

# CKGSB Business Sentiment Index Report, Q3 2025

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As tariff wars intensify and U.S.-China strategic competition enters a critical stalemate, the situation grows increasingly complex. Meanwhile, technological revolution and industrial transformation accelerate, intensifying competition in new sectors. How did Chinese enterprises perform in Q3? What trends will China's economy and external environment show in Q4, and how will Chinese enterprises respond?

## Q3 2025 Overview

In Q3 2025, Chinese enterprises operated in a complex environment: external headwinds persisted while domestic signals improved.

Externally, tariffs and trade frictions remained elevated, keeping external demand expectations under pressure. Domestically, the Shanghai Composite Index rose 12.73% in Q3, climbing from 3,445 to 3,882 points—reaching its highest range in nearly a decade and marking one of the largest single-quarter gains in this cycle. September's service consumption measures reinforced stability expectations. The Federal Reserve's cautious monetary stance maintained balanced global liquidity, providing indirect support for domestic asset prices and corporate financing conditions.

### CKGSB's Latest BSI (China Business Sentiment Index) Shows:

- Business Sentiment Index: 54 (unchanged from Q2)
- Operating Conditions Diffusion Index: 64 (unchanged from Q2)
- Expected Operating Conditions Diffusion Index: 51 (+1 point)
- Investment Timing Diffusion Index: 48 (-1 point)

**Key Finding:** While assessments remained cautious, production and inventory indicators demonstrated a "stockpiling-style recovery"—reflecting the tension between conservative words and active behavior.

## Q3 Overview: Defensive Positioning with Strategic Buildup

Indicator	Q2	Q3	Interpretation
<b>Business Sentiment Index</b>	54	54	Business climate remains stable
<b>Operating Conditions Diffusion Index</b>	64	64	Operating conditions unchanged

<b>Expected Operating Conditions Index</b>	50	51	Expectations show marginal improvement
<b>Investment Timing Diffusion Index</b>	49	48	Firms more cautious; wait-and-see sentiment rises

The substantial upturn in domestic capital markets supported corporate sentiment and valuations. Combined with policy stabilization measures and seasonal factors, cautious sentiment translated into limited, controllable actions: firms prioritized capacity expansion and inventory accumulation first, then observed order flow and pricing dynamics.

Entering October, the external environment showed subtle shifts, with market concerns about export uncertainty beginning to ease. The 15th Five-Year Plan emphasized technological self-reliance, high-end upgrading of traditional industries, and expanding domestic demand—providing medium- to long-term policy anchors.

Against this backdrop, corporate confidence and tools (policy expectations, supply chain resilience, capital market activity) became clearer. Key observations for Q4 focus on: whether easing external demand can translate into actual orders, whether 15th Five-Year Plan directions can map onto investment decisions, and whether volume and price can form positive coordination.

## Supplementary Economic Indicators

### Detailed Analysis: Core Trends and Dynamics

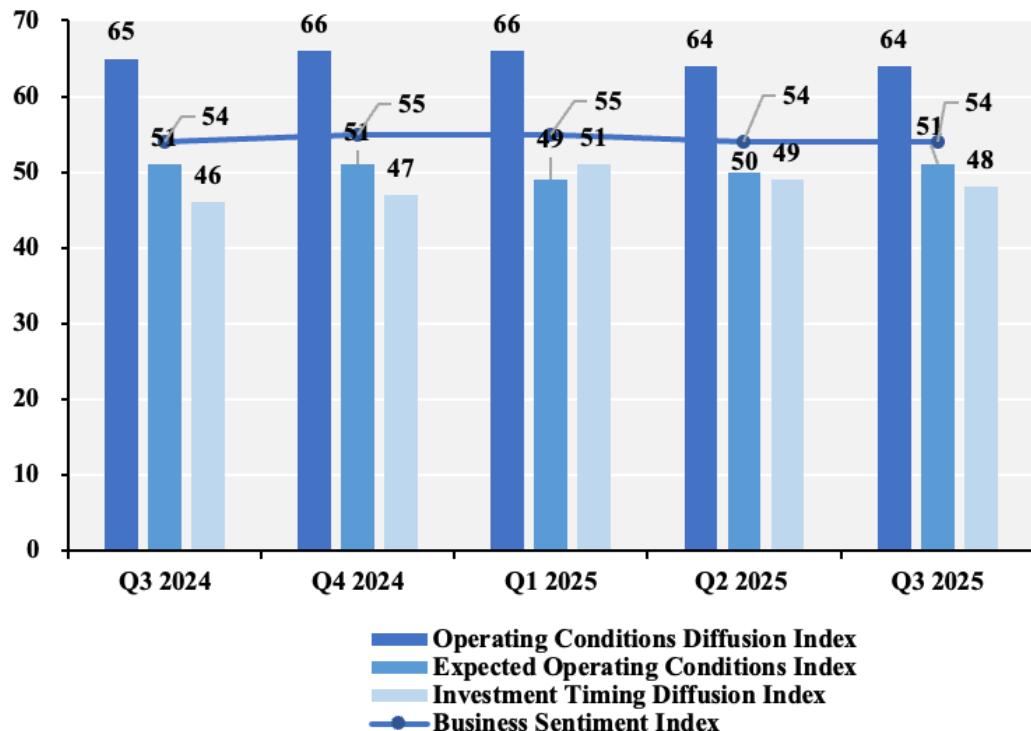
#### 1. Operating Conditions: Holding Steady in Complex Environment

Metric	Q2	Q3	Analysis
<b>Production Diffusion Index</b>	46	51	Production rebounding to genuine recovery
<b>Finished Goods Inventory Diffusion Index</b>	45	49	Continued restocking with inventory buildup emphasis
<b>Price Diffusion Index</b>	47	48	Mild uptick; volumes and prices show gentle recovery
<b>Unit Cost / Raw Material Cost / Labor Cost</b>	59/60/49	62/62/50	Rising costs mean recovery depends on efficiency, not pricing power

<b>Bank Lending Attitude Index</b>	100	94	Lending remains accommodative though softer
<b>Share of Firms Taking New Loans</b>	2.8%	2.8%	Stuck at low levels; "loose money, weak credit" persists
<b>Share of Firms with Fixed Asset Investment</b>	10.3%	11.3%	Investment behavior shows marginal increase
<b>Share of Firms with Expansionary Investment (&gt;3% of assets)</b>	7.2%	8.9%	Expansion intentions rising despite cautious statements

## Interpreting Core Changes

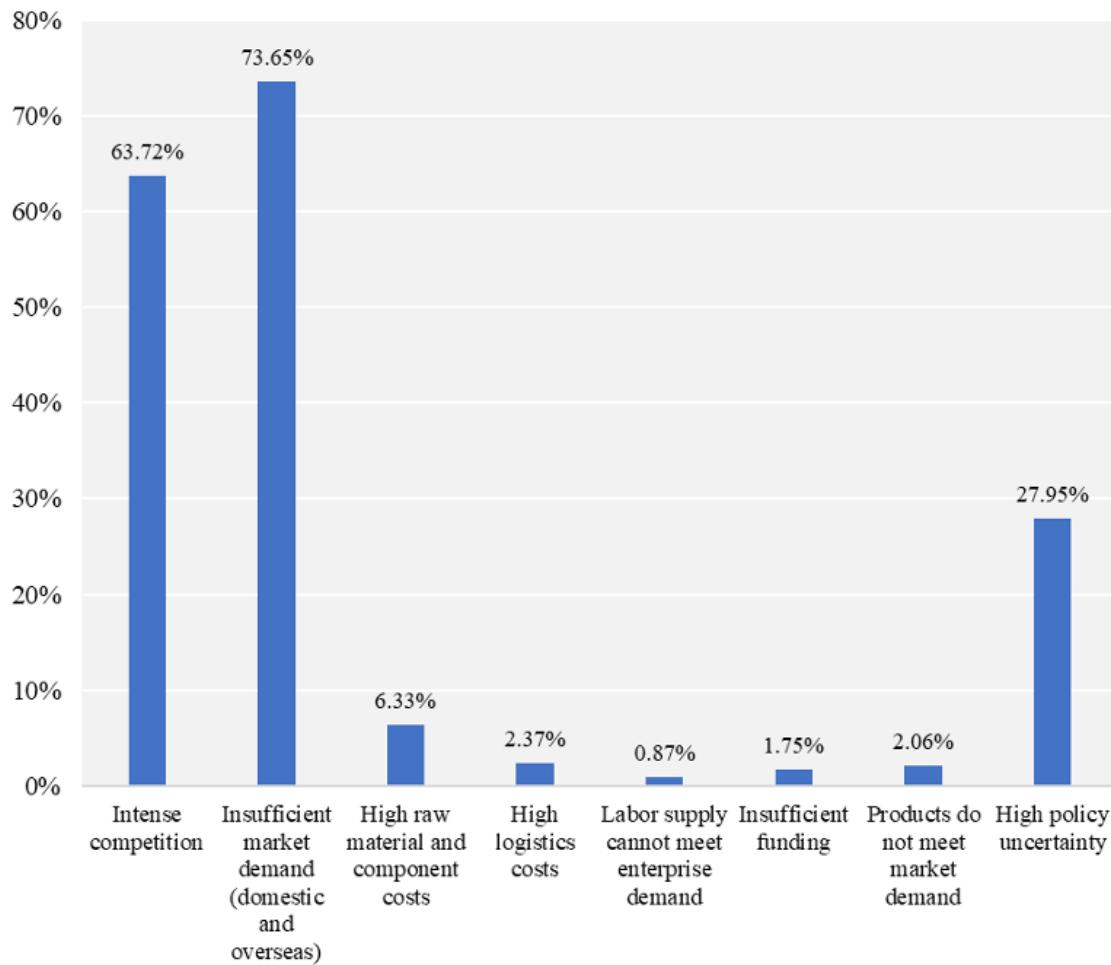
The Q3 corporate picture shows a nearly flat line: the Operating Conditions Diffusion Index at 64, unchanged from the prior quarter.



This represents neither aggressive expansion nor retreat, but rather stability amid complex circumstances. Production began gaining momentum, order execution remained stable, and cash flow and capacity utilization maintained controllable ranges.

The Production Volume Diffusion Index rose from 46 to 51, and finished goods inventory rose from 45 to 49. Enterprises implemented cautious production increases: first raising capacity and stockpiling goods, then observing the pace of order intake from external and domestic demand. This pattern aligns with the sentiment recovery in Q3 capital markets—the Shanghai Composite's 12.73% quarterly gain provided external confirmation for corporate risk appetite and valuation.

The Expected Operating Conditions Diffusion Index rose to 51, gaining a critical point to return above the boom-bust line. However, enterprises didn't express exaggerated optimism in the questionnaire.



On the contrary, "insufficient market demand, intense competition, policy uncertainty" were still frequently cited (73.65%, 63.72%, 27.95%). The disconnect between reality and expectations persists: operating performance is solid, yet sentiment recovery inches forward slowly.

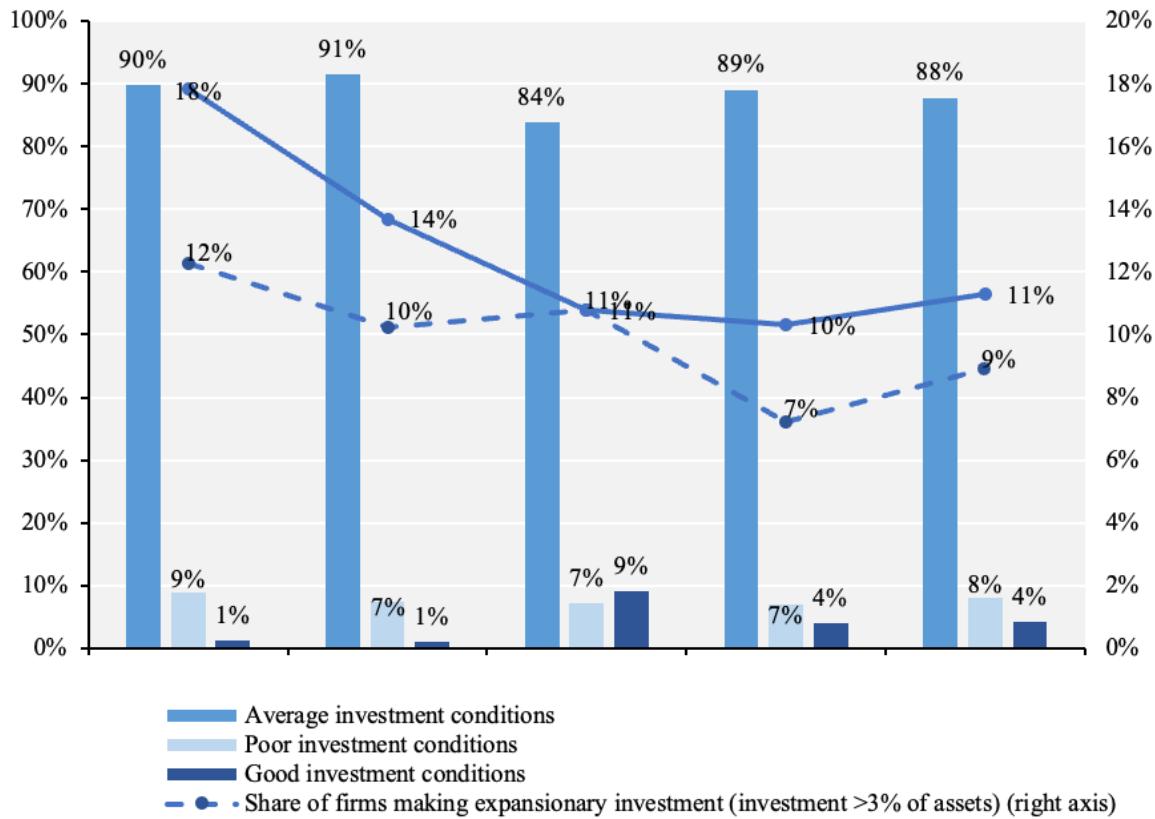
Price and cost indicators didn't simultaneously signal strong recovery. The Price Diffusion Index rose slightly to 48 (prior 47), while unit costs and raw material costs each rose to 62 (prior 59), and labor costs to 50 (prior 49). When volume advances but prices don't strengthen proportionally and costs rise, profit recovery relies more on structural efficiency rather than pure cyclical momentum.

### **The Investment Paradox**

The Investment Timing Diffusion Index fell back to 48, with assessments more cautious. However, the proportion of firms with fixed asset investment rose from about 10% to about 11%, and expansionary investment (>3% of assets) rose from 7% to about 9%.

Enterprises expressed cautious views on timing while simultaneously pushing investment actions forward. This is Q3's most noteworthy detail: enterprises are unwilling to appear aggressive in narrative, yet executed marginal expansion through incremental steps.

Banks maintained accommodative lending, with the Loan Attitude Diffusion Index at 94 (though lower than last quarter's 100, still elevated), while the proportion of firms taking new loans remained low at 2.8%. The "loose money, weak credit" framework persists, but declining loan rates gave firms some confidence to advance lightweight investments.



Taken together, operations remained stable, expectations gently rising, and investment showed verbal caution but behavioral advancement. This isn't a traditional upturn phase but rather a stockpiling-style recovery with capacity and inventory as the first move. Enterprises deliberately advanced controllable elements first—production, inventory, efficiency—then left uncontrollable elements to time: external demand, domestic demand, and prices. Rather than declaring optimism through words, enterprises used actual actions to advance their position incrementally.

### Trade War Impact Assessment

U.S.-China trade issues have significant impacts on enterprise operations, expectations, and investment. They affect the timing of external demand and orders, alter the transmission of prices and costs, and influence corporate judgments on whether to expand production and when to invest.

This quarter we added several macro judgment questions to capture enterprises' views on growth, prices, and external friction. Results show confidence on growth, caution on prices, and dulling friction perception: 96.7% of surveyed enterprises believe next quarter's real GDP will rise year-over-year, with only 3.3% expecting decline.

### **Enterprises' Sense of Direct Trade War Impact Is Dulling**

On the question "Does the U.S.-China trade war affect your enterprise?", 77.6% answered "no impact," 22.0% "negative impact," with "positive impact" negligible. Of those reporting negative impact, 72.9% characterized it as "small," 16.5% "medium," and 10.6% "large." Looking ahead one to two years, 61.2% expect "no impact," 15.4% "negative impact," and 23.4% remain "uncertain."

### **Outlook: From Stockpiling Recovery to Structural Transition**

Enterprises advanced their position incrementally in Q3. Entering Q4, several critical factors both external and internal are aligning to support continued progress.

#### **First: U.S.-China Trade Relations**

In late October, China and the U.S. held economic and trade consultations in Malaysia, reaching preliminary consensus on tariff rollbacks and buffer periods for several sensitive sectors. Market pricing of external demand uncertainty began declining. The decline in trade tension is sufficient to change enterprises' risk assessment methods for foreign orders: transitioning from avoidance-type to conditional-type order acceptance. Enterprises first build up volume, then manage risk exposure through terms and pricing. For export-oriented enterprises, this represents a substantive improvement in risk perception.

#### **Second: Global Liquidity Conditions**

From September to October, the Federal Reserve continued modest rate cuts and announced ending balance sheet reduction in December. Interest rate declines plus cessation of balance sheet contraction means simultaneous improvement in both external funding costs and availability. For Chinese enterprises, this converts Q3's sentiment recovery into Q4's improved financing availability. This may not immediately bring high-leverage expansion, but is sufficient to support continued lightweight, reversible investment and inventory replenishment.

#### **Third: 15th Five-Year Plan Policy Framework**

The 15th Five-Year Plan recommendations provide framework-level guidance around technological self-reliance, high-end transformation of traditional industries, green low-carbon development, and improving the domestic demand system. Against the backdrop of slowing incremental space, the plan connects technology, manufacturing, and application to drive structural upgrading and redistribution of profitability quality and capital expenditure. This provides clearer coordinates for enterprises' three-year investment planning: invest in efficiency, invest in high-end capabilities, and invest in sustainable long-term demand.

## **Q4 Through First Half of Next Year: A Structural Transition**

- External friction shifts from strong uncertainty toward manageable uncertainty, with foreign order acceptance logic changing from avoidance to selection
- Fed policy (rate cuts plus ending balance sheet reduction) improves both funding cost and availability, pushing weak credit toward moderate credit transition
- The 15th Five-Year Plan guides long-term corporate spending from scale expansion toward quality expansion, shifting profit recovery from volume-driven toward volume-plus-quality dual drivers

## **Two Risks Require Monitoring:**

- First, if the cost-price scissors gap persists, it will dilute volume gains on the operations side
- Second, inventory turnover must keep pace with demand realization. Whether stockpiling-style recovery can evolve into order-driven recovery depends on whether service consumption and manufacturing demand can warm up simultaneously

Sentiment and funding conditions have improved. The incremental progress from Q3 now has conditions to accelerate.

## **Conclusion**

Over several quarters, the situation hasn't changed overnight but has accumulated momentum through gradual shifts: external demand shifted from difficult to assess to largely manageable, funding conditions gradually shifted from tight to accommodative, and 15th Five-Year Plan directions are being implemented incrementally. Enterprises now sense a subtle shift—validated by business operations, production rhythms, and customer orders.

Q4 represents a transition from maintaining stability toward strategic advancement: not rushing ahead, not standing still, but following defined policy tracks and pushing capacity, cash flow, and product structure forward incrementally, allowing external easing and internal recovery to translate into efficiency and quality improvements. True momentum will most likely emerge from this stable and measured progression.