

China Economy

Weak growth calls for additional policy easing

China economy further weakened as the GDP growth missed expectations in the second quarter. Property market and exports deteriorated sharply, while consumption also slowed noticeably. Despite mild pick-up of retail sales and industrial output in June, achieving the 5% growth target for this year started to get harder. It requires an acceleration of the 2Y CAGR of GDP from 3.3% in 2Q23 to 4% in 2H23. China has to stabilize its housing market and consumption as soon as possible. We expect China may further loosen property policy and credit supply to boost the growth in the second half year. As the growth was far weaker than we expected, we revise down our forecast for the GDP growth in 2023 from 5.7% to 5.1% and maintain that for the GDP growth in 2024 at 4.8%.

- Economic growth sharply slowed in 2Q as achieving the 5% growth target for 2023 started to get harder.** China's GDP picked up 6.3% YoY (all on YoY basis unless otherwise specified) in 2Q23 after growing 4.6% in 1Q23 thanks to the base effect. In fact, the economy slowed sharply in the second quarter as the QoQ growth of GDP decelerated from 2.2% in 1Q23 to 0.8% in 2Q23. Meanwhile, the 2Y CAGR of GDP slowed from 4.6% to 3.3%. In 2Q23, property sales & development investment extended their YoY declines, while both exports and retail sales deteriorated noticeably. Infrastructure investment maintained relatively strong growth while manufacturing investment mildly slowed. Private businesses were cautious to expand capex with severe pressure on the employment, while consumer confidence remained low. Achieving the 5% growth target for 2023 started to get harder as it requires an acceleration of 2Y GDP CAGR from 3.3% in 2Q23 to 4% in 2H23.
- Property market further contracted, longing for property policy easing.** The gross floor area (GFA) sold and the GFA started for commodity buildings respectively dropped 5.3% and 24.3% in 1H23 after decreasing 0.9% and 22.6% in 5M23. Property development investment further declined 7.9% in 1H23 after dropping 7.2% in the 5M23. The continuous slump of housing starts indicates property development investment may further decrease. Property developers remained cautious to purchase land as their financing condition was still tough and their confidence was still low. Breaking down the funding source for property development investment, deposit & advance payment dropped 0.9% and individual mortgage fund rose 2.7% in 1H23 after respectively rising 4.4% and 6.5% in 5M23. Meanwhile, domestic loan fund further declined 11.1% in 1H23 after dropping 10.5% in 5M23. Potential housing supply has shrunk more significantly than housing demand as the rebalance has started in most cities with excess supply. The significant shrinkage of land-related fiscal system increased local government contingent debt risk and brought downside pressure on local government expenditures. Looking forward, housing sales may see moderate improvement in 2H23 as policymakers may further loosen property policy and credit supply. But property development investment may remain weak as we lower our forecast for property development investment growth in 2023 from -3.5% to -5%.
- Retail sales weakened as consumer confidence deteriorated.** The YoY growth of retail sales declined to 3.1% in June from 12.7% in May as the low-base effect fading. Its 2Y CAGR reached 3.1% in June, up from 2.5% in May. Catering service, clothing, cosmetics and home appliance notably rebounded

Bingnan YE, Ph.D

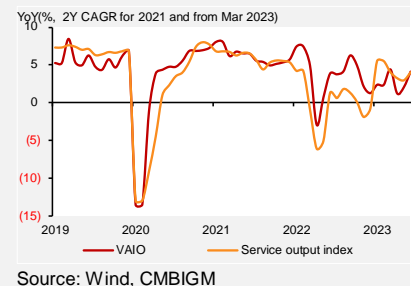
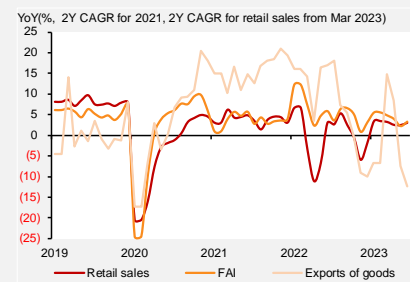
(852) 3761 8967

yebingnan@cmbi.com.hk

Frank Liu

(852) 3761 8957

frankliu@cmbi.com.hk



as their 2Y CAGRs respectively rose from 5.6%,-0.7%, -0.3% and -5.4% in May to 5.6%, 4%, 6.4% and 3.8% in June. Housing-related durables remained weak with mild improvement as furniture and construction & decoration materials respectively dropped 2.8%, 5.9% and 0.9% in June after declining 4%, 11.3% and 2.3% in term of 2Y CAGRs. However, staples steadily recovered as the 2Y CAGRs of alcohol & tobacco product and medicine respectively rose from 6.2% and 8.9% in May to 7.3% and 9.2% in June. Auto and electronics continued the recovery trend as the 2Y CAGR jumped from 2.1% in May to 6.1% in June while telecom equip slowed from 8.4% in May to 6.6% in June. Looking forward, retail sales may gradually improve in next several quarters as the continuous recovery of service sector after the economic reopening should boost employment and consumer confidence. We maintain our forecast for the retail sales growth in 2023 at 7.5%.

- **Service activity and industrial output improved in June.** Service output index rose 6.8% in June after rising 11.7% in May, while the VAIO growth accelerated from 3.5% in May to 4.4% in June. In term of 2Y CAGRs, service output index and VAIO respectively picked up 4.1% and 4% in June compared to 2.1% and 3% in May. 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 and nonmetal mineral product was weak as exports sharply slowed and housing market activity and business capex remained sluggish. However, output in chemical product, rubber & plastic product, nonferrous metal, special purpose equip, 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 rebounded as infrastructure investment continued to be the largest contributor albeit property investment remained weak.** The YoY growth of FAI picked up 3.3% in June from 2.2% in May. Property sector was the largest drag as property development investment fell by 10.17% in June similar to the 10.21% decline in May. 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 restored 6% growth in June compared to 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 to 12.3% in June to 10.7% in May, thanks to strong performance in public utility, transportation, storage & post service, railway transportation and water conservancy. However, fixed investment in public facility management and health & social welfare remained weak. Looking forward, we expect infrastructure investment may gradually slow down as land market in most regions recovers very slowly and the policymakers starts to control local government contingent debt expansion. We cut our forecast for the FAI growth in 2023 from 5% to 4%.
- **China may further moderately ease property policy and credit supply to boost economic growth.** China economy has continued to weaken with continuous deflation pressure in recent three months. More cities will further loosen property policy with reductions in down-payment ratios and mortgage rates for first-home and second-home buyers. Meanwhile, the PBOC may

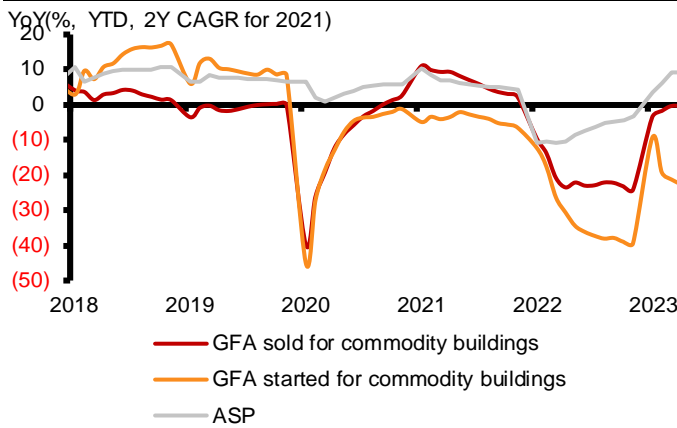
further cut deposit rates and LPRs and guide banks to increase credit supply to the real sector.

Figure 1: China Economic Indicators

	YoY (%)								2Y CAGR (%)				
	2019	2020	2021	2022	1Q23	May	Jun	Jul (F)	1Q23	Apr	May	Jun	Jul (F)
GDP	6.0	2.3	8.4	3.0	4.5		6.3		4.6			3.3	
VAIO	5.7	2.8	9.6	3.6	3.0	3.5	4.4	4.7	4.7	1.3	2.1	4.1	4.2
-Mining	5.0	0.5	5.3	0.6	3.2	(1.2)	1.5	1.6	6.9	4.6	2.8	5.0	4.8
-Manufacturing	6.0	3.4	9.8	(2.0)	2.9	4.1	4.8	5.3	4.5	0.8	2.1	4.1	4.0
-Public utility	7.0	2.0	11.4	(2.2)	3.3	4.8	4.9	4.0	4.7	3.1	2.5	4.1	6.7
Delivery value for exports	1.3	(0.3)	17.7	5.5	(5.3)	(5.0)	(9.5)	(6.5)	4.1	(0.6)	2.7	2.1	1.3
Service output index	6.9	0.0	13.1	(0.1)	6.7	11.7	6.8	7.5	4.6	3.2	3.0	4.0	4.0
Urban FAI (YTD)	5.4	2.9	4.9	5.1	5.8	4.0	3.8	3.6	7.2	5.7	5.1	4.9	4.6
-Property development	9.9	7.0	4.4	(10.0)	0.5	(7.2)	(7.9)	(8.3)	(2.6)	(4.5)	(5.6)	(6.7)	(7.4)
-Manufacturing	3.1	(2.2)	13.5	9.1	(7.0)	6.0	6.0	5.8	11.2	9.3	8.3	8.2	7.8
-Infrastructure	3.3	3.4	0.2	11.5	1.3	10.1	10.7	11.0	10.6	9.0	9.1	10.0	10.3
GFA sold for commodity building (YTD)	(0.1)	2.6	1.9	(23.3)	(1.6)	(0.9)	(5.3)	(4.0)	(8.0)	(11.2)	(13.0)	(14.2)	(14.1)
GFA started for commodity building (YTD)	8.5	(1.2)	(11.4)	(38.9)	(0.8)	(22.6)	(24.3)	(25.0)	(18.4)	(23.8)	(26.7)	(29.5)	(30.8)
Retail sales	8.0	(3.9)	12.5	(0.2)	5.8	12.7	3.1	4.0	4.5	2.6	2.5	3.1	3.3
Exports of goods	0.5	3.6	29.9	7.0	0.5	(7.5)	(12.4)	(10.0)	7.7	6.0	3.8	1.2	3.1
Imports of goods	(2.7)	(0.6)	30.1	1.1	(7.0)	(4.5)	(6.8)	(5.0)	1.4	(4.0)	(0.6)	(3.5)	(1.9)

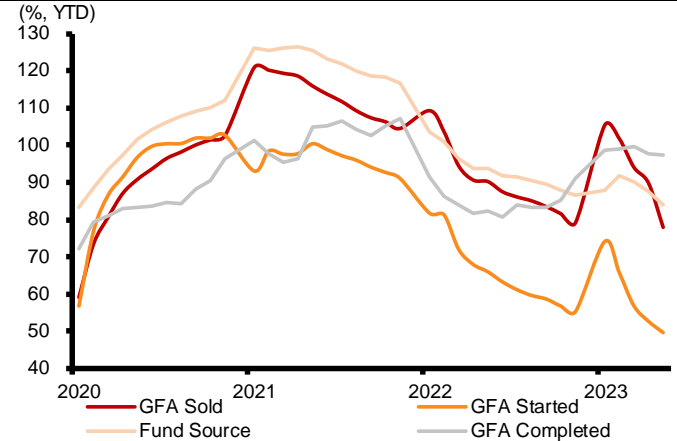
Source: Wind, CMBIGM estimates

Figure 2: Property Market Indicators



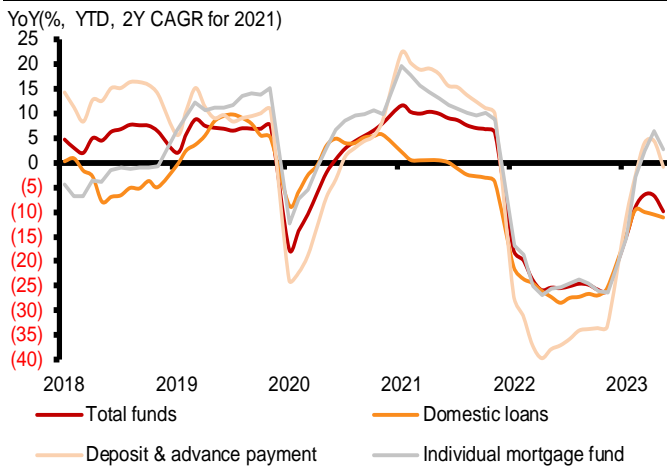
Source: WIND, CMBIGM

Figure 3: Recovery Rates Compared to 2019



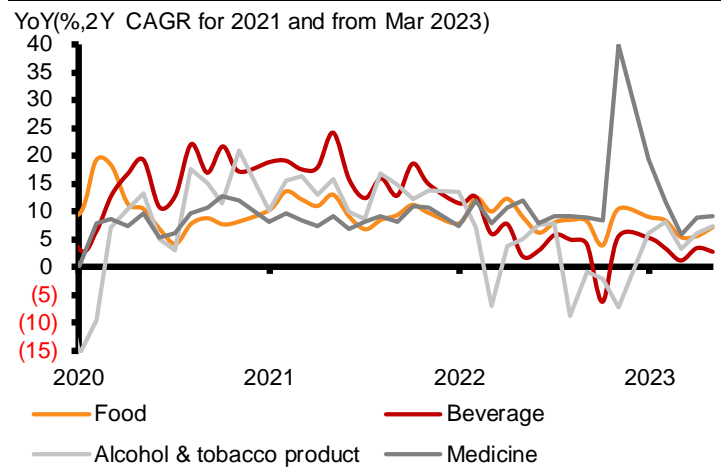
Source: WIND, CMBIGM

Figure 4: Funding Source for Property Investment



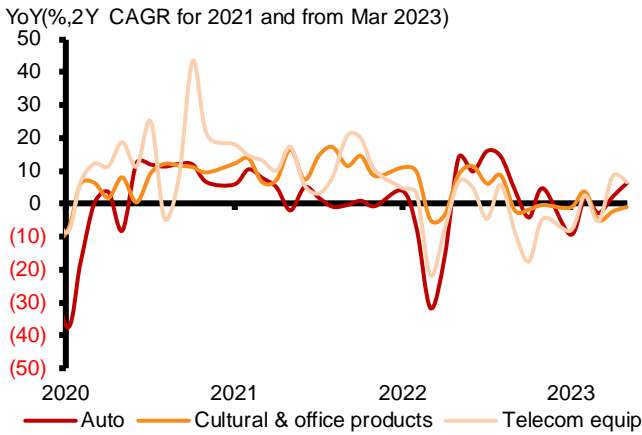
Source: WIND, CMBIGM

Figure 5: Retail Sales of Staples



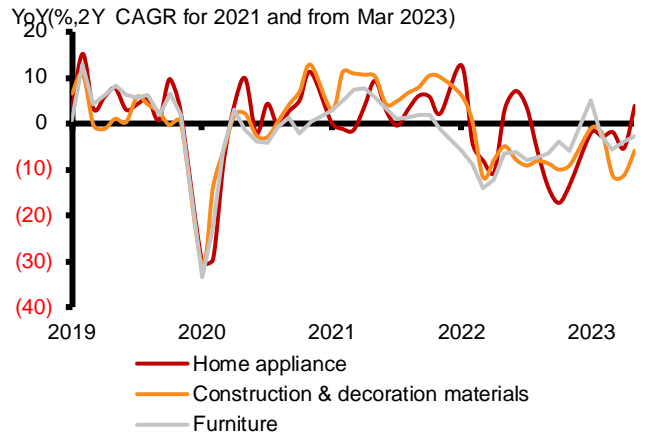
Source: WIND, CMBIGM

Figure 6: Retail Sales of Auto & Electronics



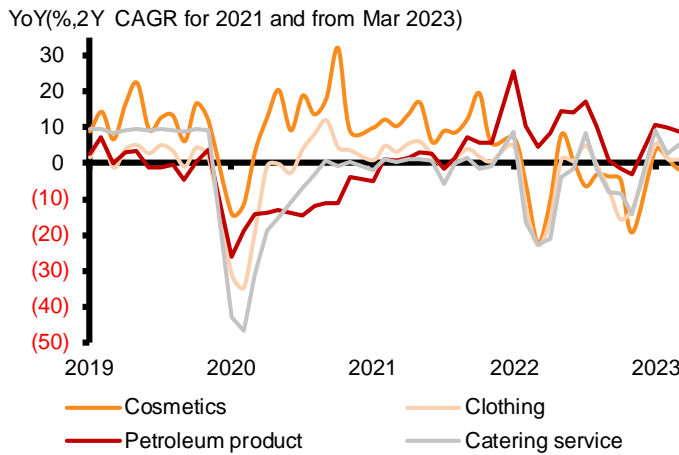
Source: WIND, CMBIGM

Figure 7: Home Appliance & Furniture Retail Sales



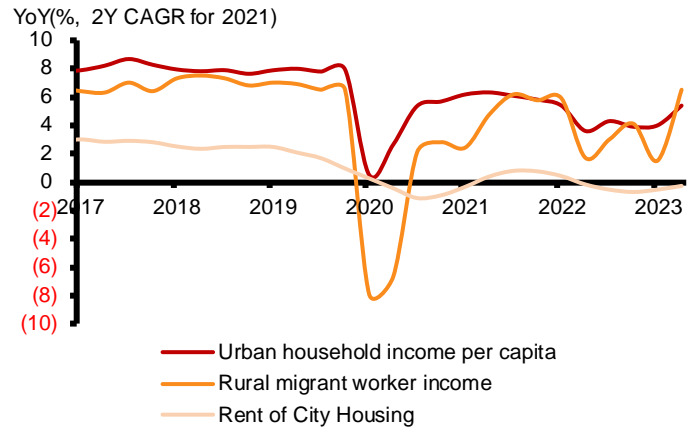
Source: WIND, CMBIGM

Figure 8: Retail Sales Related to Outgoing Activities



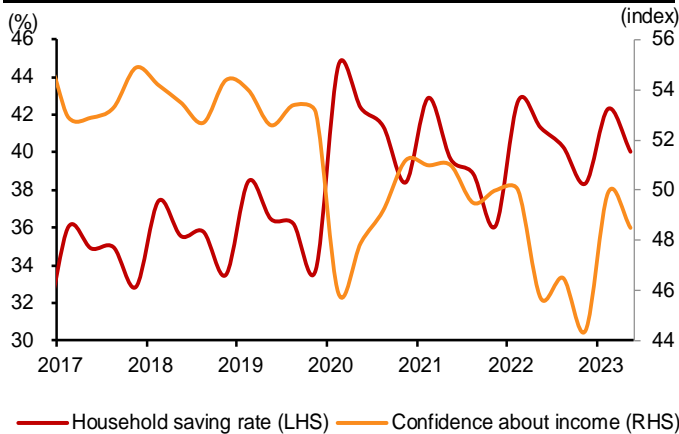
Source: WIND, CMBIGM

Figure 9: Household Income & Housing Rent



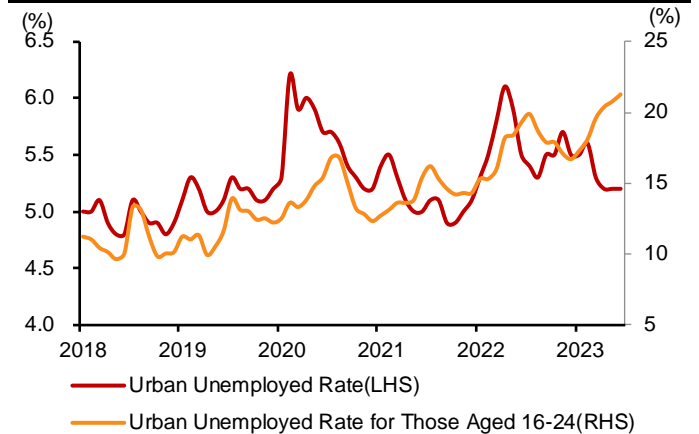
Source: WIND, CMBIGM

Figure 10: Consumer Confidence



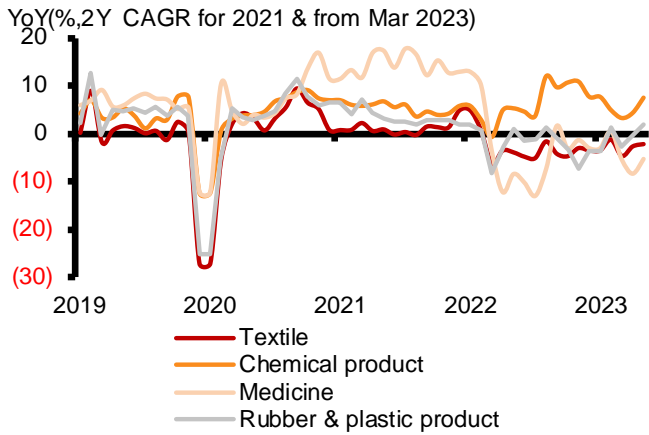
Source: WIND, CMBIGM

Figure 11: Urban Unemployment Rates in Survey



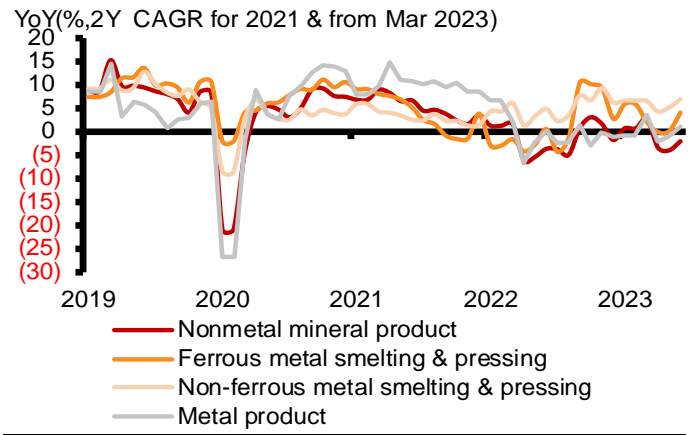
Source: WIND, CMBIGM

Figure 12: VAIO in Textile & Chemical Products



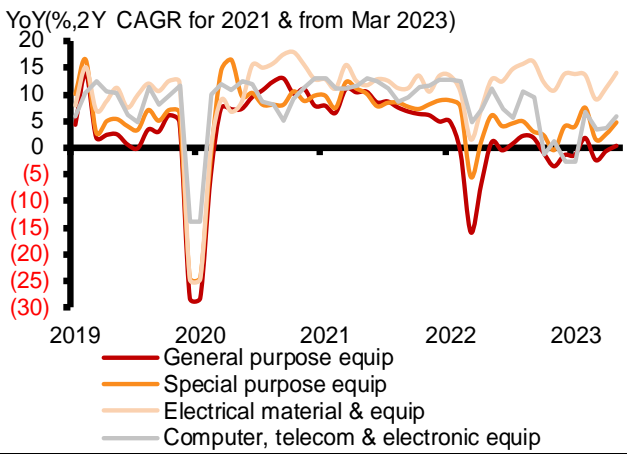
Source: WIND, CMBIGM

Figure 13: VAIO in Mineral & Metal Products



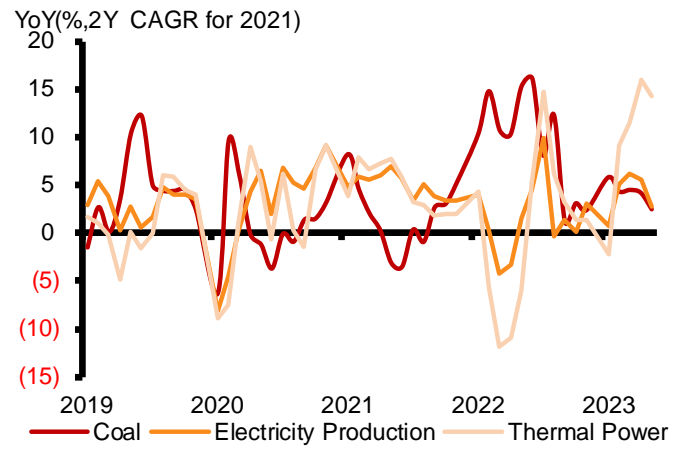
Source: WIND, CMBIGM

Figure 14: VAIO in Equipment



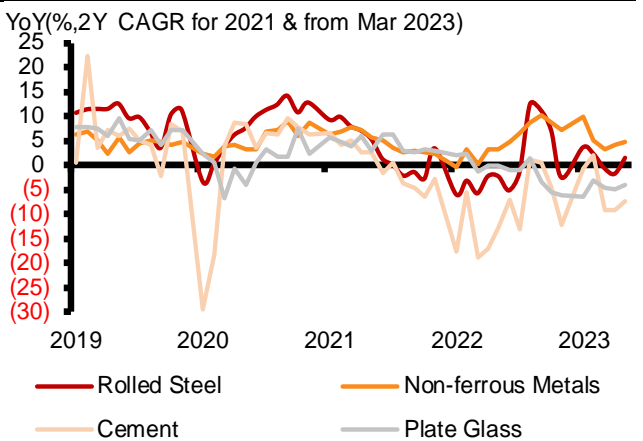
Source: WIND, CMBIGM

Figure 15: Output in Energy and Electricity



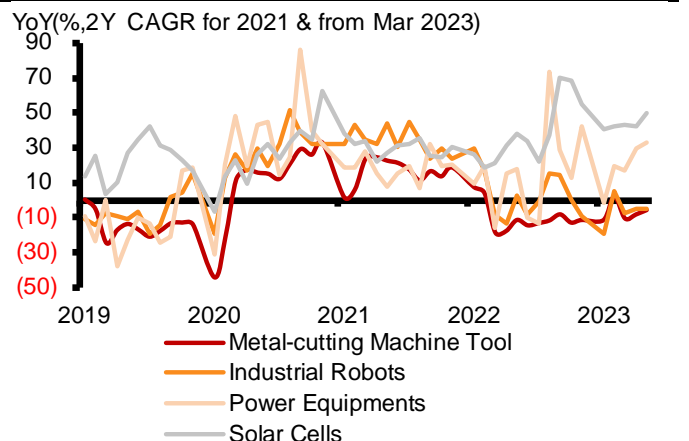
Source: WIND, CMBIGM

Figure 16: Output in Steel & Construction Material



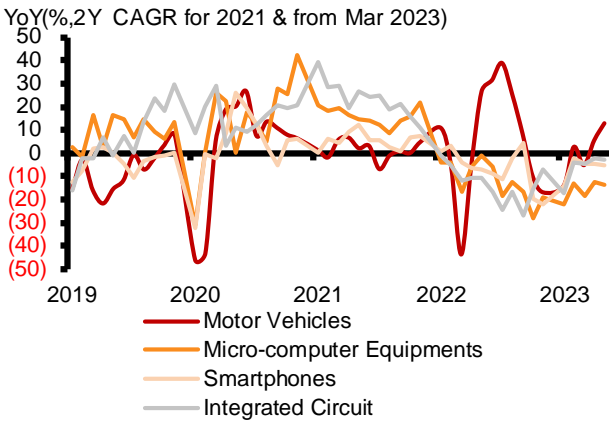
Source: WIND, CMBIGM

Figure 17: Output in Capital Goods



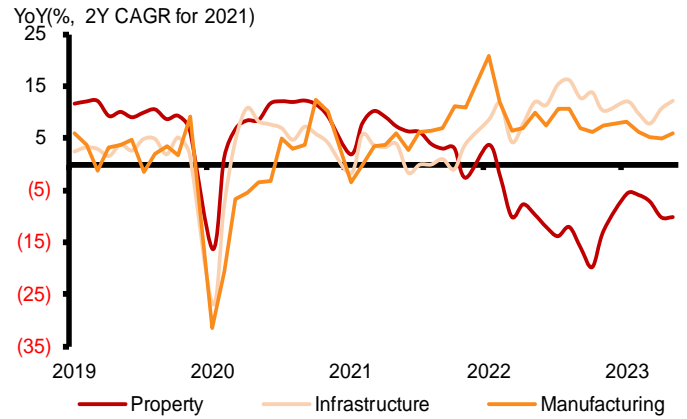
Source: WIND, CMBIGM

Figure 18: Output in Auto, Computer & Smartphone



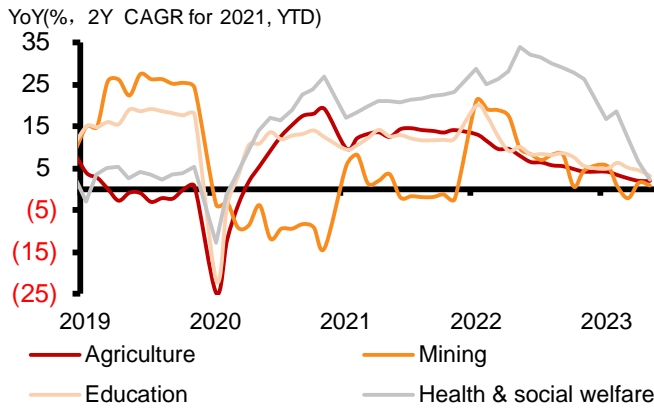
Source: WIND, CMBIGM

Figure 19: FAI by Sector



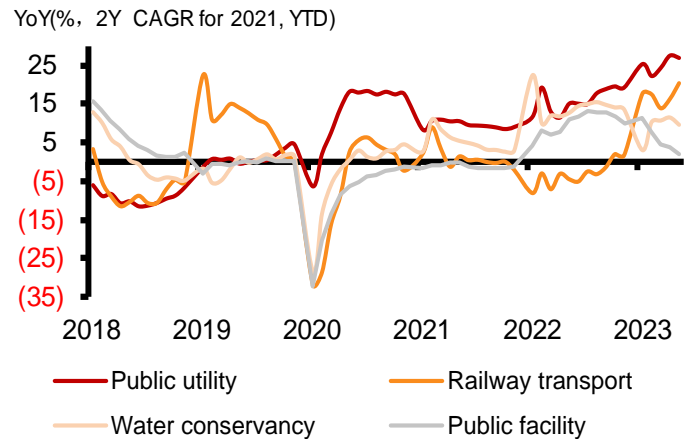
Source: WIND, CMBIGM

Figure 20: FAI in Agriculture, Mining & Public Service



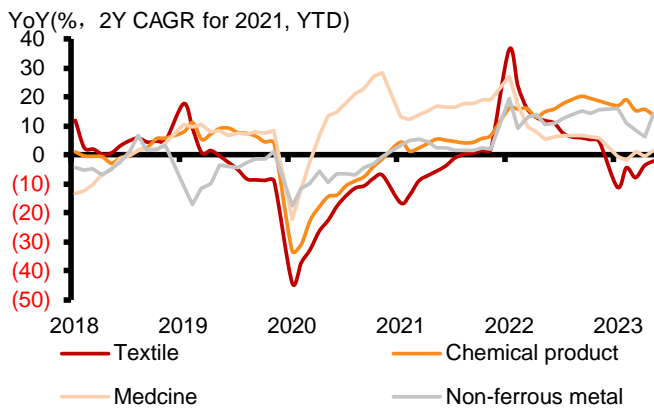
Source: WIND, CMBIGM

Figure 21: FAI in Infrastructure Sectors



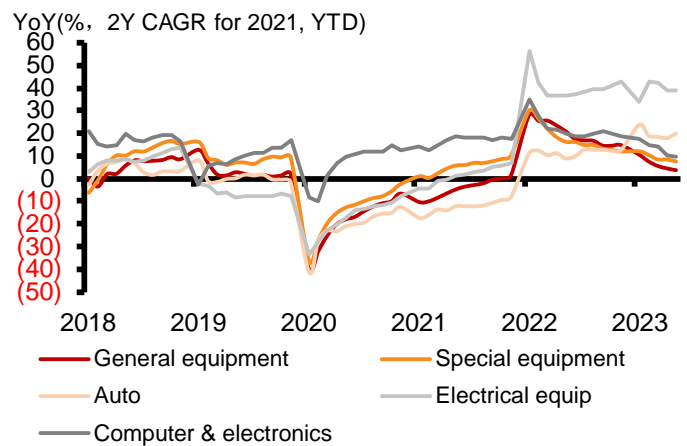
Source: WIND, CMBIGM

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



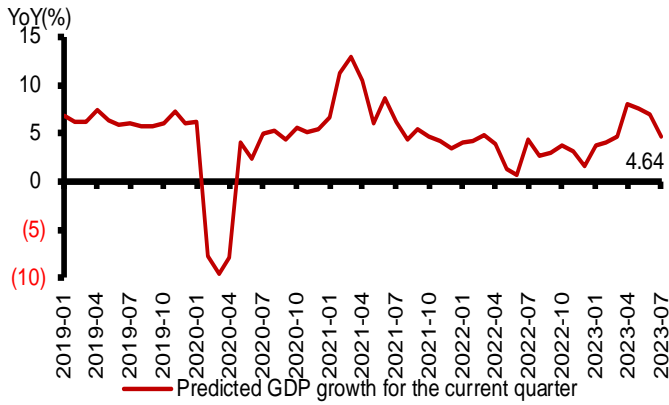
Source: WIND, CMBIGM

Figure 23: FAI in Equipment



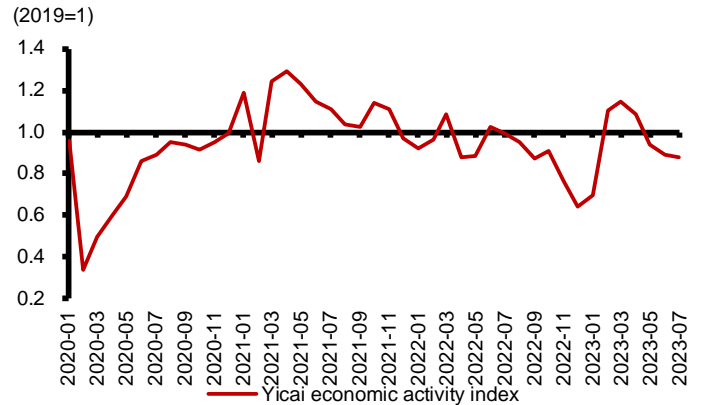
Source: WIND, CMBIGM

Figure 24: Predicted GDP for Current Quarter



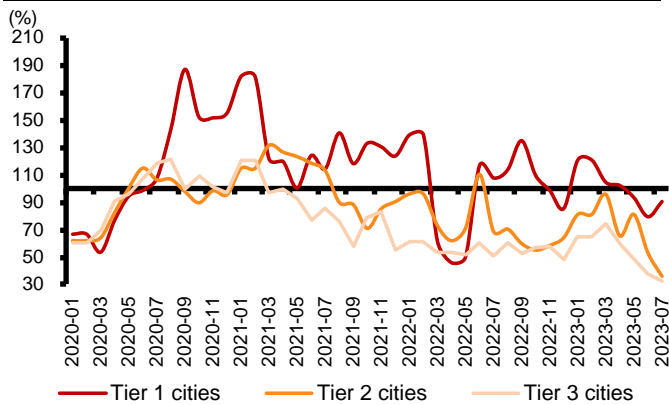
Source: WIND, CMBIGM

Figure 25: Yicai Economic Activity Index



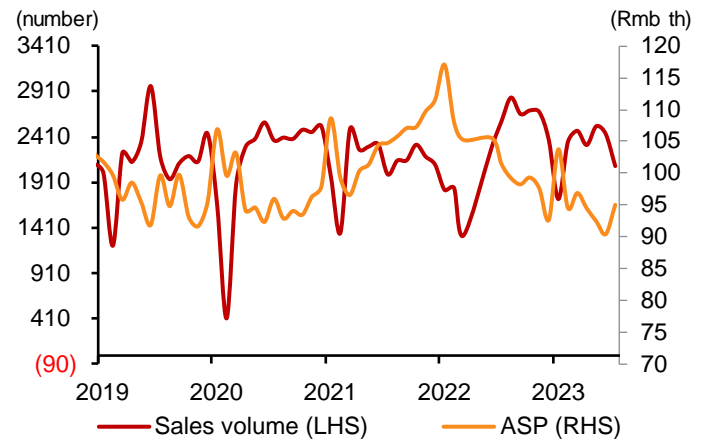
Source: WIND, CMBIGM

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



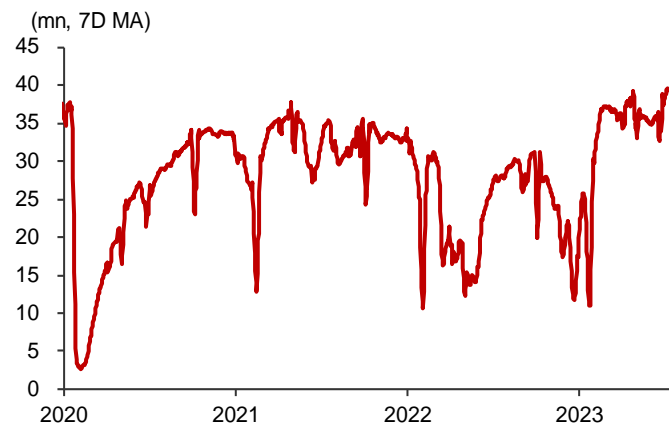
Source: WIND, CMBIGM

Figure 27: Used Vehicle Sales in Shanghai Market



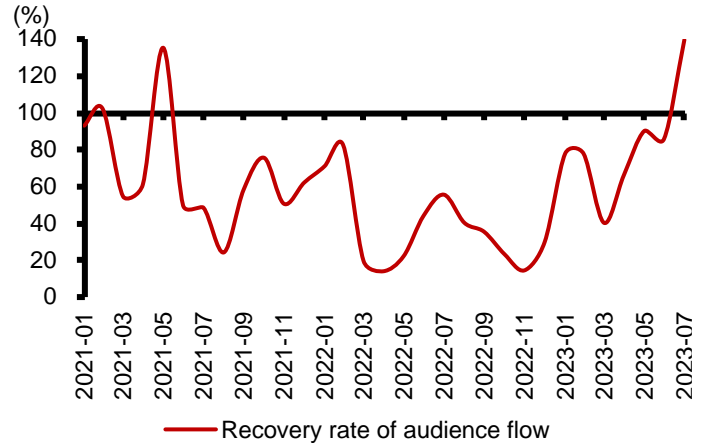
Source: WIND, CMBIGM

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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