

# China Economy

## Paving the way for a gradual resumption in 2023

China's economic growth declined in October, as local government tightened the zero-Covid policy and overseas economies slowed amid recession risks. China's housing market, retail sales, service activity and exports all weakened as we slightly revise down our forecast for 2022 GDP growth from 3.4% to 3.3%. However, we slightly revise up our forecast for 2023 GDP growth from 4.8% to 4.9% thanks to a lower base and faster reopening of economy. China will focus on growth in 2023 as "zero Covid" or peoples' health is the priority in 2022. The policymakers may set the GDP growth target at around 5% for 2023. The country will reopen its economy in 2023 and the impact of the reopening on labor participation & service inflation should be limited. China will maintain easing fiscal and monetary policy next year to support the growth. We expect strong credit support to manufacturing, hard technology, infrastructure sectors and SMEs and moderate credit easing for property sector. It is possible to see further moderate cuts in RRR and LPRs next year. Housing market and consumption should see a gradual resumption, while infrastructure investment may gradually slow and exports may see a YoY decline in 2023.

■ **Economic growth declined in October with weakening in housing market, consumption & exports.** China saw a decline of most economic activities in October due to stricter zero-Covid policy and faster slowdown in overseas economy. Most local governments tightened their zero-Covid policy around the 20<sup>th</sup> Party Congress meeting as the Covid-19 cases significantly rebounded. The traffic congestion index and subway passenger flow respectively dropped 5.8% and 16.3% YoY in October, compared to the YoY declines of 4.6% and 12.1% in September. Retail sales decreased 0.5% YoY after rising 2.5% YoY, and the YoY growth of service output index decelerated from 1.3% to 0.1%. Meanwhile, overseas economy has slowed with an increase of recession risk ahead. China's exports of goods declined 0.3% YoY in October after growing 5.7% YoY in September. With a deterioration in both domestic and overseas demand, the YoY growth of value added industrial output (VAI) decreased from 6.3% in September to 5% in October.

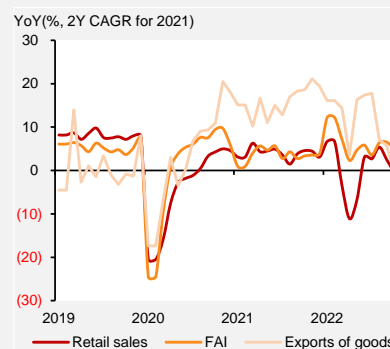
■ **China's economy should see a gradual resumption with GDP growth up from 3.3% in 2022 to 4.9% in 2023.** Due to the recent deterioration in both domestic and overseas demand, we slightly revise down our forecast for GDP growth in 2022 from 3.4% to 3.3%. With lower comparison base and faster reopening of economy, we slightly revise up our forecast for the GDP growth in 2023 from 4.8% to 4.9%.

■ **Our GDP growth forecast is based on several assumptions. Firstly,** China will focus on economic growth in 2023 as "zero Covid" or peoples' health is the priority in 2022. The Central Committee of Communist Party of China will hold its annual economic working conference in 3-4 weeks to set the GDP growth target and policy stance for 2023. We expect the GDP growth target for 2023 may be at around 5%. **Secondly,** China will reopen its economy in 2023. Some local governments have started to adjust the zero-Covid policy recently. It is possible to see large scale of virus spread during the Chinese New Year holiday next January when people travel and gather as a tradition. The impact of reopening on China's labor participation and service inflation should be very limited as the virus becomes weaker and less deadly. **Thirdly,**

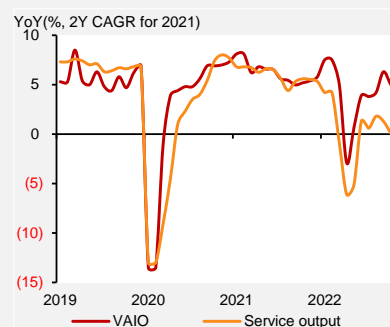
**Bingnan YE, Ph.D**

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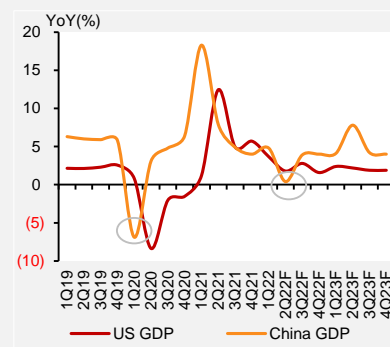
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Source: Wind, CMBIGM



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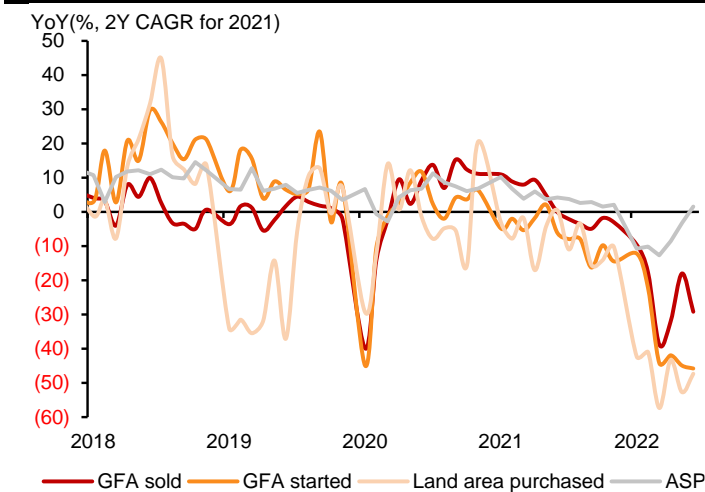
China will maintain proactive fiscal policy with higher broad deficit and prudent monetary policy with easing bias in 2023. Broad deficit including general fiscal deficit and local government special bond quota may increase by RMB600-800bn with broad deficit to GDP ratio slightly up from 5.8% in 2022 to 5.9%-6% in 2023. The PBOC would maintain ample liquidity condition with possible further RRR cut next year. We expect strong credit easing for manufacturing, hard technology, infrastructure sectors and SMEs. LPRs may see further moderate declines in 2023. Banks are encouraged to roll over matured debts of property developers and LGFVs. **Fourthly**, China will further moderately ease credit policy towards property sector as down-payment ratio and mortgage rates for 1<sup>st</sup> and 2<sup>nd</sup> home buyers may have additional moderate downside room next year. **Lastly**, the US is likely to see a moderate recession as we expect China's exports of goods to drop by 4% in 2023 after rising 8% in 2022.

- **Housing market & durable consumption weakened in October and may gradually resume in future.** Due to stricter zero-Covid policy, gross floor area (GFA) sold for commodity buildings and property development investment respectively dropped 23.2% and 16% YoY in October after decreasing 16.4% and 12.1% YoY in September. Durable consumption also deteriorated as the confidence remained weak and consumers postponed shopping for the Single's Day. Retail sales of home appliance, furniture and construction & decoration materials respectively dropped 14.1%, 6.6% and 8.7% YoY in October after declining 6.1%, 7.3% and 8.1% YoY in September. Meanwhile, retail sales of communication equipment and cultural & office goods declined 8.9% and 2.1% YoY, compared to the YoY growth of 5.8% and 8.7%. For autos, its YoY growth decelerated from 14.2% in September to 3.9% in October. However, staples maintained relatively stable growth as retail sales of food, beverage & medicine rose 8.3%, 4.1% and 8.9% YoY in October. Looking forward, housing market and durable consumption would gradually resume as China may reopen its economy and further ease credit policy in 2023.
- **Infrastructure investment may gradually slow and manufacturing investment growth should remain stable in 2023.** Fixed asset investment (FAI) in infrastructure slightly picked up 11.4% YoY in 10M22 after rising 11.2% YoY in 9M22, thanks to strong credit policy support to infrastructure projects. Meanwhile, FAI in health & social welfare maintained strong growth at 29.1% and investment in education rose 8.5%. For manufacturing, the FAI growth mildly slowed from 10.1% in 9M22 to 9.7% in 10M22 as business confidence declined amid domestic policy uncertainty and overseas recession risks. Looking forward, we expect FAI in infrastructure may gradually slow in 2023 due to base effect and exhaustion of potential demand. Manufacturing investment may maintain stable growth thanks to equipment upgrading and strong policy support.

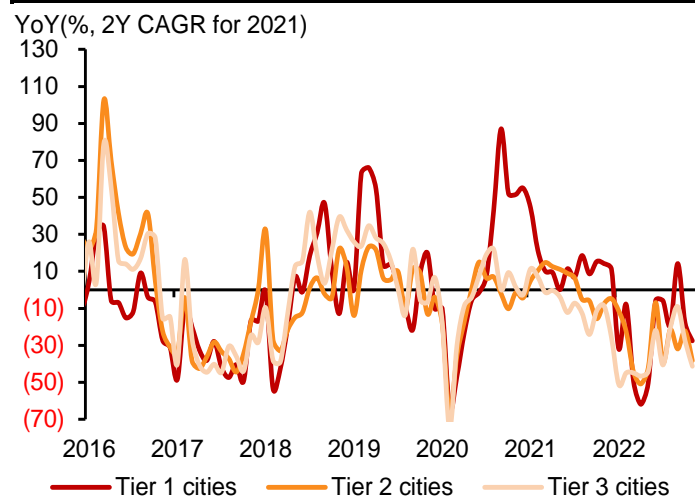
**Figure 1: China's economic indicators**

YoY(%)	2019	2020	2021	1Q21	2Q21	3Q21	4Q21	1Q22	Apr	May	Jun	Jul	Aug	Sep	Oct	2020-2021 CAGR
VAIO	5.7	2.8	9.6	24.5	9.0	4.9	3.9	6.5	(2.9)	0.7	3.9	3.8	4.2	6.3	5.0	6.1
-Mining	5.0	0.5	5.3	10.1	2.4	2.1	6.5	10.7	9.5	7.0	8.7	8.1	5.3	7.2	4.0	2.9
-Manufacturing	6.0	3.4	9.8	27.3	9.3	4.7	3.1	6.2	(4.6)	0.1	3.4	2.7	3.1	6.4	5.2	6.6
-Public utility	7.0	2.0	11.4	15.9	11.0	9.7	9.8	6.1	1.5	0.2	3.3	9.5	13.6	2.9	4.0	6.6
Delivery value for exports	1.3	(0.3)	17.7	30.4	16.3	14.2	13.2	14.4	(1.9)	11.1	15.1	9.8	5.5	5.0	2.5	8.3
Service Output	6.9	0.0	13.1	29.2	13.9	5.9	3.3	2.5	(6.1)	(5.1)	1.3	0.6	1.8	1.3	0.1	6.3
Urban FAI (YTD)	5.4	2.9	4.9	25.6	7.5	(0.4)	(0.9)	9.3	6.8	6.2	6.1	5.7	5.8	5.9	5.8	3.9
-Property development	9.9	7.0	4.4	25.6	9.8	(0.6)	(7.8)	0.7	(2.7)	(4.0)	(5.4)	(6.4)	(7.4)	(8.0)	(8.8)	5.7
-Manufacturing	3.1	(2.2)	13.5	29.8	14.9	8.8	10.6	15.6	12.2	10.6	10.4	9.9	10.0	10.1	9.7	5.4
-Infrastructure	3.3	3.4	0.2	26.8	(0.4)	(7.1)	(2.8)	10.5	8.3	8.2	9.3	9.6	10.4	11.2	11.4	1.8
Retail sales	8.0	(3.9)	12.5	33.9	14.1	5.1	3.5	3.3	####	(6.7)	3.1	2.7	5.4	2.5	(0.5)	4.0
Exports of goods	0.5	3.6	29.9	48.8	30.6	24.2	23.1	15.8	3.5	16.3	17.4	17.8	7.1	5.7	(0.3)	16.0
Imports of goods	(2.7)	(0.6)	30.1	29.4	44.5	25.9	23.7	9.6	0.2	3.9	0.7	2.1	0.3	0.3	(0.7)	13.7

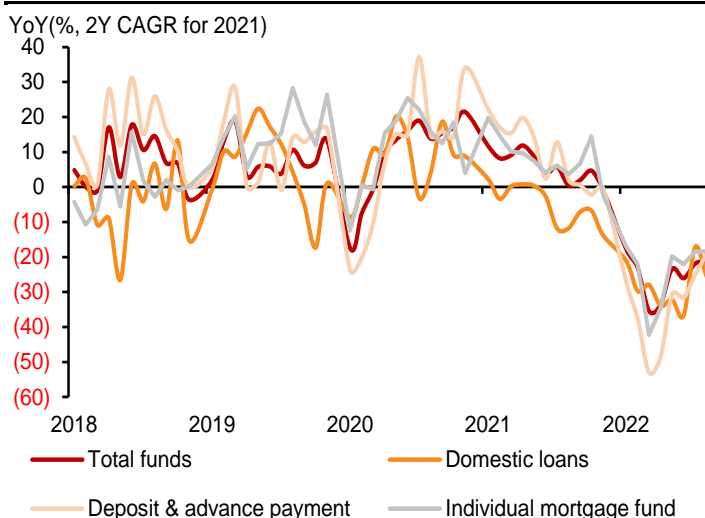
Source: Wind, CMBIGM

**Figure 2: Property market indicators**

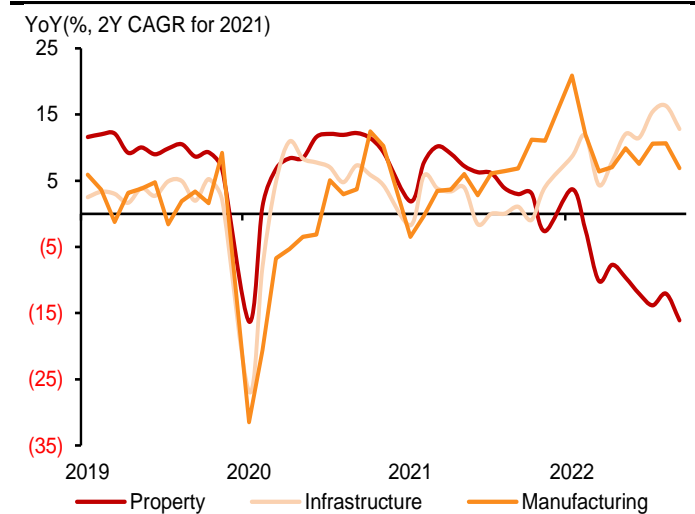
Source: WIND, CMBIGM

**Figure 3: Housing sales by Cities**

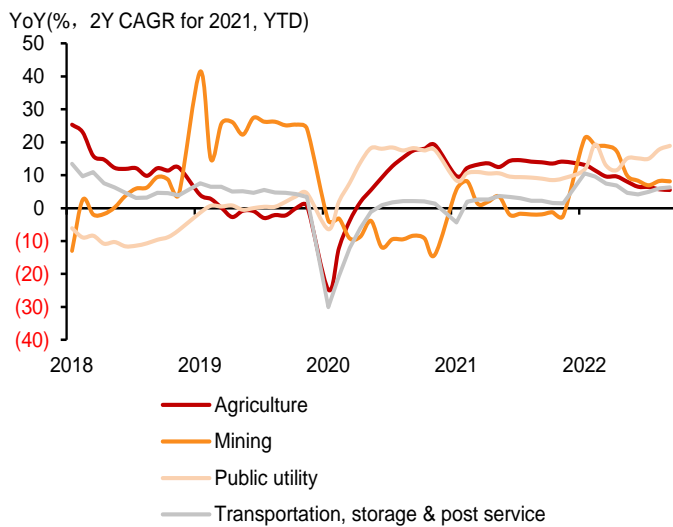
Source: WIND, CMBIGM

**Figure 4: Funding source for property investment**

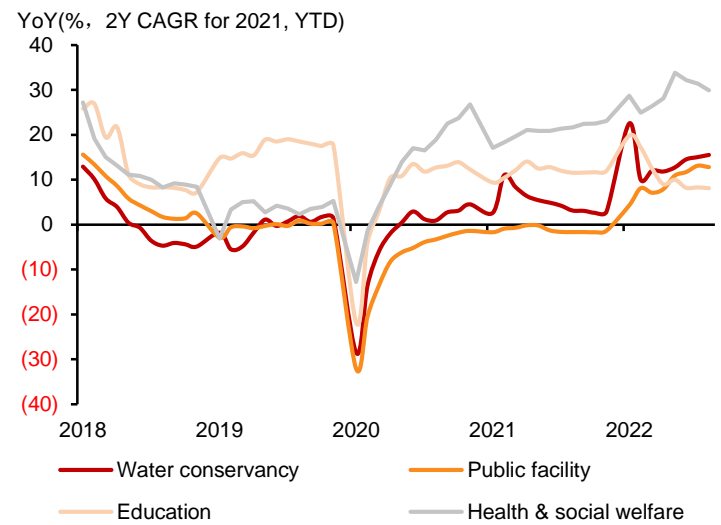
Source: WIND, CMBIGM

**Figure 5: FAI by sector**

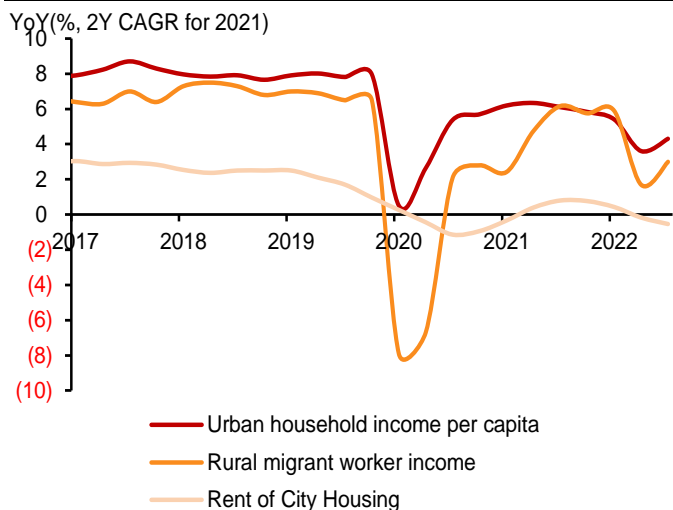
Source: WIND, CMBIGM

**Figure 6: FAI in agriculture & infrastructure sectors**

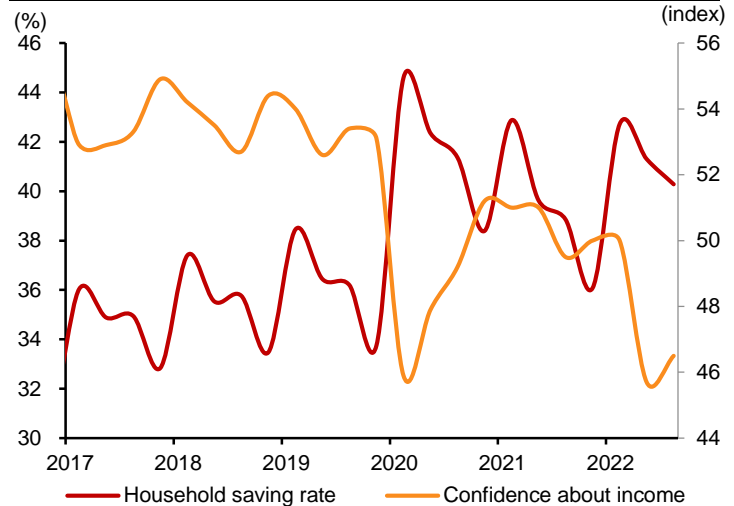
Source: WIND, CMBIGM

**Figure 7: FAI in infrastructure & social service**

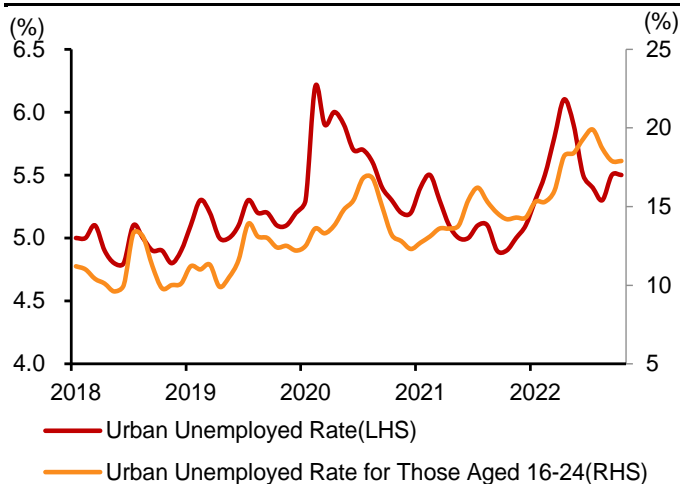
Source: WIND, CMBIGM

**Figure 8: Household income & rent for housing**

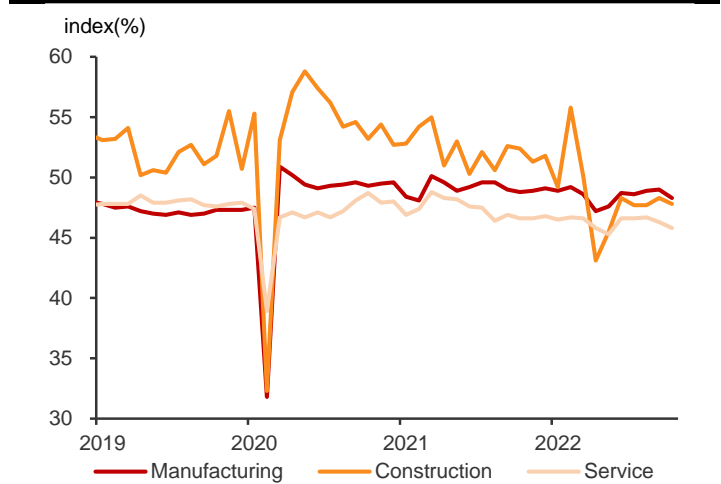
Source: WIND, CMBGM

**Figure 9: Consumer confidence**

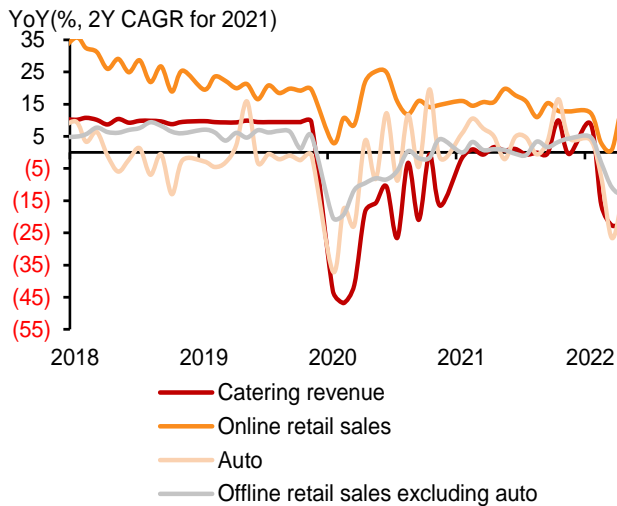
Source: WIND, CMBGM

**Figure 10: Urban surveyed unemployment rates**

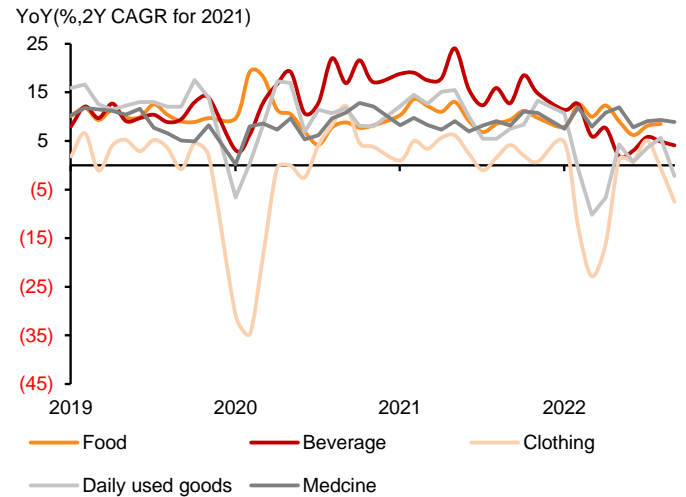
Source: WIND, CMBGM

**Figure 11: Employment Index**

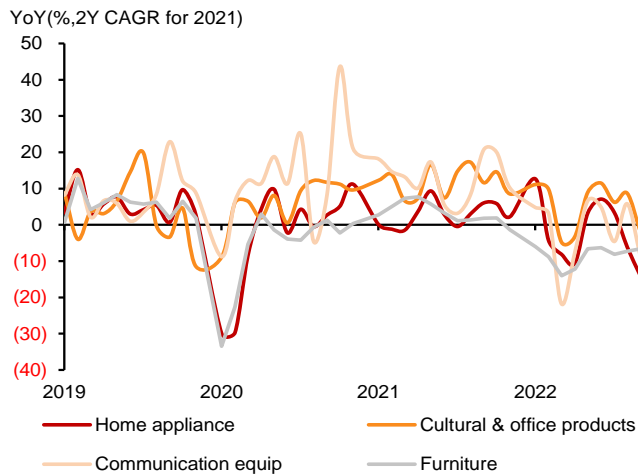
Source: WIND, CMBGM

**Figure 12: Retail sales**

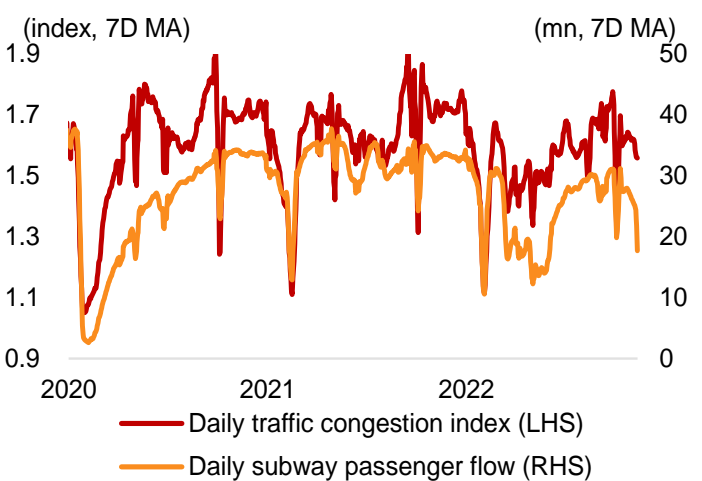
Source: WIND, CMBGM

**Figure 13: Retail sales of staples & garments**

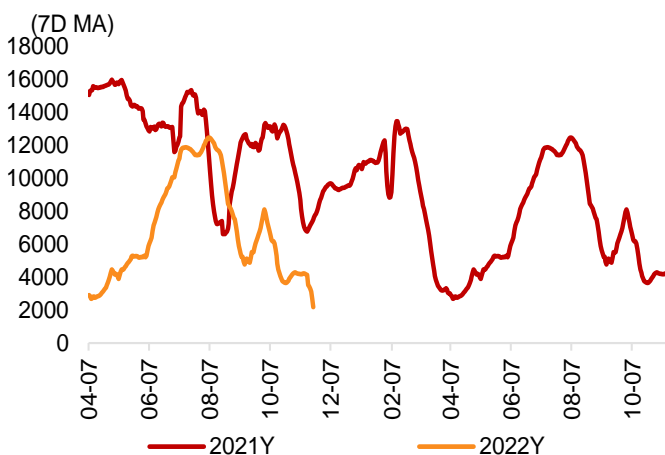
Source: WIND, CMBGM

**Figure 14: Retail sales of some durables**

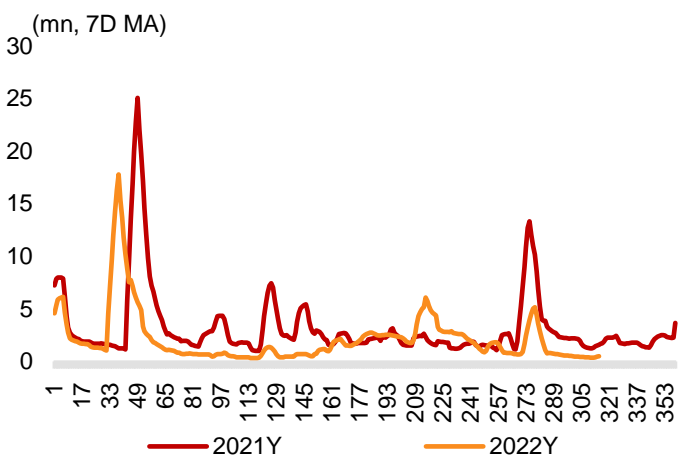
Source: WIND, CMBGM

**Figure 15: Mobility indexes in tier-one cities**

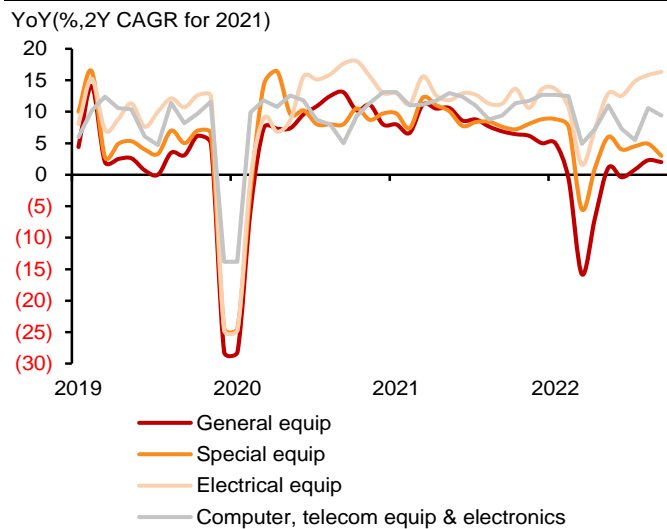
Source: WIND, CMBGM

**Figure 16: Daily domestic flights**

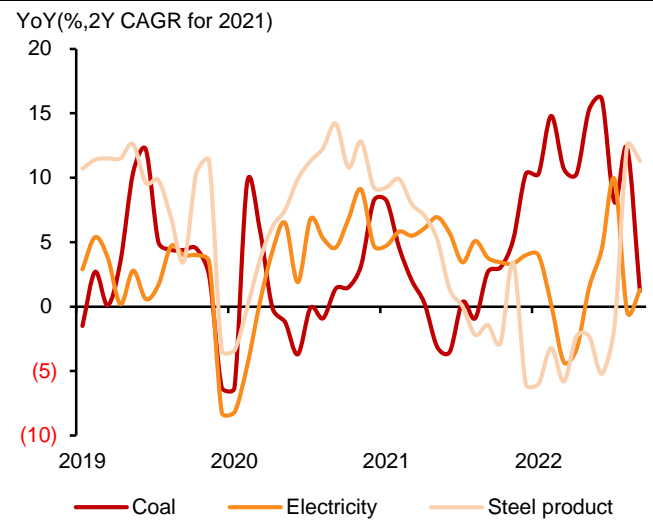
Source: WIND, CMBGM

**Figure 17: Daily audience flow in cinemas**

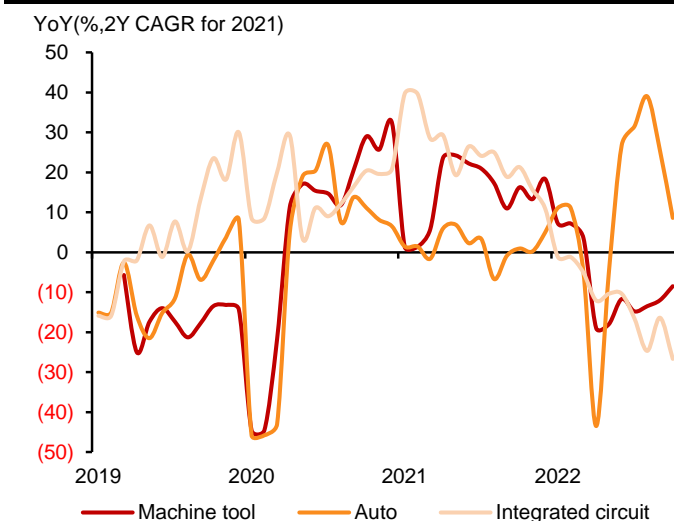
Source: WIND, CMBGM

**Figure 18: Production of various equipment**

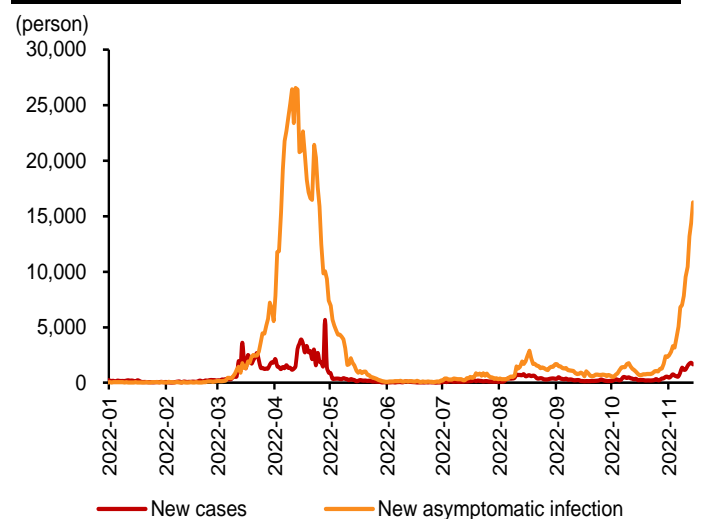
Source: WIND, CMBGM

**Figure 19: Production of energy & steel products**

Source: WIND, CMBGM

**Figure 20: Production of machine tool & auto**

Source: WIND, CMBGM

**Figure 21: New Covid-19 cases in China**

Source: WIND, CMBGM



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