have an impact on most enterprises of various ownership types. Compared with private and foreign-funded enterprises, fierce competition, weak market demand, and limited funds have relatively less impact on production and operations for state-owned (holding/shareholding) companies in the next quarter. Compared with the other three types of enterprises (private, foreign-funded, and collective), geopolitical factors have relatively less impact on the medium- and long-term development of state-owned (holding/shareholding) enterprises.

The investment opportunity diffusion index (51) has increased significantly compared with the fourth quarter of 2024 (47). A total of 9% of enterprises believe that now is a good time to invest, which is much higher than the 1% that believed so last quarter, and investment confidence has increased significantly. Current investment practice affords companies somewhat insufficient willingness to grow assets. 11% of respondent companies have fixed asset investments, which is lower than in the previous period (14%). The proportion of enterprises expanding via investment (11%) is slightly higher than in the previous period (10%) (Figure 4).

In general, business sentiment in the first quarter of 2025 is unchanged, and the operating conditions diffusion index is in line with last quarter, showing stable levels of vitality among Chinese companies. Operating prospects however, fell below 50 for the first time, indicating that enterprises' expectations for the future have declined. At the same time, the investment opportunity diffusion index has risen significantly, and investment confidence has increased, but the willingness of enterprises to expand assets is somewhat weak, which reflects the cautious attitude of enterprises, given the current economic situation.

The production volume diffusion index is an important indicator reflecting manufacturing conditions on the factory floor. The index has fallen sharply from the previous quarter, from 55 to 45 (Figure 5), showing the significant impact of instability and challenges in the economic recovery process on actual production levels.

Weak demand is still an important reason for overcapacity, which remains an issue despite remarkable efforts to reduce stock holdings

In this quarter, the domestic oversupply diffusion index (97) and the international oversupply diffusion index (100) are on a par with last quarter, at historical highs (Figure 6). At the same time, the finished product inventory diffusion index fell sharply from 54 to 44 (Table 5). Oversupply remains an issue, and sluggish domestic and foreign demand are largely responsible. The significant fall in finished product inventory may mean companies have read market signals with agility, and actively

adjusted production strategies, reducing inventory pressure and backlogs by slowing down production or improving sales efficiency, thereby alleviating some of the negative impact of oversupply.

From an industry level, the top five industries with serious overcapacity are: leather, fur, feathers, related products and footwear; paper products; non-metallic mineral products; textile, clothing and apparel; and non-metallic mineral mining and sorting (Table 6).

Compared with the previous quarter, the leather, fur, feather and footwear industry, non-metallic mineral products industry and textile, clothing and apparel industries replaced car manufacturing, metal products and furniture making in the top five. The overcapacity issue for non-metallic mineral mining and the paper product industry are in need of further focus, with the latter's ranking rising to the second place in Q1. At regional level, the top five regions with serious overcapacity are: Inner Mongolia, Shanghai, Xinjiang, Tianjin and Hubei (Table 7). This has changed significantly since last quarter: Inner Mongolia, Shanghai, Xinjiang and Hubei replaced Heilongjiang, Jilin, Guangxi and Sichuan to enter the top five, and Tianjin rose one place to fourth, reflecting changes in industrial structure, market demand and policy orientation in different regions.

The proportion of enterprises with finished product inventory in this quarter decreased by 1.1% to 76.9% compared with the previous period, and the proportion of enterprises with increased finished product inventory and raw material inventory dropped sharply from 28% to 12%, breaking the upward trend of the last period. The destocking effect was significant (Figure 7). The optimization of enterprises in inventory management and the gradual improvement of market demand, the steady growth of industrial production and the recovery of the service industry have promoted overall economic growth. Consumer demand has picked up, and enterprises have adjusted their production and inventory strategies to better meet market demand, thereby limiting the risk of inventory backlogs.

The price diffusion index has fallen slightly, and the cost diffusion index has increased overall

From the three cost diffusion indexes, cost pressures can be seen to have increased this quarter (Figure 8). The unit costs diffusion index (64) increased by 4 compared with the previous period, the labor costs diffusion index (51) remained the same as the previous period, the raw material costs diffusion index (64) increased by 4 compared with the previous period, and the prices diffusion index decreased from 52 in the previous quarter to 51 (Table 8). Overall cost pressure on enterprises has increased, but the decline in product prices is relatively small, which may lead to a squeeze on profit margins. Companies are relatively stable in terms of labor costs

control, but need to make complex adjustments in cost control and pricing strategies to cope with the risk of rising costs and thinning profits.

Credit conditions are further loosened, enterprises increase willingness to invest

Financial institutions are continuing to give credit more easily than in the past. The diffusion index (100) reflecting the more flexible lending attitude of banks has increased by 2 compared with the previous quarter. The proportion of companies with loans this quarter (46%) increased by 1% compared with the previous quarter (45%). The proportion of enterprises with new loans (4%) decreased by 1% compared with the previous quarter (5%), and the proportion of enterprises without new loans that had no funding needs decreased to 98%, which given a level of nearly 100% for five consecutive quarters (Figure 9) represents a loosening of the purse strings.

This quarter, most enterprises (84%) felt that the timing to make investments was alright, while 9% of enterprises thought now was a good time to invest, an increase of 8% from the previous quarter. A total of 7% of companies expressed reluctance to invest (7%), which was the same as the previous quarter (Figure 4). Among enterprises with fixed asset investment, the proportion of enterprises with new loans, and the loan attitude of financial institutions, decreased from 9% to 7% and increased from 98 to 100 respectively, while the change in loan interest rates, which measures loan costs, decreased from last quarter (24) to 22 (Table 9). This shows that enterprises have increased their confidence in investment this quarter, but actual investment activities remain cautious. An increase in the willingness of financial institutions to lend and a decline in corporate financing costs will improve corporate investment willingness.

Figure 1: CKGSB Business Sentiment Index

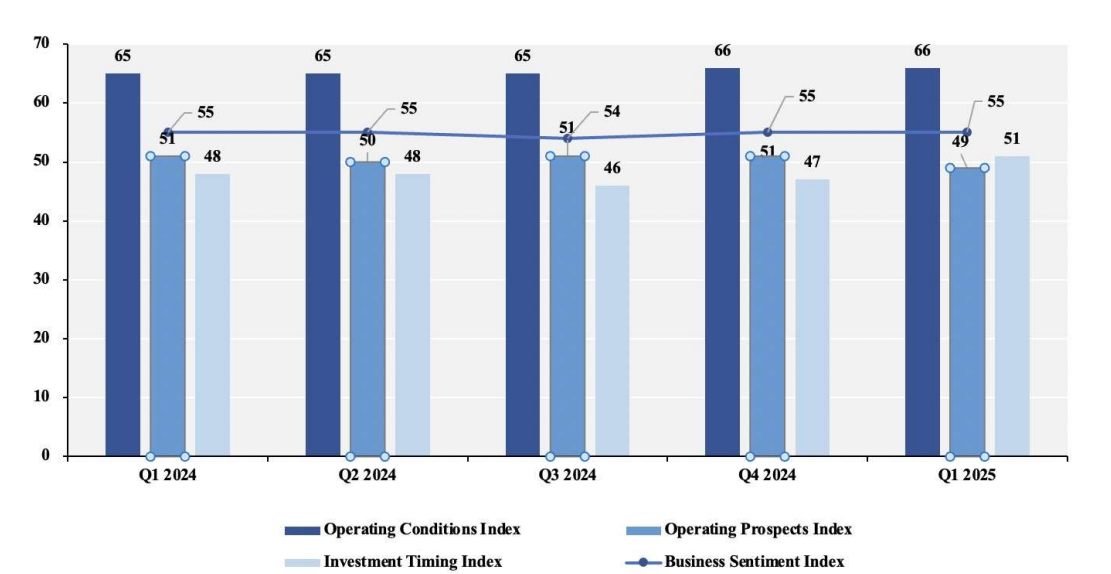
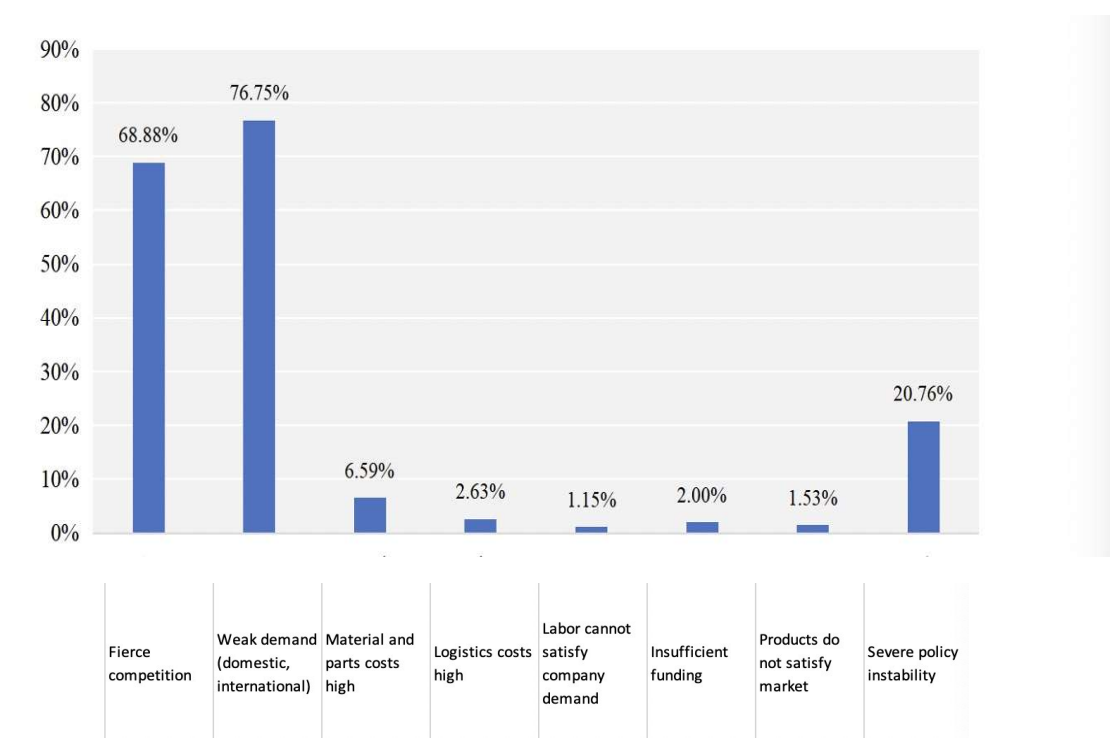
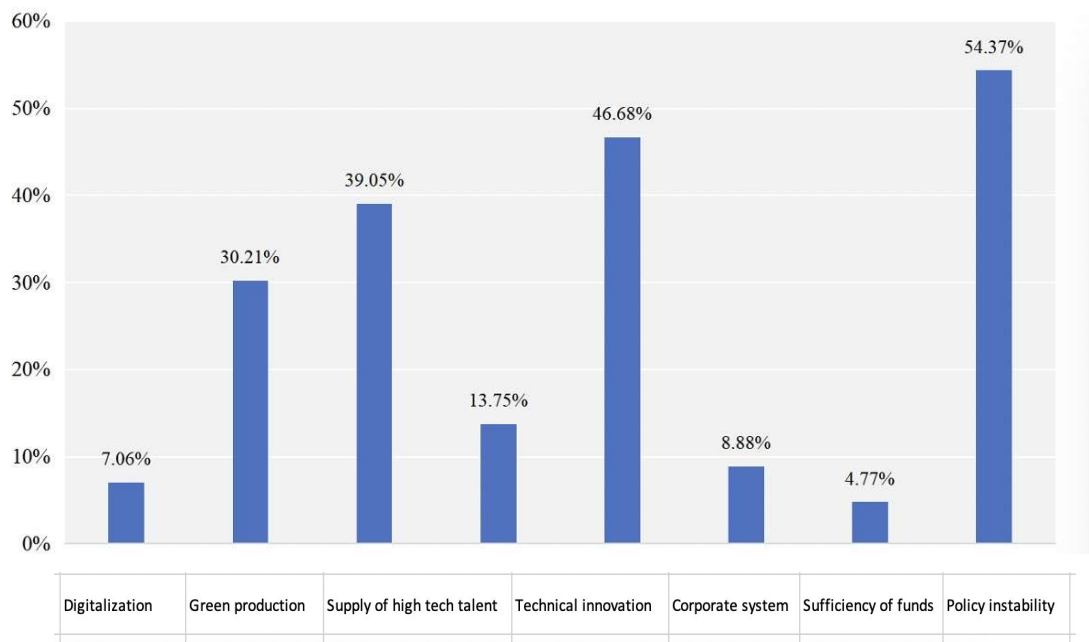


Figure 2: Limitations on doing business in the next quarter



Note: This is a multiple-choice question, with this graph based on the number of times each option was selected (taking 68.88% for fierce competition as an example, 68.88% of the 2,040 surveyed companies believed that fierce competition was one of the factors limiting production and operations in the next quarter.) The same applies to the graph below).

Figure 3: Factors impacting on medium to long-term development



Note: This question is a multiple-choice question. The graph is based on the number of times each option is picked

Figure 4: Investments

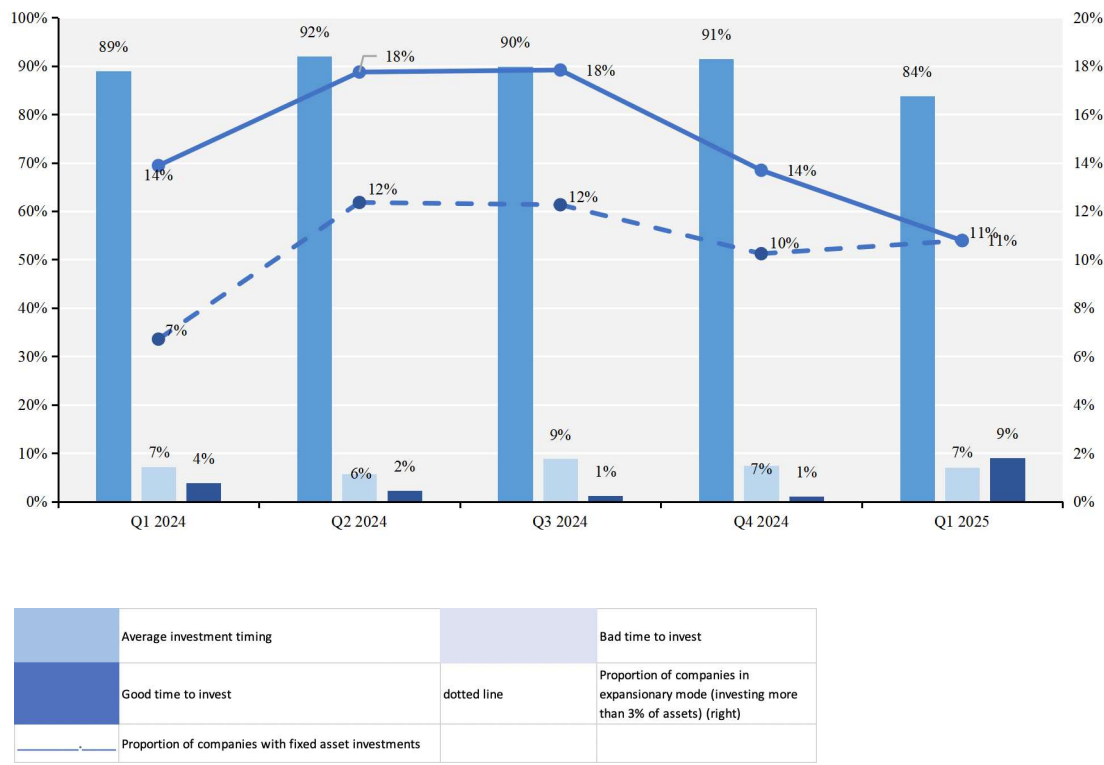


Figure 5: Production volume and other production diffusion indices

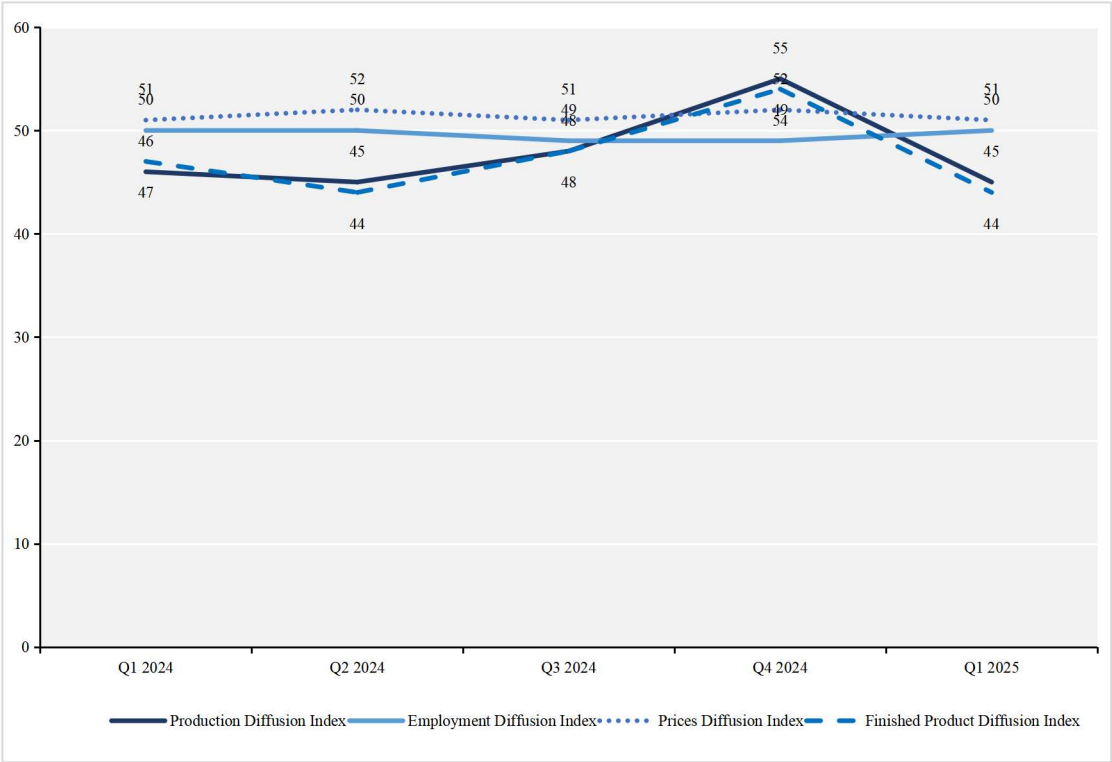


Figure 6: Historical trends in domestic and international demand

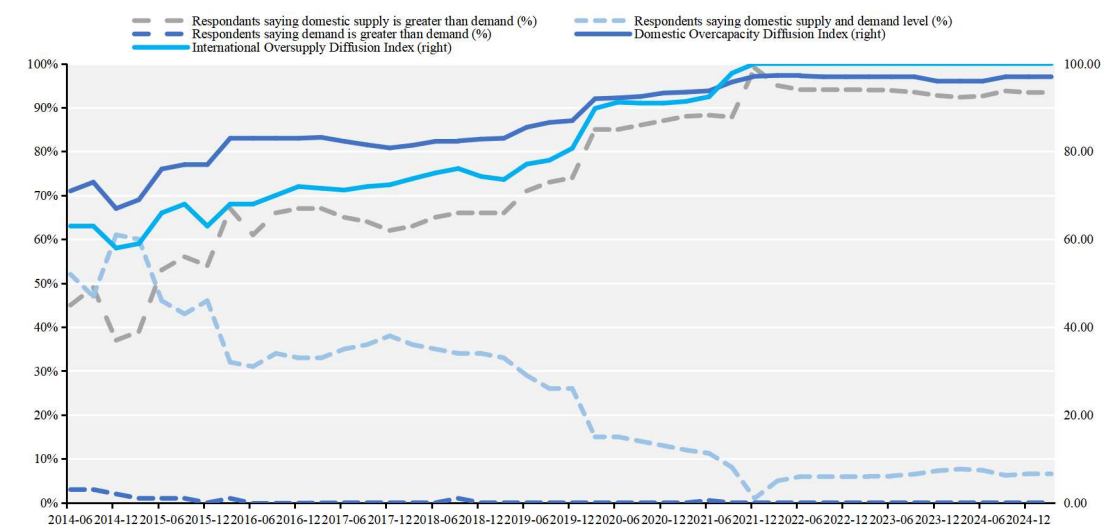


Figure 7: Finished product inventory

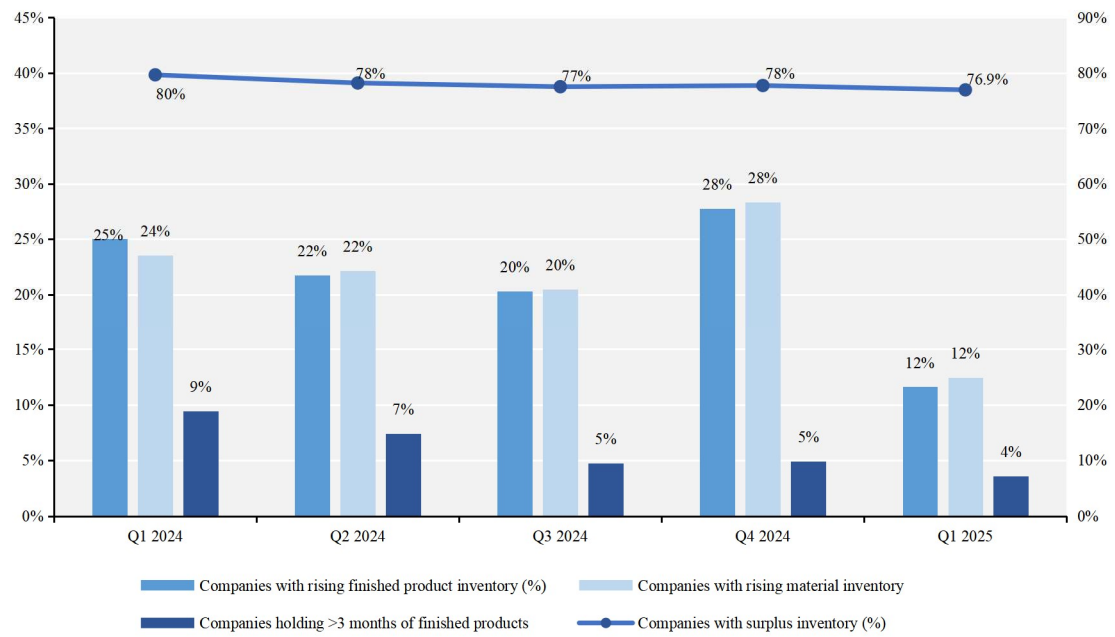


Figure 8: Production costs

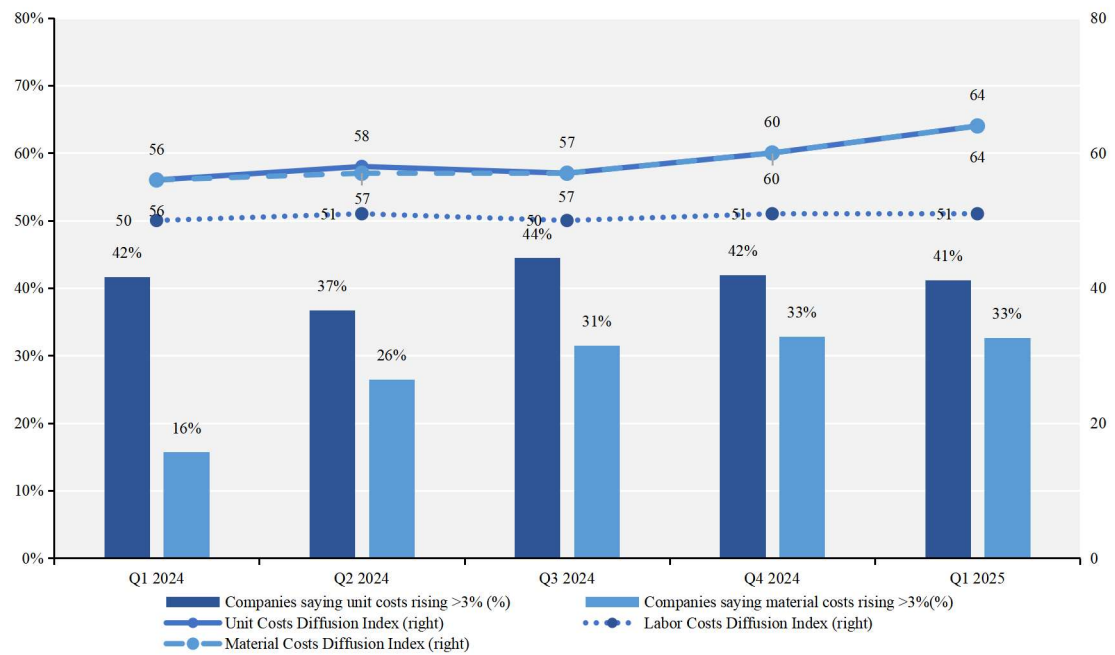


Figure 9: New loans

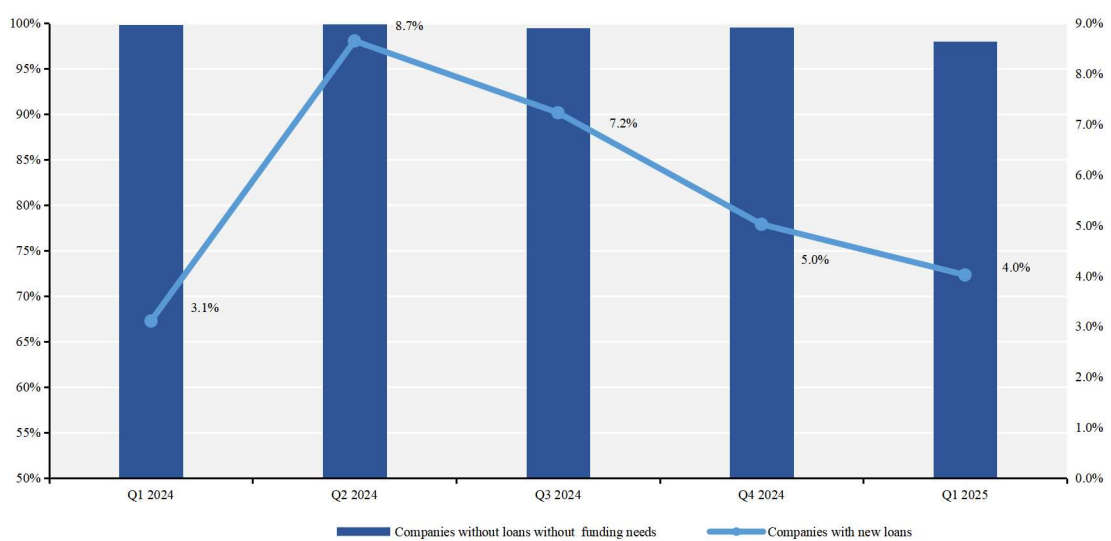


Figure 10: Macro-economic conditions

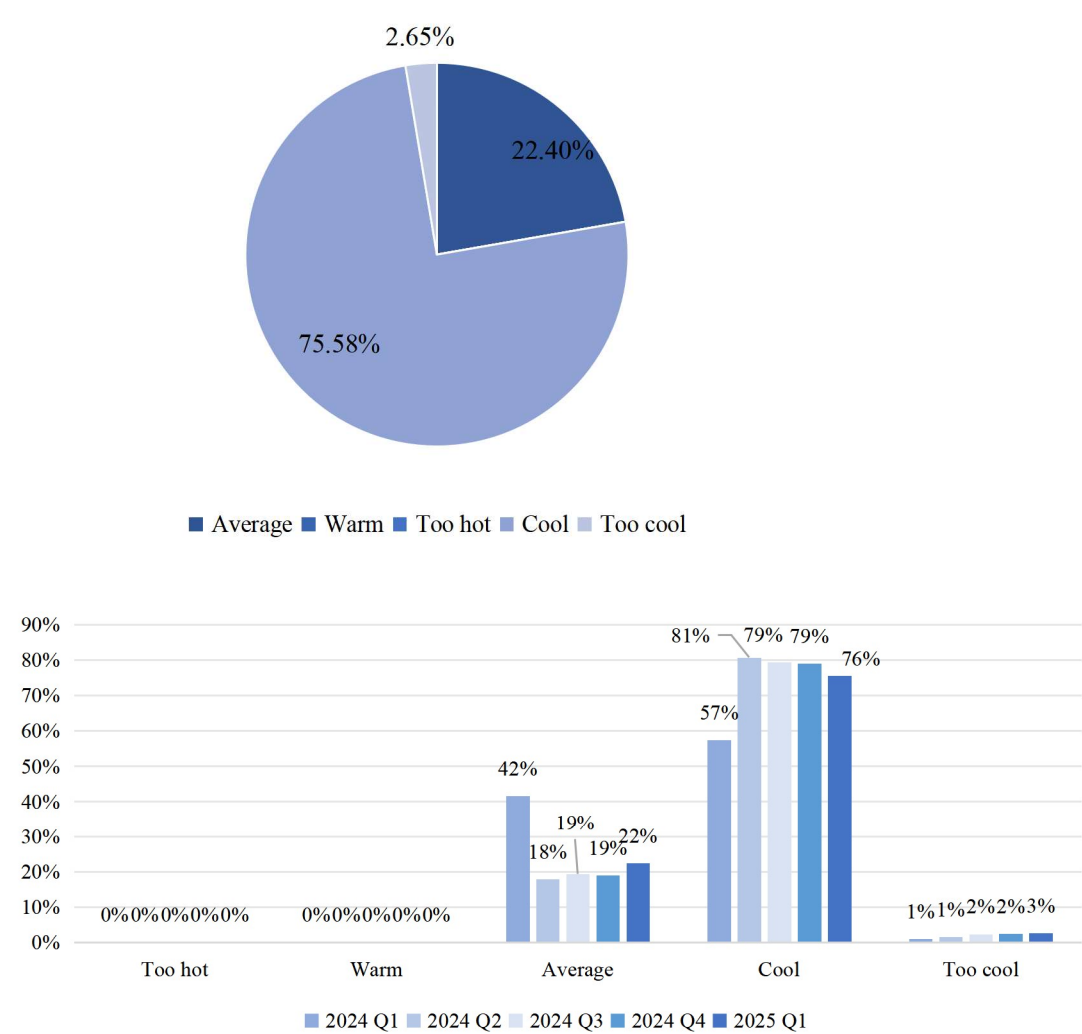


Figure 11: Level of goods costs

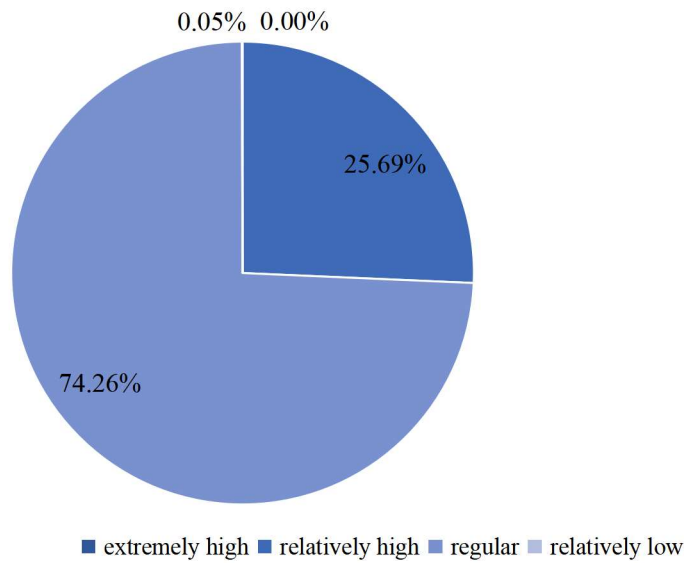


Table 1: Regional operational conditions

		Total no. of companies	Business Sentiment Index	Operating Diffusion Index	Investment Timing Diffusion Index
Top 5	National	2040	55	66	51
	Shanxi	6	61	67	67
	Beijing	6	61	83	50
	Sichuan	29	60	74	55
	Zhejiang	94	59	70	57
	Chongqing	15	58	70	50
Bottom 5	Inner Mongolia	12	49	46	50
	Shaanxi	18	52	53	50
	Hubei	23	53	65	46
	Xinjiang	5	53	60	50
	Guangxi	20	53	58	50

Table 2: Operating conditions rankings

		Total no. of companies	Business Sentiment	Operating Diffusion Index	Investment Timing Diffusion Index
	National	2040	55	66	51
Top 5					
	Water production and supply	18	69	89	67
	Gas production and supply	11	64	86	59
	Pharmaceuticals	27	63	78	59
	Ferrous metal mining and sorting	5	63	90	50
	IT and communications, electronic equipment	31	61	77	53
Bottom 5					
	Leather, fur, feathers and shoes	4	38	38	38
	Paper and paper production	20	48	55	48
	Metal mining	27	49	50	46
	Transportation equipment	13	50	58	50
	Non-ferrous metal mining and working	12	51	63	46

Table 3: Industrial operating conditions

	No. of companies		Business confidence index		Operating conditions diffusion index		Operating prospects diffusion index		Investment timing diffusion index	
	Q1	Q4	Q1	Q4	Q1	Q4	Q1	Q4	Q1	Q4
National total	2040	2031	55	55	66	66	49	51	51	47
Large										
Medium	680	677	58	57	73	73	49	51	54	47
Small	680	677	55	54	64	65	49	51	52	48
	680	677	53	53	62	62	49	50	47	46
State-owned										
Collective	219	225	58	59	74	76	47	53	54	49
Private	4	8	42	48	50	56	38	56	38	31
Foreign-invested	1586	1579	55	54	65	65	50	50	51	47
	231	219	55	54	68	67	47	50	50	46
Wholly State-owned										
Partly State-owned	181	194	58	60	75	77	46	54	54	49
Collective	41	33	58	55	71	67	48	50	56	48
Private	4	8	42	48	50	56	38	56	38	31
Foreign-invested	1586	1579	55	54	65	65	50	50	51	47
	283	271	55	55	69	68	47	50	51	46
Durable consumer products										
Non-durable consumer products	224	199	53	53	63	62	46	50	51	46
Financial products	551	589	56	56	69	69	49	52	51	48
Producer goods	163	152	57	56	68	69	50	50	52	48
	1102	1091	55	54	65	65	50	50	51	46

Table 4: Short to medium term limitations on doing business

		State (owned, share-owned)	Private	Foreign-invested	Collective
Limitations to doing business in the next quarter					
	Fierce competition	60.36%	69.55%	71.73%	75.00%
	Weak demand (domestic and international)	55.41%	79.13%	80.92%	25.00%
	High cost of materials and parts	3.60%	6.87%	7.07%	25.00%
	High cost of logistics	1.35%	2.96%	1.77%	0.00%
	Labor supply does not meet demand	0.45%	1.26%	1.06%	0.00%
	Insufficient funding	0.90%	2.21%	1.77%	0.00%
	Products do not satisfy market	0.90%	1.64%	1.41%	0.00%
	Serious uncertainty at policy level	25.68%	19.61%	23.32%	25.00%
	Other	21.62%	11.03%	13.07%	75.00%
Factors impacting medium to longterm growth					
	Digitalization	3.15%	7.88%	5.65%	0.00%
	Climate-related green production requirements	31.53%	30.96%	25.09%	25.00%
	Geopolitics	18.02%	38.71%	57.24%	50.00%
	Supply of high tech talent	11.26%	13.75%	15.90%	0.00%
	Technical innovation	50.00%	45.78%	49.47%	25.00%
	Corporate system	9.91%	8.89%	8.13%	0.00%
	Sufficiency of funds	0.00%	6.12%	1.06%	0.00%
	Policy instability	43.69%	55.67%	55.48%	50.00%
	Other	21.62%	11.92%	11.66%	25.00%

Table 5: Market demand

	No. of companies		Domestic overcapacity diffusion index		International overcapacity diffusion index		Finished product inventory diffusion index	
	Q1	Q4	Q1	Q4	Q1	Q4	Q1	Q4
National total	2040	2031	97	97	100	100	44	54
Large								
Medium	680	677	97	97	100	100	46	58
Small	680	677	96	96	100	100	44	54
	680	677	97	97	100	100	42	51
State-owned								
Collective	219	225	82	81	100	100	48	57
Private	4	8	83	93	100	100	17	36
Foreign-invested	1586	1579	99	99	100	100	44	54
	231	219	98	99	100	100	42	56
Wholly State-owned	181	194	82	81	100	100	48	57
Partly State-owned	41	33	83	83	100	100	48	58
Collective	4	8	83	93	100	100	17	36
Private	1586	1579	99	99	100	100	44	54
Foreign-invested	283	271	98	99	100	100	40	53
Durable consumer products	224	199	100	100	100	100	41	50
Non-durable consumer products	551	589	89	89	100	100	45	59
Financial products	163	152	100	100	100	100	45	57
Producer goods	1102	1091	100	100	100	100	44	53

Table 6: Production overcapacity by product type

	Total no. of companies	More than 20% overcapacity (%)	More than 10% overcapacity (%)
Leather, fur, and feather products, and shoe manufacturing	4	50	75
Paper and paper products	20	50	70
Non-metal mining and products	53	47	68
Textiles, clothing	12	42	67
Non-metal processing	8	38	63
Metal production	27	37	63
Furniture production	14	36	50
Car manufacturing	17	35	53
Technical equipment production	30	33	57
Transportation equipment production	13	31	38

Table 7: : Production overcapacity by region

	Total no. of companies	More than 20% overcapacity (%)	More than 10% overcapacity (%)
Inner Mongolia	12	50	50
Shanghai	17	41	65
Xinjiang	5	40	60
Tianjin	19	32	63
Hubei	23	30	43
Guangxi	20	30	55
Jilin	10	30	50
Yunnan	10	30	40
Liaoning	38	29	53
Shaanxi	18	28	44

Table 8: Costs and prices

		No. of companies		Unit costs diffusion index		Labor costs diffusion index		Material costs diffusion index		Prices diffusion index	
		Q1	Q4	Q1	Q4	Q1	Q4	Q1	Q4	Q1	Q4
	National total	2040	2031	64	60	51	51	64	60	51	52
Scale	Large	680	677	66	63	52	51	66	62	52	51
	Medium	680	677	63	60	51	50	63	60	50	52
	Small	680	677	62	58	50	51	62	58	52	52
Ownership type	State-owned	219	225	57	56	50	50	58	58	50	50
	Collective	4	8	63	50	50	44	63	56	50	50
	Private	1586	1579	64	61	51	51	64	61	51	52
	Foreign-invested	231	219	64	60	51	51	64	59	54	52
	Wholly State-owned	181	194	56	56	50	50	57	57	50	50
	Partly State-owned	41	33	60	59	49	50	63	63	50	53
	Collective	4	8	63	50	50	44	63	56	50	50
	Private	1586	1579	64	61	51	51	64	61	51	52
	Foreign-invested	283	271	64	60	51	51	64	60	54	52
Product type	Durable consumer products	224	199	66	63	53	50	66	63	51	52
	Non-durable consumer products	551	589	61	62	51	51	62	62	51	52
	Financial products	163	152	62	57	52	51	61	56	50	50
	Producer goods	1102	1091	64	60	50	51	65	59	52	52

Table 9: Overview of financing conditions

		No. of companies		Unit costs diffusion index		Labor costs diffusion index		Material costs diffusion index		Prices diffusion index	
		Q1	Q4	Q1	Q4	Q1	Q4	Q1	Q4	Q1	Q4
	National total	2040	2031	46	45	4	5	100	98	25	32
	Total with fixed asset investments	220	278	54	53	7	9	100	98	22	24
Scale	Large	680	677	50	48	3	5	100	97	26	28
	Medium	680	677	47	43	5	6	100	98	25	34
	Small	680	677	40	44	4	4	100	100	24	33
Ownership type	State-owned	219	225	36	36	2	4	100	100	40	28
	Collective	4	8	25	38	0	0				
	Private	1586	1579	48	47	4	5	100	98	22	31
	Foreign-invested	231	219	41	40	3	6	100	100	38	38
	Wholly State-owned	181	194	31	34	3	5	100	100	40	28
	Partly State-owned	41	33	54	48	0	0				
	Collective	4	8	25	38	0	0				
	Private	1586	1579	48	47	4	5	100	98	22	31
	Foreign-invested	283	271	41	41	4	6	100	97	32	38
Product type	Durable consumer	224	199	54	46	5	8	100	100	27	33
	Non-durable consumer products	551	589	41	41	4	5	100	98	26	32
	Financial products	163	152	50	45	4	4	100	100	29	25
	Producer goods	1102	1091	46	47	4	5	100	97	23	32