

China Economy

In a gradual resumption in 2023-2024

China's GDP growth reached 3% in 2022, higher than our forecast yet missing government's target of 5.5%. The zero covid policy, property market slump and regulatory crackdown over capitals severely hurt business confidence and economic activity. Looking forward, the policymakers will try their best to restore confidence and boost growth. We have already seen the reopening of economy, the loosening of property policy and the pro-business shift after the Party Congress. We expect additional measures ahead to boost confidence and support economic resumption this year. The monetary policy will remain accommodative and the fiscal policy should be more proactive. China economy will be in a gradual resumption in 2023-2024. The GDP growth is expected to rebound from 3% in 2022 to 5.1% in 2023 and 4.7% in 2024.

- 4Q22 GDP growth is better than expectations.** China's GDP growth in 4Q22 reached 2.9%, much higher than our expectation of 1.8%. For 2022, the GDP growth was 3%, missing government's target of 5.5%. Due to zero covid policy in the first 11 months, consumption and service activity was weak. Retail sales dropped 0.2% in 2022 after rising 4.3% in 2020-2021 and service GDP growth decelerated from 5.1% in 2020-2021 to 2.3% in 2022. The property market slump also dragged down the economic growth as gross floor area of commodity buildings and property development investment respectively dropped 24.3% and 10% YoY in 2022. Exports of goods was strong in the first three quarters yet sharply deteriorated from 4Q22 amid overseas recession risk.
- GDP growth is expected to rebound from 3% in 2022 to 5.1% in 2023 thanks to domestic demand resumption.** China economy should be in a gradual resumption in 2023-2024 as the country reopens economy, stabilizes property market and seeks a pro-business shift. Household consumption and service activity will gradually resume after reopening. We expect retail sales and service GDP to increase by 6.5% and 5.9% YoY, respectively, in 2023. Meanwhile, housing market sales may gradually stabilize in 2H23 with a mild decline for the whole year. Property development investment is expected to drop by 5% in 2023 after decreasing 10% in 2022. That points to a less negative contribution to the GDP growth. In addition, new leaders' pro-business shift may help boost private business confidence, which is positive for business capex. However, China exports may further deteriorate due to overseas recession, destocking and disinflation. We expect the exports of goods to drop by 3.5% in 2023 after rising 7% in 2022.
- Household consumption may show a W-shaped upward trend after reopening.** Due to zero covid policy and housing market slump, China's retail sales experienced sharp declines in 2022. Catering operation income dropped 6.3%, retail sales of clothing, cosmetics, home appliance, furniture, telecom equipment and construction & decoration materials respectively decreased 6.5%, 4.5%, 3.9%, 7.5%, 3.4% and 6.2% YoY last year. Looking forward, household consumption should see a W-shaped upward trend after reopening. At first, people will be worried about the infection with a decline of their mobility. As more and more people view the Omicron infection as a flu, people mobility will resume. Airline & railway transportation, caterings, hotels, tourism, apparel, cosmetics and medical product & service should recover rapidly, supporting

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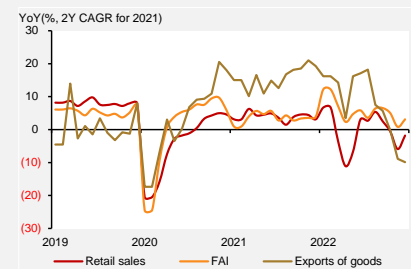
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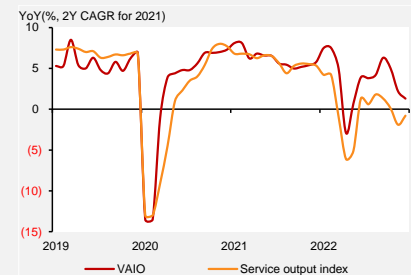
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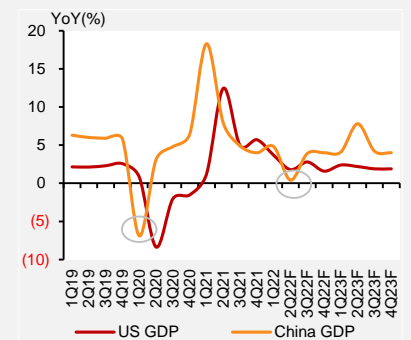
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Source: Wind, CMBIGM



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the first wave of consumption recovery. As employment, income and confidence needs more time to resume, household consumption may slow again after the first wave of recovery. Then it will shift to the gradual resumption mode.

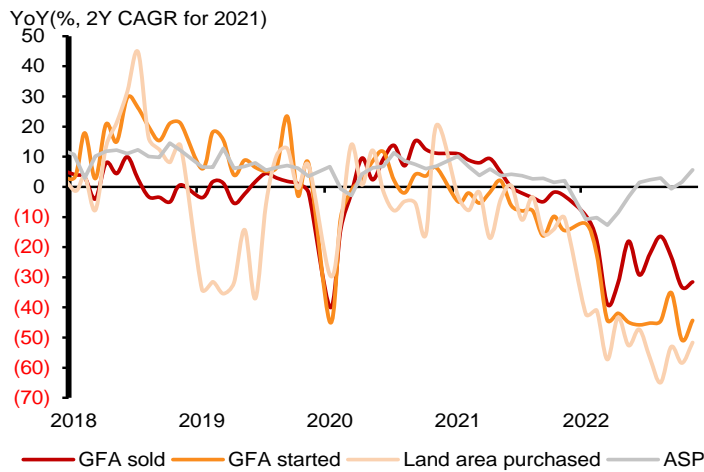
- **Housing sales is likely to stabilize in 2H23 with a mild decline for the whole year.** China's housing market collapsed in 2022 due to the abrupt deleveraging especially for developers as well as zero covid policy. Gross floor area (GFA) sold and GFA started for commodity buildings respectively declined by 24.3% and 39.4% in 2022 after rising 1.9% and dropping 11.4% in 2021. Land area purchased decreased by 53.4% in 2022 after dropping 15.5% in 2021. As China reopens its economy and continues to loosen credit policy for the property sector, housing market may gradually resume in 2023. The reopening should facilitate a resumption of employment, income and confidence, which could support housing demand in the future. A decline of property developers' insolvency risk could improve homebuyers' confidence. In addition, easing credit policy should support housing market recovery. We expect the down payment ratio and contract rates of mortgage loans may further decline for first-home and second-home buyers. We believe Chinese government will not launch property tax in next two years. The resumption of China's property market in 2023 should be more gradual and slower than the previous cycles. The speculative demand has sharply declined. With an aging population and slower urbanization, housing demand in China has already peaked and is heading for a downward trend. Geographically, housing sales in tier-1 cities should be more robust than in tier-2 and other cities due to better supply-demand fundamentals. However, tier-3 and 4 cities may continue to see weak demand.
- **China should maintain accommodative monetary policy in 2023.** China's monetary policy should remain accommodative as the growth is still below potential growth and reflation risk is low. As credit demand and risk appetite rebounds, liquidity demand may increase with a moderate rise of money market rates. However, liquidity condition should remain accommodative in 2023. RRR may be further cut once or twice more. Credit policy should stay easing especially for manufacturing, hard tech, service business & SMEs. The central bank may further cut LPRs moderately and guide banks to expand credit supply to property sector and LGFVs. We expect credit demand may recover gradually with the growth of new RMB loans and total social financing respectively up from 5.3% and 4.6% in 2022 to 11% and 10% in 2023. As saving propensity and risk aversion sentiment decline, M2 growth may slow from 11.8% at end-2022 to 11% at end-2023.
- **China's fiscal policy will be more proactive in 2023.** Broad fiscal deficit including general fiscal deficit & local government special bond quota may increase by RMB800bn in 2023. Broad fiscal deficit ratio will rise from 5.8% in 2022 to 6.2% in 2023. China will expand policy bank credit and local government financing vehicles' financing as quasi-fiscal tools to boost the growth. Some tax reduction policies may extend into 2023, such as the purchase tax exemption on new energy vehicles, and value-added tax reduction for small & micro businesses. Some new tax reduction schemes may be introduced, such as further reduction in individual income tax. The total scale of tax reduction may exceed RMB1.5trn in 2023. We expect general fiscal revenue and expenditure to respectively rise by 6.5% and 4.5%. Governments will spend more funds on education, technology, employment & social security, health care, agriculture and rural development next year.

Figure 1: China's economic indicators

YoY(%)	2019	2020	2021	2022	1Q21	2Q21	3Q21	4Q21	1Q22	Jun	Jul	Aug	Sep	Oct	Nov	Dec
GDP		2.3	8.4	3.0	18.3	7.9	4.9	4.0	4.8	0.4			3.9			2.9
VAIO	5.7	2.8	9.6	3.6	24.5	9.0	4.9	3.9	6.5	0.6	3.8	4.2	6.3	5.0	2.2	1.3
-Mining	5.0	0.5	5.3	0.6	10.1	2.4	2.1	6.5	10.7	8.4	8.1	5.3	7.2	4.0	5.9	4.9
-Manufacturing	6.0	3.4	9.8	(2.0)	27.3	9.3	4.7	3.1	6.2	(0.4)	2.7	3.1	6.4	5.2	2.0	0.2
-Public utility	7.0	2.0	11.4	(2.2)	15.9	11.0	9.7	9.8	6.1	1.7	9.5	13.6	2.9	4.0	(1.5)	7.0
Delivery value for exports	1.3	(0.3)	17.7	5.5	30.4	16.3	14.2	13.2	14.4	8.1	9.8	5.5	5.0	2.5	(6.6)	(8.4)
Service Output	6.9	0.0	13.1	(0.1)	29.2	13.9	5.9	3.3	2.5	(3.3)	0.6	1.8	1.3	0.1	(1.9)	(0.8)
Urban FAI (YTD)	5.4	2.9	4.9	5.1	25.6	7.5	(0.4)	(0.9)	9.3	6.4	5.7	5.8	5.9	5.8	5.3	5.1
-Property development	9.9	7.0	4.4	(10.0)	25.6	9.8	(0.6)	(7.8)	0.7	(4.0)	(6.4)	(7.4)	(8.0)	(8.8)	(9.8)	(10.0)
-Manufacturing	3.1	(2.2)	13.5	9.1	29.8	14.9	8.8	10.6	15.6	11.1	9.9	10.0	10.1	9.7	9.3	9.1
-Infrastructure	3.3	3.4	0.2	11.5	26.8	(0.4)	(7.1)	(2.8)	10.5	8.6	9.6	10.4	11.2	11.4	11.7	11.5
Retail sales	8.0	(3.9)	12.5	(0.2)	33.9	14.1	5.1	3.5	3.3	(4.9)	2.7	5.4	2.5	(0.5)	(5.9)	(24.3)
Exports of goods	0.5	3.6	29.9	7.0	48.8	30.6	24.2	23.1	15.8	12.3	18.2	7.5	5.7	(0.2)	(8.9)	(39.4)
Imports of goods	(2.7)	(0.6)	30.1	1.1	29.4	44.5	25.9	23.7	9.6	1.3	1.8	0.1	0.3	(0.7)	(10.6)	(53.4)

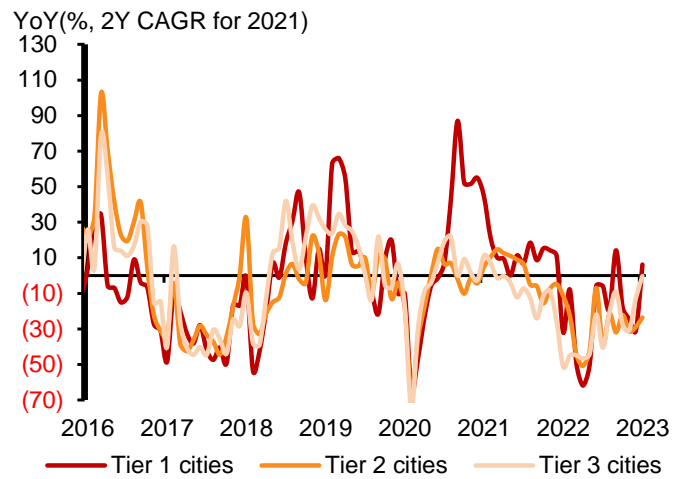
Source: Wind, CMBIGM

Figure 2: Property market indicators



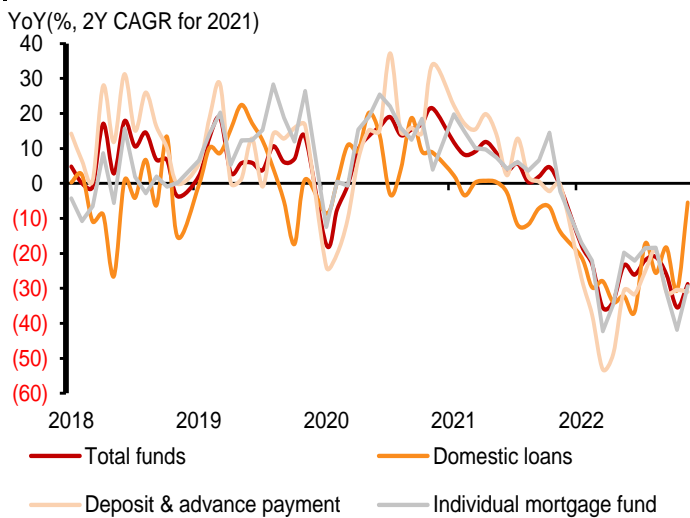
Source: WIND, CMBIGM

Figure 3: Housing sales by city



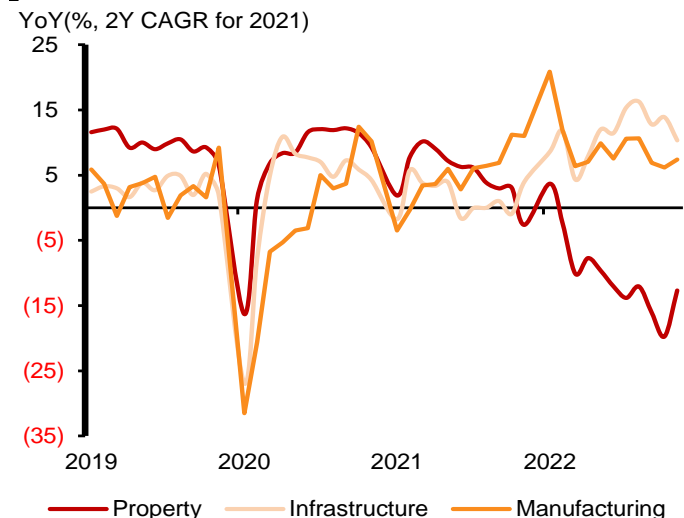
Source: WIND, CMBIGM

Figure 4: Funding source for property investment



Source: WIND, CMBIGM

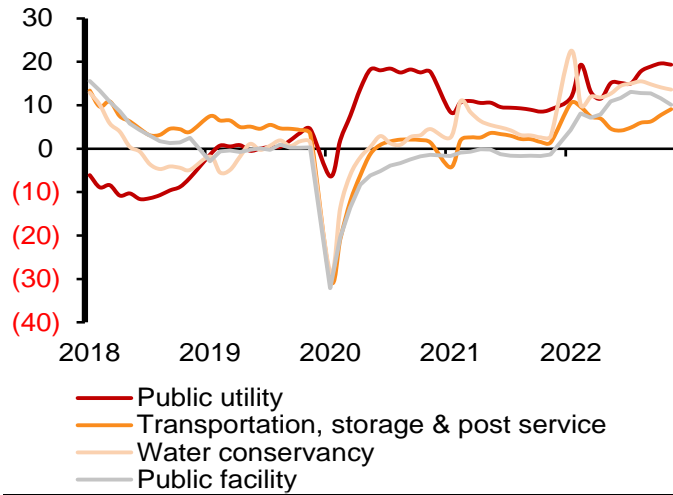
Figure 5: FAI by sector



Source: WIND, CMBIGM

Figure 6: FAI in agriculture & infrastructure sectors

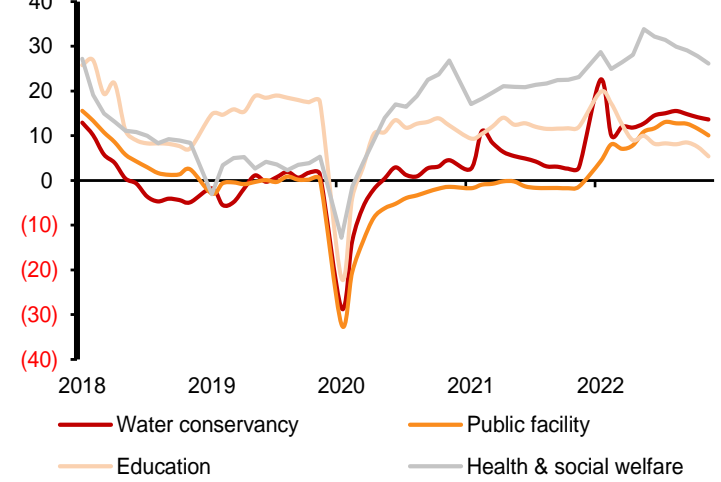
YoY(%， 2Y CAGR for 2021, YTD)



Source: WIND, CMBIGM

Figure 7: FAI in infrastructure & social service

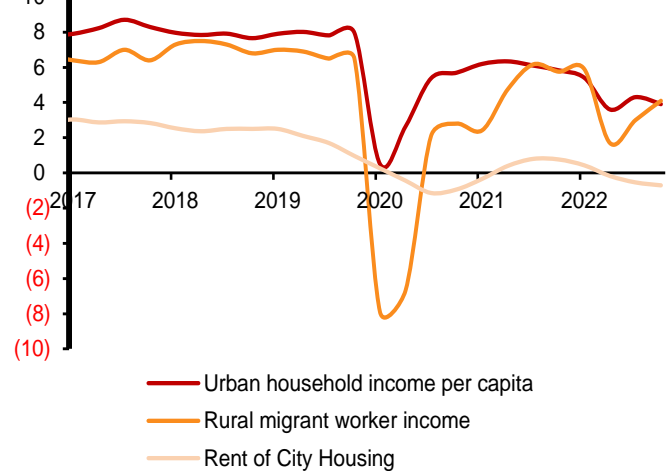
YoY(%， 2Y CAGR for 2021, YTD)



Source: WIND, CMBIGM

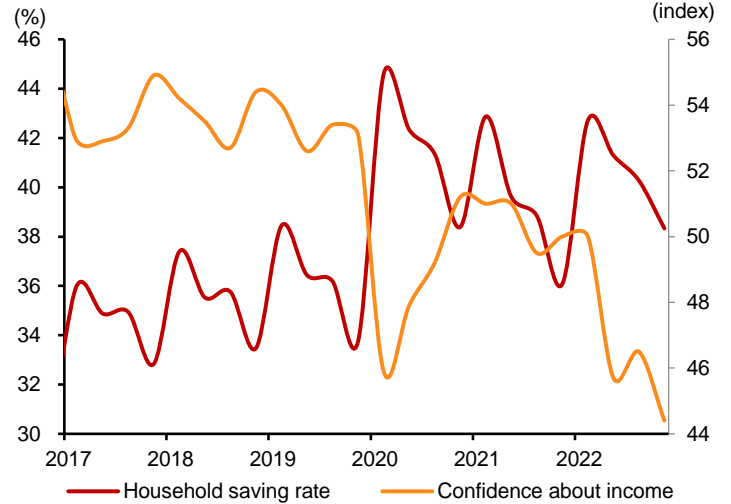
Figure 8: Household income & rent for housing

YoY(%， 2Y CAGR for 2021)



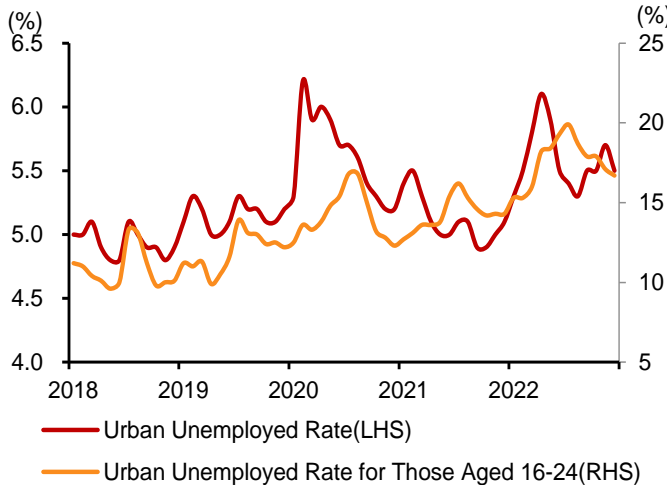
Source: WIND, CMBIGM

Figure 9: Consumer confidence



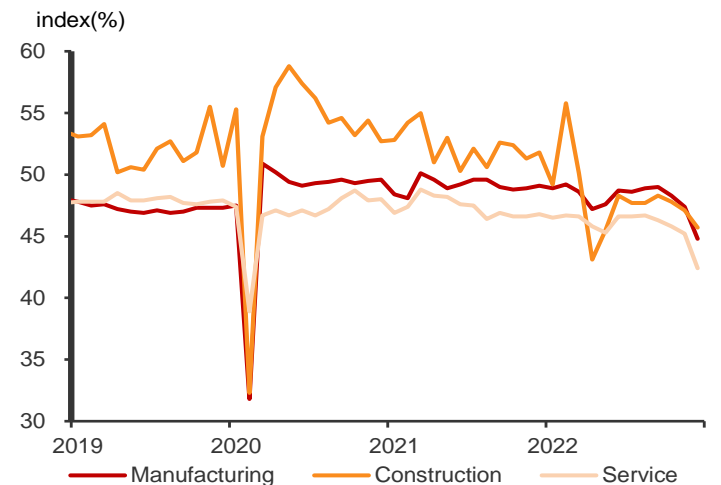
Source: WIND, CMBIGM

Figure 10: Urban surveyed unemployment rates



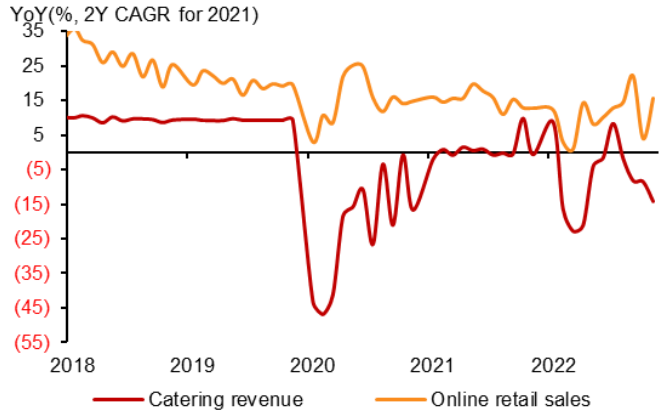
Source: WIND, CMBIGM

Figure 11: Employment Index



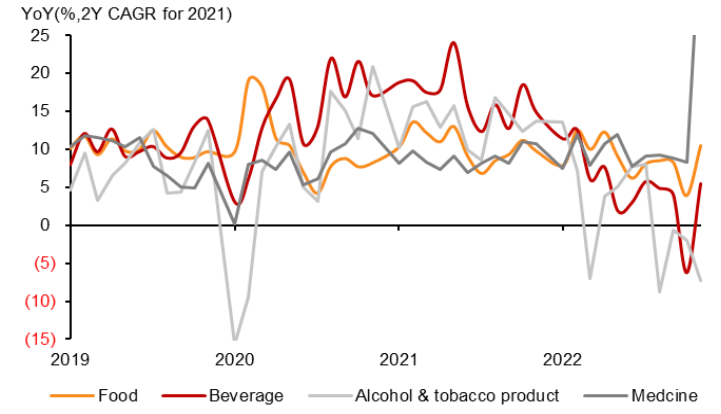
Source: WIND, CMBIGM

Figure 12: Catering & Online Retail Sales



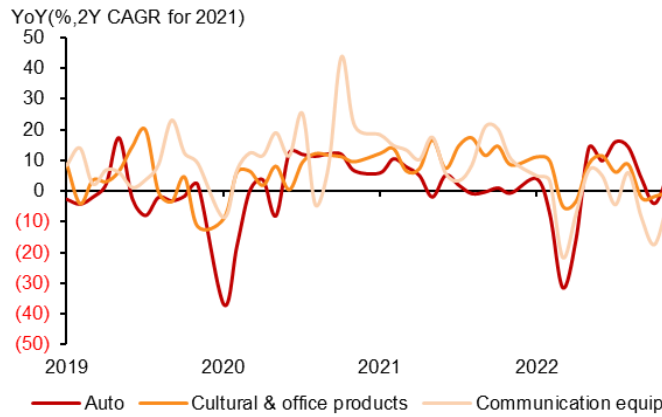
Source: WIND, CMBIGM

Figure 13: Retail Sales of Staples



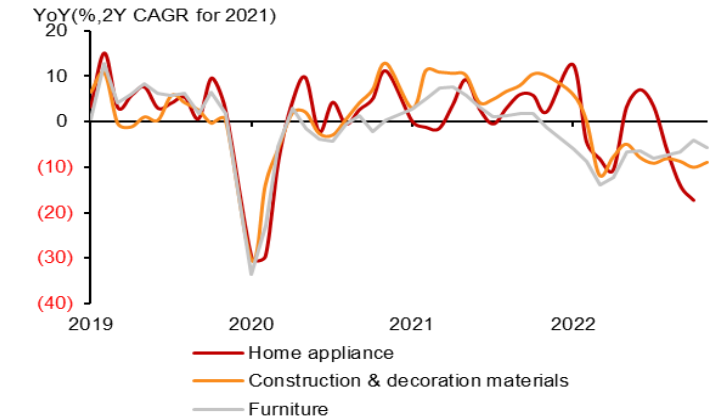
Source: WIND, CMBIGM

Figure 14: Retail Sales of Some Durables



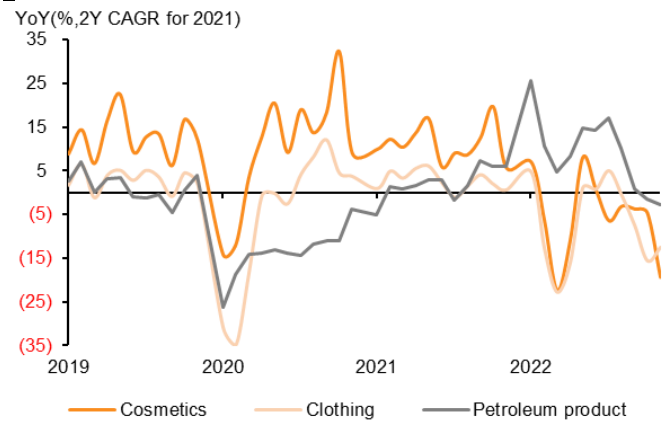
Source: WIND, CMBIGM

Figure 15: Retail Sales of Durables Related to Housing



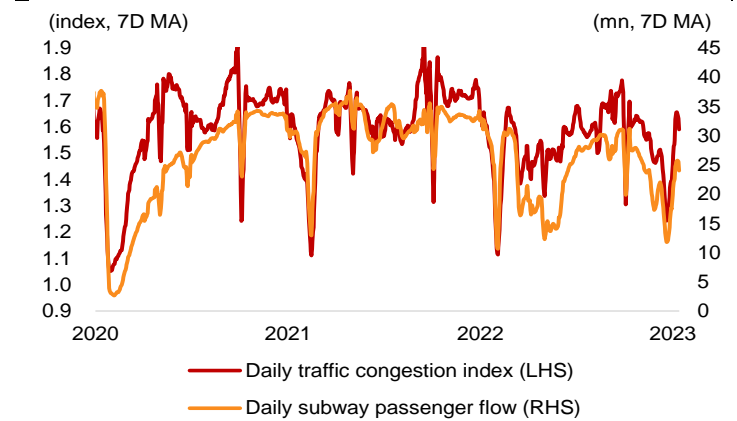
Source: WIND, CMBIGM

Figure 16: Retail Sales of Non-durables



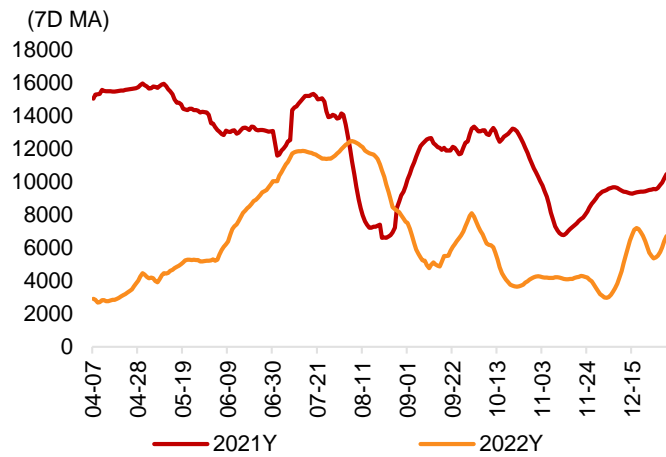
Source: WIND, CMBIGM

Figure 17: Mobility indexes in tier-one cities



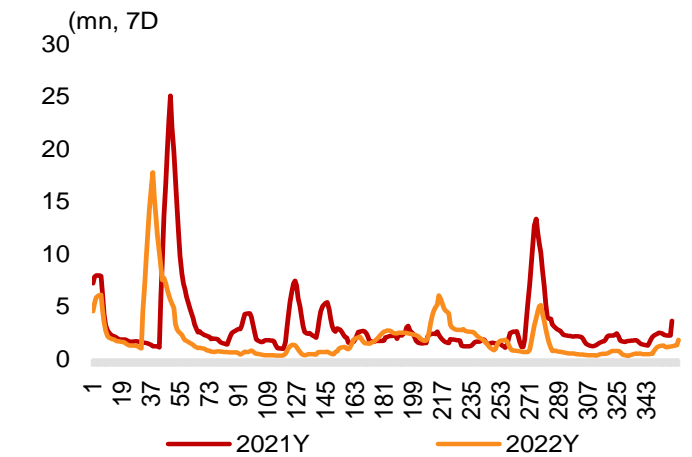
Source: WIND, CMBIGM

Figure 18: Daily Domestic Flights



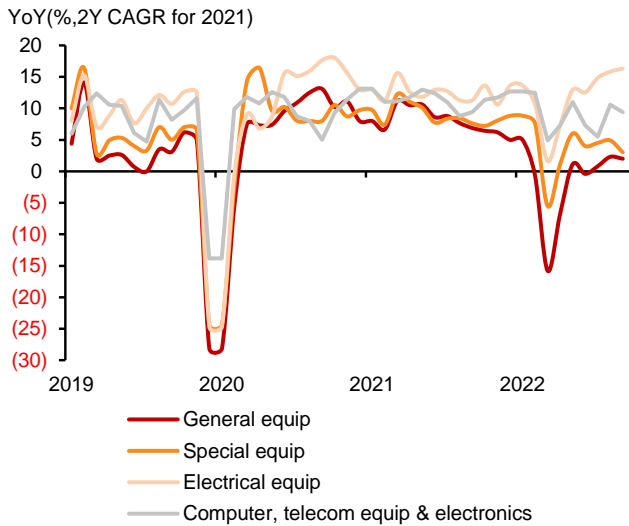
Source: WIND, CMBIGM

Figure 19: Daily Audience Flow in Cinemas



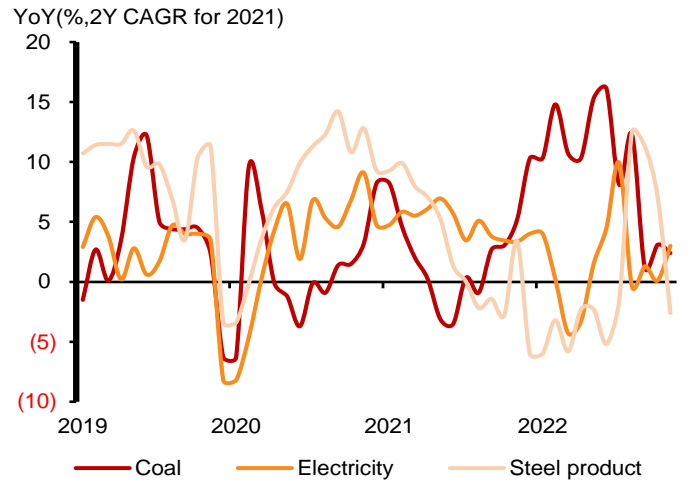
Source: WIND, CMBIGM

Figure 20: Output Growth in Equipment



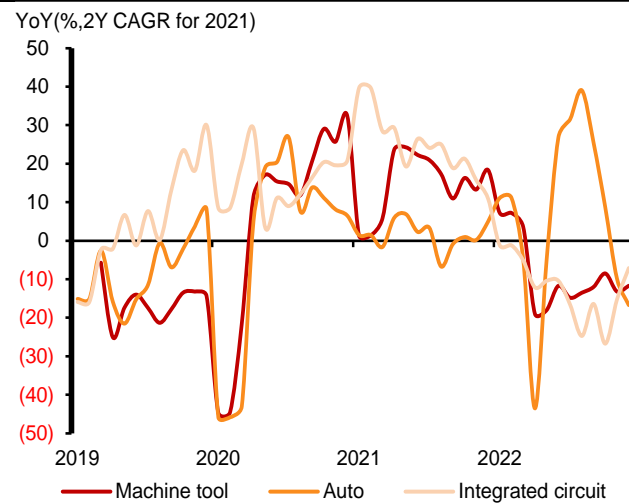
Source: WIND, CMBIGM

Figure 21: Output Growth of Energy & Steel Product



Source: WIND, CMBIGM

Figure 22: Output Growth in Machine Tool & Auto



Source: WIND, CMBIGM

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