

# China Economy

## Growth further softened

China's economy encountered further headwinds in July as its property market continued to slump, household consumption remained weak and private business capex was sluggish. The contraction of new housing sales started to narrow, yet at a slower pace. Housing prices continued to decline with high inventory and excessive supply. Retail sales slightly picked up yet remained weak. Industrial output softened, but still outpaced retail sales. The economic growth may continue to face downside risks considering the softening domestic demand and less favourable external environment. China should ramp up its policy support on consumption to avoid a deflation trap. However, the policymakers still consider high-quality development with technology innovation and manufacturing upgrading as the priority, and hence stimulus policy towards consumption may be limited. In response to the weak growth and continued deflation pressure, the PBOC may further cut LPRs and deposit rates by 10-20bps and RRR by 25bps in the remainder of this year. As the US Fed may start the rate cut cycle from the coming September, a possible weakening of the US dollar may expand the PBOC's policy room next year.

- **Housing market mildly improved with smaller contraction of new housing sales.** The gross floor area (GFA) sold for commercial buildings moderately declined 18.6% in 7M24 after dropping 19% in 1H24. For July, its YoY decline narrowed to 12.3%. The GFA started to see less contraction of 23.2% after dropping 23.7% in 1H24. The recovery ratio of second-hand housing sales in 10 selective cities remained vigorous compared to 2019, moderating from 104.1% in July to 98.4% in first half of Aug. Second-hand housing sales often lead the property market cycle in history. However, in this cycle, the correlation has diminished due to the prevalence of unfinished new buildings and the rigidity of price of new housing. Home prices continued to decline yet with less magnitude especially in higher-tier cities. Looking forward, we expect a cyclical improvement of housing demand with continuous recovery of second-hand housing sales and less decline of new housing sales in next several quarters. Due to high inventory and excessive supply, however, housing prices and investment activities should recover more slowly.
- **Retail sales remained subdued especially for discretionary goods.** Retail sales growth came in slightly above market expectations at 2.7%, up from 2% in June, thanks to the low base effect. Durable goods especially autos remained a major drag due to weak consumer income & confidence as well as deflation expectations. Autos sales dropped by 4.9% in July after dipping 6.2% in June. Property-related goods including home appliances, construction & decoration materials and furniture improved but remained in YoY decline of 2.4%, 2.1% and 1.1% in July. Telecom equip, on the other hand, saw a robust rebound to 12.7% in July from 2.9%. Sales of other discretionary goods also notably dampened including clothing, cosmetics and jewellery. Catering service notably slowed down to 3% in July from 5.4%, the lowest reading since Dec 2022. Looking forward, retail sales may remain muted in the near term dragged by decreasing income, confidence weakness and deflation expectations. We revise down our forecast for retail sales growth for 2024 from 5.3% to 4.5%.
- **Industrial output slowed while service activity marginally improved.** VAIO growth edged down to 5.1% in July from 5.3% in June, slightly below market expectation of 5.2%. Upstream resource sectors like mining edged up to 4.6% in July from 4.4%, while manufacturing continued to moderate from 5.5% to 5.3%. Industries that previously experienced rapid growth have mildly slowed down including non-ferrous metal, chemical product, rubber & plastic product and transport equip excluding auto; while computer &

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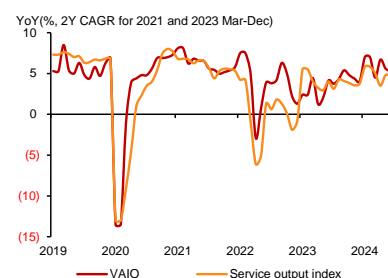
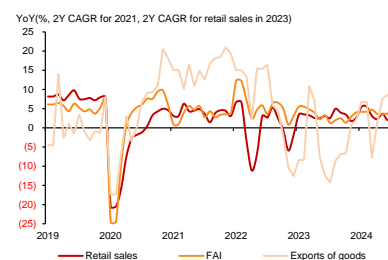
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electronic equip accelerated to 14.3% in July from 11.3%. Auto, electrical equip and medicine notably slowed down from 6.8%, 4.4%, 6.2% and 3.3% in June to 4.4%, 2.8%, 1.5% and -1.5%. The YoY growth of service output index inched up to 4.8% in July from 4.7%. Looking forward, service and industrial output may remain weak in next few months.

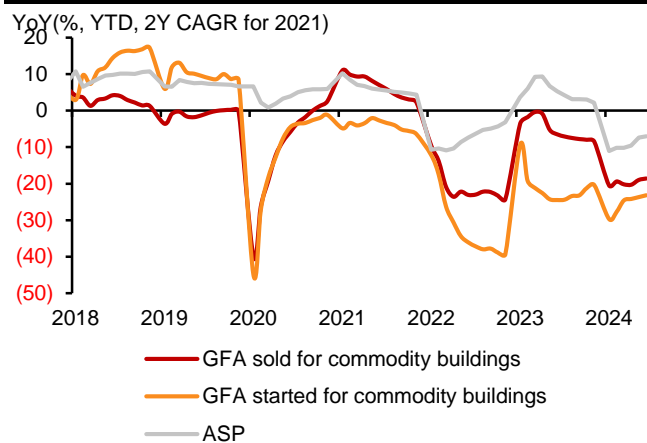
- **FAI slowed down markedly, even though infrastructure investments remained elevated.** FAI notably dropped to 1.9% YoY in July compared to 3.6% in June, significantly below market expectations. Property development investments further declined 10.2% in 7M24 after dropping 10.1% in 1H24. Infrastructure investments extended its rally from 7.7% in 1H24 to 8.1% in 7M24 as government bond financing picked up. Investment growth in manufacturing dropped to 9.3% in July from 9.5% as overcapacity pressure and earnings weakness started to restrain capex demand in some manufacturing industries. Breaking down by industries, investments in mining, non-ferrous metal, metal products and other transport equipment further accelerated; while auto, textile, electrical equipment and computer & electronics slowed down. Looking forward, we expect FAI growth to slightly accelerate from 3% in 2023 to 3.6% in 2024, with investment growth rates in manufacturing, infrastructure, and property development respectively at 8%, 7.5% and -9.5% in 2024.
- **Economic growth faces downside pressure with softening domestic demand and less favourable external environment.** Recent economic data shows weakening economic momentum as property slump, consumption weakness and deflation expectations continue to weigh on major indicators. With possible moderation of external demand and intensifying trade tensions with other countries, China's exports may gradually slow down after December as the positive effect of front-load delivery in anticipation of higher tariffs gradually fades out. China faces increasing pressure to stimulate the domestic demand, but it may take more time for the policymakers to shift their priority from supply-side upgrading to demand-side stimulus. We see moderate easing of monetary policy with additional cuts of deposit rates and LPRs by 10-20bps in the remainder of this year. For next year, a possible weakening of the US dollar during the Fed's rate cut cycle may expand the PBOC's policy room as China's credit growth might gradually stabilize.

**Figure 1: China's economic indicators**

| YoY(%)                                   | 2019  | 2020  | 2021   | 2022   | 2023   | 1Q24   | 2Q24   | June   | July   | 2020-2021 CAGR | 2022-2023 |
|--|-------|-------|--------|--------|--------|--------|--------|--------|--------|----------------|-----------|
| GDP                                      | 6.0   | 2.2   | 8.4    | 3.0    | 5.2    | 5.3    | 4.7    |        |        | 5.3            | 4.1       |
| VAIO                                     | 5.7   | 2.8   | 9.6    | 3.6    | 4.6    | 6.1    | 5.9    | 5.3    | 5.1    | 6.1            | 4.1       |
| -Mining                                  | 5.0   | 0.5   | 5.3    | 7.3    | 2.3    | 1.6    | 3.3    | 4.4    | 4.6    | 2.9            | 4.8       |
| -Manufacturing                           | 6.0   | 3.4   | 9.8    | 3.0    | 5.0    | 6.7    | 6.3    | 5.5    | 5.3    | 6.6            | 4.0       |
| -Public utility                          | 7.0   | 2.0   | 11.4   | 5.0    | 4.3    | 6.9    | 5.0    | 4.8    | 4.0    | 6.6            | 4.6       |
| Delivery value for exports               | 1.3   | (0.3) | 17.7   | 5.5    | (3.9)  | 0.8    | 6.0    | 3.8    | 6.4    | 8.3            | 0.7       |
| Service output index                     | 6.9   | 0.0   | 13.1   | (0.1)  | 8.1    | 5.5    | 4.3    | 4.7    | 4.8    | 6.3            | 3.9       |
| Retail sales                             | 8.0   | (3.9) | 12.5   | (0.2)  | 7.2    | 4.7    | 2.6    | 2.0    | 2.7    | 4.0            | 3.4       |
| Exports of goods                         | 0.5   | 3.6   | 29.6   | 5.6    | (4.7)  | 1.3    | 5.8    | 8.6    | 7.0    | 15.9           | 0.3       |
| Imports of goods                         | (2.7) | (0.6) | 30.1   | 0.7    | (5.5)  | 1.6    | 2.5    | (2.3)  | 7.2    | 13.7           | (2.4)     |
| Urban FAI (YTD)                          | 5.4   | 2.9   | 4.9    | 5.1    | 3.0    | 4.5    | 3.9    | 3.9    | 3.6    | 3.9            | 4.0       |
| -Property development                    | 9.9   | 7.0   | 4.4    | (10.0) | (9.6)  | (9.5)  | (10.1) | (10.1) | (10.2) | 5.7            | (9.8)     |
| -Manufacturing                           | 3.1   | (2.2) | 13.5   | 9.1    | 6.5    | 9.9    | 9.5    | 9.5    | 9.3    | 5.4            | 7.8       |
| -Infrastructure                          | 3.3   | 3.4   | 0.2    | 11.5   | 8.2    | 8.8    | 7.7    | 7.7    | 8.1    | 1.8            | 9.9       |
| GFA sold for commodity building (YTD)    | (0.1) | 2.6   | 1.9    | (24.3) | (8.5)  | (19.4) | (19.0) | (19.0) | (18.6) | 2.2            | (16.8)    |
| GFA started for commodity building (YTD) | 8.5   | (1.2) | (11.4) | (39.4) | (20.4) | (27.8) | (23.7) | (23.7) | (23.2) | (6.4)          | (30.5)    |

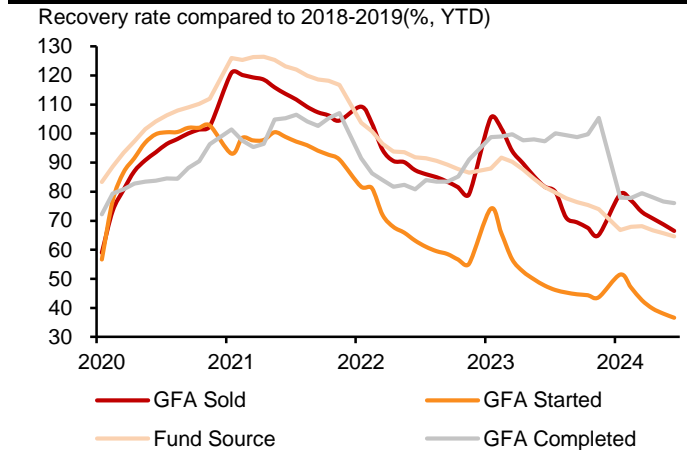
Source: Wind, CMBIGM estimates

**Figure 2: Property sales growth**



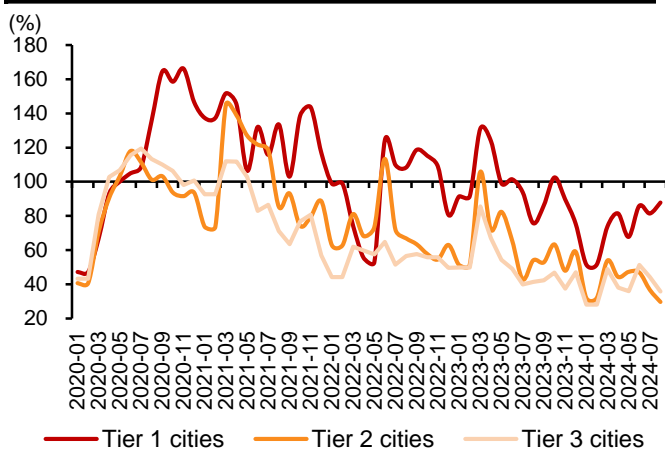
Source: Wind, CMBIGM

**Figure 3: Recovery rates compared to 2018-2019**



Source: Wind, CMBIGM

**Figure 4: New housing sales recovery rates compared to 2018-2019 in 30 cities**



Source: Wind, CMBIGM

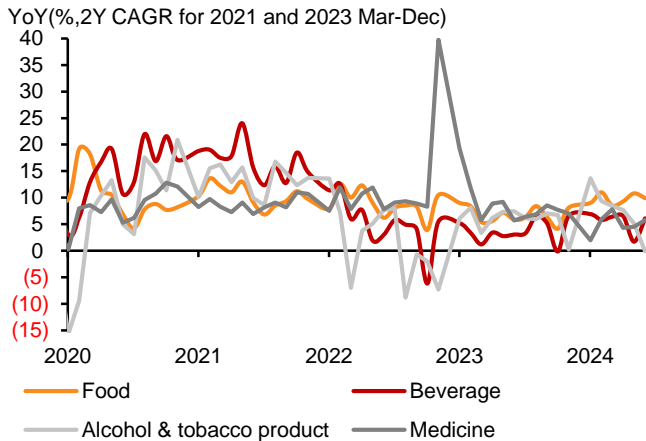
**Figure 5: Recovery rate of second-hand housing sales compared to 2019 in 11 selective cities**



Source: Wind, CMBIGM

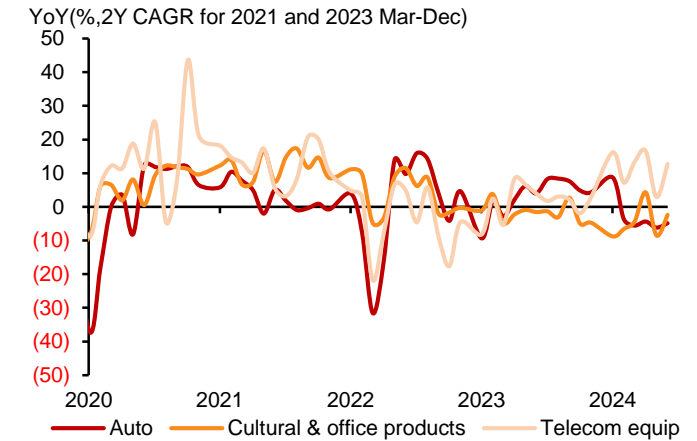
Note: The 11 cities include Beijing, Shenzhen, Hangzhou, Nanjing, Chengdu, Qingdao, Suzhou, Xiamen, Wuxi, Dongguan and Foshan

**Figure 6: Retail sales of staples**



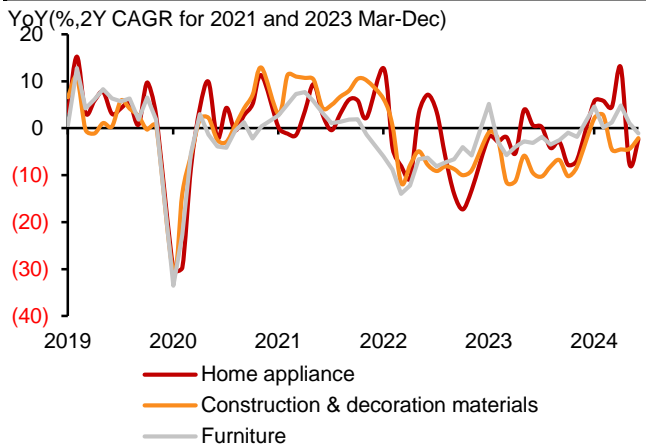
Source: Wind, CMBIGM

**Figure 7: Retail sales of auto & electronics**



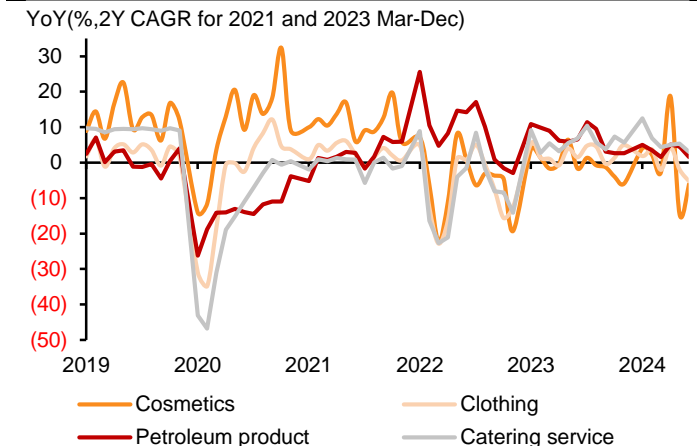
Source: Wind, CMBIGM

**Figure 8: Home appliance & furniture retail sales**



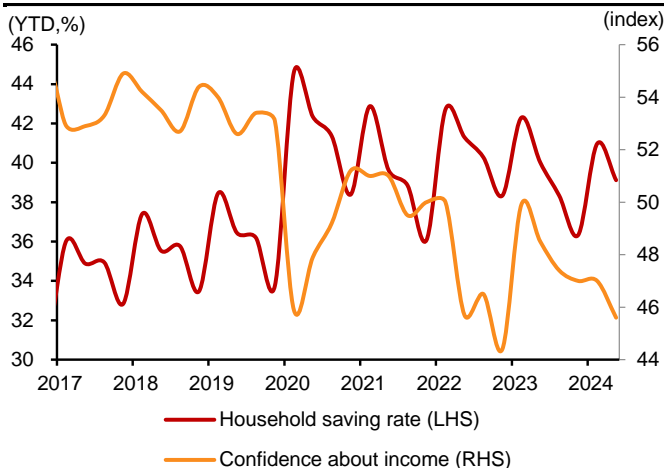
Source: Wind, CMBIGM

**Figure 9: Retail sales related to outgoing activities**



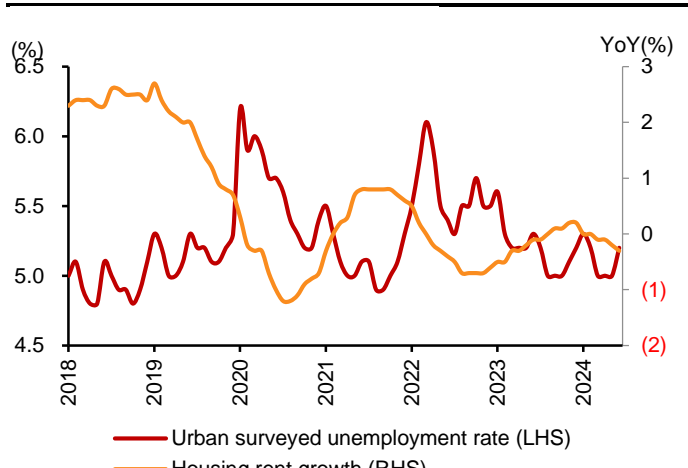
Source: Wind, CMBIGM

**Figure 10: Consumer confidence**



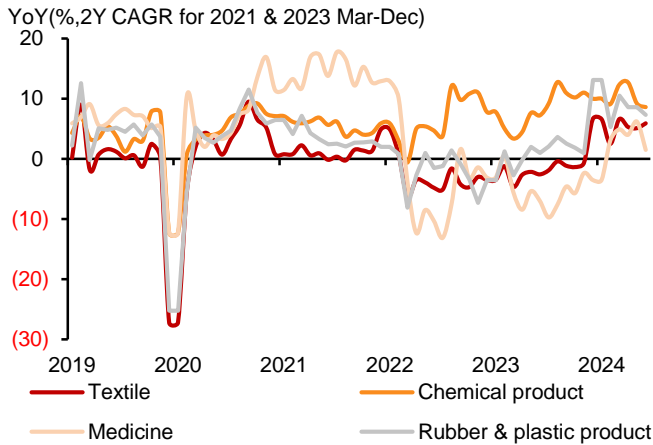
Source: Wind, CMBIGM

**Figure 11: Urban unemployment rate & housing rent**



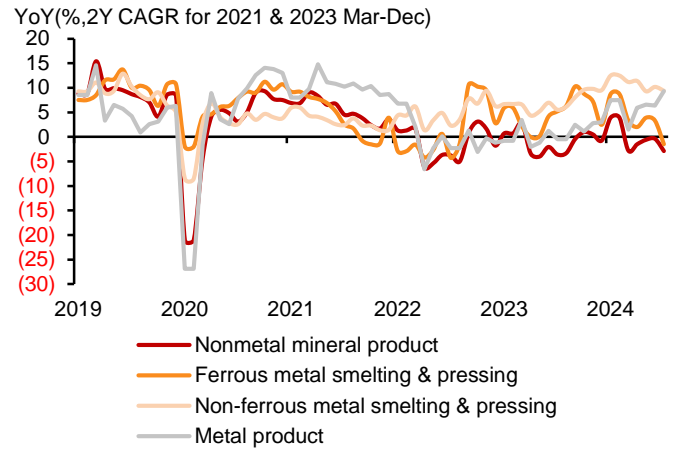
Source: Wind, CMBIGM

**Figure 12: VAIO in textile & chemical products**



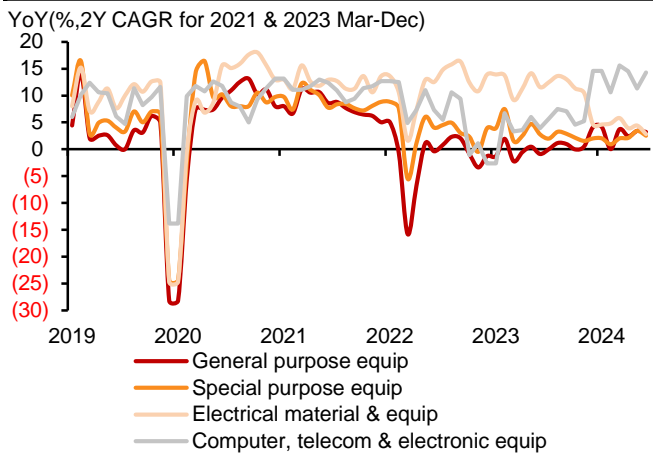
Source: Wind, CMBIGM

**Figure 13: VAIO in mineral & metal products**



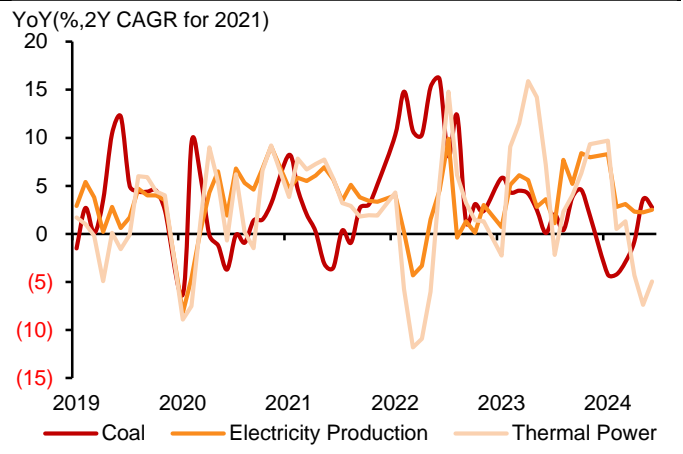
Source: Wind, CMBIGM

**Figure 14: VAIO in equipment**



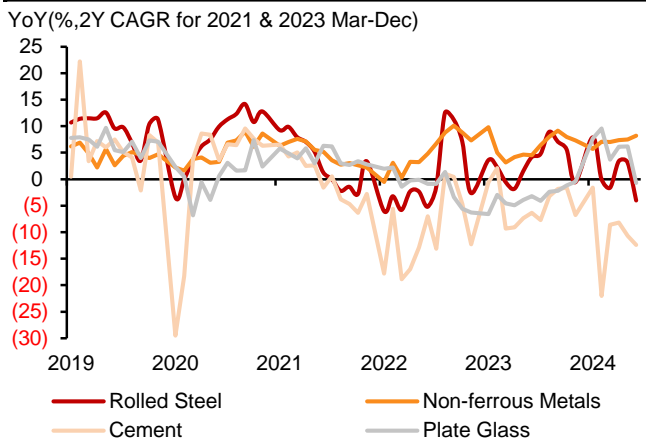
Source: Wind, CMBIGM

**Figure 15: Output in energy and electricity**



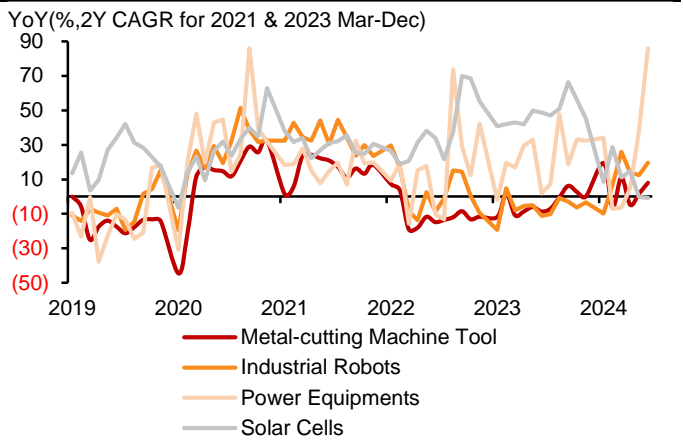
Source: Wind, CMBIGM

**Figure 16: Output in steel & construction material**



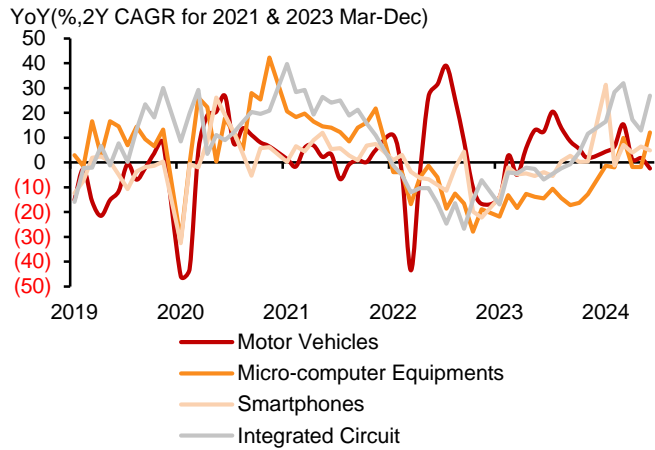
Source: Wind, CMBIGM

**Figure 17: Output in capital goods**



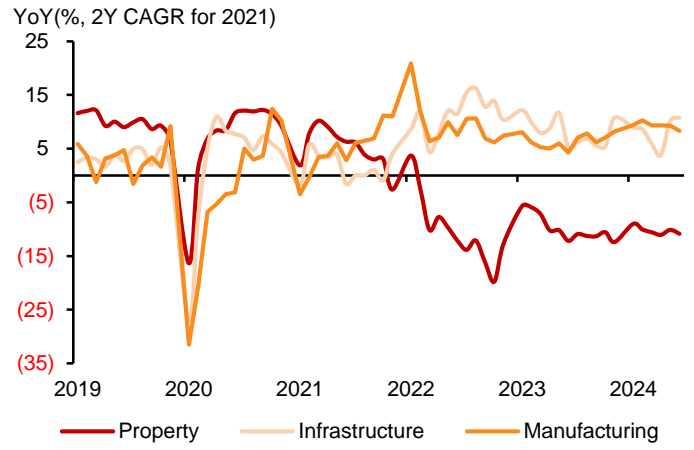
Source: Wind, CMBIGM

**Figure 18: Output in auto, computer & smartphone**



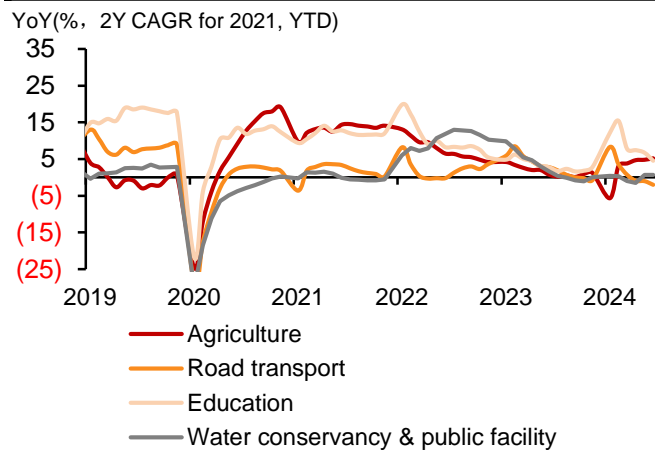
Source: Wind, CMBIGM

**Figure 19: FAI by sector**



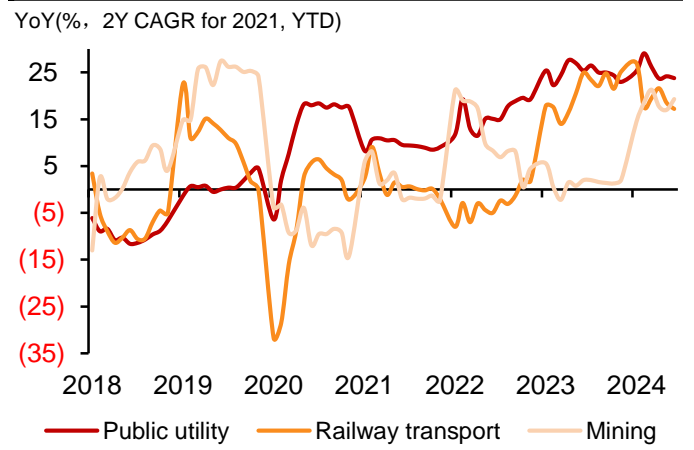
Source: Wind, CMBIGM

**Figure 20: FAI in agriculture & local infrastructure**



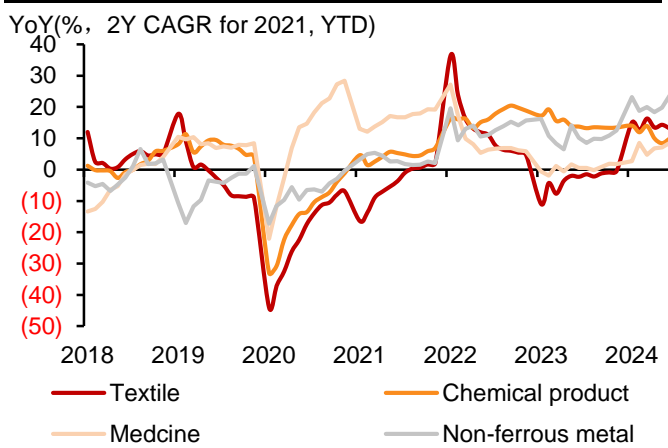
Source: Wind, CMBIGM

**Figure 21: FAI in central infrastructure & mining**



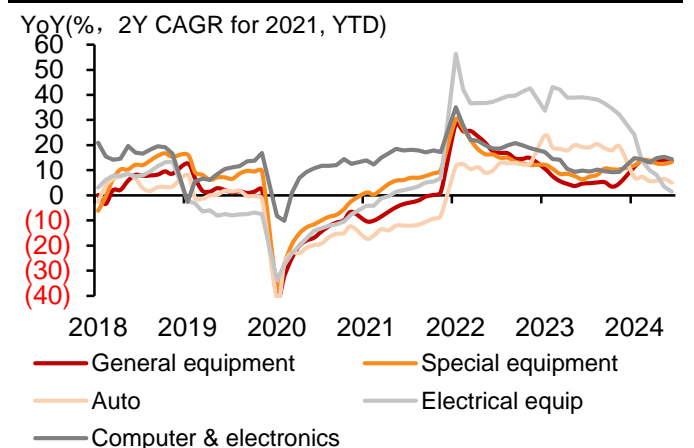
Source: Wind, CMBIGM

**Figure 22: FAI in chemical products**



Source: Wind, CMBIGM

**Figure 23: FAI in equipment**



Source: Wind, CMBIGM

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