

# China Economy

## Off to a good start, still with challenges

China economy had a solid start with 1Q24 GDP growth beating expectations. But underlying concerns remained as the property market continued to slump and deflation pressure persisted in the first quarter while consumption recovery momentum faded in March. Fixed investment remained robust especially in manufacturing, which may intensify supply-side competition and deflation pressure and stimulate exports to global markets. Looking forward, higher-tier cities may continue to loosen restrictions on home purchase and the *hukou* system. Meanwhile, the PBOC may further lower mortgage rates by 25bps while keeping LPRs basically stable in the remainder of this year as contract loan rates for large enterprises and SOEs are already very low. The central bank may also lower deposit rates before mortgage rate cut to protect banks' NIMs. Meanwhile, China may continue to enhance its credit and fiscal support to tech innovation and industrial upgrading for high-quality development. We maintain our forecast on China's GDP growth at 4.8% in 2024, compared to the 2Y CAGR of 4.1% in 2022-2023.

■ **Real GDP growth rebounded while nominal growth was below expectations.** China's GDP beat expectations in 1Q24 by increasing 5.3% YoY (all on a YoY basis unless otherwise specified) after rising 5.2% with a low base in 2023. Meanwhile, the SA QoQ growth of GDP accelerated to 1.6% from 1.2%. China economy displayed a solid start in 1Q24 thanks to the leap month effect and moderate recovery of both exports and service consumption. The leap month effect gave 1Q24 one working day more than 1Q23, contributing nearly 1ppt to the YoY growth of GDP. However, underlying concerns existed. First, property sales & starts continued to slump. Secondly, deflation pressure persisted as GDP deflator dropped 1.1% in 1Q24 after dropping 1% in 4Q23. Nominal GDP growth reached 4.2% in 1Q24, which was below market expectations. Thirdly, both exports and retail sales weakened sharply in March, eroding investor confidence on China's recovery prospects.

■ **Property market extended its deep contraction with completions plunging to historic low.** The gross floor area (GFA) sold and the GFA started for commodity housing marginally rebounded to -19.4% and -27.8% in Mar from -20.5% and -29.7% in 2M24. Property development investment further declined 9.5% in Mar after dropping 9% in 2M24. The recovery ratio of housing sales in 30 major cities compared to the same period in 2019 dipped to 48.9% in Mar and 40.8% in the first half of April, the lowest point since 2020. The rebound of second-hand housing sales moderated in Mar and further dropped in early April. Funding source for property development further dipped in 1Q24 as cash deposits and mortgage funds sharply shrank amid further weakening of housing sales. With deterioration in both volume and unit price, solvency risk of property developers continued to erode market confidence. To stabilize the property market, the policymakers may continue to loosen property policies. Higher-tier cities may further ease restrictions on home purchase and the *hukou* system. The PBOC may launch targeted cuts in mortgage rates and down-payment ratios especially for first-home and second-home buyers. We expect GFA sold for commodity buildings to drop 6% in 2024 after decreasing 8.5% in 2023.

■ **Retail sales missed as boost effect from CNY faded.** Retail sales growth eased to 3.1% in Mar from 5.5% in 2M24. Food-related consumption slowed down after the CNY holiday as catering services, beverage and alcohol & tobacco products dropped to 6.9%, 5.8% and 9.4% from 12.5%, 6.9% and 13.7% in 2M24. Home appliances and construction & decoration materials beat expectations by rising 5.8% and 2.8% in Mar, compared to the growth of 5.7% and 2.1% in 2M24. But furniture weakened as its growth slowed

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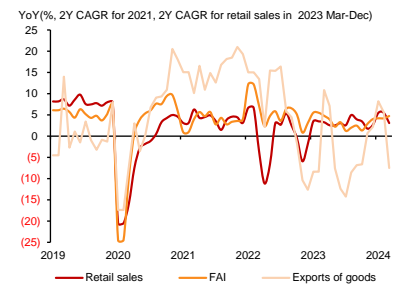
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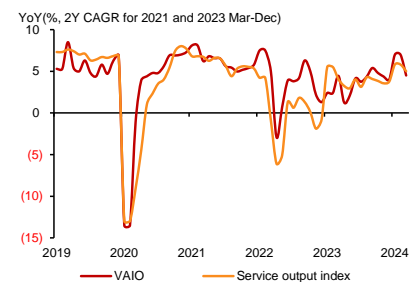
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Source: Wind, CMBIGM



Source: Wind, CMBIGM

sharply to 0.2% from 4.6%. Other durables also softened as the growth rates of auto and telecom equip respectively dropped to -3.7% and 7.2% from 8.7% and 16.2%. Clothing, daily used goods and medicine rebounded while gold, silver & jewelry, cosmetics and petroleum products declined. We have witnessed a new consumer trend post Covid with more concentrated consumption during holidays and bigger swings in the following month. Looking forward, consumption may mildly improve in 2024 especially in recreational, experimental and self-pleasing consumption. We expect retail sales to grow 5.3% in 2024 after rising 7.2% in 2023.

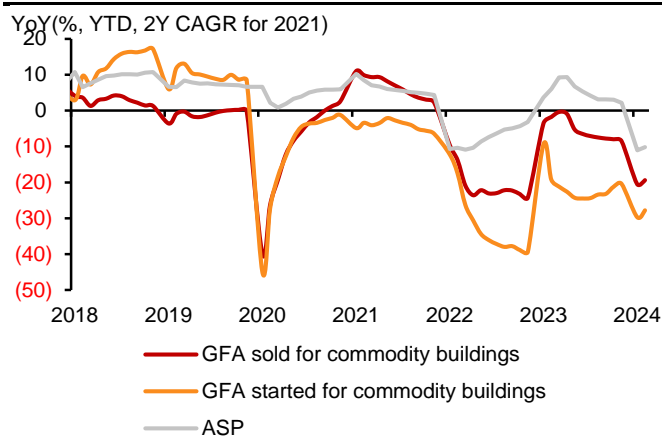
- **Service activity and industrial output slowed down.** The YoY growth of service output index declined from 5.8% in 2M24 to 5% in Mar, yet higher than the 2Y CAGR of 3.9% in 2022-2023. VAIO growth came in below market expectation at 4.5% in Mar, compared to 7% in 2M24. VAIO in chemical products, non-ferrous metals, auto, other transportation equip and computer, telecom & electronic equip maintained solid growth at 9.1%, 11.2%, 9.4%, 8.6% and 10.6% in Mar. Ferrous metals, rubber & plastic products and metal products notably slowed down. Looking forward, service and industrial output may moderately improve in 2024 thanks to a recovery in service consumption, an end of the de-stocking cycle and improvement in exports.
- **FAI growth picked up thanks to strong manufacturing investment.** FAI increased 4.5% in 1Q24 after rising 4.2% in 2M24. The investment growth in manufacturing sector further picked up to 9.9% in 1Q24 from 9.4% in 2M24, thanks to the continuous policy support on industrial upgrades and manufacturing advancement, even though the eroding of profit margin and persisting deflation pressure might weigh on future investment. The decline of property development investment widened to 9.5% from 9% in 2M24. Infrastructure investment also eased to 8.8% in 1Q24 from 9%. Suspension of infrastructure projects in 12 debt-laden provinces and fiscal restraints of local governments due to contracting land sales may weigh on future infrastructure investment dominated by local SOEs. Looking forward, we expect FAI to accelerate from 3% in 2023 to 4.2% in 2024, with growth in manufacturing, infrastructure, and property development respectively at 7.5%, 8% and -9% in 2024.
- **China needs additional policy support, especially on the demand side.** China economy showed tentative improvement in 1Q24, yet still with severe challenges ahead. Property sales & starts further slumped with confidence deterioration as more developers became insolvent. Deflation pressure persisted as GDP deflator extended its decline. Unemployment pressure remained high while consumer confidence remained low. China needs additional policy support especially on the consumer demand side. While the possibility of comprehensive strong policy stimulus remains low, China may launch targeted policy support to stabilize the housing market and boost durables consumption. Higher-tier cities may continue to loosen restrictions on home purchase and the *hukou* system while the central bank may further cut mortgage rates by 25bps this year. To protect banks' NIMs, the central bank may guide banks to further lower deposit rates. The central bank may also cut RRR by 50bps in the remainder of this year to further ease the liquidity condition. Meanwhile, China may enhance its credit and fiscal support to tech innovation and industrial upgrading for the high-quality development. We maintain our forecast on China's GDP growth at 4.8% in 2024, compared to the 2Y CAGR of 4.1% in 2022-2023.

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

YoY(%)	2019	2020	2021	2022	2023	2M24	Mar 2024	2020-2021 CAGR	2022-2023 CAGR
GDP	6.0	2.2	8.4	3.0	5.2		5.3	5.3	4.1
VAIO	5.7	2.8	9.6	3.6	4.6	7.0	4.5	6.1	4.1
-Mining	5.0	0.5	5.3	7.3	2.3	2.3	0.2	2.9	4.8
-Manufacturing	6.0	3.4	9.8	3.0	5.0	7.7	5.1	6.6	4.0
-Public utility	7.0	2.0	11.4	5.0	4.3	7.9	4.9	6.6	4.6
Delivery value for exports	1.3	(0.3)	17.7	5.5	(3.9)	0.4	1.4	8.3	0.7
Service output index	6.9	0.0	13.1	(0.1)	8.1	5.8	5.0	6.3	3.9
Retail sales	8.0	(3.9)	12.5	(0.2)	7.2	5.5	3.1	4.0	3.4
Exports of goods	0.5	3.6	29.6	5.6	(4.6)	7.1	(7.5)	15.9	0.3
Imports of goods	(2.7)	(0.6)	30.1	0.7	(5.5)	3.5	(1.9)	13.7	(2.4)
Urban FAI (YTD)	5.4	2.9	4.9	5.1	3.0	4.2	4.5	3.9	4.0
-Property development	9.9	7.0	4.4	(10.0)	(9.6)	(9.0)	(9.5)	5.7	(9.8)
-Manufacturing	3.1	(2.2)	13.5	9.1	6.5	9.4	9.9	5.4	7.8
-Infrastructure	3.3	3.4	0.2	11.5	8.2	9.0	8.8	1.8	9.9
GFA sold for commodity building (YTD)	(0.1)	2.6	1.9	(24.3)	(8.5)	(20.5)	(19.4)	2.2	(16.8)
GFA started for commodity building (YTD)	8.5	(1.2)	(11.4)	(39.4)	(20.4)	(29.7)	(27.8)	(6.4)	(30.5)

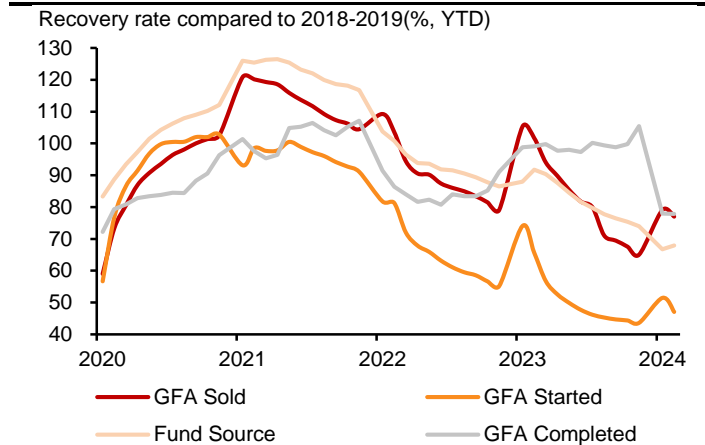
Source: Wind, CMBIGM estimates

**Figure 2: Property sales growth**



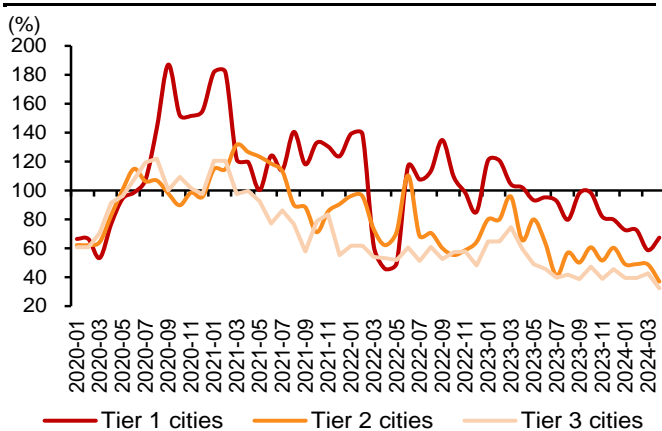
Source: Wind, CMBIGM

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



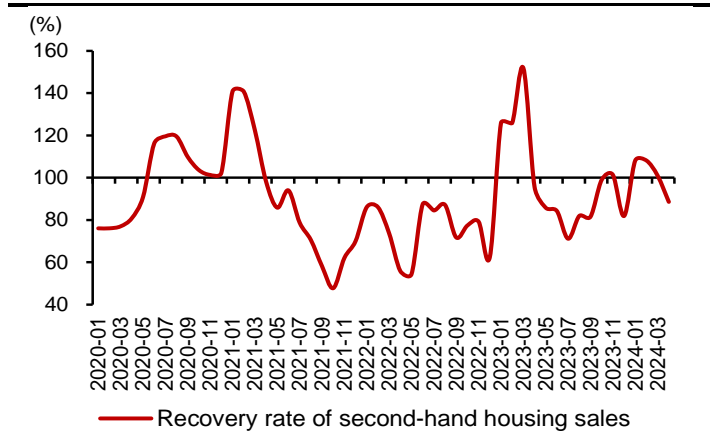
Source: Wind, CMBIGM

**Figure 4: Housing sales recovery rates compared to 2019 in 30 cities**



Source: Wind, CMBIGM

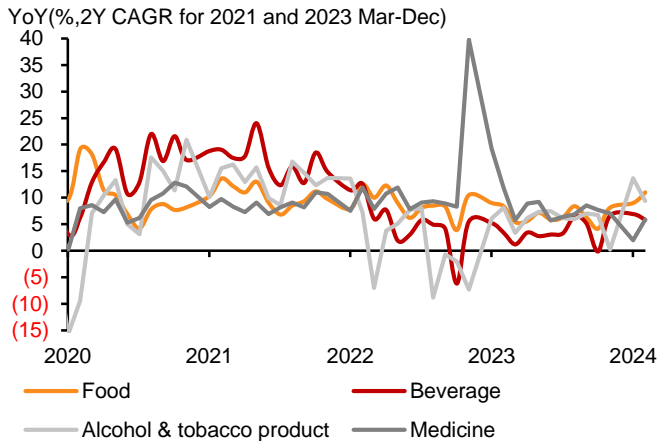
**Figure 5: Recovery rate of second-hand housing sales compared to 2019 in 11 selective cities**



Source: Wind, CMBIGM

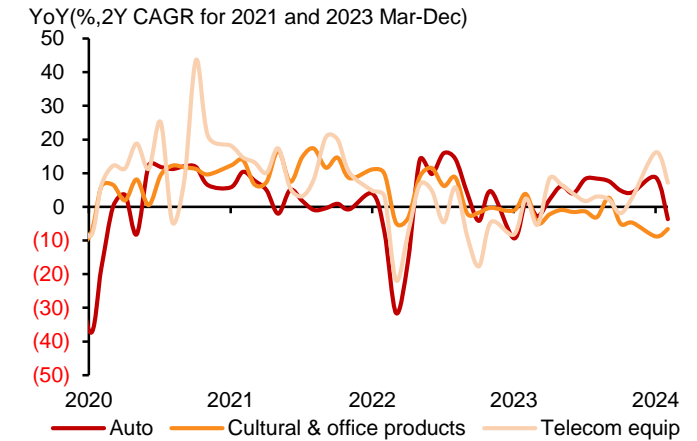
Note: the 11 cities include Beijing, Shenzhen, Hangzhou, Nanjing, Chengdu, Qingdao, Suzhou, Xiamen, Wuxi, Dongguan and Foshan

**Figure 6: Retail sales of staples**



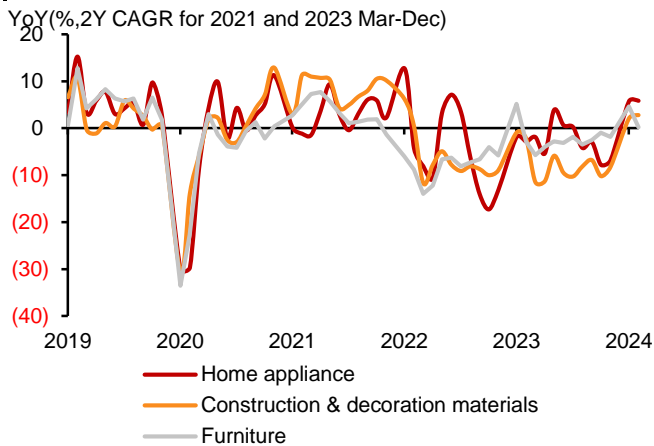
Source: Wind, CMBIGM

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



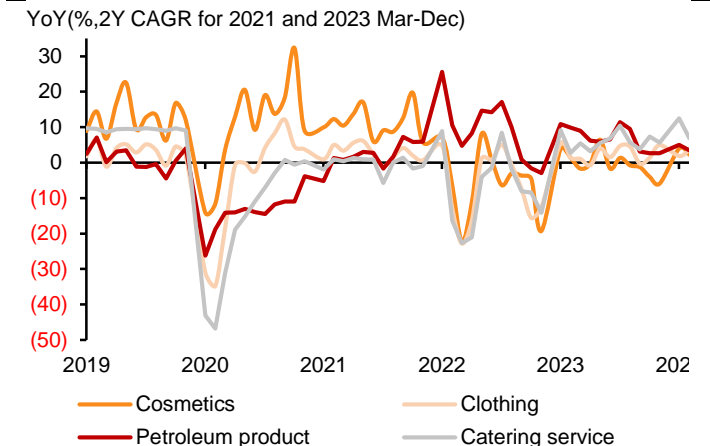
Source: Wind, CMBIGM

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



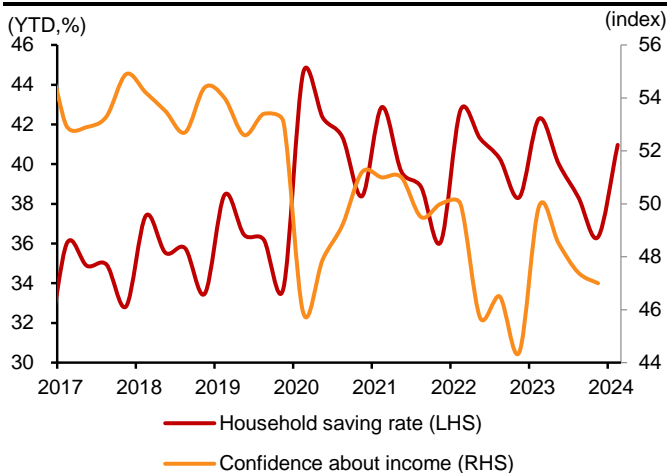
Source: Wind, CMBIGM

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



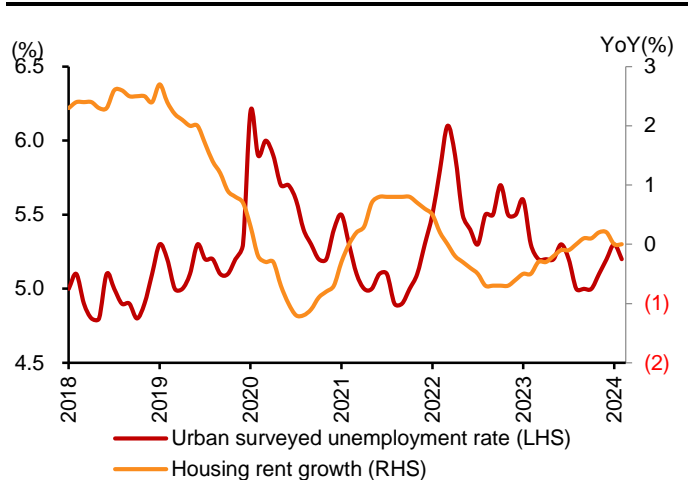
Source: Wind, CMBIGM

**Figure 10: Consumer confidence**



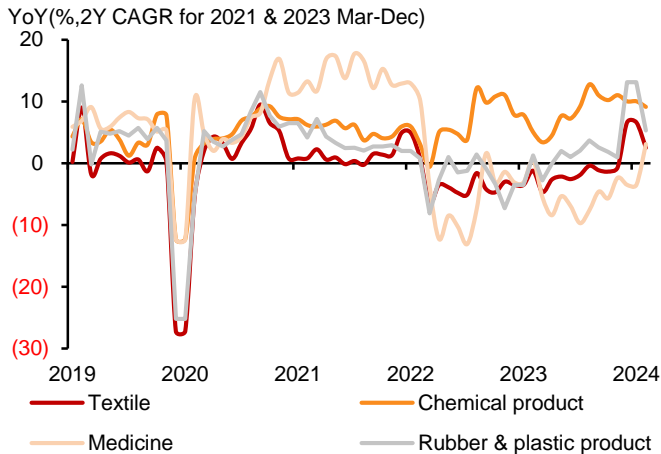
Source: Wind, CMBIGM

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



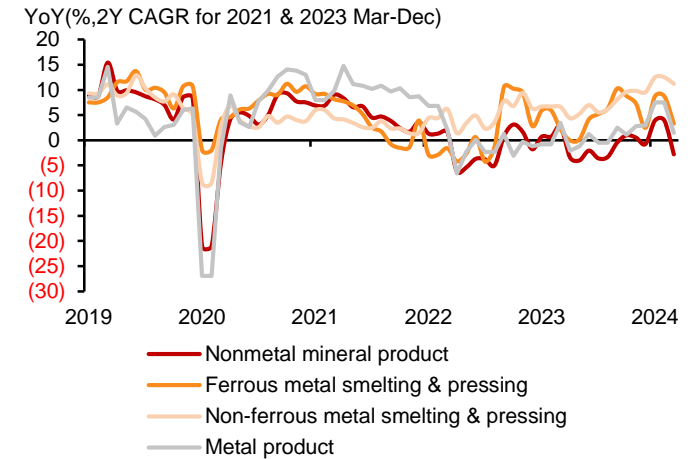
Source: Wind, CMBIGM

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



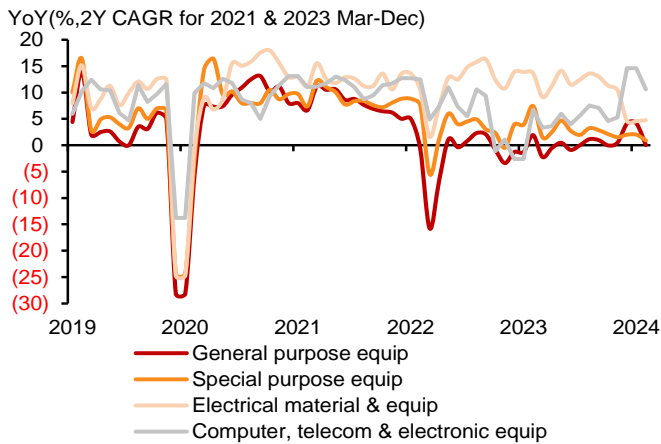
Source: Wind, CMBIGM

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



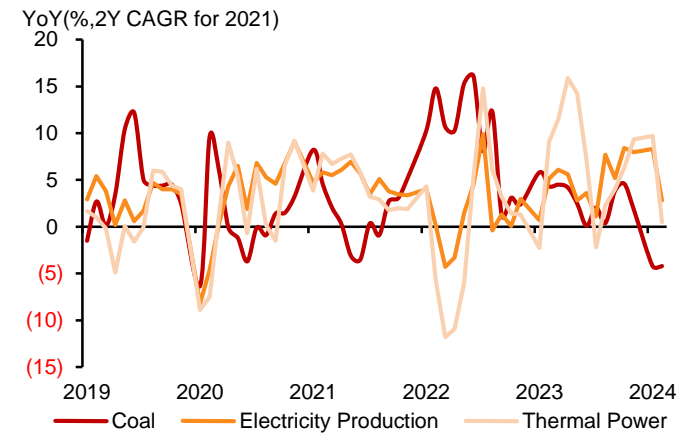
Source: Wind, CMBIGM

**Figure 14: VAIO in equipment**



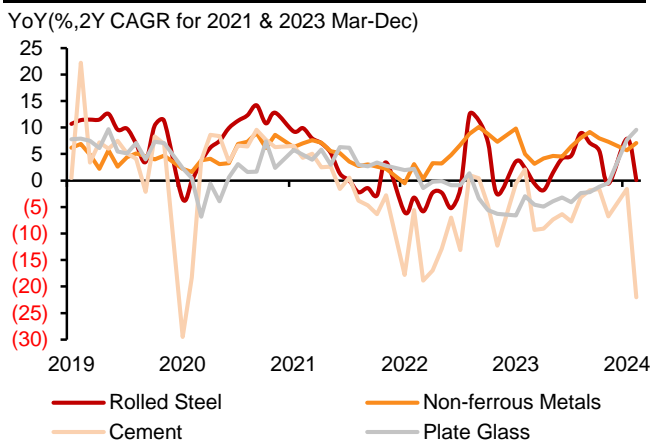
Source: Wind, CMBIGM

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



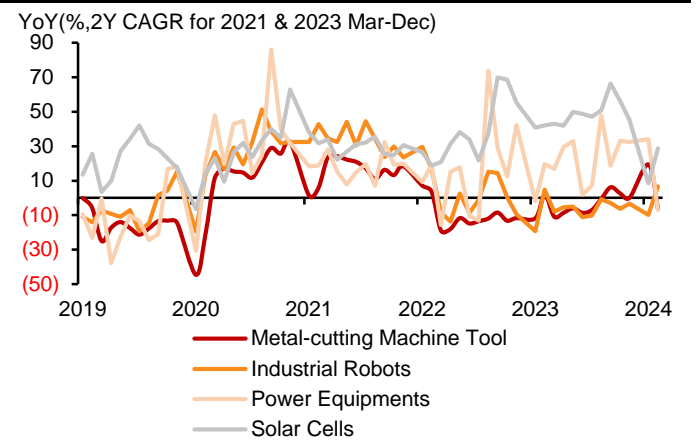
Source: Wind, CMBIGM

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



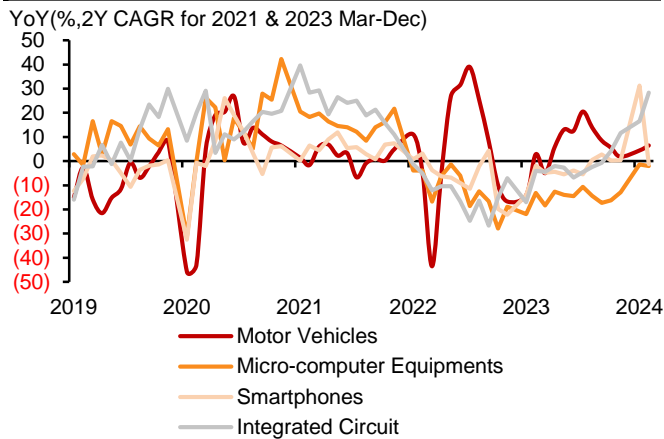
Source: Wind, CMBIGM

**Figure 17: Output in capital goods**



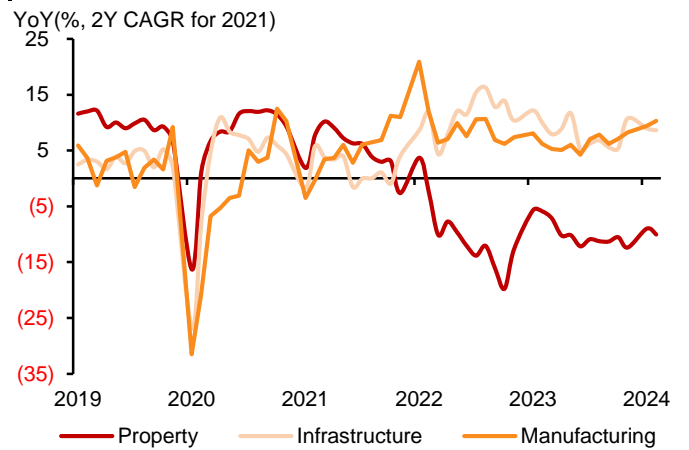
Source: Wind, CMBIGM

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



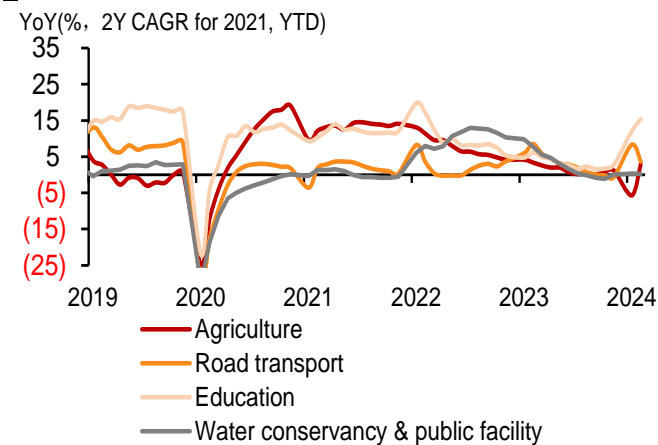
Source: Wind, CMBIGM

**Figure 19: FAI by sector**



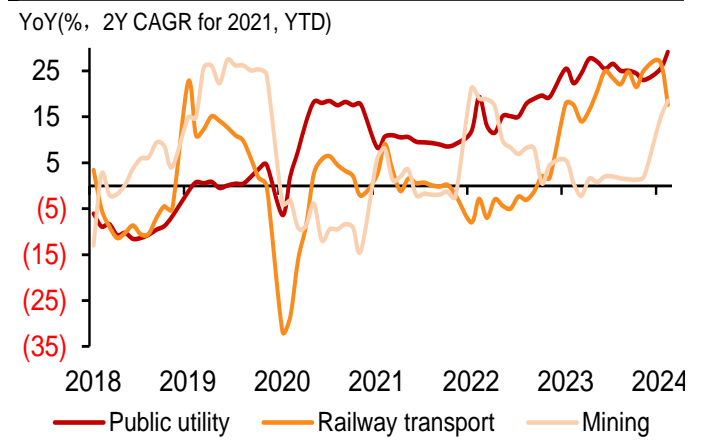
Source: Wind, CMBIGM

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



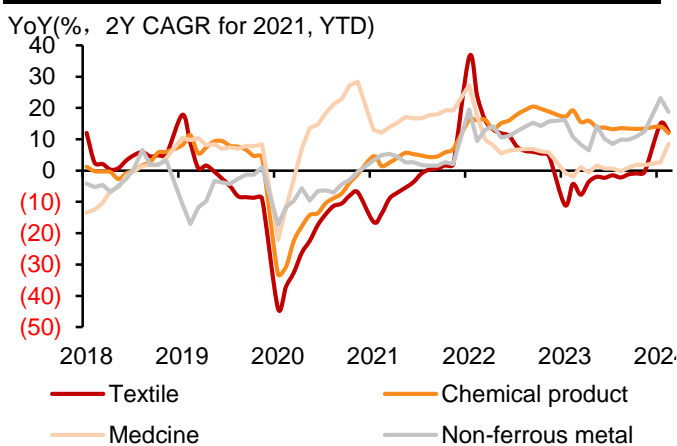
Source: Wind, CMBIGM

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



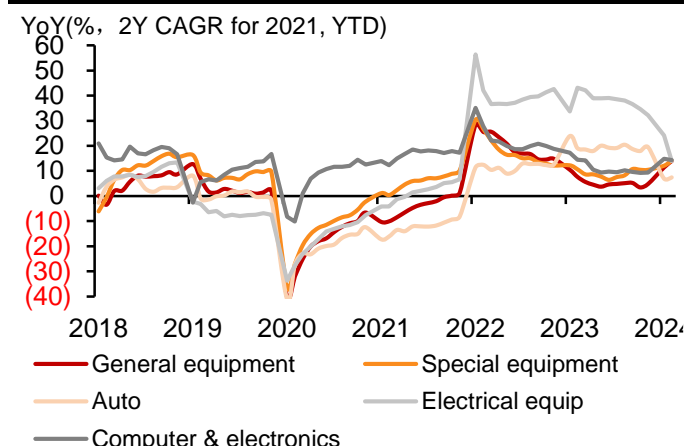
Source: Wind, CMBIGM

**Figure 22: FAI in chemical products**



Source: Wind, CMBIGM

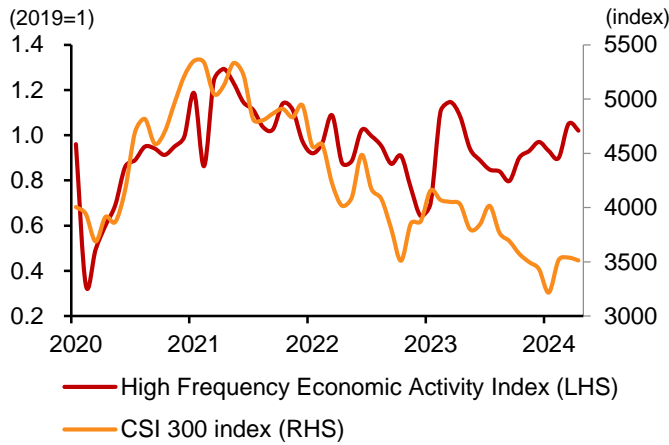
**Figure 23: FAI in equipment**



Source: Wind, CMBIGM

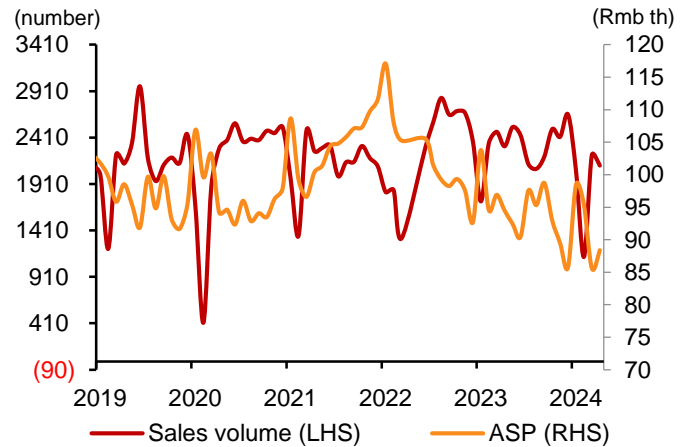


**Figure 24: Economic activity & A-share index**



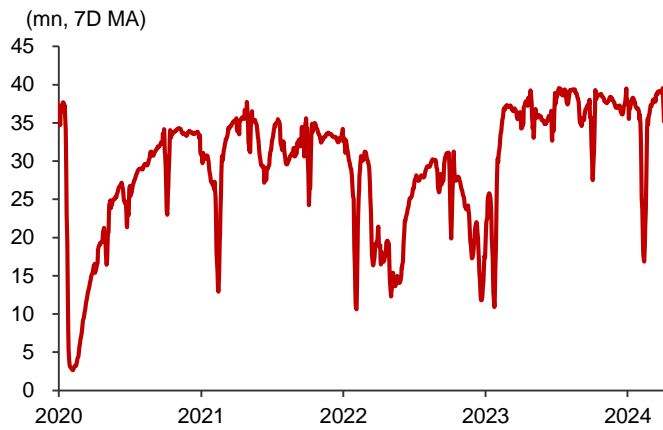
Source: Wind, CMBIGM

**Figure 25: Used vehicle sales in Shanghai market**



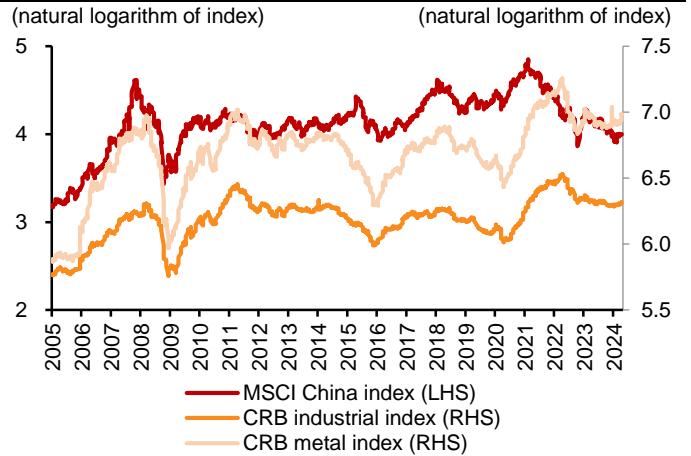
Source: Wind, CMBIGM

**Figure 26: Subway passenger flow in tier-1 cities**



Source: Wind, CMBIGM

**Figure 27: MSCI China and commodity prices**



Source: Wind, CMBIGM

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