

China Economy

China needs further policy easing

China's May data once again signalled a weakening economy in 2Q as property sales further dipped while fixed asset investment and industrial output moderated, both missing market expectations. New housing sales further deteriorated especially in lower tier cities as it may take some time for the latest easing policies to take effect. FAI encountered headwinds from property and infrastructure investments due to property slump and fiscal strain in local governments. Retail sales modestly rebounded driven by consumer staples and home appliance. The continuous property slump and persisted deflation pressure remained the major drags from the demand side while manufacturing investment and industrial production from the supply side showed robust resilience. The PBOC may further cut LPRs by 10-20 bps to relieve debt service burden of consumers and private business. The central bank may also reduce deposit rates to protect banks' NIMs. Meanwhile, the central government may accelerate its bond issuance and fiscal expansion to boost aggregate demand.

- New housing sales remained weak.** The gross floor area (GFA) sold for commercial buildings edged down to -20.3% (all in YoY terms unless otherwise specified) in 5M24 from -20.2% in 4M24, while the GFA started continued to tick up from -24.6% to -24.2%. GFA completed also remained at a historic low. Property development investment further declined 10.1% in 5M24 after dropping 9.8% in 4M24. According to the high-frequency data, the recovery ratio of new housing sales in 30 major cities compared to the same period in 2018 & 2019 further plummeted to 41.2% in the first half of June from 47.2% in May. Tier-1 cities saw a rebound from 67.8% in May to 74% in first half of June while tier-2 and -3 cities further worsened. The recovery ratio of second-hand housing sales in 10 selective cities compared to 2019 notably rebounded to 96.6% in first half of June from 82.3% in May. The impact of policy easing was first felt in the second-hand housing market, and we expect will later transmit into the new housing market, leading to a possible gradual narrowing in its YoY decline. Prices in both new and second-hand housing hit a new low in May within this cycle. 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 12.5% in 2024 after decreasing 8.5% in 2023.
- Retail sales modestly rebounded driven by consumer staples and home appliance.** Retail sales growth rose to 3.7% in May from 2.3% in Apr thanks to consumer staples and home appliance as auto remained the major drag. Catering service, food and beverage continued to rebound from 4.4%, 8.5% and 6.4% to 5%, 9.3% and 6.5%, while clothing and cosmetics notably accelerated to 4.4% and 18.7% from -2% and -2.7% in Apr. Gold, silver & jewellery sharply declined by 11% in May as gold price pulled back. Telecom equipment, home appliance and furniture also registered robust growth in May at 16.6%, 12.9% and 4.8% thanks to the trade-in programs and online promotions. Auto sales remained subdued at -4.4% in May compared to -5.6% in Apr, as rounds of price wars have caused consumers to postpone their purchase in anticipation of further price cuts. Looking forward, consumption may mildly improve in 2024 especially in recreational, small-scale and self-satisfaction consumption. We expect retail sales to grow 5.3% in 2024 after rising 7.2% in 2023.
- Industrial output edged down while service activity improved.** VAIO growth moderated to 5.6% in May from 6.7%, lower than market expectation of 6%. Mining industries improved while manufacturing and public utility slowed down. Chemical products, non-ferrous metal, transport equip excluding auto, and computer, telecom & electronic equipment extended

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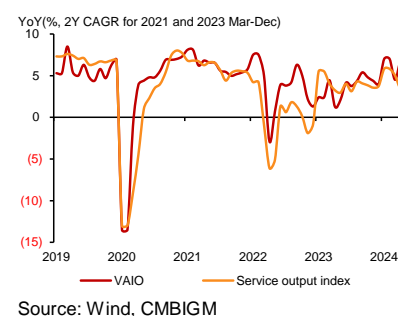
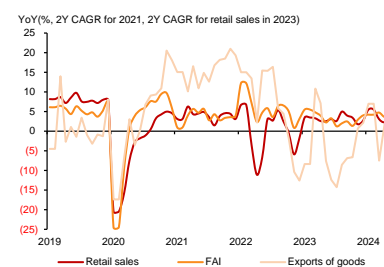
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their rapid growth above 9%; while auto, general equip and electrical equip notably slowed down to 7.6%, 2.4% and 3.9% from 16.3%, 3.7% and 5.8% in Apr. The YoY growth of service output index climbed to 4.8% in May from 3.7% in Apr as we saw the tourist flow and revenue in the Labor Day holiday rose by 7.7% and 12.8%. 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.

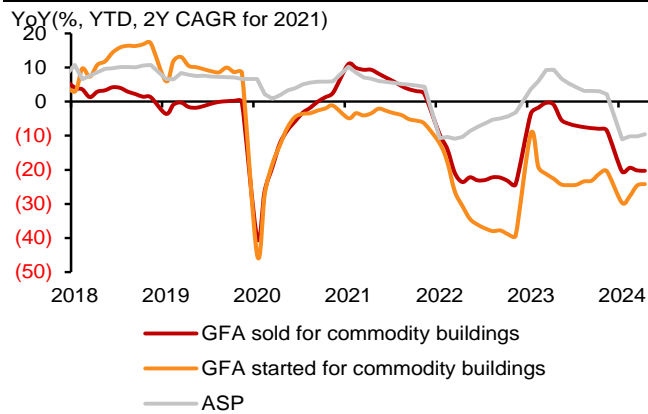
- **FAI growth moderated, encountering headwinds from property and infrastructure investments.** FAI inched down to 3.5% in May from 3.6%, missing market expectations of 4.2%. Property investments further dipped 11% from dropping 10.5% in Apr. Infrastructure investments notably slowed down to 3.8% in May from 5.9% as fiscal strain persisted in local governments, especially the 12 heavily-indebted provinces. As issuance of government bonds accelerated and accumulation of fiscal reserves notably increased, we expect the infrastructure investment to pick up in the next several months. Investments in manufacturing stayed almost flat, edging up to 9.4% from 9.3%, thanks to the continuous policy support on industrial upgrades and manufacturing advancement, even though the eroding profit margin and capacity utilization rate may weigh on future investments. Recent resilience in manufacturing investment data has also raised doubts, given its previous volatility. Investments in transport equipment other than vehicles, non-ferrous metal, metal products and computer & electronics stayed elevated. 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 weakening economy in 2Q calls for further policy support in 2H24.** The weaker-than-expected economic data in April and May signalled slowing growth momentum in 2Q. The continuous property slump and persisted deflation pressure became the major drags from the demand side as we have seen in durable goods sales such as autos as well as weak credit demand in May, while manufacturing investments, industrial production and exports showed robust resilience. The PBOC may further cut LPRs by 10-20 bps to relieve debt service burden of consumers and private business. The central bank may also reduce deposit rates to protect banks' NIMs. Meanwhile, the central government may accelerate its bond issuance and fiscal expenditure to boost aggregate demand.

Figure 1: China's economic indicators

YoY(%)	2019	2020	2021	2022	2023	1Q24	Apr	May	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	6.7	5.6	6.1	4.1
-Mining	5.0	0.5	5.3	7.3	2.3	1.6	2.0	3.6	2.9	4.8
-Manufacturing	6.0	3.4	9.8	3.0	5.0	6.7	7.5	6.0	6.6	4.0
-Public utility	7.0	2.0	11.4	5.0	4.3	6.9	5.8	4.3	6.6	4.6
Delivery value for exports	1.3	(0.3)	17.7	5.5	(3.9)	0.8	7.3	4.6	8.3	0.7
Service output index	6.9	0.0	13.1	(0.1)	8.1	5.5	3.5	4.8	6.3	3.9
Retail sales	8.0	(3.9)	12.5	(0.2)	7.2	4.7	2.3	3.7	4.0	3.4
Exports of goods	0.5	3.6	29.6	5.6	(4.7)	1.5	1.5	7.6	15.9	0.3
Imports of goods	(2.7)	(0.6)	30.1	0.7	(5.5)	1.5	8.4	1.8	13.7	(2.4)
Urban FAI (YTD)	5.4	2.9	4.9	5.1	3.0	4.5	4.2	4.0	3.9	4.0
-Property development	9.9	7.0	4.4	(10.0)	(9.6)	(9.5)	(9.8)	(10.1)	5.7	(9.8)
-Manufacturing	3.1	(2.2)	13.5	9.1	6.5	9.9	9.7	9.6	5.4	7.8
-Infrastructure	3.3	3.4	0.2	11.5	8.2	8.8	7.8	6.7	1.8	9.9
GFA sold for commodity building (YTD)	(0.1)	2.6	1.9	(24.3)	(8.5)	(19.4)	(20.2)	(20.3)	2.2	(16.8)
GFA started for commodity building (YTD)	8.5	(1.2)	(11.4)	(39.4)	(20.4)	(27.8)	(24.6)	(24.2)	(6.4)	(30.5)

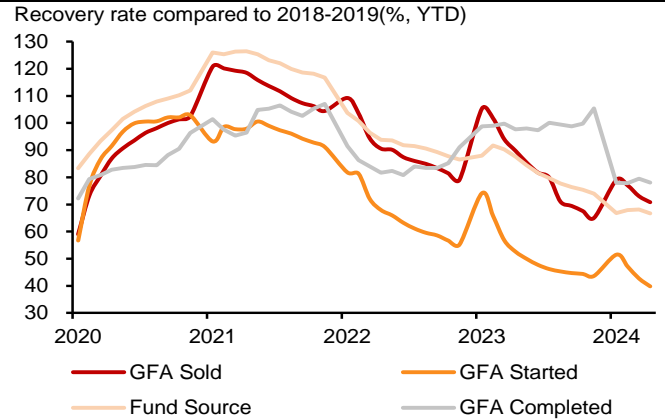
Source: Wind, CMBIGM estimates

Figure 2: Property sales growth



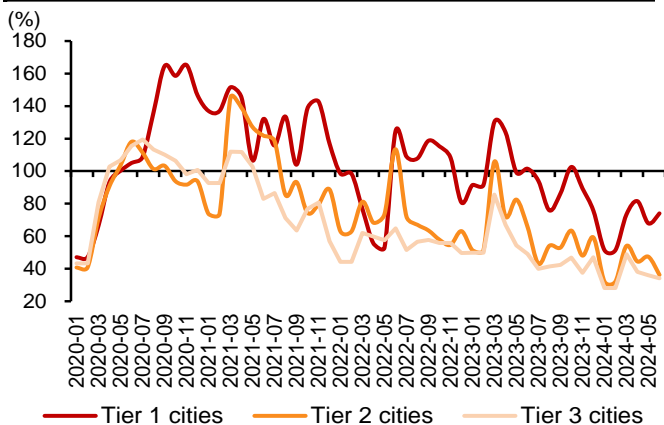
Source: Wind, CMBIGM

Figure 3: Recovery rates compared to 2018-2019



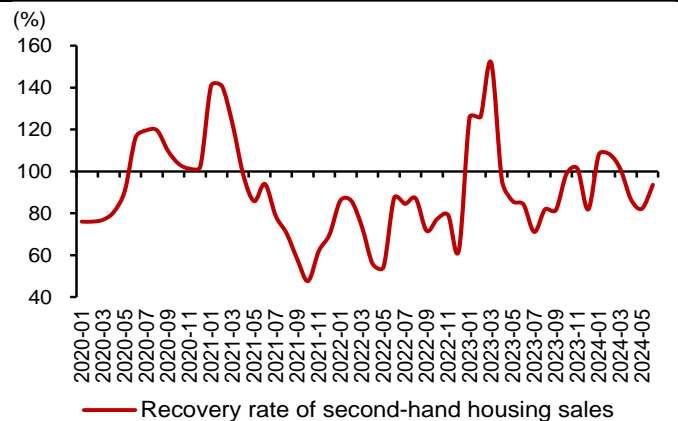
Source: Wind, CMBIGM

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



Source: Wind, CMBIGM

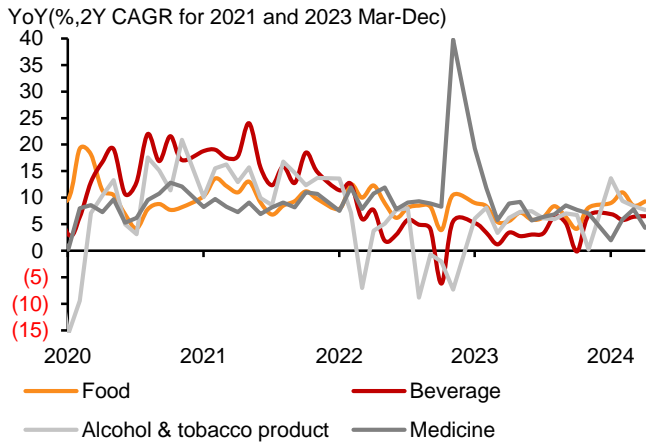
Figure 5: Recovery rate of second-hand housing sales compared to 2019 in 11 selective cities



Source: Wind, CMBIGM

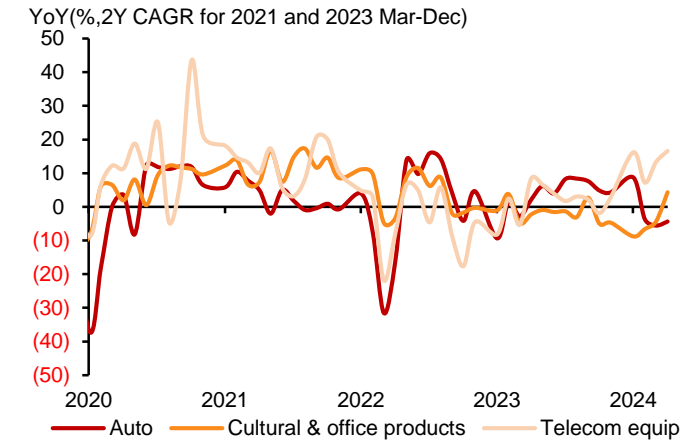
Note: The 11 cities include Beijing, Shenzhen, Hangzhou, Nanjing, Chengdu, Qingdao, Suzhou, Xiamen, Wuxi, Dongguan and Foshan

Figure 6: Retail sales of staples



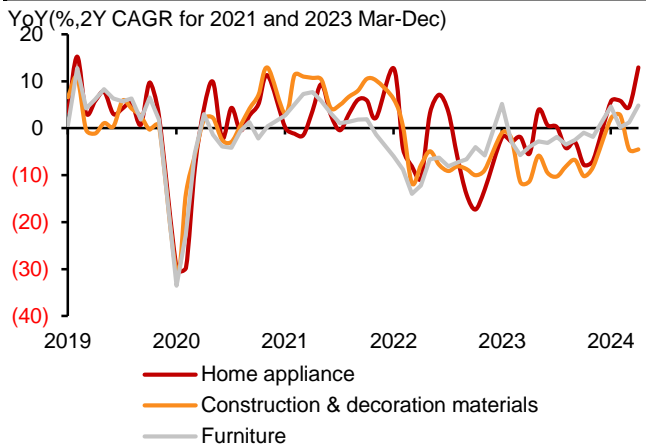
Source: Wind, CMBIGM

Figure 7: Retail sales of auto & electronics



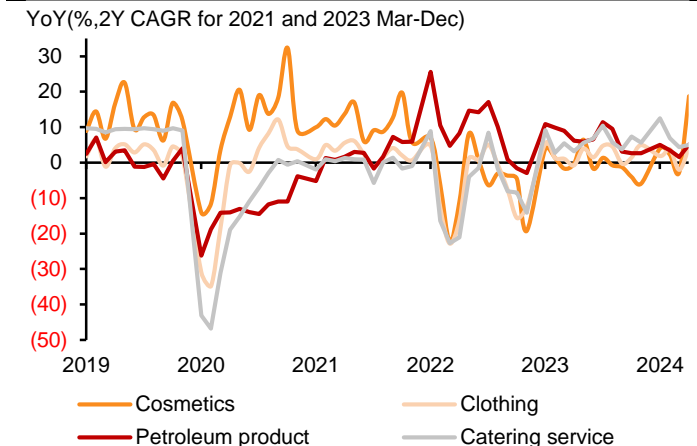
Source: Wind, CMBIGM

Figure 8: Home appliance & furniture retail sales



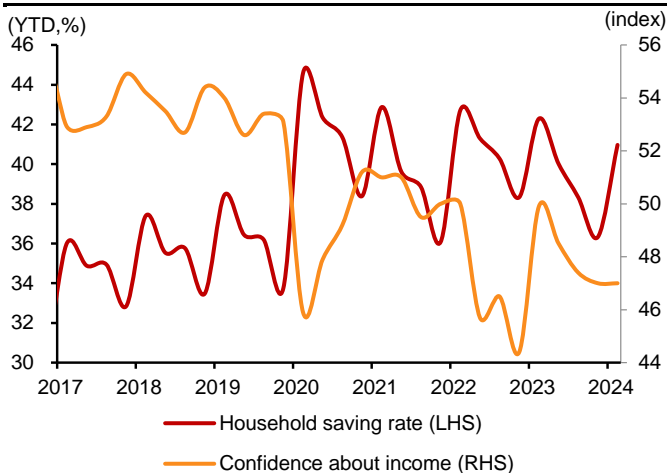
Source: Wind, CMBIGM

Figure 9: Retail sales related to outgoing activities



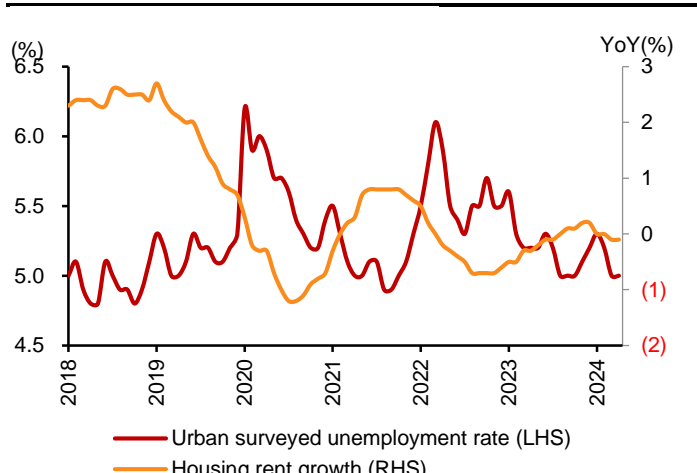
Source: Wind, CMBIGM

Figure 10: Consumer confidence



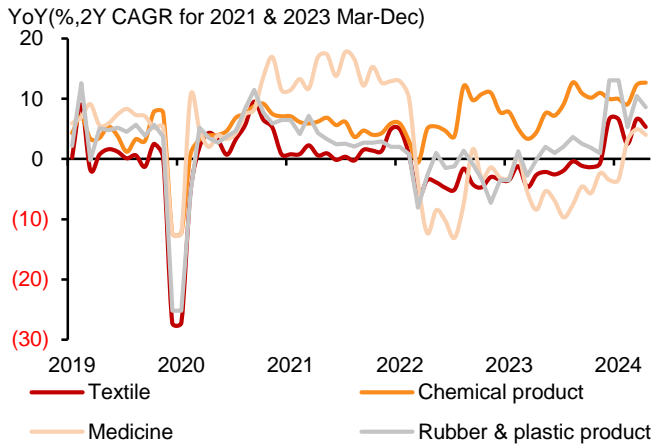
Source: Wind, CMBIGM

Figure 11: Urban unemployment rate & housing rent



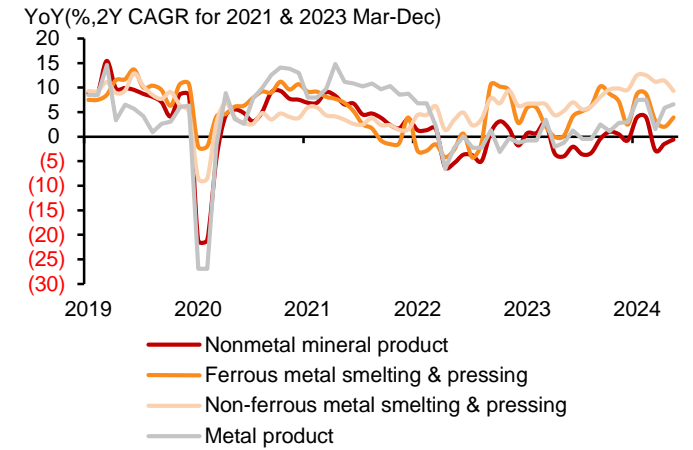
Source: Wind, CMBIGM

Figure 12: VAIO in textile & chemical products



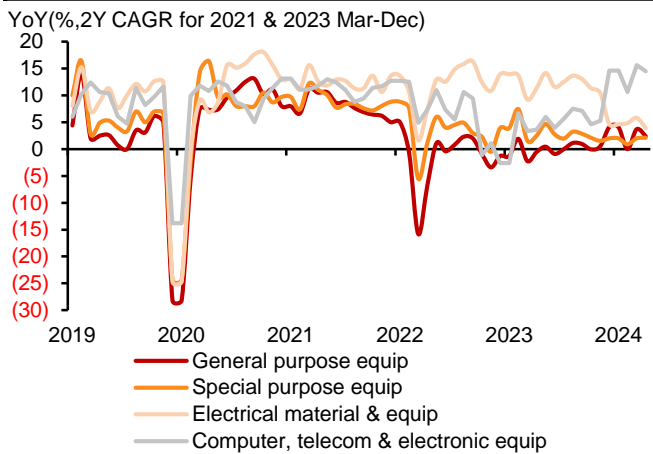
Source: Wind, CMBIGM

Figure 13:VAIO in mineral & metal products



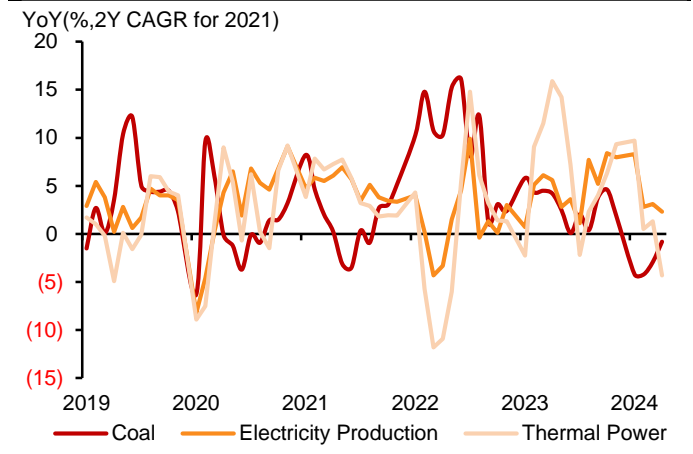
Source: Wind, CMBIGM

Figure 14: VAIO in equipment



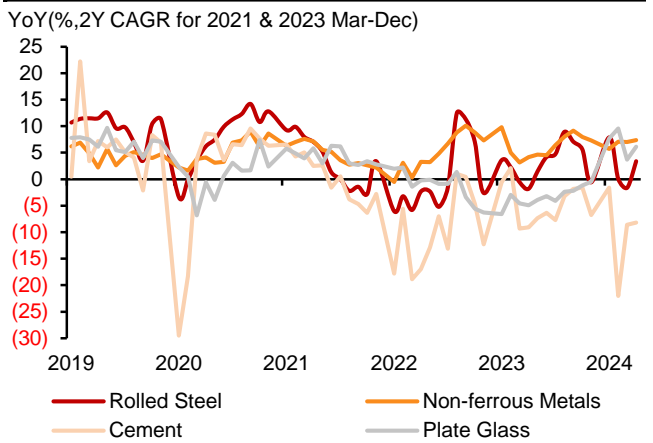
Source: Wind, CMBIGM

Figure 15: Output in energy and electricity



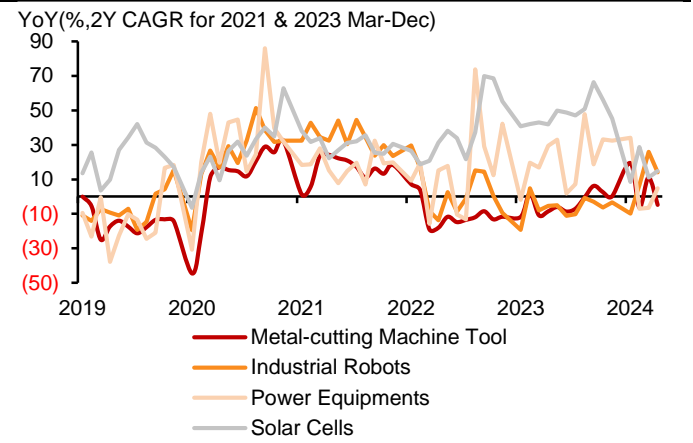
Source: Wind, CMBIGM

Figure 16: Output in steel & construction material



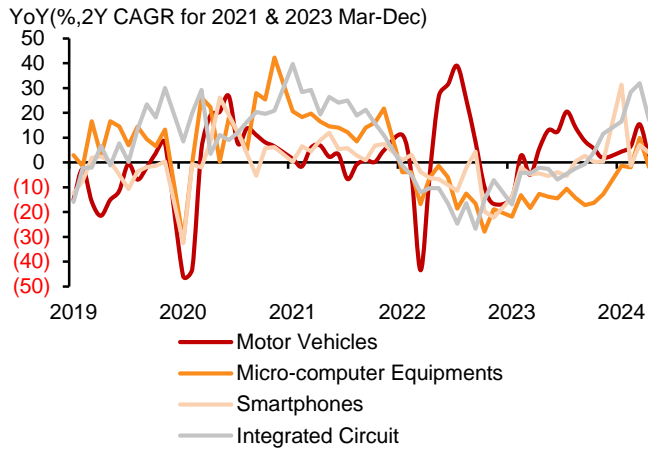
Source: Wind, CMBIGM

Figure 17: Output in capital goods



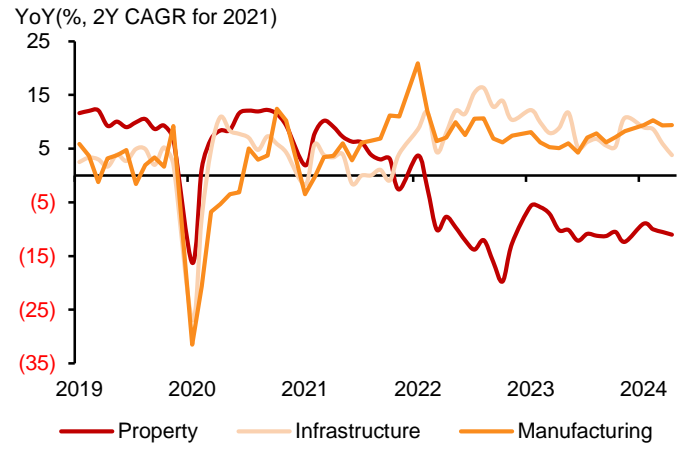
Source: Wind, CMBIGM

Figure 18: Output in auto, computer & smartphone



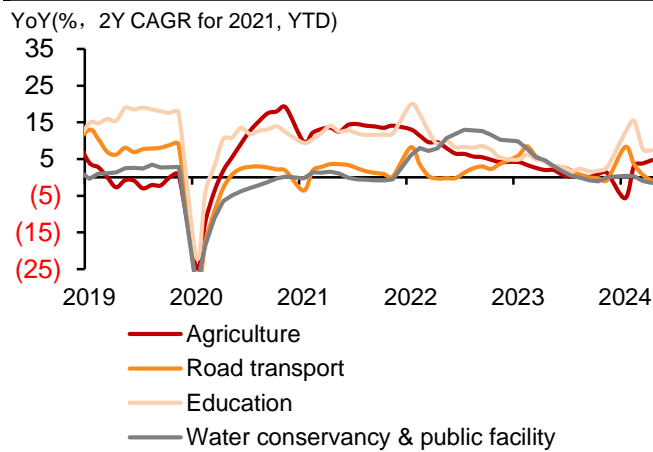
Source: Wind, CMBIGM

Figure 19: FAI by sector



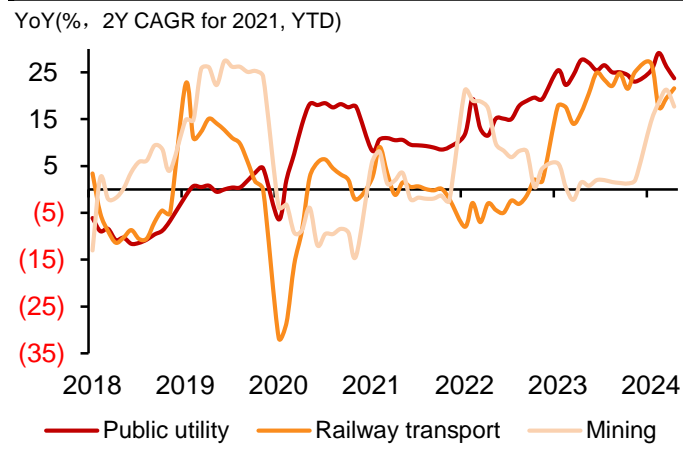
Source: Wind, CMBIGM

Figure 20: FAI in agriculture & local infrastructure



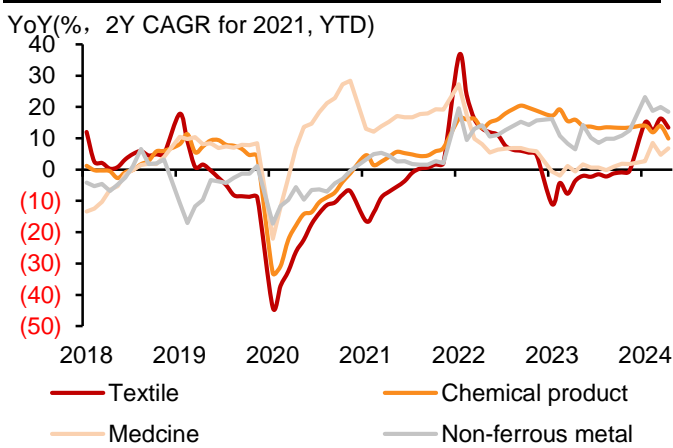
Source: Wind, CMBIGM

Figure 21: FAI in central infrastructure & mining



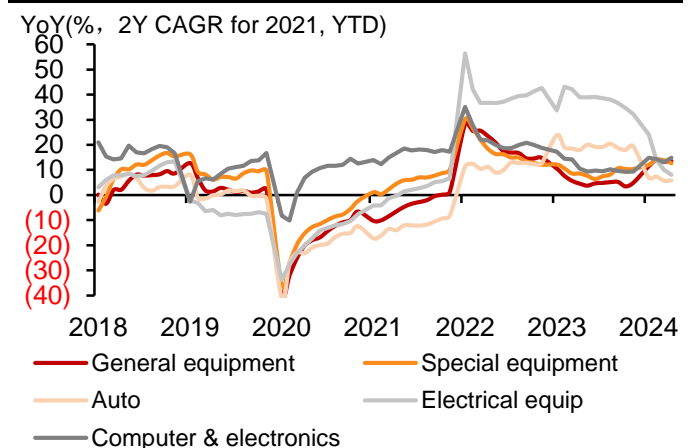
Source: Wind, CMBIGM

Figure 22: FAI in chemical products



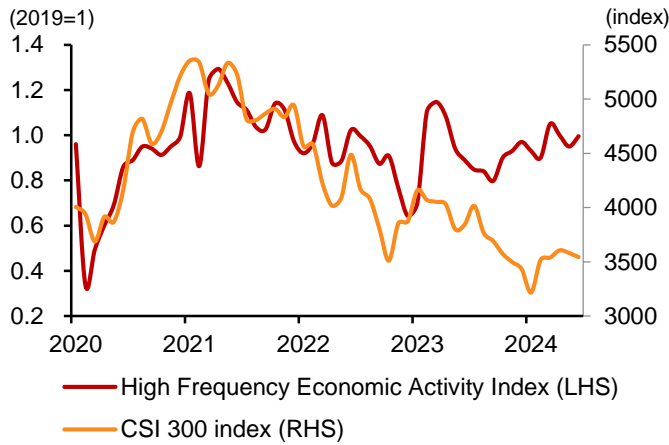
Source: Wind, CMBIGM

Figure 23: FAI in equipment



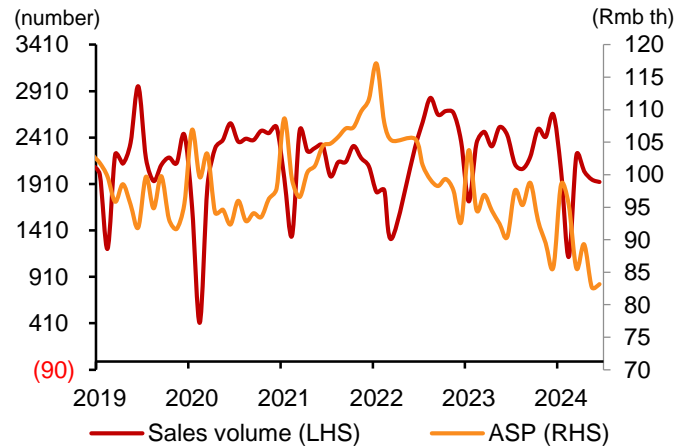
Source: Wind, CMBIGM

Figure 24: Economic activity & A-share index



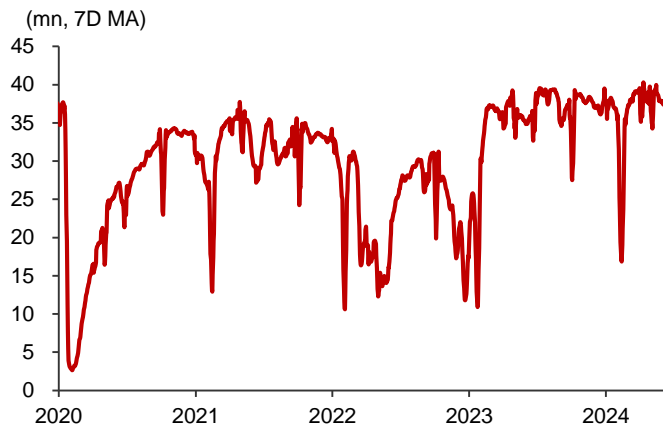
Source: Wind, CMBIGM

Figure 25: Used vehicle sales in Shanghai market



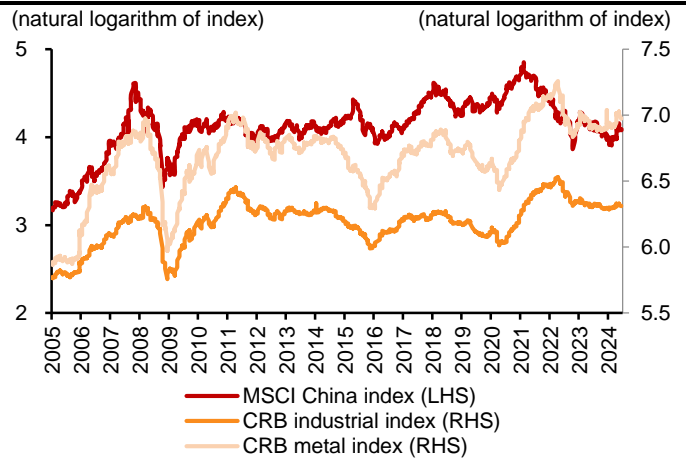
Source: Wind, CMBIGM

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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