

China Economy

Growth remains weak with possible moderate policy easing

China economy remained weak in May, which is in line with expectations. Property market was sluggish with continuous slump of housing starts and further slowdown of development investment as most private developers “lied flat” without land purchasing. Retail sales softened with mixed performance in different sectors. Catering service, clothing and home appliance weakened, housing-related durables remained weak, while staples, telecom equipment and autos strongly improved. Service activity recovered better than manufacturing output as service sector has absorbed over 60% of SMEs and urban employment and been important for employment & consumer confidence restoration. We expect both housing market and household consumption may gradually improve in next few quarters thanks to the continuous recovery of service sector. FAI is expected to slow down as private business confidence recovers very slowly and LGFVs and SOEs become more cautious to expand their debt. To boost economic growth, the policymakers may further cut LPR by 10bps, allow moderate property policy easing in more cities, provide additional fiscal subsidy & tax credit for hard technologies, high-end manufacturing and small business, encourage municipal governments to provide coupons to consumers and further float renminbi exchange rates to boost exports and improve domestic policy autonomy. We expect the GDP to grow 7.6% YoY with its 2Y CAGR at 3.9% in 2Q23, compared to the YoY growth of 4.5% and 2Y CAGR of 4.6% in 1Q23. We maintain our forecast on 2023 GDP growth at 5.7%, with the 2Y CAGR at 4.3%.

■ **Property market remained weak with possible further easing of housing policy.** The gross floor area (GFA) sold and the GFA started for commodity buildings respectively dropped 0.9% and 22.6% YoY (all on YoY basis unless otherwise specified) in 5M23 after decreasing 0.4% and 21.2% in 4M23. Property development investment further declined 7.2% in 5M23 after dropping 6.2% in the 4M23. In terms of 2Y CAGR, the GFA sold and GFA started declined 11.2% and 23.8% in 5M23 after edging down 8% and 18.4% in 4M23. Potential housing supply has shrunk more significantly than housing demand as the rebalance should alleviate downside pressure on housing price in the medium term. However, the continuous slump of housing starts indicates property development investment may further decrease with downside pressure on economic growth in the short term. Property developers remained cautious to purchase land while banks were still cautious to supply credit to most private-owned developers. Loan fund in property developers’ funding source for development investment continued to drop 10.5% in 5M23 after declining 10% in 4M23. Thanks to the improvement of housing sales in 1Q23, deposit & advance payment and individual mortgage fund in developers’ source of funds for development investment respectively picked up 4.4% and 6.5% in 5M23 after dropping 2.8% and 2.9%. Looking forward, we expect housing sales may see moderate improvement in 2H23 as the PBOC may further ease credit policy and more cities are likely to follow Qingdao to moderately loosen housing policies (e.g. moderate cuts in down-payment ratios and mortgage rates). Property development investment may mildly shrink its YoY declines in the second half year. We expect property development investment to drop 3.5% in 2023.

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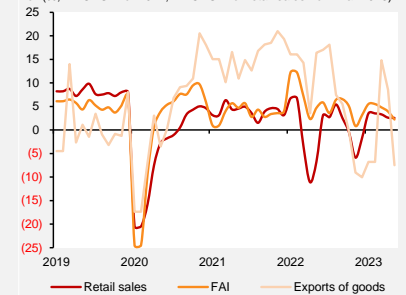
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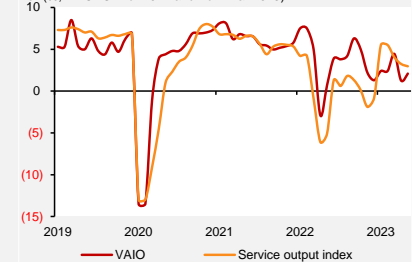
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YoY(%), 2Y CAGR for 2021, 2Y CAGR for retail sales from Mar 2023)



Source: Wind, CMBIGM

YoY(%), 2Y CAGR for 2021 and from Mar 2023)



Source: Wind, CMBIGM

- **Retail sales softened as consumer confidence remained weak.** The YoY growth of retail sales declined to 12.7% in May from 18.4% in April. Its 2Y CAGR reached 2.5% in May, slightly down from 2.6% in April. Catering service, clothing and home appliance weakened as their 2Y CAGRs respectively declined from 5.4%, 1.1%, -1.9% and 9% in April to 3.2%, -0.7%, -5.4% and 6.2% in May. Housing-related durables and electronics remained weak as furniture, construction & decoration materials and cultural & office products respectively dropped 4%, 11.3% and 2.3% in May after declining 5.7%, 11.5% and 4.9% in April, in term of 2Y CAGRs. However, staples steadily recovered as the 2Y CAGRs of beverage, alcohol & tobacco product and medicine respectively rose from 1.2%, 3.4% and 5.8% in April to 3.4%, 6.2% and 8.9% in May. Telecom equipment and auto showed amazing improvement as their 2Y CAGRs jumped from -5.3% and -2.8% in April to 8.4% and 2.1% in May. Looking forward, retail sales may gradually improve as housing market stabilization and service consumption recovery should support employment condition and consumer confidence in next few quarters.
- **Service recovered better than manufacturing as the former is of great importance for employment and consumer confidence restoration.** Service output index picked up 9.1% in May after rising 8.4% in April, while the YoY growth of value added industrial output (VAIO) slowed from 5.6% in April to 3.5% in May. In term of 2Y CAGRs, service output index and VAIO respectively rose 2.1% and 3% in May compared to 1.3% and 3.2% in April. In service sector, transportation, telecom service and internet & IT service had good sentiment while capital market service and real estate service was weak. In manufacturing sector, output in textile, medicine, construction material, steel product, metal product and general purpose equipment was weak as exports sharply slowed and housing market activity and business capex remained sluggish. However, output in chemical product, nonferrous metal, auto and electrical material & equipment improved noticeably as related industries benefited from the energy transition revolution in the worldwide. Looking forward, the continuous recovery of service sector should support a gradual improvement of employment condition and consumer confidence. The service sector has absorbed over 60% of SMEs and urban employment in China.
- **FAI continued to slow down as private business confidence remained weak and local governments faced contingent debt pressure.** The YoY growth of FAI slipped to 2.2% in May from 3.9% in April. Property sector was the largest drag as property development investment fell by 10.2% in May compared to 7.2% decline in April. Most private developers “lied flat” and stopped land purchasing, indicating a very slow recovery of property development investment ahead. The YoY growth of FAI in manufacturing slowed down from 7% in 1Q23 to 5.3% in April and 5.1% in May. Looking forward, chemical product, auto and electrical material & equipment may maintain strong FAI growth as the energy transition and smart technology revolution boosts business capex in those sectors. However, most other manufacturing industries are likely to see a gradual slowdown of FAI due to continuous slowdown in demand growth as well as uncertainty in domestic policy and geopolitics. The YoY growth of infrastructure investment rose from 7.9% in April to 10.7% in May, thanks to strong performance in public utility, railway transportation, water conservancy management and health service. However, fixed investment in public facility management and cultural, sports & recreational service was weak. Looking forward, we expect infrastructure investment may gradually slow down as land markets in most regions recover very slowly and the policymakers start to control local government contingent

debt expansion. We cut our forecast for the FAI growth in 2023 from 5% to 4%.

■ **China may launch moderate policy easing to boost economic growth.**

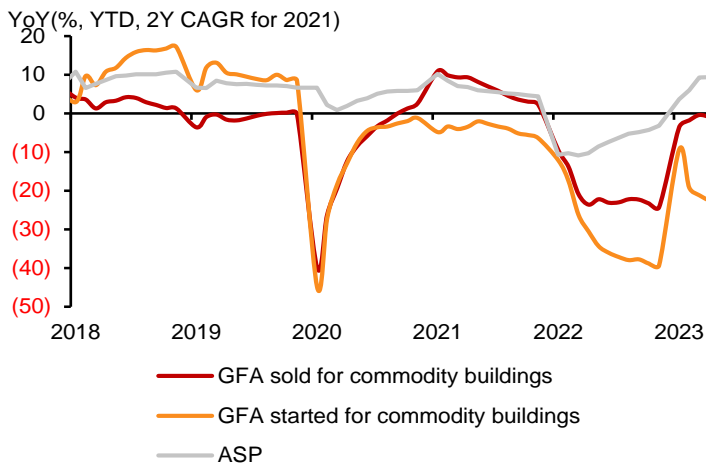
China economy has continued to weaken with continuous deflation pressure in recent three months. The recent property policy loosening in Qingdao and repo refinancing and MLF rate cuts by the PBOC indicates China may launch moderate policy easing ahead to boost economic growth. We expect to see the following supportive policies ahead: i) LPR cut by 10bps on 20 Jun with additional downside pressure on all contract loan rates; ii) moderate easing of property policies in more cities driven by local governments; iii) more fiscal subsidy and tax credit for hard technologies, high-end manufacturing industries and small businesses; iv) coupons to consumers in several cities provided by municipal governments; v) more flexibility for renminbi fluctuations to support exports and improve domestic policy autonomy in US Fed tightening cycle.

Figure 1: China Economic Indicators

	YoY(%)								2Y CAGR(%)			
	2019	2020	2021	2022	1Q23	Apr	May	Jun	1Q23	Apr	May	Jun
GDP	6.0	2.3	8.4	3.0	4.5			7.6	4.6			3.9
VAIO	5.7	2.8	9.6	3.6	3.0	5.6	3.5	1.0	4.7	1.3	2.1	2.4
-Mining	5.0	0.5	5.3	0.6	3.2	0.0	(1.2)	(3.5)	6.9	4.6	2.8	2.4
-Manufacturing	6.0	3.4	9.8	(2.0)	2.9	6.5	4.1	1.8	4.5	0.8	2.1	2.6
-Public utility	7.0	2.0	11.4	(2.2)	3.3	4.8	4.8	4.0	4.7	3.1	2.5	3.6
Delivery value for exports	1.3	(0.3)	17.7	5.5	(5.3)	0.7	(5.0)	(8.0)	4.1	(0.6)	2.7	2.9
Service output index	6.9	0.0	13.1	(0.1)	6.7	13.5	11.7	5.7	4.6	3.2	3.0	3.5
Urban FAI (YTD)	5.4	2.9	4.9	5.1	5.1	4.7	4.0	3.7	7.2	5.7	5.1	4.9
-Property development	9.9	7.0	4.4	(10.0)	(5.8)	(6.2)	(7.2)	(6.8)	(2.6)	(4.5)	(5.6)	(6.1)
-Manufacturing	3.1	(2.2)	13.5	9.1	7.0	6.4	6.0	5.6	11.2	9.3	8.3	8.0
-Infrastructure	3.3	3.4	0.2	11.5	10.8	9.8	10.1	8.5	10.6	9.0	9.1	8.9
GFA sold for commodity building (YTD)	(0.1)	2.6	1.9	(24.3)	(1.8)	(0.4)	(0.9)	(1.2)	(8.0)	(11.2)	(13.0)	(12.3)
GFA started for commodity building (YTD)	8.5	(1.2)	(11.4)	(39.4)	(19.2)	(21.2)	(22.6)	(21.0)	(18.4)	(23.8)	(26.7)	(28.0)
Retail sales	8.0	(3.9)	12.5	(0.2)	5.8	18.4	12.7	2.8	4.5	2.6	2.5	2.9
Exports of goods	0.5	3.6	29.9	7.0	0.5	8.5	(7.5)	(8.0)	7.7	6.0	3.8	3.8
Imports of goods	(2.7)	(0.6)	30.1	1.1	(7.0)	(7.9)	(4.5)	(3.0)	1.4	(4.0)	(0.6)	(1.6)

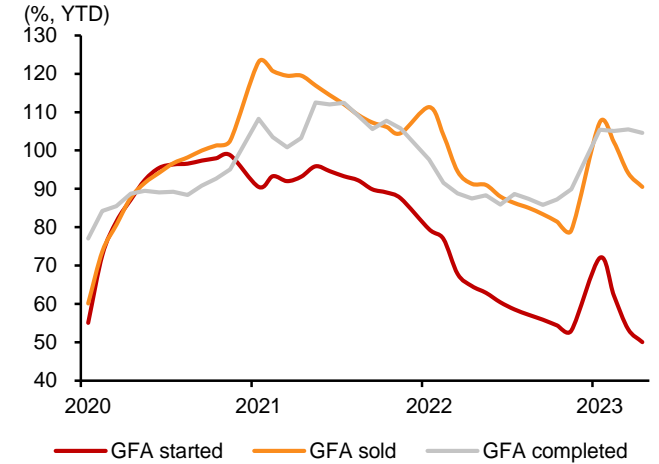
Source: Wind, CMBIGM estimates

Figure 2: Property Market Indicators



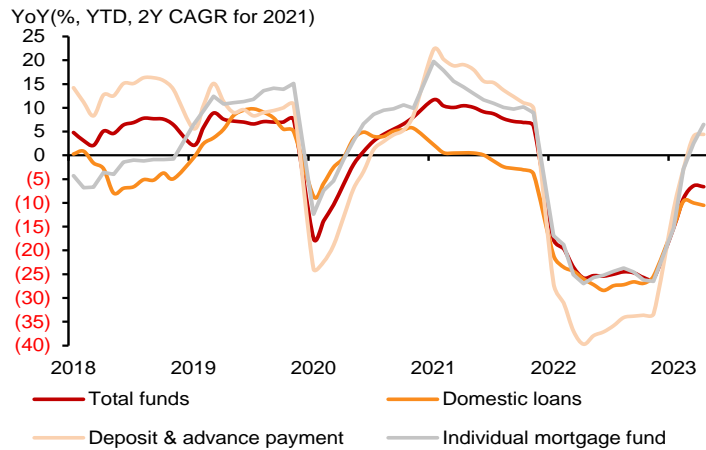
Source: WIND, CMBIGM

Figure 3: Recovery Rates Compared to 2019



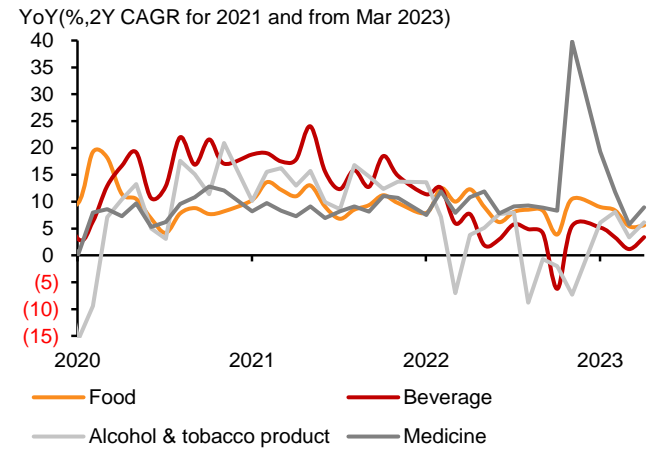
Source: WIND, CMBIGM

Figure 4: Funding Source for Property Investment



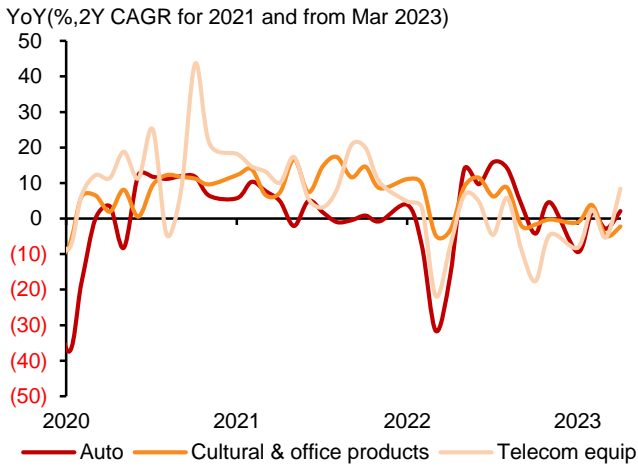
Source: WIND, CMBIGM

Figure 5: Retail Sales of Staples



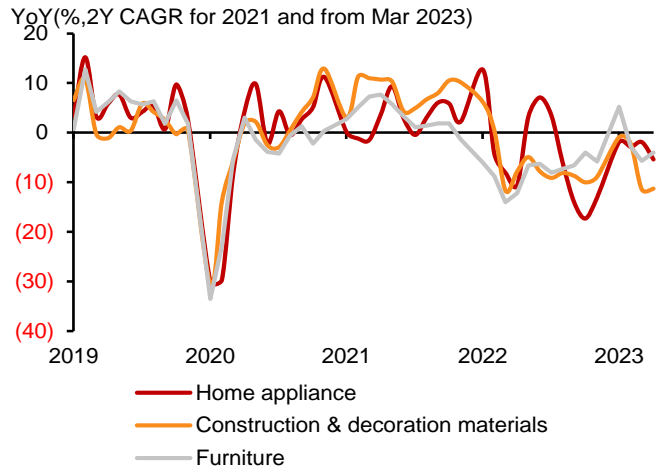
Source: WIND, CMBIGM

Figure 6: Retail Sales of Auto & Electronics



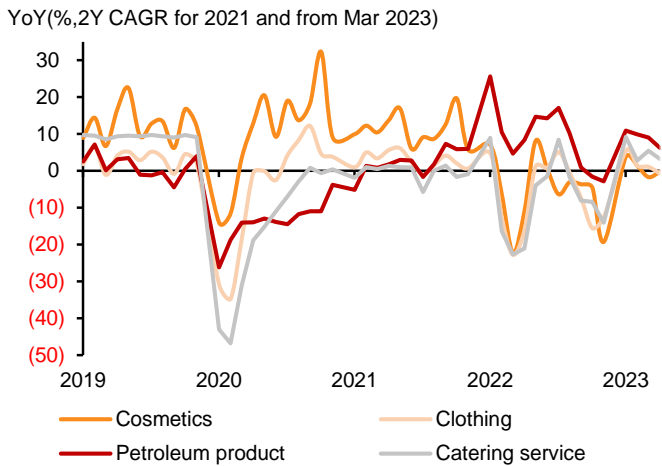
Source: WIND, CMBIGM

Figure 7: Home Appliance & Furniture Retail Sales



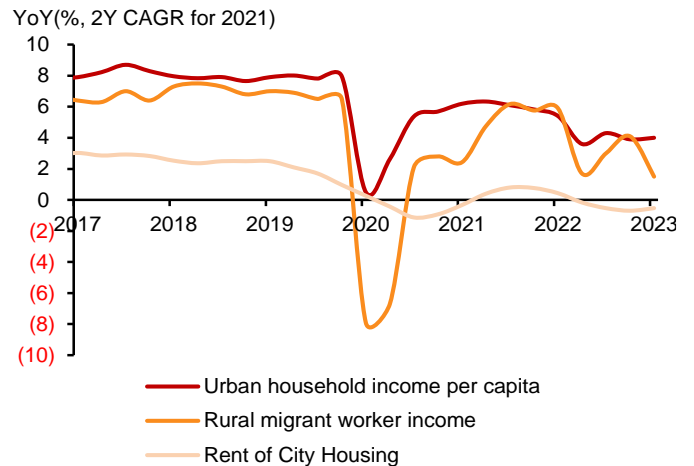
Source: WIND, CMBIGM

Figure 8: Retail Sales Related to Outgoing Activities



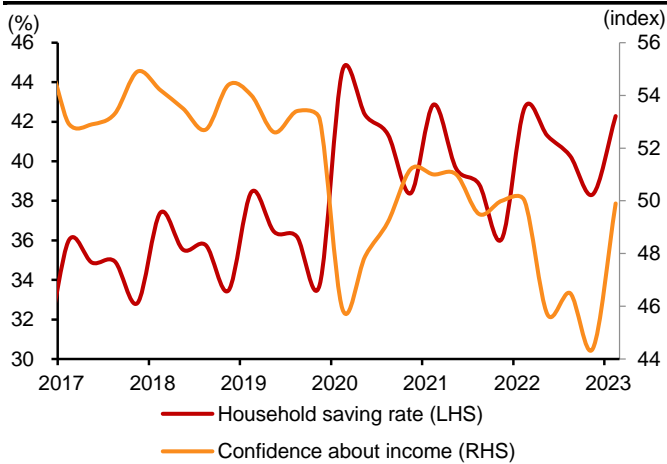
Source: WIND, CMBIGM

Figure 9: Household Income & Housing Rent



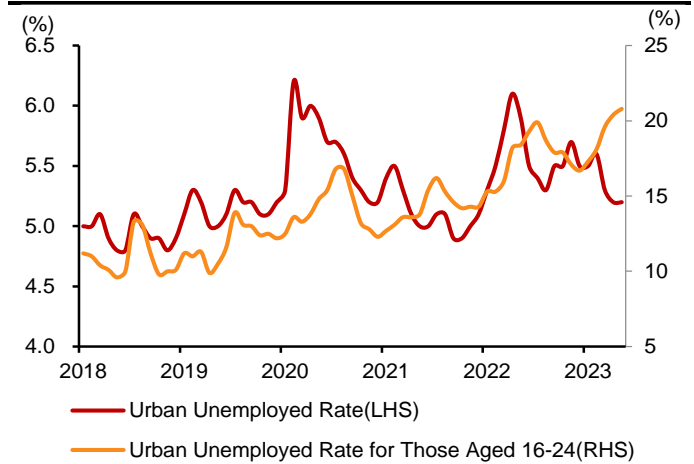
Source: WIND, CMBIGM

Figure 10: Consumer Confidence



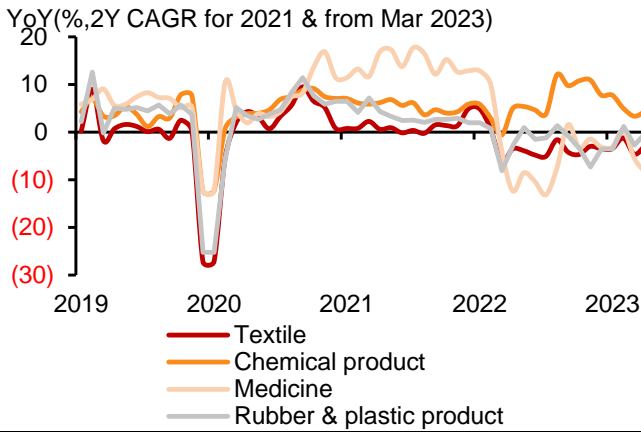
Source: WIND, CMBIGM

Figure 11: Urban Unemployment Rates in Survey



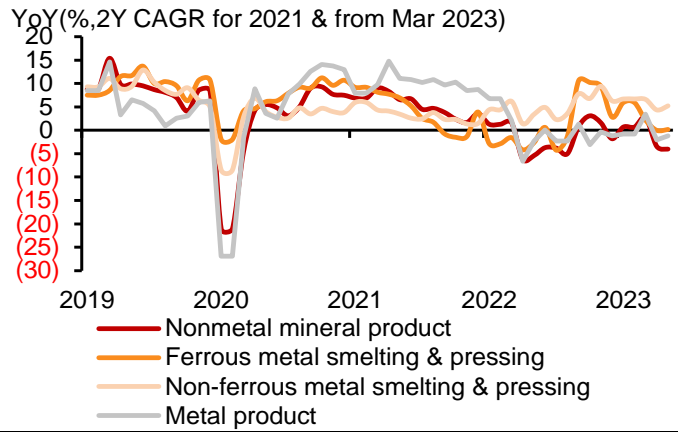
Source: WIND, CMBIGM

Figure 12: VAIO in Textile & Chemical Products



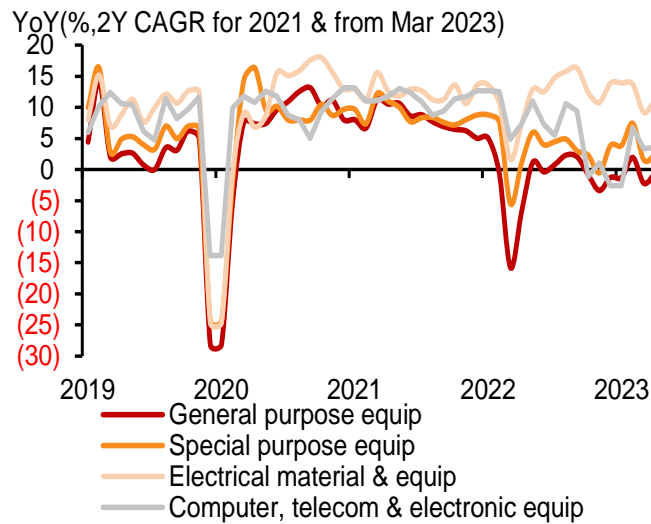
Source: WIND, CMBIGM

Figure 13: VAIO in Mineral & Metal Products



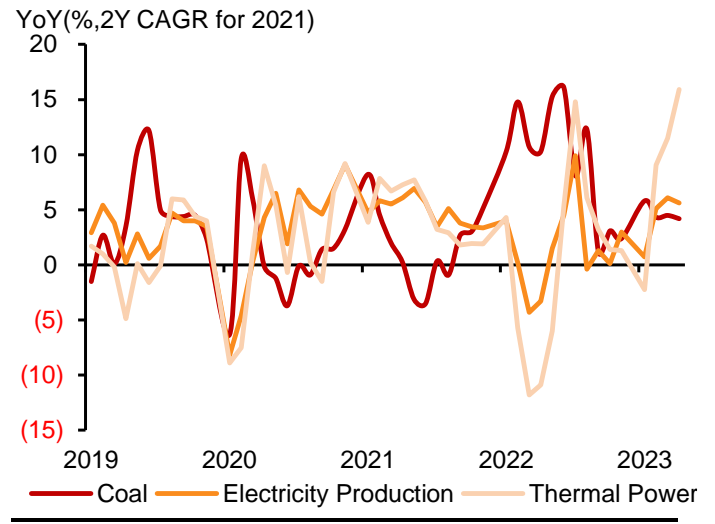
Source: WIND, CMBIGM

Figure 14: VAIO in Equipment



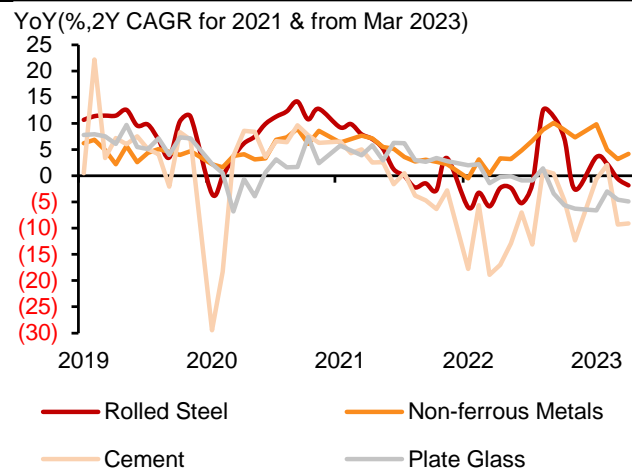
Source: WIND, CMBIGM

Figure 15: Output in Energy and Electricity



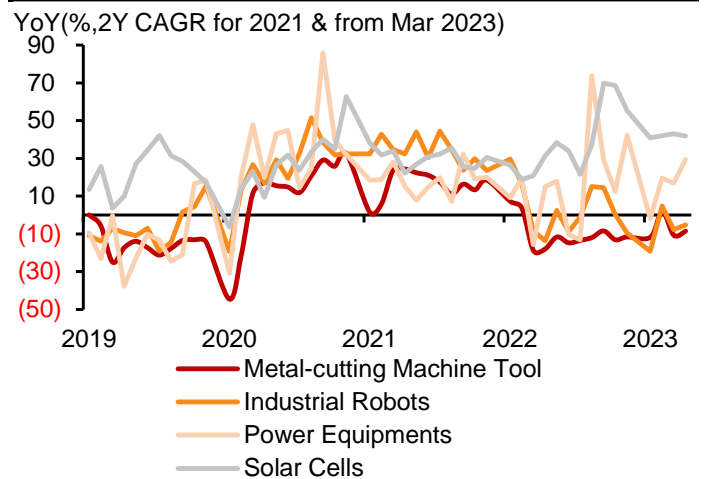
Source: WIND, CMBIGM

Figure 16: Output in Steel & Construction Material



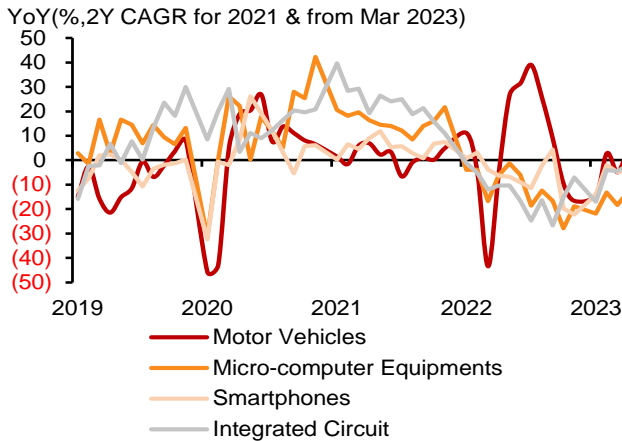
Source: WIND, CMBIGM

Figure 17: Output in Capital Goods



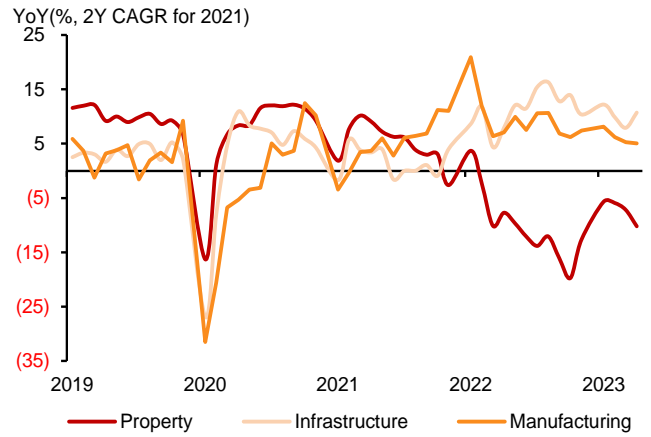
Source: WIND, CMBIGM

Figure 18: Output in Auto, Computer & Smartphone



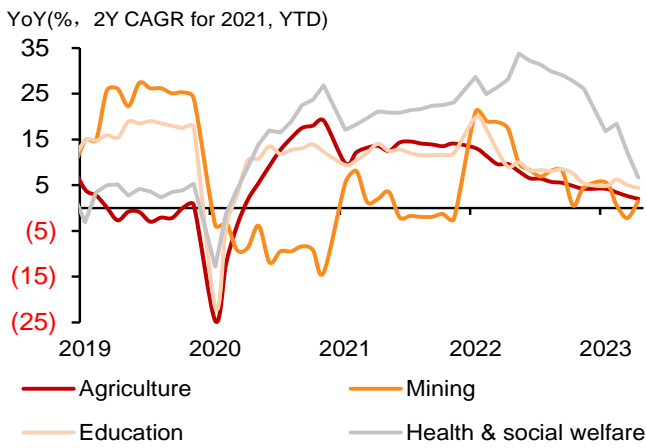
Source: WIND, CMBIGM

Figure 19: FAI by Sector



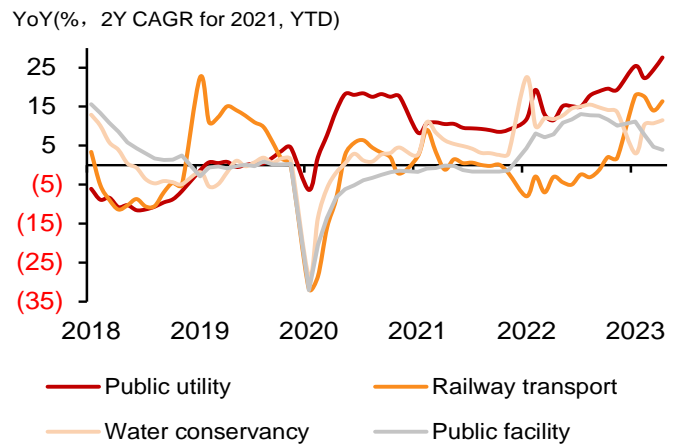
Source: WIND, CMBIGM

Figure 20: FAI in Agriculture, Mining & Public Service



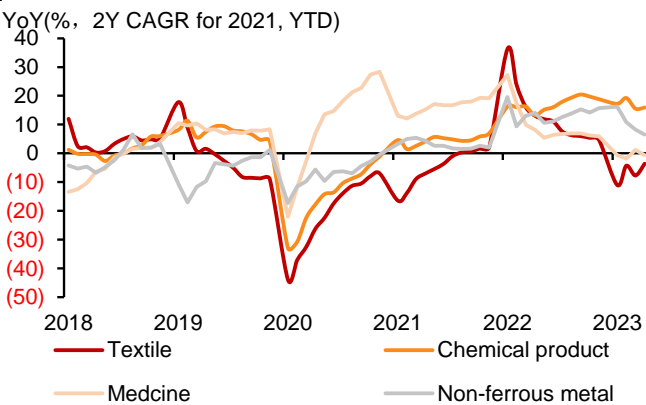
Source: WIND, CMBIGM

Figure 21: FAI in Infrastructure Sectors



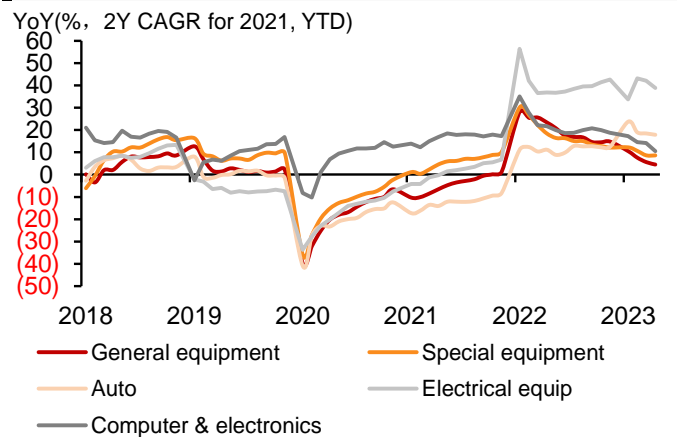
Source: WIND, CMBIGM

Figure 22: FAI in Chemical Product & Non-ferrous Metal



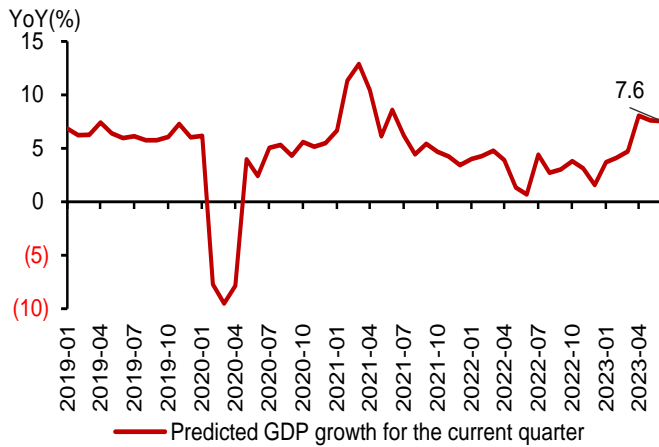
Source: WIND, CMBIGM

Figure 23: FAI in Equipment



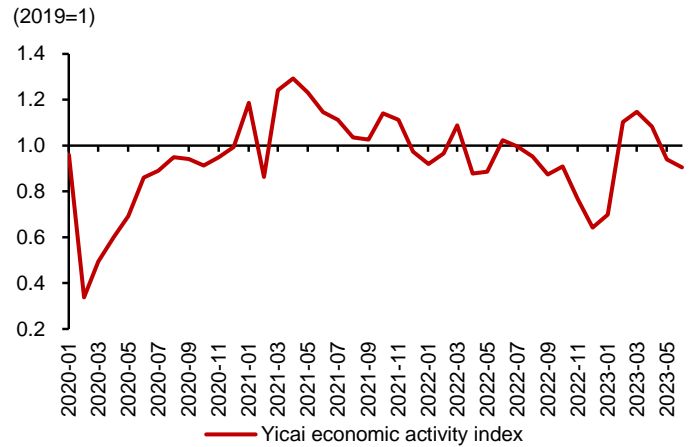
Source: WIND, CMBIGM

Figure 24: Predicted GDP for Current Quarter



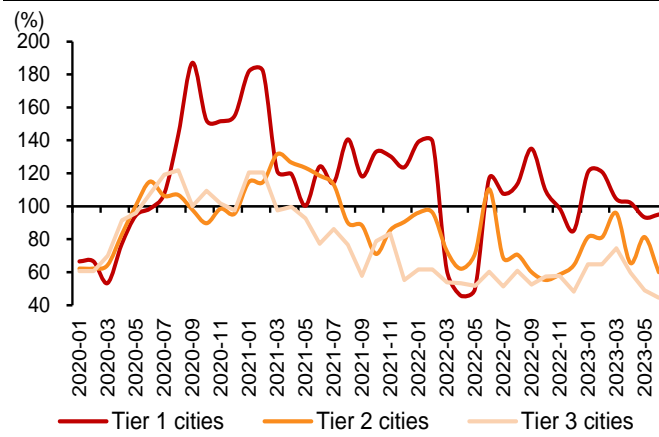
Source: WIND, CMBIGM

Figure 25: Yicai Economic Activity Index



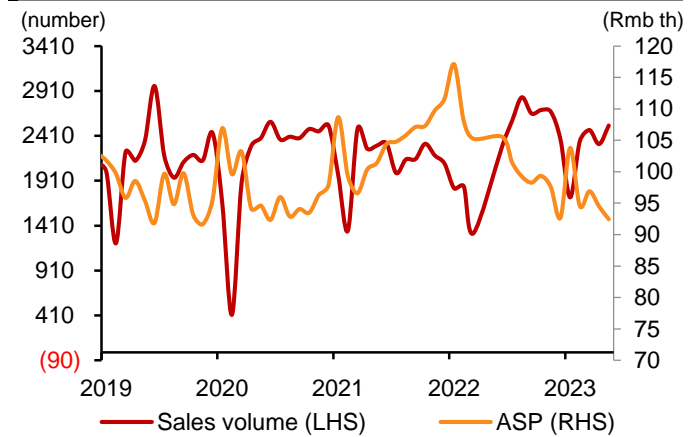
Source: WIND, CMBIGM

Figure 26: Housing Sales Recovery Rates to 2019 in 30 Cities



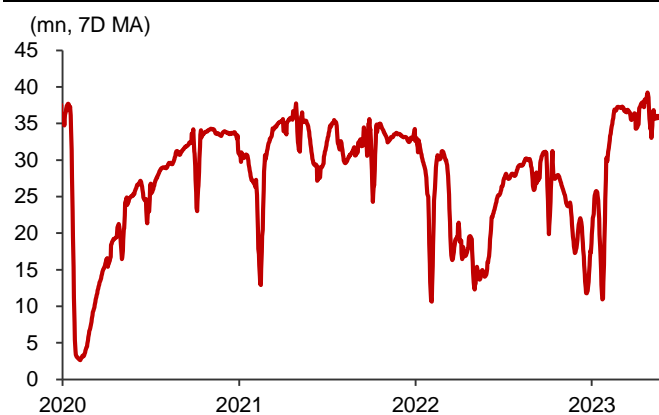
Source: WIND, CMBIGM

Figure 27: Used Vehicle Sales in Shanghai Market



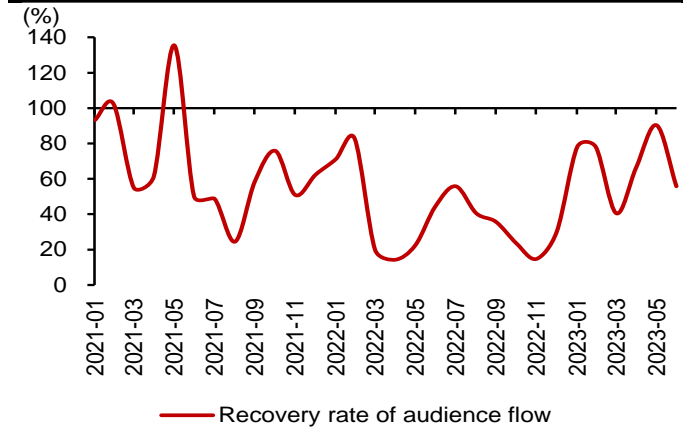
Source: WIND, CMBIGM

Figure 28: Subway Passenger Flow in Tier-1 Cities



Source: WIND, CMBIGM

Figure 29: Audience Flow Recovery Ratios to 2019



Source: WIND, CMBIGM

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