CKGSB Business Sentiment Index Report, Q2 2025

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I. Key Findings of the Business Sentiment Index in Q2 2025 Amid Tariff Threats

The Q2 2025 CKGSB Business Sentiment Index Report (BSI) saw Chinese companies were put to a test amid tariff headwinds.

In April, the Trump administration announced tariffs on key industries such as new energy and high-end manufacturing in China, sending shock waves to the global supply chain as the scope and scale of the tariffs exceeded market expectations. The U.S. and Asian stock markets experienced brief fluctuations. And the RMB and commodity prices also saw volatility. Although the Federal Reserve extended expectations of rate cuts around midyear, providing some buffer for global liquidity, this adjustment in tariff policy is enough to put entrepreneurs back on edge.

China's domestic economy is also in a delicate rebalance.

The consumption post the Spring Festival in China has been recovering at a slower pace than expected, and the adjustment in the real estate market continues to weigh on confidence across the supply chain in the country. Local governments are ramping up investment in infrastructure, green energy, and the digital economy, while the central government has frequently sent policy signals of support. Yet, businesses remain cautious.

The Q2 report of the BSI released by Cheung Kong Graduate School of Business (CKGSB) captures the true mindset of enterprises in China in the second quarter:

Key Statistics of the Business Sentiment Index in Q2 2025

Index	**Q1**	**Q2**	**Change**	**Notes**
Business Sentiment Index	55	54	↓1	The index had a slight decline from the previous quarter but the overall steady.
Operating Conditions Diffusion Index	66	64	↓2	The operation fell slightly but remained strong.
Expected Operating Conditions Diffusion Index	49	50	↑1	The index rebounded to the boom-bust threshold, showing cautious optimism.
Investment Timing Diffusion Index	51	49	↓2	The index fell below the boom-bust threshold, signaling subdued confidence.

Other Statistics of the Business Sentiment Index in Q2 2025

Index	Q1	Q2	Change	Notes
Production Diffusion Index	45	46	↑1	The index had a slight decline from the previous quarter but the overall steady.
Finished Goods Inventory Diffusion Index	44	45	↑1	The index fell slightly but remained strong.
Cost Diffusion Index	64	59	↓5	The index rebounded to the boom-bust threshold, showing cautious optimism.
Price Diffusion Index	51	47	↓4	The index fell below the boom-bust threshold, signaling subdued confidence.
Firms with New Loans (%)	4.0%	2.8%	↑1.2%	The index rebounded to the boom-bust threshold, showing cautious optimism.
Lending Attitude Diffusion Index of the Banking Sector	100	100	No.	The index fell below the boom-bust threshold, signaling subdued confidence.

Overall, business sentiment in China in the second quarter of 2025 showed three characteristics:

- Business was manageable— Businesses saw their operating conditions edging down slightly but stable overall. Core industries provided support to China’s economy, which hasn’t seen signs of systemic decline yet.
- Business outlook was promising — The expected operating conditions diffusion index has climbed back above the boom-bust line, indicating that policy support and regional market recovery have shown some optimism.
- Corporate investment remained cautious — The investment timing diffusion index has fallen again, with the share of companies taking on new loans dropping to 2.8%, reflecting a clear stronger wait-and-see attitude.

Looking ahead to the third quarter of 2025

The set of data above is not only a review of the past but also an indication for the future. Looking ahead to the third quarter of 2025, three factors will determine whether enterprises in China can shift from a defensive stance to be more proactive.

Tariff negotiations: In early August 2025, China and the U.S. described their talks in Stockholm as “very constructive,” meaning extending the mid-August tariff suspension is more likely. If the suspension is prolonged—or even results in a breakthrough agreement—exporters will see significantly fewer uncertainties, which will restore the overall business expectations and investment sentiment.

The start of a large-scale infrastructure project: In July, China started the construction of a hydroelectric gravity dam on the Yarlung Tsangpo River, with a total investment of RMB 1.2 trillion and an expected annual power output of 300 billion kilowatt-hours. This project is expected to provide long-term demand for construction machinery, power equipment, and building materials, providing support to China's manufacturing and infrastructure value chains, with which the operating conditions diffusion index may stabilize and companies will make decisions to expand their production and investment.

China's domestic demand recovery and policy stimulus: Against a backdrop of declining costs and prices, many local governments in China have introduced policy measures such as trade-in subsidies, local consumption vouchers, and tourism incentives. At the 2025 "Two Sessions," the central government also announced that it will issue ultra-long-term special government bonds of RMB 300 billion, so as to primarily boost consumer goods replacement, entertainment, tourism, green mobility, and digital economy. Once these measures take effect, a recovery in consumer confidence is expected to translate into higher spending and order growth in the country. If policy support and demand recovery align in the third quarter, enterprises may come out of their cautious shell and be bolder in the market.

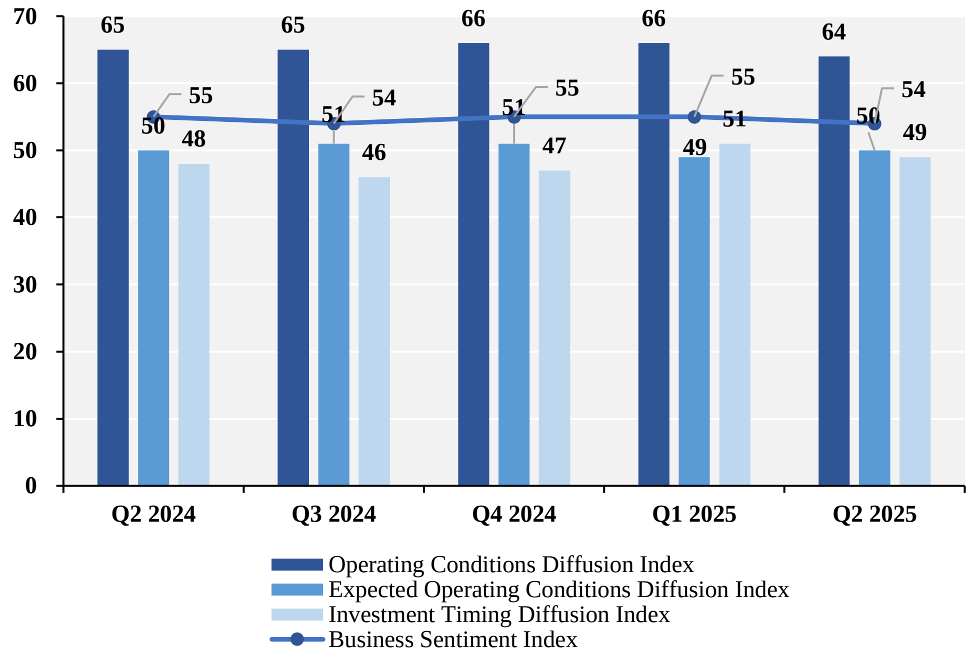
The third quarter may become a critical time of period when Chinese enterprises see more light at the end of the tunnel and act more actively to pursue growth, if negotiations around tariffs remain positive, the dam project and relevant policy measures are implemented as planned, and domestic demand gradually recovers.

II. Zooming in on Key Changes

2.1 Operating Conditions Diffusion Index

The operating conditions diffusion index (64) in Q2 fell slightly from Q1 2025 (66), suggesting that the operations of businesses in general remained strong and resilient. It shows that while external disruptions persisted, businesses remained solid, with only a modest slowdown in growth.

Figure 1. The Business Sentiment Index and its Key Indices



These indices show that enterprises' operational performance in Q2 exhibited the following characteristics:

Overall stability with limited fluctuations

Operating conditions have remained at relatively high levels for three consecutive quarters, indicating that firms' short-term fundamentals are solid.

Although there was a slight decline in Q2, resilience remains evident compared with the same period last year (65), reflecting enterprises' ability to adapt in a complex environment.

The economy got propped up by certain strong sectors

By industry, the top five sectors in the Business Sentiment Index were coal mining and washing; ferrous metal mining and dressing; water production and supply; printing and media replication; and repair of fabricated metal products, machinery and equipment.

Resource-based sectors and equipment manufacturing sectors bolstered the overall industrial performance. Coal and ferrous metal mining sectors, in particular, have shown strong resilience, mainly due to stable market demand and favorable pricing.

Table 1. Industry operating conditions ranking

	No. of companies	Business Sentiment Index	Operating Conditions Diffusion Index	Investment Timing Diffusion Index
National	2018	54	64	49
Top five				
Coal Mining and Washing Industry	10	60	70	55
Ferrous Metal Mining and Dressing Industry	5	60	80	50
Water Production and Supply Industry	32	60	78	48
Printing and Media Replication Industry	10	60	70	55
Repair of Fabricated Metal Products, Machinery and Equipment Industry	12	60	75	54
Last five				
Leather, Fur, Feather Products, and Footwear Industry	4	38	38	38
Wood Processing, Wood, Bamboo, Rattan, Palm & Grass Product Industry	13	41	54	35
Cultural and Educational, Endustrial and Aesthetic, Sports and Entertainment Goods Manufacturing Industry	21	46	58	38
Nonferrous Metal Mining and Dressing Industry	11	46	63	38
Railway, Shipbuilding, Aerospace, and Other Transportation Equipment Manufacturing Industry	18	47	55	41

Clear regional differentiation

By region, the top five provinces in terms of Business Sentiment Index were Sichuan, Jilin, Hunan, Hubei, and Gansu.

Overall, provinces in western and central China demonstrated notable resilience, benefiting from the stable growth of energy and resource industries, and from infrastructure investment and governmental policy.

Table 2. Regional Operating Conditions

		No. of companies	Business Sentiment Index	Operating Conditions Diffusion Index	Investment Timing Diffusion Index
	National	2018	54	64	49
Top five					
	Sichuan	72	57	71	50
	Jilin	20	57	73	48
	Hunan	39	56	63	55
	Hubei	63	56	67	52
	Gansu	15	56	63	50
Last five					
	Guangxi	38	50	58	47
	Heilongjia	24	51	65	48
	Shanghai	49	52	58	50
	Guizhou	8	52	69	50
	Hebei	130	52	60	46

Overall, business operations in the second quarter were stable with a slight decline but showed structural differentiation, and businesses were cautious overall. Right now the overall business fundamentals remain strong, buoyed mainly by certain booming sectors and regions. However, corporate activity was slightly subdued than in the previous quarter, reflecting that market uncertainties continue to dampen short-term operational dynamics.

2.2 Expected Operating Conditions Diffusion Index

The expected operating conditions diffusion index (50) rebounded to the boom-bust threshold from 49 in the last quarter, showing cautious optimism.

This indicates that enterprises' assessments of operations for the next quarter have slightly improved compared with the previous quarter, but overall their sentiment remained cautious.

According to the research, expected operating conditions of businesses in Q2 in China has the following characteristics:

1. Persistent divergence between current performance and expectations

Although the expected operating conditions diffusion index has rebounded, it still had a significant gap compared with the operating conditions diffusion index (64).

Enterprises' actual operations remained stable, while their confidence in the future was yet to recover.

2. Short-term expectations constrained by multiple uncertainties

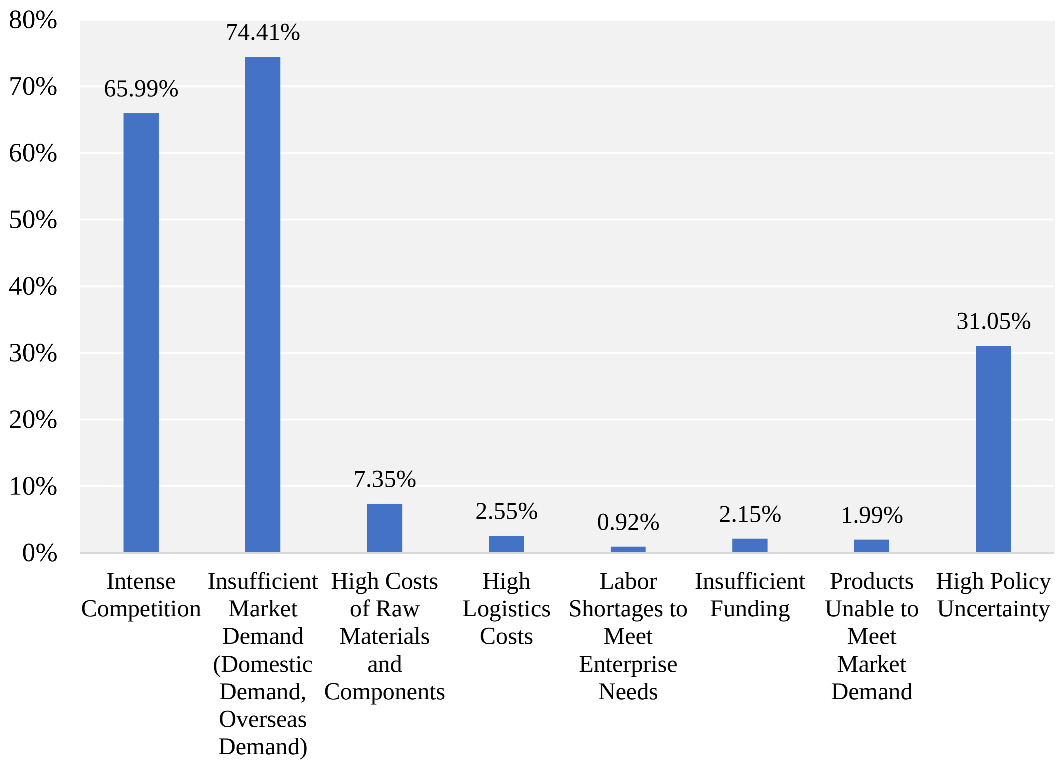
74.41% of surveyed enterprises were concerned about insufficient domestic and international market demand.

65.99% of surveyed enterprises cited intense competition as a major pressure.

31.05% of surveyed enterprises remained affected by policy uncertainties.

These factors collectively suppressed the level of optimism of businesses regarding future performance.

Figure 2. Factors Restricting Production and Operations in the Next Quarter



Note: This is based on answers to a multiple-choice question, with the graph drawn from the number of times each option was selected (taking 65.99% for fierce competition as an example, 65.998% of the 2,018 surveyed companies believed that fierce competition was one of the factors curtailing production and operations in the next quarter.) The same applies to the graph below.

3. Different sentiments by enterprise type

Export-oriented businesses and businesses with part of their supply chain abroad were relatively pessimistic about the future, citing uncertainties around tariffs and the geopolitical environment as the main factors.

Domestic-demand-oriented enterprises maintained a relatively optimistic outlook thanks to the favorable policies in infrastructure, green energy, and the digital economy.

Overall, business sentiment for the future in the second quarter was cautiously optimistic as most enterprises surveyed chose to maintain their current capacity and adopted a wait-and-see approach rather than expanding their scale.

2.3 Investment Timing Diffusion Index

The investment timing diffusion index (49) in Q2 decreased from Q1 (51) to below 50—the boom-bust threshold—signaling subdued confidence and more caution towards the current investment climate.

Survey results indicate that investment behavior and corporate sentiment in Q2 have the following characteristics:

1. Fewer enterprises viewed the current period as a good investment opportunity.

Only 4% of firms saw now as a good time to invest, down from 9% in Q1, marking a small retreat from earlier highs in investment confidence.

89% of enterprises viewed the investment timing as ‘average,’ while 7% explicitly considered it ‘unsuitable for investment.’

2. Actual investment activity has noticeably contracted.

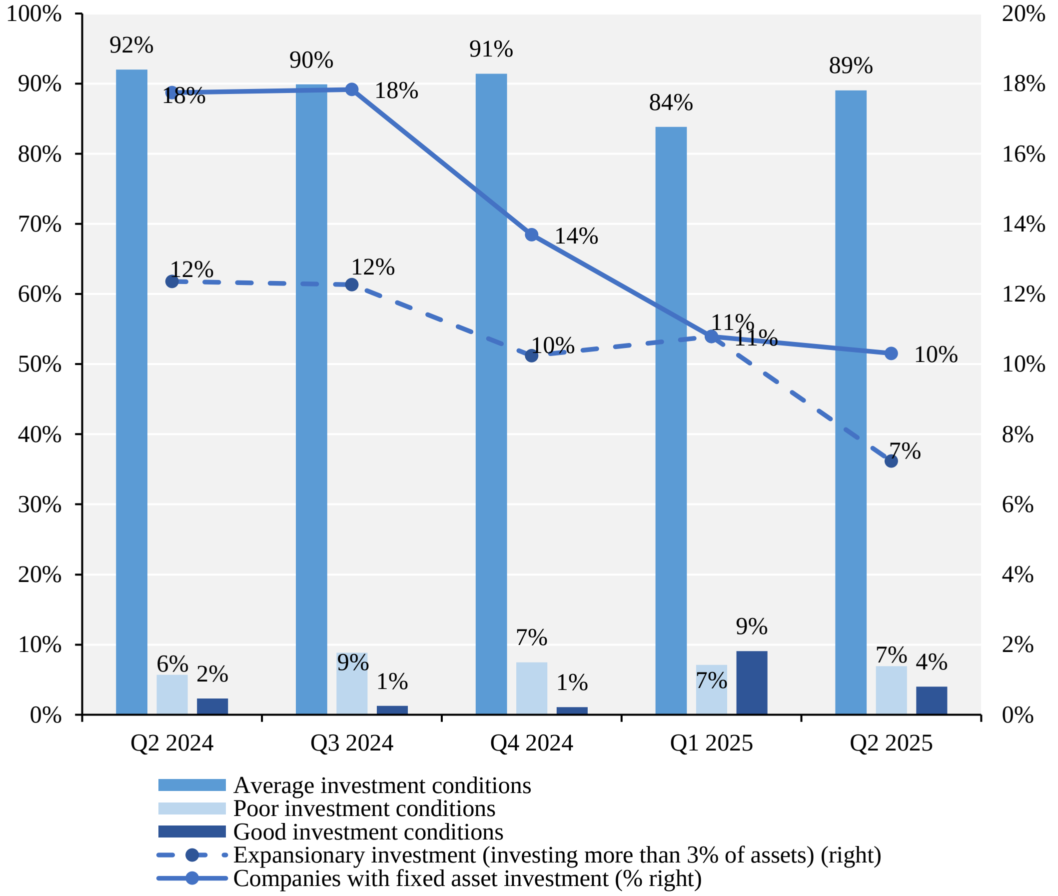
The proportion of enterprises undertaking fixed-asset investment in Q2 was 10%, down from 11% in the previous quarter.

Companies with expansionary investment fell from 11% to 7%, reflecting a more cautious approach to capital expenditure.

Overall, corporate investment in Q2 was cautious and conservative. While firms remain optimistic about the medium- to long-term investment environment, short-term uncertainties and insufficient market demand have constrained their willingness for large-scale expansion.

The investment timing diffusion index (49) fell slightly compared with the previous quarter (51). Only 4% of firms saw now as a good time to invest, down from 9% in Q1, marking a small retreat from earlier highs in investment confidence. At the same time, fixed asset investment participation declined from 11% to 10%, while companies with expansionary investment fell from 11% to 7% (Figure 3).

Figure 3. Investment Conditions



III. Zooming in on Other Statistics of the Business Sentiment Index in Q2 2025

In the second quarter of 2025, businesses surveyed were slowly recovering in production, pricing, and financing, but with structural differences.

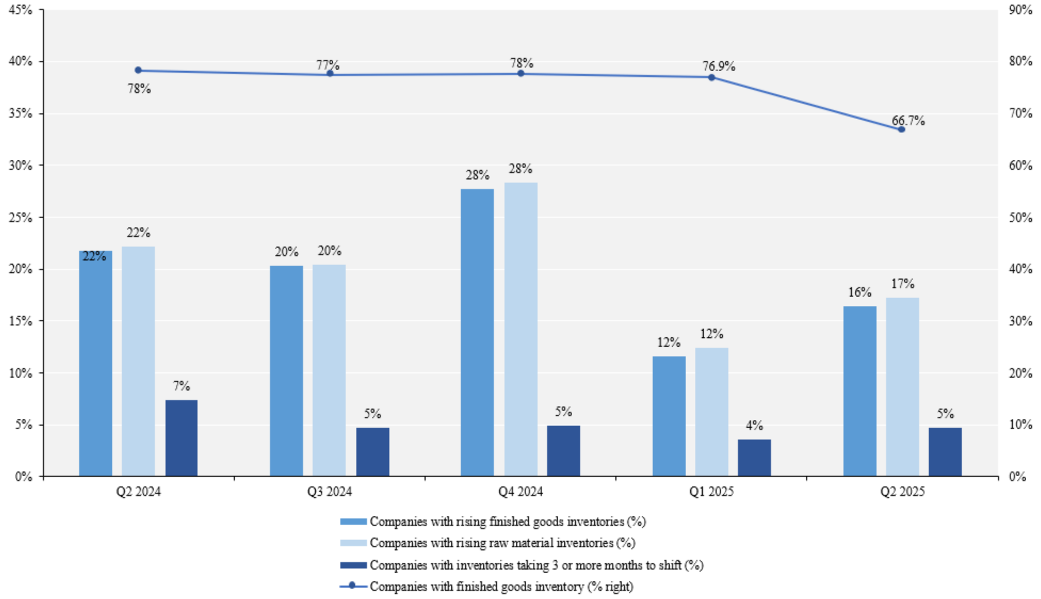
1. Production and inventory

The production diffusion index was 46 (↑1) and the finished goods inventory diffusion index was 45 (↑1), indicating a modest increase in production and marginal replenishment of inventories.

About 66.7% of enterprises held finished goods inventory, a notable decline from the previous quarter, reflecting the continued effects of prior inventory reduction.

The domestic oversupply diffusion index (97) and overseas oversupply diffusion index (100) both remained at historically high levels, indicating that demand recovery was still slow.

Figure 4. Finished goods inventory



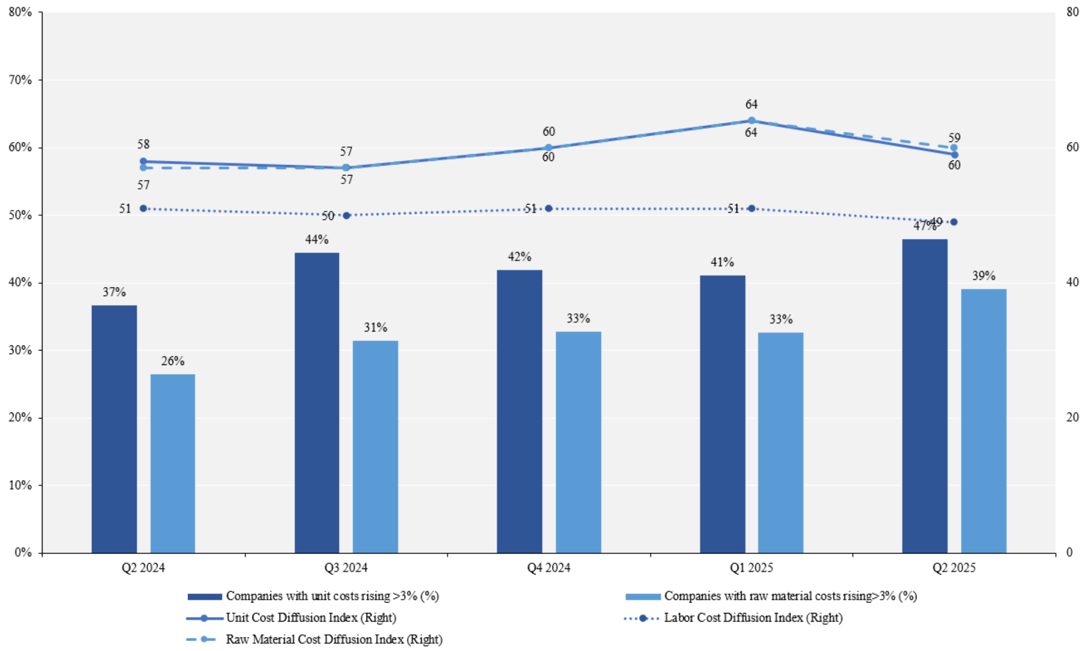
2. Cost and prices

The cost diffusion index fell to 59 (↓5), and the price diffusion index dropped to 47 (↓4).

Short-term fluctuations in bulk commodity prices caused by additional tariffs stabilized by the end of Q2. Coupled with declines in domestic energy and transportation costs, this significantly eased cost pressures for enterprises.

Product prices declined notably. Export-oriented manufacturers proactively reduced prices to offset tariff pressures, while prices in domestic-demand-focused industries remained relatively stable.

Figure 5. Production Costs



3. Financing and credit

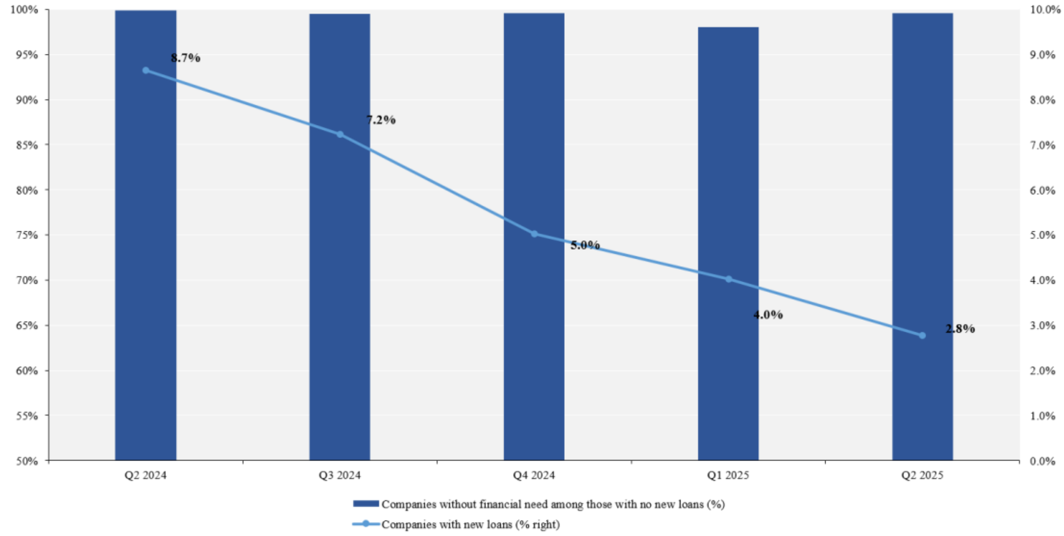
The lending attitude diffusion index of the banking sector (100) remained unchanged, reflecting consistently loose credit conditions.

However, only 2.8% of enterprises took out new loans (down from 4% in Q1), marking a recent low; most firms that did not apply new loans expressed “no funding needs.”

In the global market, the Federal Reserve’s continued expectation of rate cuts has provided a buffer for global liquidity, but due to geopolitical uncertainties, enterprises remained defensive.

Overall, in Q2 2025, enterprises cautiously increased production, eased cost pressures, and adopted a conservative approach to financing. This reflects that companies in China were cautiously recovering their operations amid external risks and modest internal support.

Figure 6. New Loans



IV. Summary and Outlook

In the second quarter of 2025, Chinese enterprises were cautious optimistic amid a complex domestic and international environment.

According to the Q2 report of the Business Sentiment Index:

The Business Sentiment Index stood at 54, showing stability with a slight decline in the business sentiment.

The Operating Conditions Diffusion index was 64, reflecting continued resilience.

The Expected Operating Conditions Diffusion Index was 50, a cautious rebound to the boom-bust threshold.

The Investment Timing Diffusion Index recorded 49, signaling a significant increase in the wait-and-see sentiment.

Other indices in this research revealed that production and inventories have slightly rebounded, with enterprises seeking a balance through marginal production increases and cautious inventory replenishment. Both costs and prices have declined, providing a window for profit recovery. Financing and credit, meanwhile, saw a disparity between the extremely accommodative policy and highly cautious enterprises. Banks remained willing to lend, but the proportion of enterprises taking out new loans was only 2.8%.

Looking ahead to the third quarter, three factors will be key for a change of business sentiment.

In Q2, the mainstream corporate mindset was defensive and cautious. But in the third quarter, three factors will determine whether Chinese enterprises can change from a defensive stance to tentative expansion:

1. Improvements in tariff negotiations

In early August, positive signals emerged from negotiations in Sweden. Both China and the U.S. indicated that the tariff suspension may be extended. If the suspension is prolonged or a phased agreement is reached, uncertainty for export-oriented enterprises would decline significantly.

2. Execution of the dam project and relevant policy measures

The mega hydropower station at the downstream of Yarlung Tsangpo river, which began construction in July with a total investment of approximately RMB 1.2 trillion, will provide long-term, stable orders for industries such as construction machinery, building materials, and power equipment.

Once local infrastructure, green energy, and digital economy projects are executed, businesses are expected to stabilize confidence in manufacturing and investment.

3. Domestic demand recovery and confidence cycles

Policies such as local consumption vouchers, green subsidies, and support for the digital economy are being rolled out.

If a positive feedback loop happens between recovering consumption and declining corporate costs, Q3 could provide a window for enterprises to move from a wait-and-see stance to tentative expansion.

Corporate actions in Q2 resembled a deep breath: in an environment of unclear direction and high external uncertainty, enterprises generally chose to preserve cash flow and increase production cautiously, maintaining the fundamentals of their current operations. Their wait-and-see approach toward tariff policy and the pace of domestic demand recovery reflected sensitivity and restraint toward market signals.

The Q2 data told us:

China’s business operations remain resilient, but for expansion they need clearer signals;

Cost pressures have eased for businesses in China, yet profit margins remain fragile;

Funding is highly accommodative, while enterprises prioritize cash flow security.

In Q3, if the three major factors—external tariff policy, internal dam projects, and consumption stimulus—consolidate, Chinese enterprises may take small steps forward in a cautious expansion. This would mark a critical transition of the business sentiment in China from “defensive” to “tentatively active,” preparing them to seize opportunities when conditions become favorable.

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