

China Economy

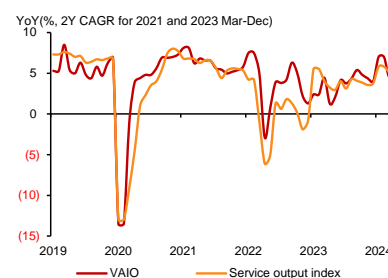
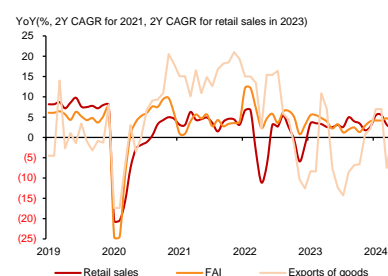
Growth slackened with bolstered policy support

China's economy weakened in Apr as retail sales, service output and fixed asset investment notably moderated. Property slump and deflation pressure remained as the two major drags for the economy. However, industrial production prominently expanded as delivery value for exports noticeably picked up. The biggest boost to market sentiment has been a shift of China's policy stance towards the property sector in recent several weeks. Chinese policymakers became more aggressive in loosening property policies as most higher-tier cities removed the home purchase restrictions and the PBOC cut the mortgage rates and down-payment ratios in recent few weeks. The central bank also planned to provide special low-cost refinancing to state-owned banks which would support local SOEs to purchase unsold property projects from developers. Looking forward, China would be more aggressive in loosening the credit supply to boost property market and economic growth.

- Property market was still mired in deep contraction as policymakers significantly loosened property policies.** The gross floor area (GFA) sold for commercial building further deteriorated from -19.4% (all in YoY terms unless otherwise specified) in 1Q24 to -20.2% in 4M24, while the GFA started narrowed its YoY decline from 27.8% to 24.6%. Property development investment further declined 9.8% in 4M24 after dropping 9.5% in 1Q24. The recovery ratio of new housing sales in 30 major cities compared to the same period in 2018 & 2019 dipped to 48.8% in Apr and further plummeted to 40.1% in the first half of May. The recovery ratio of second-hand housing sales in 10 selective cities compared to 2019 further moderated to 86.4% in Apr from 101% in Mar. Prices in both new and second-hand housing further decreased in Apr. Funding source for property development continued to dwindle as cash deposits and mortgage funds stayed depressed. Looking forward, the GFA sold for commercial buildings is expected to drop 6% in 2024 after decreasing 8.5% in 2023.
- Retail sales notably softened due to weak durable goods.** Retail sales growth eased to 2.3% in Apr from 3.1% in Mar as sales of durables deteriorated. Auto sales further dropped 5.6% in Apr from -3.7% in Mar, mainly due to a new round of price wars and consumers postponing purchases to wait for the implementation of trade-in policies. Durable goods related to housing including furniture and construction materials stayed lethargic at 1.2% and -4.5%. Home appliance retail sales grew 4.5%, better than expectations. Food-related consumption continued to slow down as the growth rates of catering services, food and alcohol & tobacco products dropped to 4.4%, 8.5% and 8.4% from 6.9%, 11% and 9.4% in Mar. Clothing, cosmetics and cultural & office products contracted while medicine, daily used goods and telecom equip rebounded. Looking forward, consumption may mildly improve in 2024 especially in recreational, small-scale and self-pleasing consumption. We expect retail sales to grow 5.3% in 2024 after rising 7.2% in 2023.
- Industrial output markedly expanded while service activity slowed.** VAIO growth accelerated to 6.7% from 4.5% in Mar, higher than market expectation of 5.5%. The improvement was broad-based, especially in sectors with strong exports such as chemical products, rubber & plastic product, non-ferrous metals, autos, other transportation equipment and computer, telecom & electronic equipment, extending their rapid growth over 10%. The YoY growth of service output index mitigated to 3.5% in Apr from 5% in Mar due to much higher base last year. Looking forward, service and industrial output may moderately improve in 2024 thanks to a recovery in

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service consumption, an end of the de-stocking cycle and improvement in exports.

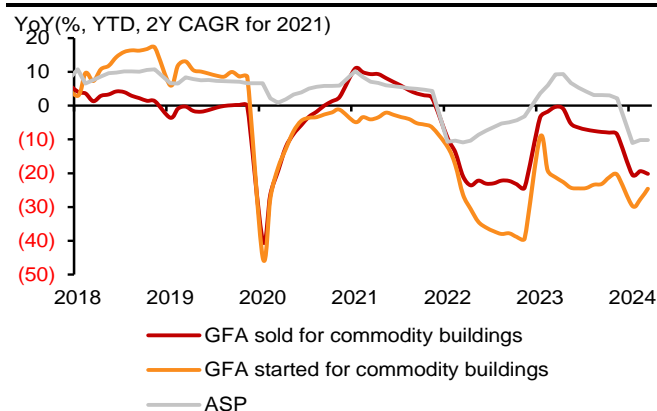
- **FAI growth scaled back as property and infrastructure investment slackened.** FAI wound down to 3.6% in Apr from 4.7%. Property investment remained in deep contraction at 10.5% in Apr due to property sector slump. Infrastructure investment notably dropped to 5.9% in Apr from 8.6% in Mar, due to restrictions on new local government debt and slower-than-expected government bond issuance. We expect the infrastructure investment to pick up in the next several months as government bond issuance accelerated in May. Investment in manufacturing remained elevated, edging down to 9.3% from 10.3%, thanks to the continuous policy support on industrial upgrades and manufacturing advancement, even though the eroding profit margin and capacity utilization rate might weigh on future investment. 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.
- **The economy may gradually recover thanks to base effect and policy support.** The continuous property slump and persisted deflation pressure became the major drags from the demand side while industrial production and exports showed robust resilience. The Chinese policymakers have become aggressive in loosening property policies recently as most higher-tier cities removed the housing purchase restrictions and the PBOC cancelled the lower limits of mortgage rates and further reduced the down-payment ratios for mortgage loans. The central bank also planned to provide special low-cost refinancing to state-owned banks which would support local SOEs to purchase unsold property projects from developers and restructured those projects into affordable housing supply. Looking forward, China would be more aggressive in loosening the credit supply to boost property market and economic growth. We revise up our forecast for China's GDP growth from 4.8% to 5% for 2024.

Figure 1: China's economic indicators

| YoY(%) | 2019 | 2020 | 2021 | 2022 | 2023 | 1Q24 | Mar | Apr | 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 | 6.1 | 4.5 | 6.7 | 6.1 | 4.1 |
| -Mining | 5.0 | 0.5 | 5.3 | 7.3 | 2.3 | 1.6 | 0.2 | 2.0 | 2.9 | 4.8 |
| -Manufacturing | 6.0 | 3.4 | 9.8 | 3.0 | 5.0 | 6.7 | 5.1 | 7.5 | 6.6 | 4.0 |
| -Public utility | 7.0 | 2.0 | 11.4 | 5.0 | 4.3 | 6.9 | 4.9 | 5.8 | 6.6 | 4.6 |
| Delivery value for exports | 1.3 | (0.3) | 17.7 | 5.5 | (3.9) | 0.8 | 1.4 | 7.3 | 8.3 | 0.7 |
| Service output index | 6.9 | 0.0 | 13.1 | (0.1) | 8.1 | 5.5 | 5.0 | 3.5 | 6.3 | 3.9 |
| Retail sales | 8.0 | (3.9) | 12.5 | (0.2) | 7.2 | 4.7 | 3.1 | 2.3 | 4.0 | 3.4 |
| Exports of goods | 0.5 | 3.6 | 29.6 | 5.6 | (4.7) | 1.5 | (7.5) | 1.5 | 15.9 | 0.3 |
| Imports of goods | (2.7) | (0.6) | 30.1 | 0.7 | (5.5) | 1.5 | (1.9) | 8.4 | 13.7 | (2.4) |
| Urban FAI (YTD) | 5.4 | 2.9 | 4.9 | 5.1 | 3.0 | 4.5 | 4.5 | 4.2 | 3.9 | 4.0 |
| -Property development | 9.9 | 7.0 | 4.4 | (10.0) | (9.6) | (9.5) | (9.5) | (9.8) | 5.7 | (9.8) |
| -Manufacturing | 3.1 | (2.2) | 13.5 | 9.1 | 6.5 | 9.9 | 9.9 | 9.7 | 5.4 | 7.8 |
| -Infrastructure | 3.3 | 3.4 | 0.2 | 11.5 | 8.2 | 8.8 | 8.8 | 7.8 | 1.8 | 9.9 |
| GFA sold for commodity building (YTD) | (0.1) | 2.6 | 1.9 | (24.3) | (8.5) | (19.4) | (19.4) | (20.2) | 2.2 | (16.8) |
| GFA started for commodity building (YTD) | 8.5 | (1.2) | (11.4) | (39.4) | (20.4) | (27.8) | (27.8) | (24.6) | (6.4) | (30.5) |

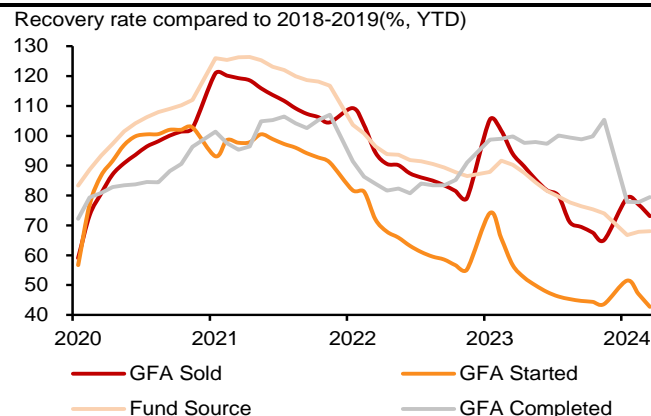
Source: Wind, CMBIGM estimates

Figure 2: Property sales growth



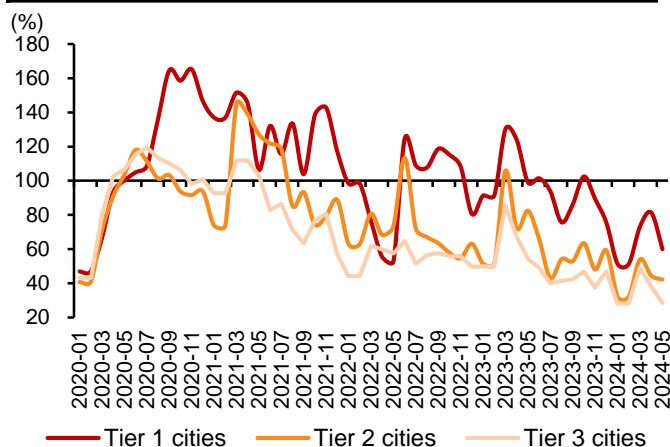
Source: Wind, CMBIGM

Figure 3: Recovery rates compared to 2018-2019



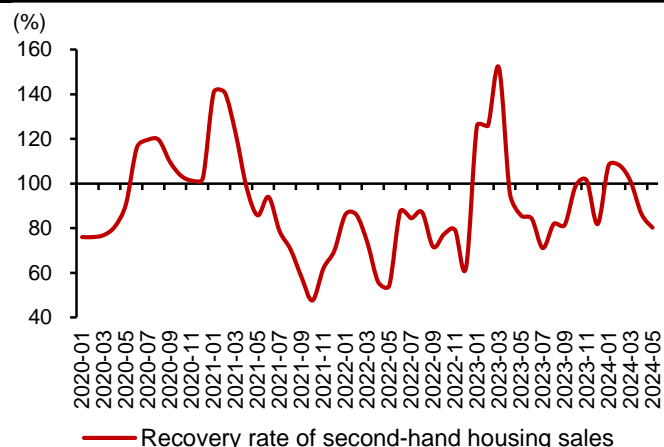
Source: Wind, CMBIGM

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



Source: Wind, CMBIGM

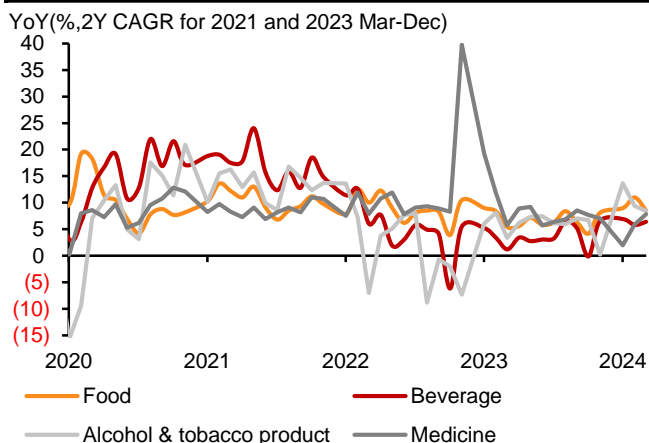
Figure 5: Recovery rate of second-hand housing sales compared to 2019 in 11 selective cities



Source: Wind, CMBIGM

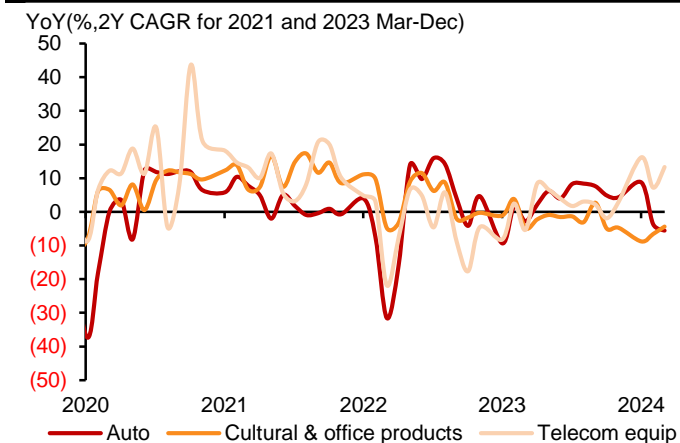
Note: The 11 cities include Beijing, Shenzhen, Hangzhou, Nanjing, Chengdu, Qingdao, Suzhou, Xiamen, Wuxi, Dongguan and Foshan

Figure 6: Retail sales of staples



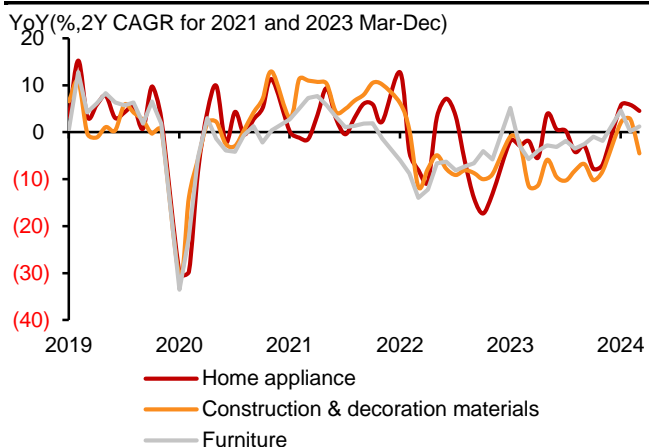
Source: Wind, CMBIGM

Figure 7: Retail sales of auto & electronics



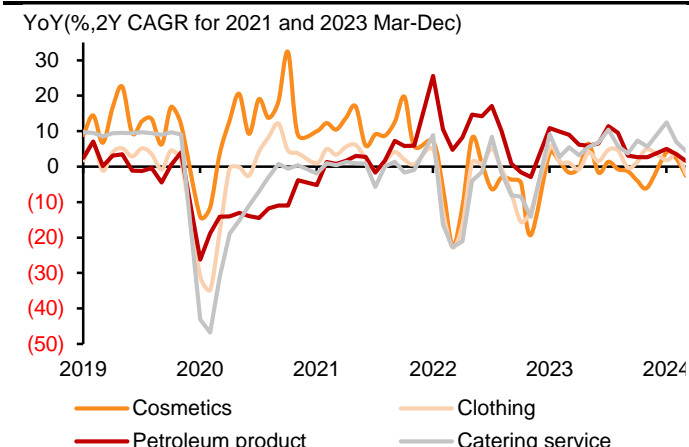
Source: Wind, CMBIGM

Figure 8: Home appliance & furniture retail sales



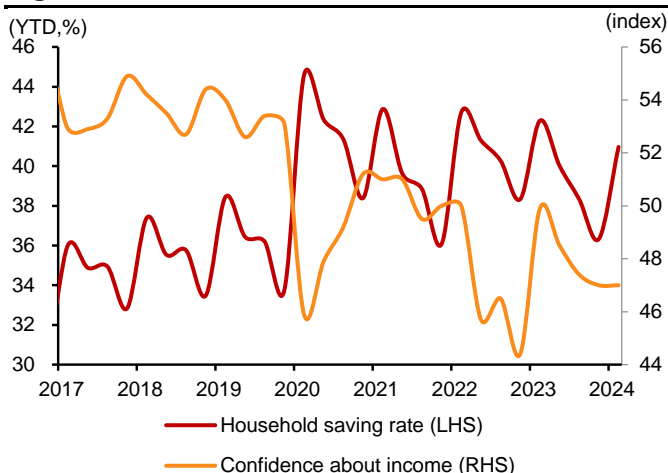
Source: Wind, CMBIGM

Figure 9: Retail sales related to outgoing activities



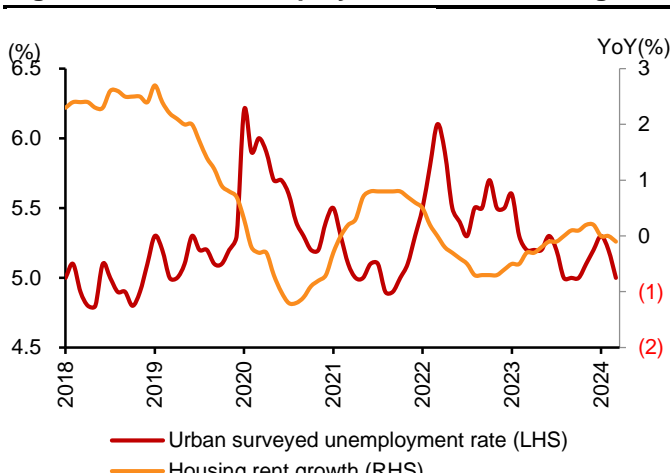
Source: Wind, CMBIGM

Figure 10: Consumer confidence



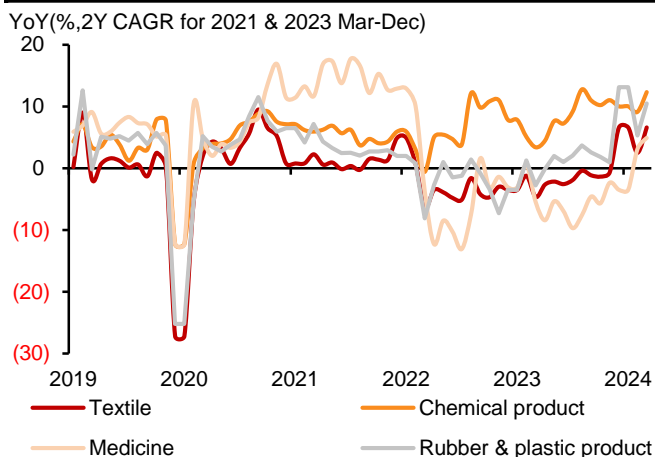
Source: Wind, CMBIGM

Figure 11: Urban unemployment rate & housing rent



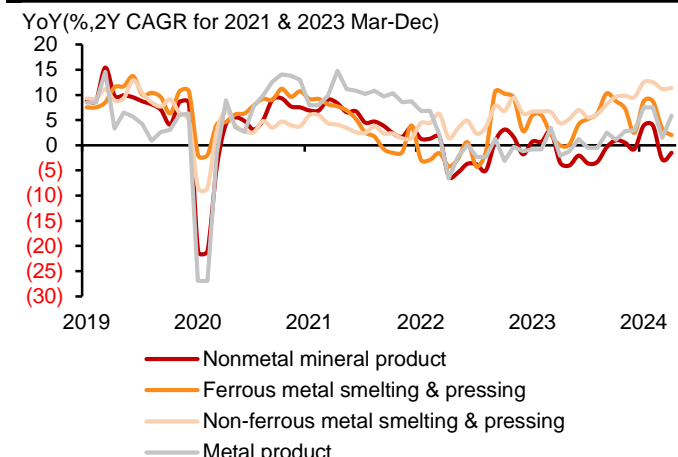
Source: Wind, CMBIGM

Figure 12: VAIO in textile & chemical products



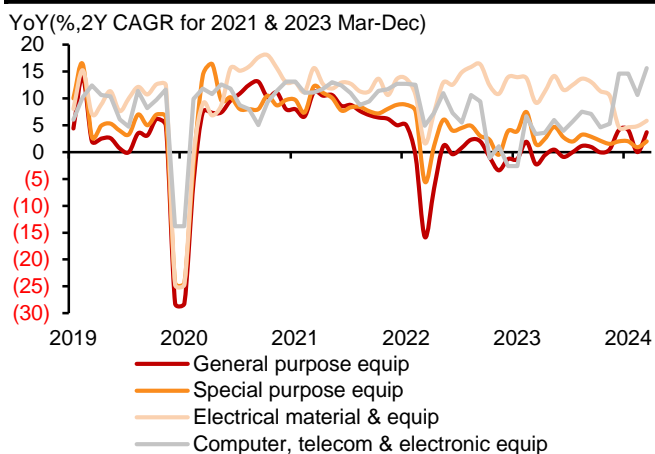
Source: Wind, CMBIGM

Figure 13:VAIO in mineral & metal products



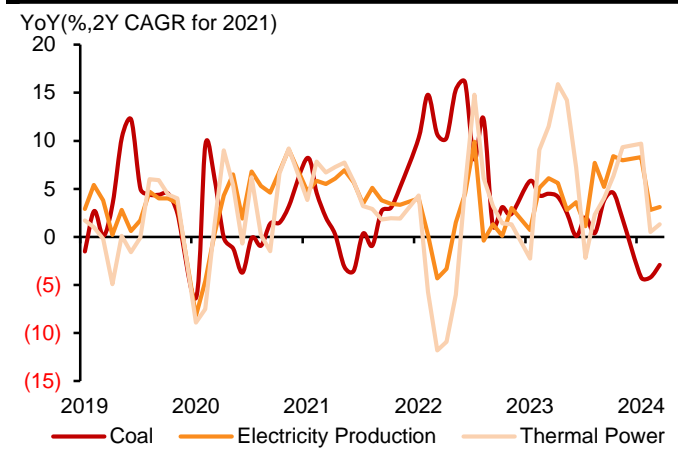
Source: Wind, CMBIGM

Figure 14: VAIO in equipment



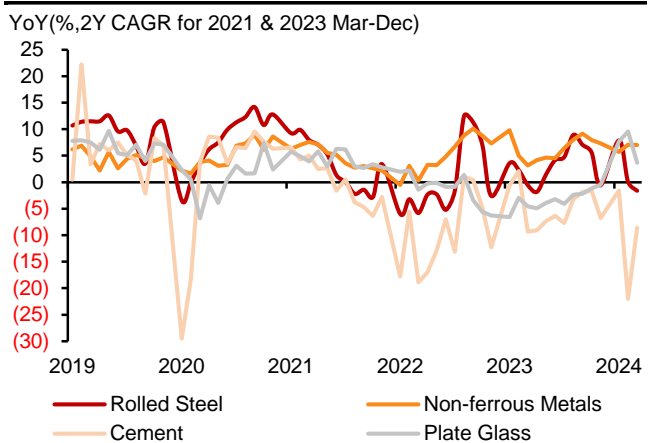
Source: Wind, CMBIGM

Figure 15: Output in energy and electricity



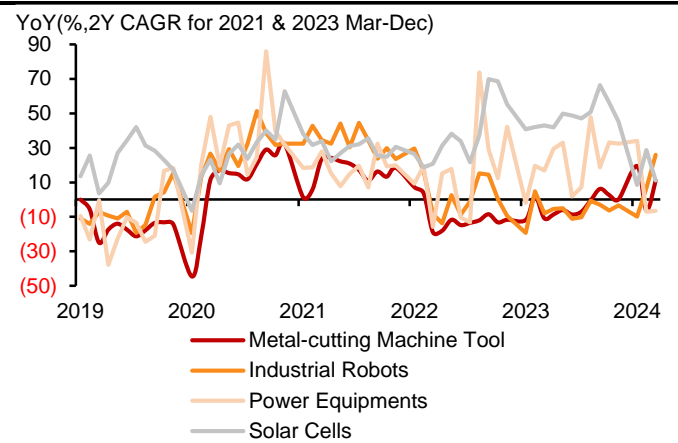
Source: Wind, CMBIGM

Figure 16: Output in steel & construction material



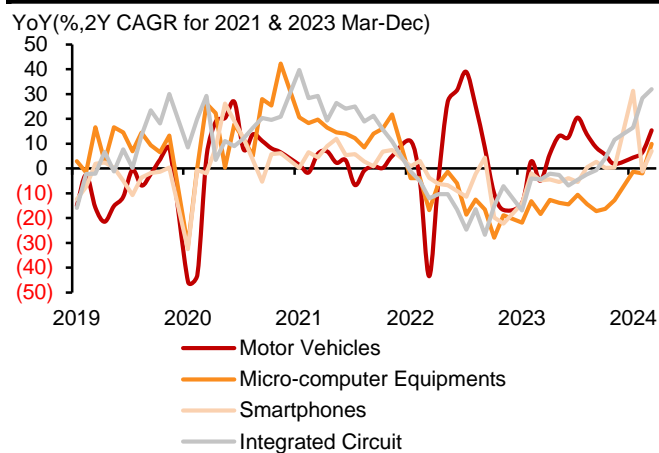
Source: Wind, CMBIGM

Figure 17: Output in capital goods



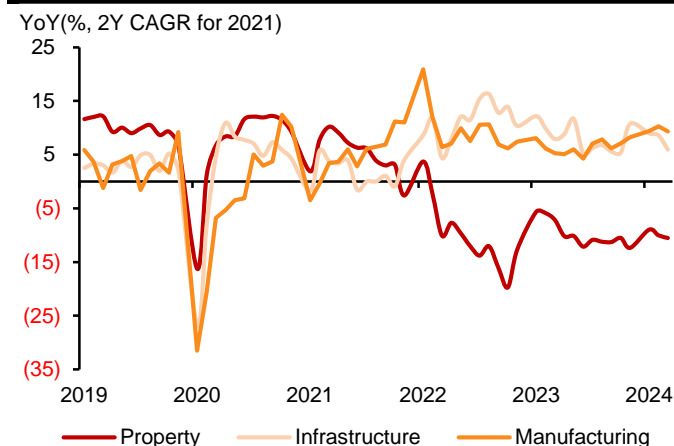
Source: Wind, CMBIGM

Figure 18: Output in auto, computer & smartphone



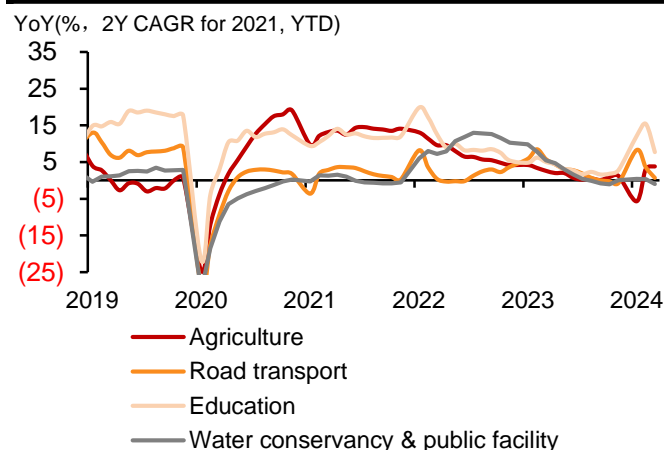
Source: Wind, CMBIGM

Figure 19: FAI by sector



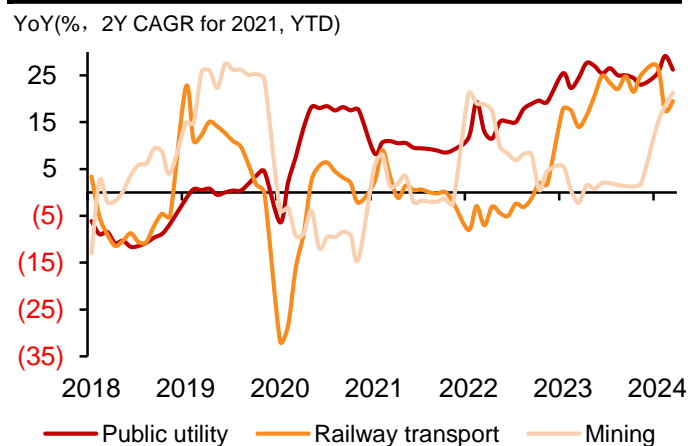
Source: Wind, CMBIGM

Figure 20: FAI in agriculture & local infrastructure



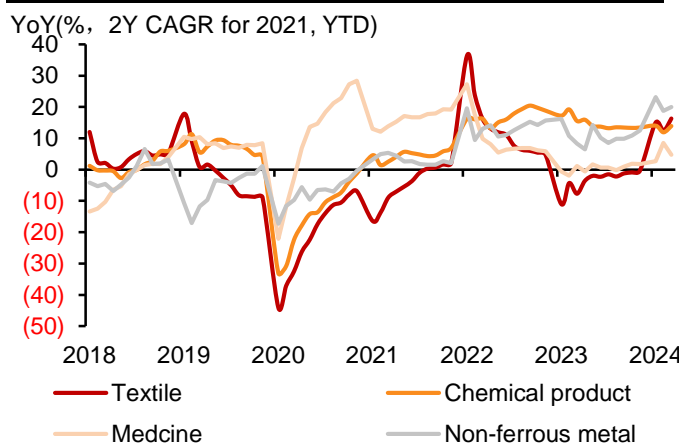
Source: Wind, CMBIGM

Figure 21: FAI in central infrastructure & mining



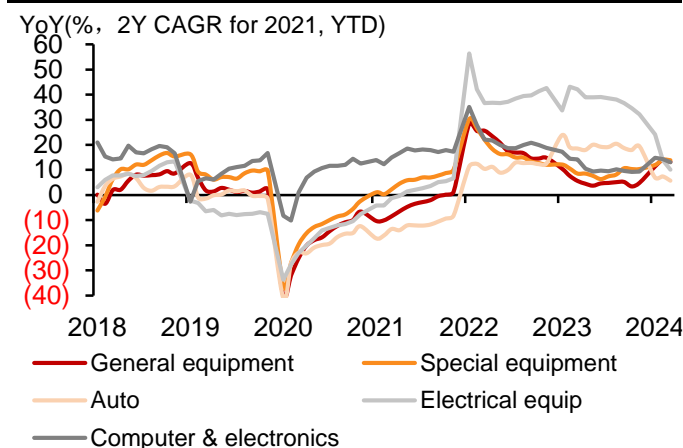
Source: Wind, CMBIGM

Figure 22: FAI in chemical products



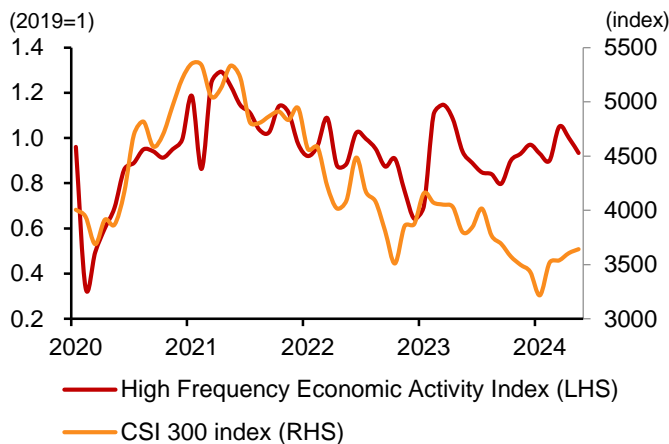
Source: Wind, CMBIGM

Figure 23: FAI in equipment



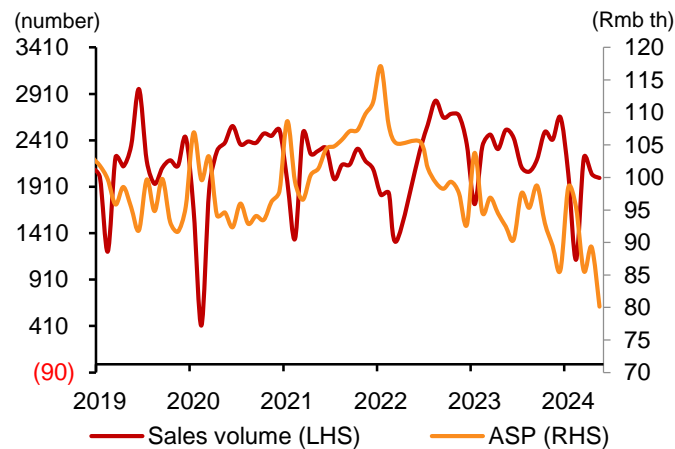
Source: Wind, CMBIGM

Figure 24: Economic activity & A-share index



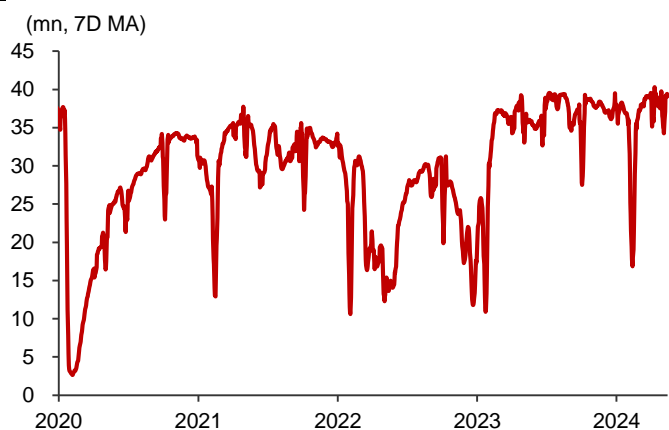
Source: Wind, CMBIGM

Figure 25: Used vehicle sales in Shanghai market



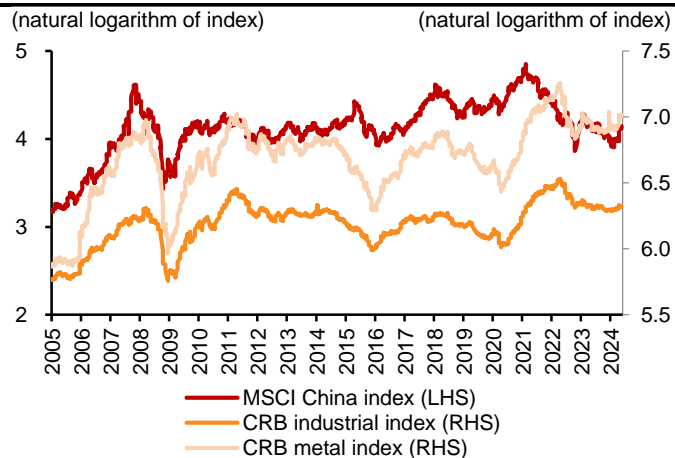
Source: Wind, CMBIGM

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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