

China Economy

Growth momentum remained weak

China's economic growth picked up in November thanks to the base effect. Growth momentum remained weak as housing market continued to slump, deflation pressure intensified and private sector confidence was sluggish. Fiscal policy has become stronger since September with a sharp increase in government bond financing and fiscal spending. Broad deficit may mildly increase in 2024 with strong fiscal expansion in the first half of year. Meanwhile, the PBOC may further cut RRR, LPRs and deposit rates to boost credit supply in next few quarters. But more policy support is needed to boost the confidence, stabilize property market and defy the deflation pressure. We maintain our forecast on the GDP growth at 5.3% for 2023 and 4.8% for 2024.

- Economic growth picked up due to base effect as growth momentum weakened.** The YoY growth rates of retail sales, value added industrial output and service output index all accelerated in November thanks to lower base last year. However, the 2Y CAGRs of the three indicators dropped from 3.5%, 4.8% and 3.8% in October to 1.8%, 4.4% and 3.5% in November, respectively. Meanwhile, property sales and development investment extended the YoY declines and exports of goods remained sluggish. Infrastructure investment growth slowed as local governments cut related spending to relieve hidden debt risk and it was more difficult for LGFVs to further expand their debt. Manufacturing investment maintained stable growth thanks to technology innovation, industry update and strong credit support.
- Household consumption deteriorated as deflation intensified.** Retail sales picked up 10.1% in November after rising 7.6% in October, yet its 2Y CAGR dropped from 3.5% to 1.8%. Beverage, cosmetics, home appliance, cultural & office products, telecom equipment and construction & decoration materials saw the most significant deterioration as their 2Y CAGRs dropped from 5.1%, -1.3%, -3%, 2.7%, 2.2% and -6.8% in October to -0.1%, -4.1%, -7.8%, -5%, -1.9% and -10.2% in November. There were three reasons for the weak consumption. Firstly, household expectations about employment and income remained weak as private businesses were reluctant to expand capex with low confidence. Secondly, deflation pressure intensified, increasing real debt burden and hurting durable consumption. Lastly, housing market continued to slump, weakening related durable consumption. Looking forward, housing consumption may mildly improve in 2024 thanks to a gradual recovery of service employment, consumer price and second-hand home sales in large cities. We expect retail sales to grow 5.3% in 2024 after rising 7.6% in 2023.
- Property sector remained in deep contraction with better performance in second-hand housing sales.** The gross floor area (GFA) sold and the GFA started for commodity buildings respectively dropped 8% and 21.2% in 11M23 after decreasing 7.8% and 23.2% in 10M23. Property development investment further declined 9.4% after dropping 9.3%. 30 major cities continued to see lower recovery ratios of housing sales compared to the same period in 2019 in November. Second-hand housing market benefited more from the property policy loosening as the recovery of its sales in 11 selective cities remained above 90% in recent three months. As housing market continued to slump, we expect additional loosening of property policies in next few months. Policymakers may loosen housing purchase restrictions in large cities and further lower down-payment ratio and mortgage rates especially for

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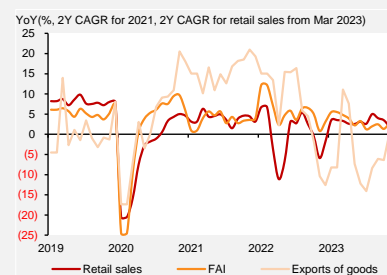
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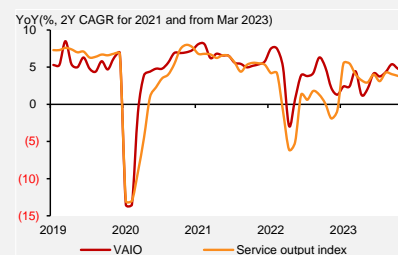
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Source: Wind, CMBIGM



Source: Wind, CMBIGM

the second-home buyers. Housing sales may see some tentative stabilization in 2Q24 with additional policy loosening and release of upgrading demand in large cities. In the medium term, however, housing sales may continue to face downward pressure as young population shrinks and urbanization slows.

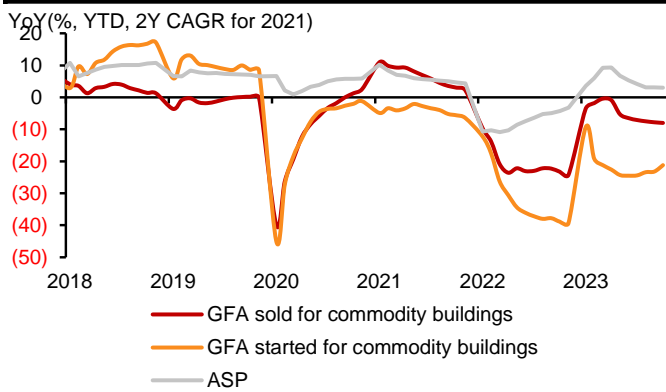
- **Service activity and industrial output weakened.** Business activity indexes in railway transportation, air transportation, hotel, catering, sports & recreational service declined in November. Output growth rates in most industries also softened. The 2Y CAGRs of VAIO in textile, medicine, rubber & plastic product, general equipment and computer, telecom & electronic equipment respectively dropped from -1.1%, -4.6%, 2.5%, 0.9% and 7.1% in October to -1.4%, -5.7%, 1.9%, -0.1% and 4.6% in November. The deterioration in exports and domestic deflation dragged down the industrial output growth. Looking forward, service and industrial output may mildly improve in 2024 thanks to a recovery in service consumption, an end of de-stocking cycle and an alleviation of deflation.
- **FAI growth was relatively stable thanks to strong growth of investment by central SOEs and in manufacturing sector.** FAI rose 2.9% in 11M23, the same as in 10M23. Property development investment extended its declines, while FAI growth in infrastructure sector slowed from 8.3% in 10M23 to 8% in 11M23. Infrastructure investment dominated by central SOEs, like FAI in power generation & supply, railway transportation and air transportation, maintained strong growth. But infrastructure investment dominated by local SOEs, like FAI in road transportation and water conservancy, environmental protection & public facility management, sharply slowed down. As land revenue significantly shrank with an increase in local government hidden debt risk, local governments had to cut spending on infrastructure investment to relieve debt risk. Looking forward, we expect FAI in manufacturing and infrastructure sectors to grow 6.5% and 7.8% in 2024 after rising 6.2% and 8.2% in 2023.
- **China needs continuous accommodative policy in 2024.** China is likely to maintain 5% GDP growth target for 2024. However, the tumbling property market and continuous deflation pressure still casts a shadow on the economic growth. As the comparison base rises, it may become even more difficult to achieve the 5% growth target next year. Therefore, China needs continuous accommodative policy in 2024. The PBOC is likely to maintain easing monetary policy with additional cuts in RRR, deposit rates and LPRs and guide banks to further expand credit supply. The central bank may also use special lending facility to support policy banks to make special low cost loans to facilitate the inner-city renewal projects. Meanwhile, municipal governments may further loosen property policy to stabilize property sector. In addition, the cabinet may increase broad fiscal deficit from 6.4% of GDP in 2023 to above 7% of GDP in 2024. Provincial governments will be allowed to issue special refinancing bonds within quotas to replace some matured hidden debts. We expect a mild recovery of China's economy with GDP growth expected to reach 5.3% in 2023 and 4.8% in 2024.

Figure 1: China's economic indicators

	YoY (%)											2Y CAGR (%)				
	2019	2020	2021	2022	1Q23	1H23	3Q23	Oct	Nov	Dec(F)	1Q23	1H23	3Q23	Oct	Nov	Dec(F)
GDP	6.0	2.3	8.4	3.0	4.5	5.5	5.2			5.0	4.6	4.0	4.1			3.9
VAIO	5.7	2.8	9.6	3.6	3.0	3.8	4.0	4.6	6.6	7.0	4.7	3.6	3.7	4.8	4.4	4.1
-Mining	5.0	0.5	5.3	0.6	3.2	1.7	1.7	2.9	3.9	4.3	6.9	5.5	4.6	3.4	4.9	4.6
-Manufacturing	6.0	3.4	9.8	(2.0)	2.9	4.2	4.4	5.1	6.7	8.0	4.5	3.5	3.3	5.1	4.3	4.0
-Public utility	7.0	2.0	11.4	(2.2)	3.3	4.1	3.5	1.5	9.9	3.0	4.7	4.0	6.8	2.7	4.0	5.0
Delivery value for exports	1.3	(0.3)	17.7	5.5	(5.3)	(4.8)	(4.8)	(0.5)	(3.0)	(1.5)	4.1	2.7	1.4	1.0	(4.8)	(5.0)
Service output index	6.9	0.0	13.1	(0.1)	6.7	8.7	7.9	7.7	9.3	7.0	4.6	4.1	3.1	3.8	3.5	3.0
Retail sales	8.0	(3.9)	12.5	(0.2)	5.8	8.2	6.8	7.6	10.1	5.0	4.5	3.7	2.6	3.5	1.8	1.5
Exports of goods	0.5	3.6	29.9	7.0	(1.7)	(3.2)	(5.5)	(6.4)	0.5	3.5	6.1	4.4	0.0	(4.1)	(5.1)	(4.9)
Imports of goods	(2.7)	(0.6)	30.1	1.1	(7.1)	(6.9)	(7.5)	3.0	(0.6)	(1.0)	1.3	(0.9)	(5.7)	0.8	(6.0)	(4.3)
Urban FAI (YTD)	5.4	2.9	4.9	5.1	5.1	3.8	3.1	2.9	2.9	2.8	7.2	4.9	4.5	4.3	4.1	3.9
-Property development	9.9	7.0	4.4	(10.0)	(5.8)	(7.9)	(9.1)	(9.3)	(9.4)	(9.2)	(2.6)	(6.7)	(7.5)	(9.1)	(9.6)	(9.6)
-Manufacturing	3.1	(2.2)	13.5	9.1	7.0	6.0	6.2	6.2	6.3	6.2	11.2	8.2	7.8	7.9	7.8	7.6
-Infrastructure	3.3	3.4	0.2	11.5	10.8	10.2	8.6	8.3	8.0	8.0	10.6	9.7	9.5	9.8	9.8	9.7
GFA sold for commodity building (YTD)	20.8	(20.9)	0.0	0.0	(1.8)	(5.3)	(7.5)	(7.8)	(8.0)	(8.2)	(8.0)	(14.2)	(15.2)	(15.4)	(16.0)	(16.6)
GFA started for commodity building (YTD)	0.0	0.0	0.0	0.0	(19.2)	(24.3)	(23.4)	(23.2)	(21.2)	(22.0)	(18.4)	(29.5)	(30.5)	(30.9)	(30.6)	(31.2)

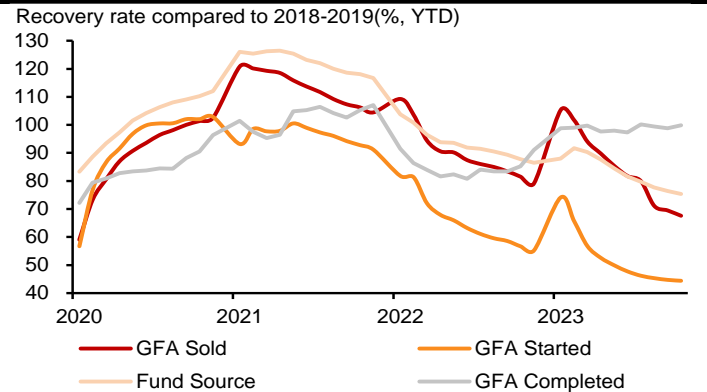
Source: Wind, CMBIGM estimates

Figure 2: Property market indicators



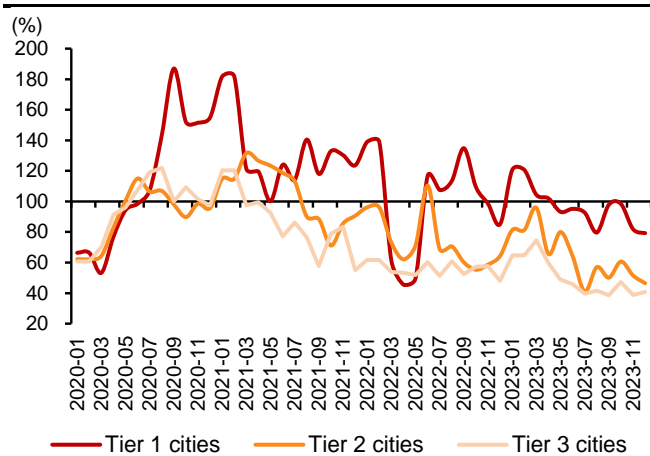
Source: WIND, CMBIGM

Figure 3: Recovery rates compared to 2019



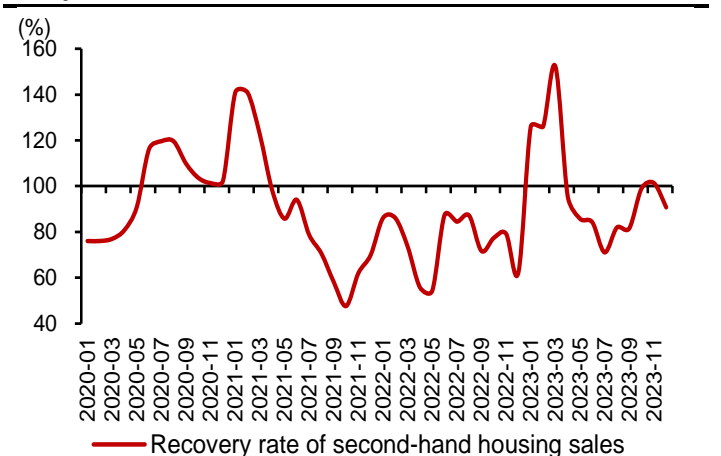
Source: WIND, CMBIGM

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



Source: WIND, CMBIGM

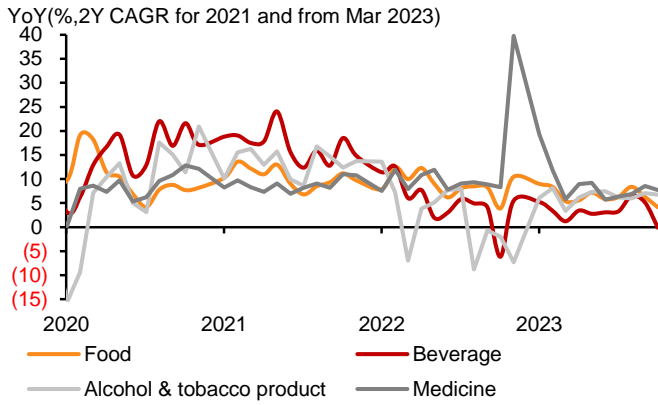
Figure 5: Recovery rate of second-hand housing sales compared to 2019 in 11 selective cities



Source: WIND, CMBIGM

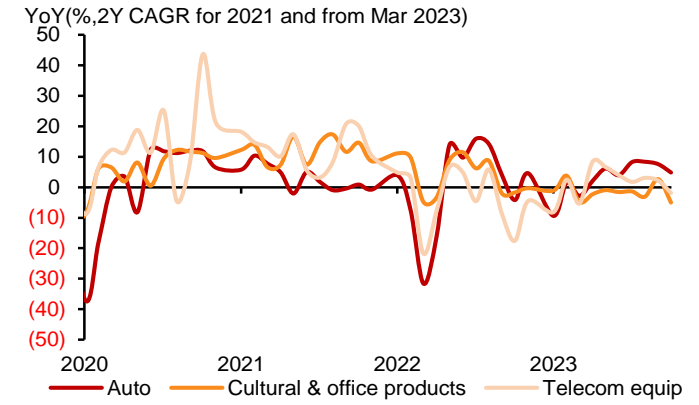
11 cities include Beijing, Shenzhen, Hangzhou, Nanjing, Chengdu, Qingdao, Suzhou, Xiamen, Wuxi, Dongguan and Foshan

Figure 6: Retail sales of staples



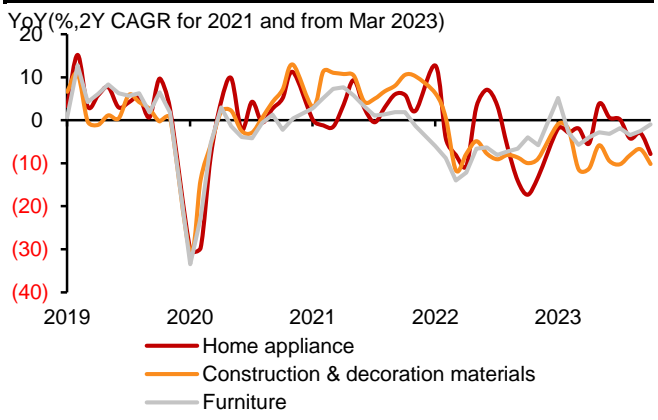
Source: WIND, CMBIGM

Figure 7: Retail sales of auto & electronics



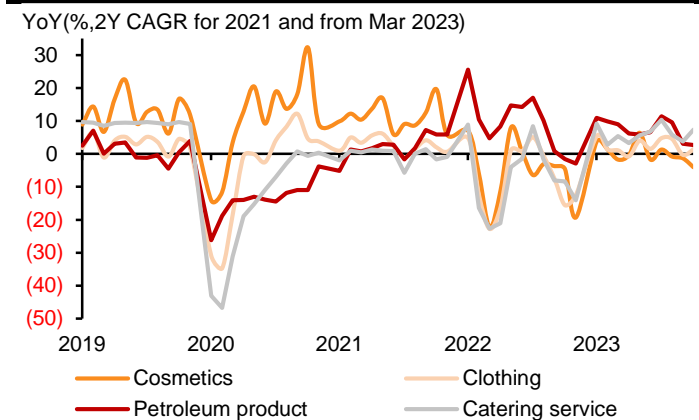
Source: WIND, CMBIGM

Figure 8: Home appliance & furniture retail sales



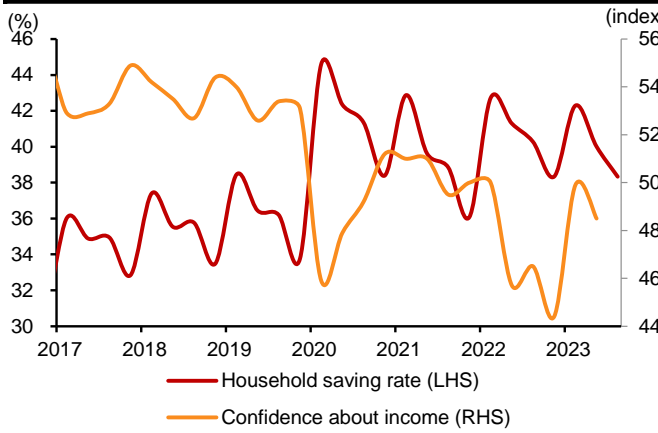
Source: WIND, CMBIGM

Figure 9: Retail sales related to outgoing activities



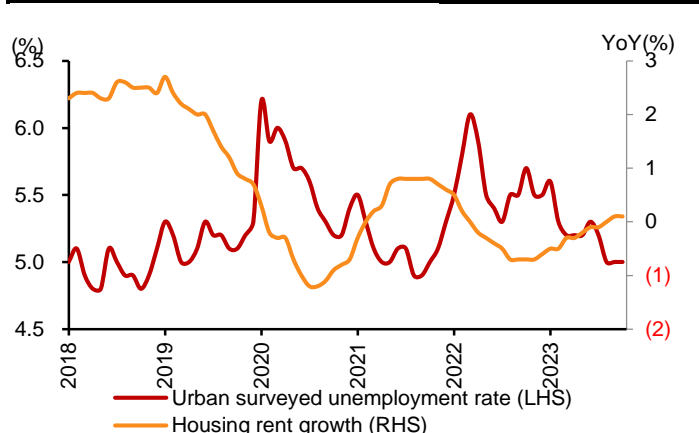
Source: WIND, CMBIGM

Figure 10: Consumer confidence



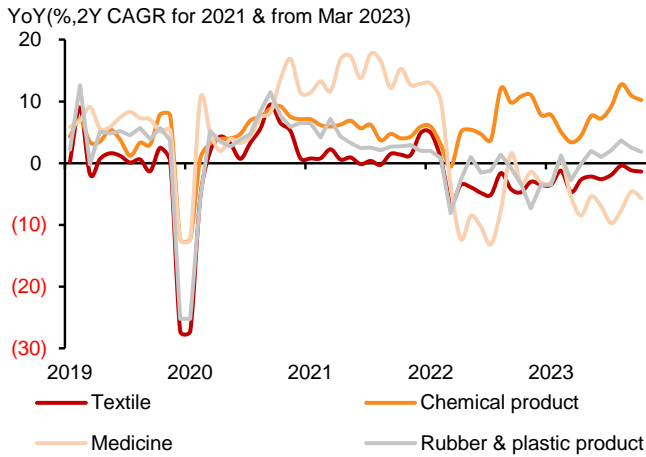
Source: WIND, CMBIGM

Figure 11: Urban unemployment rate & housing rent



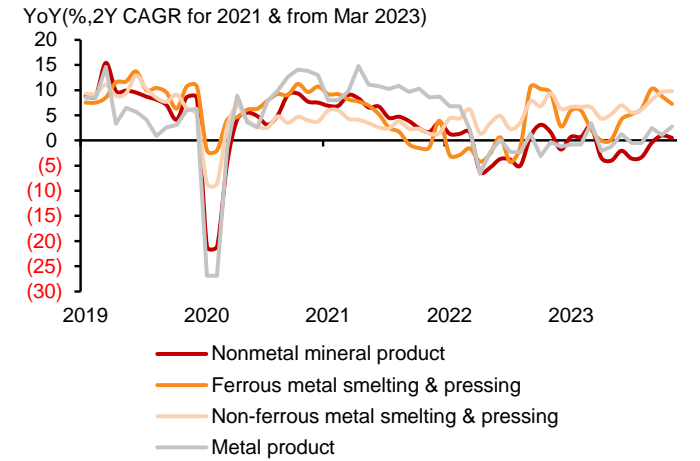
Source: WIND, CMBIGM

Figure 12: VAIO in textile & chemical products



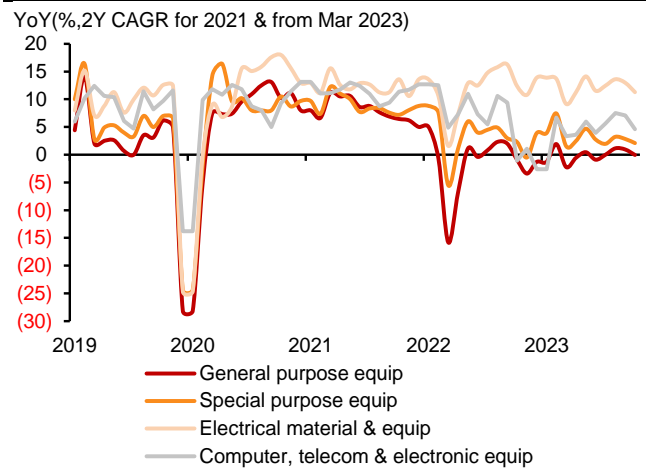
Source: WIND, CMBIGM

Figure 13: VAIO in mineral & metal products



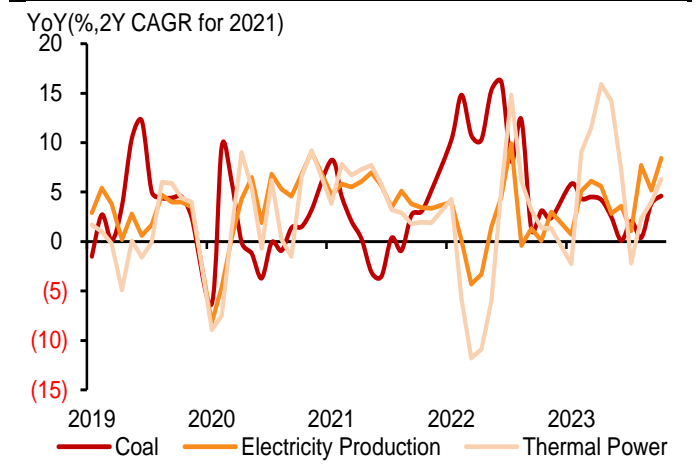
Source: WIND, CMBIGM

Figure 14: VAIO in equipment



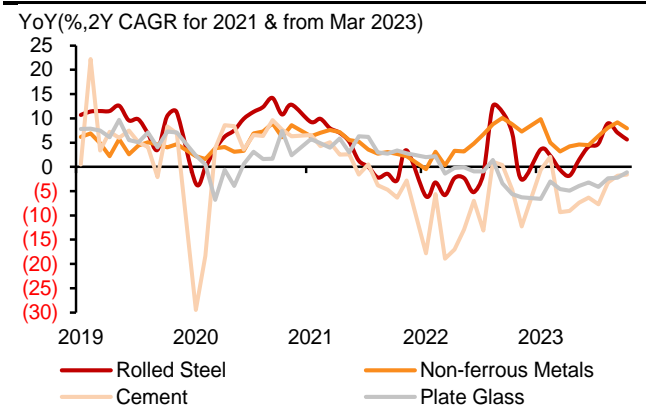
Source: WIND, CMBIGM

Figure 15: Output in energy and electricity



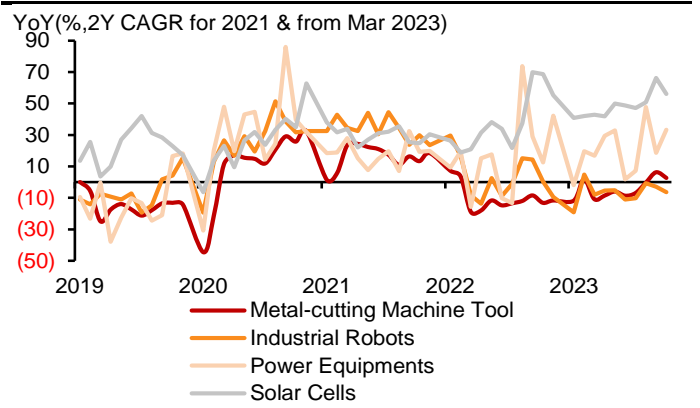
Source: WIND, CMBIGM

Figure 16: Output in steel & construction material



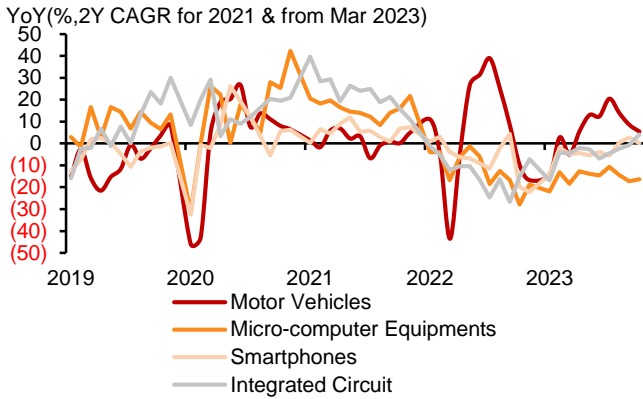
Source: WIND, CMBIGM

Figure 17: Output in capital goods



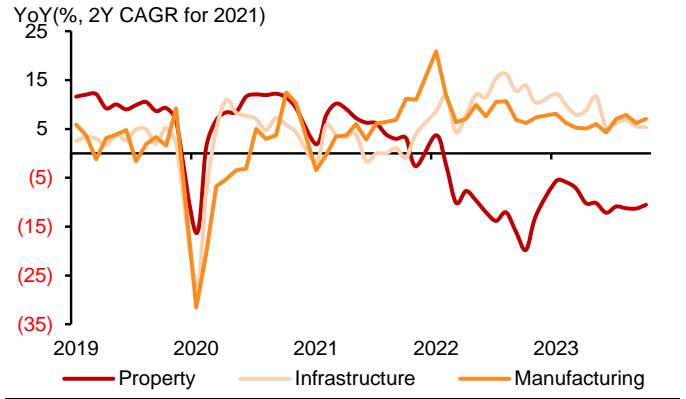
Source: WIND, CMBIGM

Figure 18: Output in auto, computer & smartphone



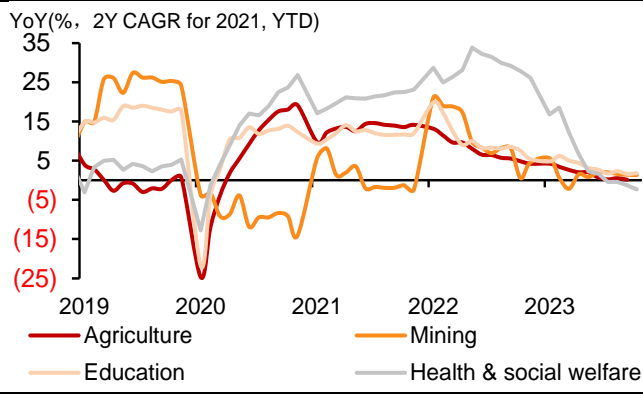
Source: WIND, CMBIGM

Figure 19: FAI by sector



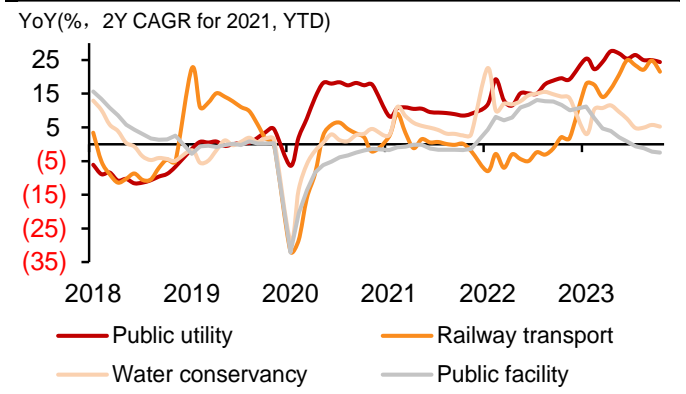
Source: WIND, CMBIGM

Figure 20: FAI in mining & public service



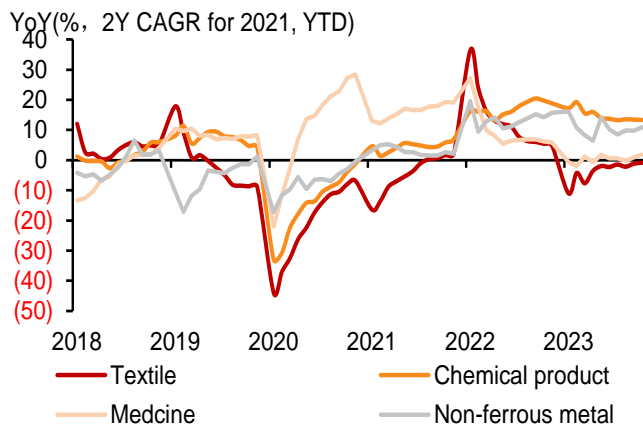
Source: WIND, CMBIGM

Figure 21: FAI in infrastructure sectors



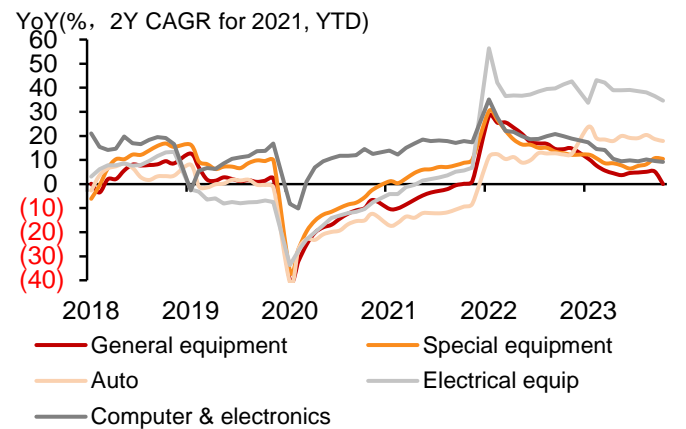
Source: WIND, CMBIGM

Figure 22: FAI in chemical products



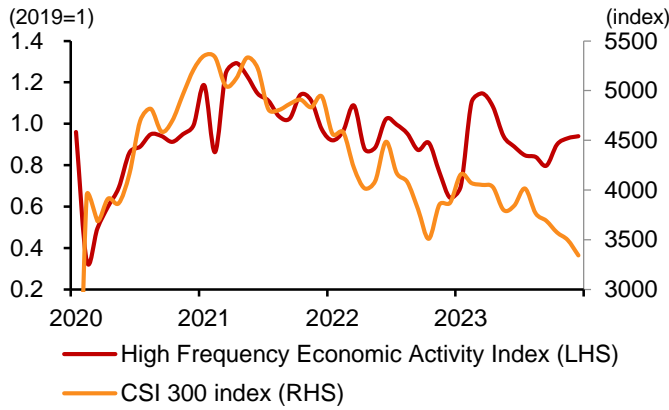
Source: WIND, CMBIGM

Figure 23: FAI in equipment



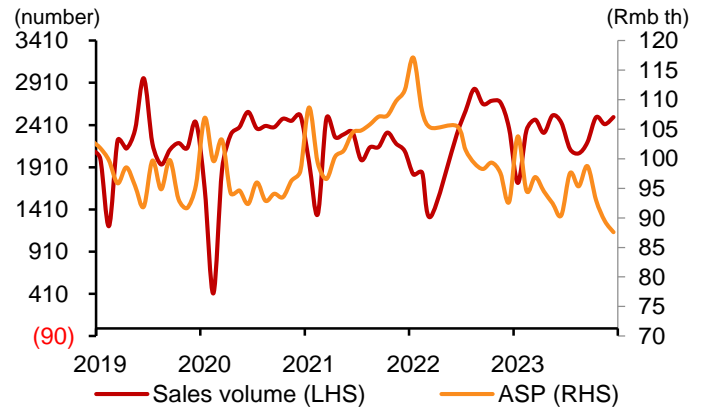
Source: WIND, CMBIGM

Figure 24: Economic Activity & A Share Index



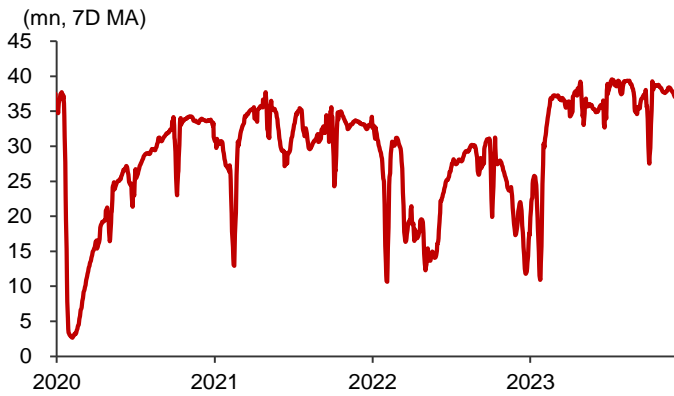
Source: WIND, CMBIGM

Figure 25: Used vehicle sales in Shanghai market



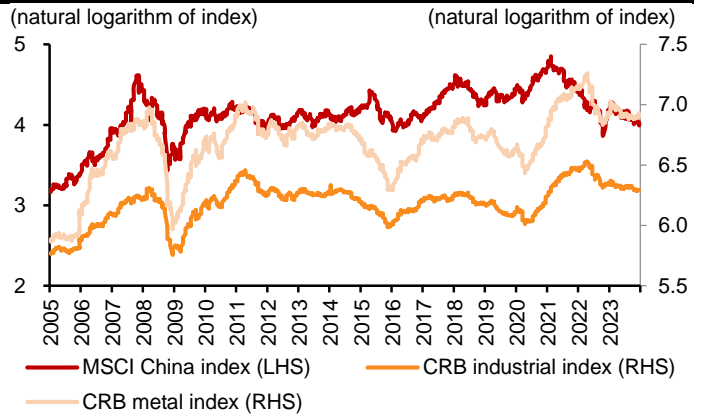
Source: WIND, CMBIGM

Figure 26: Subway passenger flow in tier-1 cities



Source: WIND, CMBIGM

Figure 27: MSCI China and Industrial & Metal Index



Source: WIND, CMBIGM

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