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CMB INTERNATIONAL 招银国际
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China Economy

To brace for a modest recovery amid fiscal stimulus

Oct economic data showed growth momentum remained weak. Retail sales and service output index picked up thanks to base effect as their 2Y CAGRs slowed. FAI growth moderated while housing market continued to slump. Overall, China's economy still lacks robust recovery momentum. The deflation in consumer goods and soft credit demand in private sector showed similar implications of weak consumer and business confidence. Looking forward, China will maintain the GDP growth target at around 5% for 2024 with more expansionary fiscal policies and continuous accommodative monetary policy. We expect general fiscal deficit ratio to reach 3.7% in 2024, compared to 3.8% in 2023. Local government special bond quota is expected to climb from 3% of GDP in 2023 to 3.3% of GDP in 2024. The PBOC may launch additional cuts in RRR, LPR and deposit rates in next several quarters to facilitate credit expansion. China's economy may gradually improve in 2024. We maintain our forecast for GDP growth at 5.2% for 2023 and 4.9% for 2024.

- **New housing market kept slumping without any signs of alleviation while second-hand housing sale continued to improve.** The gross floor area (GFA) sold and the GFA started for commodity buildings respectively dropped 7.8% and 23.2% YoY (all in YoY terms unless specified) in 10M23 after decreasing 7.5% and 23.4% in 9M23. Property development investment further declined 9.3% in 10M23 after dropping 9.1% in 9M23. 30 major cities saw a modest rebound in recovery ratio of commercial housing unit sales compared to the same period in 2019 in Oct to 62.1% from 53.5%, with the recovery across tier-1, 2 and 3 cities thanks to the loosening of property policy. However, when looking into the data in the first half of Nov, the recovery rates of all tiers of cities have dropped sharply as policy momentum faded. The recovery ratio of second-hand housing unit sales in 11 major cities significantly improved in Oct, and that in the first half of Nov improved from 81.6% in Sep to 99% and 105.5% respectively, with divergent performance across cities. If we exclude the outlier Chengdu, the recovery ratio is only 79.5% in Oct, although still modestly recovered from 69.9% in Sep. Breaking down the funding source for property development investment, deposit & advance payment and individual mortgage fund both further dropped 10.4% and 7.6% in 10M23 after falling 9.6% and 6.9% respectively in 9M23. Meanwhile, domestic loan fund declined 11% in 10M23 after dropping 11.1% in 9M23. Policymakers have loosened property policy and expanded credit supply to support the collapsing housing market, as we have seen the mild rebound across the country. However, the support is far from enough as momentum from previous policy easing seems to fade away quickly after just one month or two when the demand of housing upgraders starts to drain. Looking forward, we expect housing sales continue to dwindle in November. The reported RMB1 tn RMB funding support for urban village renovation, construction of public affordable housing should be a good news for local state-owned developers.
- **Retail sales dropped in terms of 2Y CAGRs amid weak consumer demand.** Retail sales came in slightly above the market expectation by rising 7.6% YoY in Oct thanks to lower base effect after climbing 5.5% in Sep, while its 2Y CAGR dropped to 3.5% from 4% in Sep. Looking into the details,

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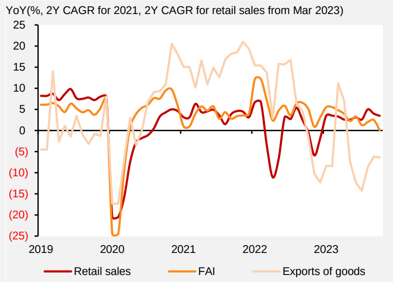
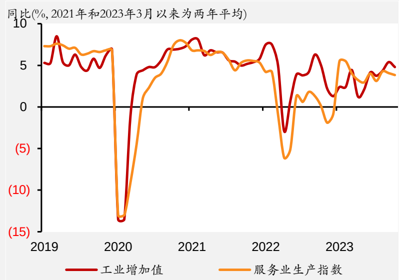


Source: Wind, CMBIGM



Source: Wind, CMBIGM

medicine and cultural & office products surged with their 2Y CAGRs respectively rose from 6.9% and -3.1% in Sep to 8.5% and 2.7% in Oct while most products softened. Catering service, clothing, daily used goods, telecom equip, petroleum product and auto all declined from 5.8%, 4.6%, 3.1%, 3.1%, 9.5% and 8.4% to 3.7%, -0.3%, 1%, 2.2%, 3.1% and 7.6% Housing-related durables marginally improved although remained weak as furniture and home appliance respectively grew 1.7% and 9.6% YoY when their 2Y CAGR narrowed the decline to 2.5% and 3%. Construction & decoration materials narrowed its YoY decline to 4.8% from 8.2%, but its 2Y CAGR remained negative at -6.8%. Looking forward, retail sales may maintain mild to moderate recovery as employment and confidence slowly improve. We maintain our forecast for the retail sales growth in 2023 at 7.5%.

- **Service activities and industrial output modestly improved.** Service output index and VAIO growth modestly improved as they respectively rose 7.7% and 4.6% in Oct after growing 6.9% and 4.5% in Sep. In terms of 2Y CAGRs, VAIO fell to 4.8% from 5.4% in Sep while service output index decelerated to 3.8% from 4.1%. In the service sector, lodging and dining, transportation, storage & postal service, information transmission, internet & IT service and retail & wholesale saw higher YoY growth and transportation, postal service, and telecom service showed good sentiment. In the manufacturing sector, auto sector continued to be the highlight in the economy with elevated 11.3% YoY growth in 10M23 amid strong export and domestic performance. Output in chemical products, rubber & plastic product, food production, ferrous & non-ferrous metal smelting & pressing, electrical equipment and electronic equipment saw robust growth while textile and medicine remained weak. Looking forward, we may see a gradual recovery of service sector and VAIO as domestic consumer demand continues to improve and exports recover slowly.
- **FAI decelerated with weakening across property, manufacturing and infrastructure investment.** FAI decelerated to 1.3% in Oct after rising 2.5% in Sep, below market expectation. Property sector remained sluggish as property development investment fell by 11.3% YoY after declining 11.2% in Sep. The liquidity condition of most private developers remained restricted as housing sales deeply contracted and their cash & equivalents cannot be fully mobilized due to housing delivery purposes. Some troubled developers started to commit credit default and re-organize their foreign debt while the debenture price of Vanke which considered to be one of the healthiest developers in terms of financial condition significantly dropped and the yield skyrocketed to 50-60%. We do not see any signs of substantial change in the trend of deterioration in property development investment. The YoY growth of FAI in manufacturing eased to 6.2% in Oct from 7.9% in Sep. The FAI growth of chemical product, special equipment, auto and electrical material & equipment remained strong as the energy transition and smart technology revolution boosts business capex in these sectors. Looking forward, most manufacturing industries are likely to continue the gradual deceleration in FAI due to continuous slowdown in domestic demand as well as contracted export. Infrastructure YoY growth mildly inched down to 5.6% in Oct from 6.8% despite a huge acceleration in local & central government bond issuance in Oct. The YTD growth of FAI in public utility, transportation, storage & post service, and railway transportation remained elevated while fixed investment in road transport, public facility management and health & social welfare remained weak. Looking forward, we expect infrastructure investment may continue to expand since the new trend in credit data showed that the

government is picking up debt to offset the deficit of private credit demand. We maintain our forecast on the FAI growth in 2023 at 3.8%.

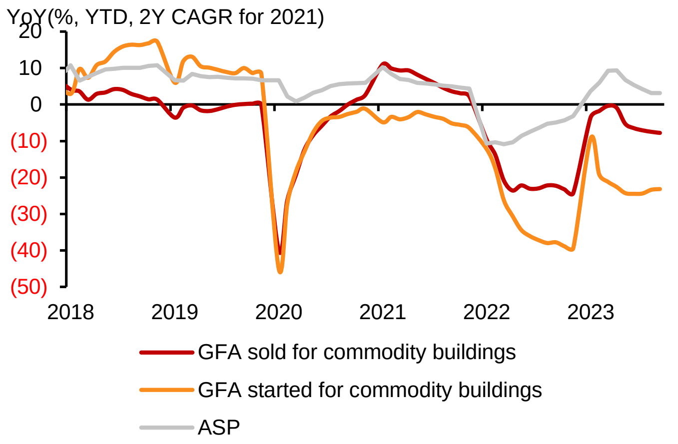
- **China will maintain accommodative policy in 2024.** China is likely to maintain its 5% GDP growth target for 2024. However, the shaky property market and contracted export still cast a shadow on the economic growth while business & consumer confidence remains low. As the comparison base rises, it may become even more difficult to achieve the 5% growth target next year. Therefore, China needs continuous accommodative policy in 2024. The PBOC is likely to maintain easing monetary policy with additional cuts in RRR, deposit rates and LPRs and guide banks to further expand credit supply while continue to provide liquidity support for debt-ridden local governments and urban village renovation projects. In addition, the cabinet may increase broad fiscal deficit (including general fiscal deficit and local government special bond quota) from 6.8% of GDP in 2023 to 7% of GDP in 2024. Provincial governments will be allowed to issue additional special refinancing bonds to replace some matured hidden debts. We expect a mild recovery in China's economy with the GDP growth expected to reach 5.2% in 2023 and 4.9% in 2024.

Figure 1: China economic indicators

	YoY (%)										2Y CAGR (%)					
	2019	2020	2021	2022	1Q23	1H23	3Q23	Sep	Oct	Nov(F)	1Q23	1H23	3Q23	Sep	Oct	Nov(F)
GDP	6.0	2.3	8.4	3.0	4.5	5.5	5.2	4.9			4.6	4.0	4.1	4.4		
VAIO	5.7	2.8	9.6	3.6	3.0	3.8	4.0	4.5	4.6	6.8	4.7	3.6	3.7	5.4	4.8	4.5
-Mining	5.0	0.5	5.3	0.6	3.2	1.7	1.7	1.5	2.9	1.2	6.9	5.5	4.6	4.3	3.4	3.5
-Manufacturing	6.0	3.4	9.8	(2.0)	2.9	4.2	4.4	5.0	5.1	7.5	4.5	3.5	3.3	5.7	5.1	4.7
-Public utility	7.0	2.0	11.4	(2.2)	3.3	4.1	3.5	3.5	1.5	6.0	4.7	4.0	6.8	3.2	2.7	2.2
Delivery value for exports	1.3	(0.3)	17.7	5.5	(5.3)	(4.8)	(4.8)	(3.6)	(0.5)	8.0	4.1	2.7	1.4	0.6	1.0	0.4
Service output index	6.9	0.0	13.1	(0.1)	6.7	8.7	7.9	6.9	7.7	9.0	4.6	4.1	3.1	4.1	3.8	3.4
Retail sales	8.0	(3.9)	12.5	(0.2)	5.8	8.2	6.8	5.5	7.6	13.5	4.5	3.7	2.6	4.0	3.5	3.3
Exports of goods	0.5	3.6	29.9	7.0	(1.8)	(3.4)	(5.7)	(6.2)	(6.4)	3.5	6.2	4.5	0.0	(0.9)	(4.1)	(3.6)
Imports of goods	(2.7)	(0.6)	30.1	1.1	(7.0)	(6.9)	(7.5)	(6.3)	3.0	5.0	1.3	(0.9)	(5.7)	(3.4)	0.8	(3.4)
Urban FAI (YTD)	5.4	2.9	4.9	5.1	5.1	3.8	3.1	3.1	2.9	2.8	7.2	4.9	4.5	4.5	4.3	4.0
-Property development	9.9	7.0	4.4	(10.0)	(5.8)	(7.9)	(9.1)	(9.1)	(9.3)	(9.0)	(2.6)	(6.7)	(7.5)	(8.6)	(9.1)	(9.4)
-Manufacturing	3.1	(2.2)	13.5	9.1	7.0	6.0	6.2	6.2	6.2	6.1	11.2	8.2	7.8	8.1	7.9	7.7
-Infrastructure	3.3	3.4	0.2	11.5	10.8	10.2	8.6	8.6	8.3	8.0	10.6	9.7	9.5	9.9	9.8	9.8
GFA sold for commodity building (YTD)	20.8	(20.9)	0.0	0.0	(1.8)	(5.3)	(7.5)	(7.5)	(7.8)	(7.0)	(8.0)	(14.2)	(15.2)	(15.2)	(15.4)	(15.5)
GFA started for commodity building (YTD)	0.0	0.0	0.0	0.0	(19.2)	(24.3)	(23.4)	(23.4)	(23.2)	(23.0)	(18.4)	(29.5)	(30.5)	(31.1)	(30.9)	(31.4)

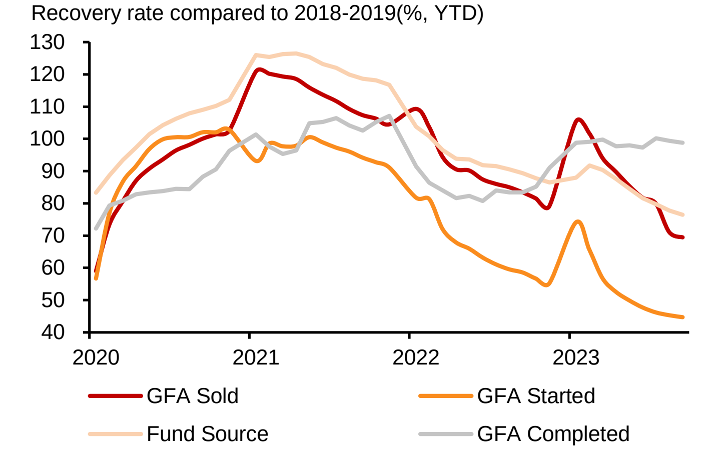
Source: Wind, CMBIGM estimates

Figure 2: Property market indicators



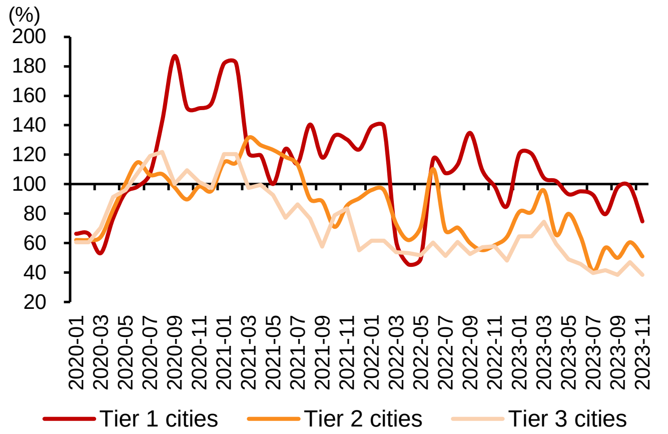
Source: WIND, CMBIGM

Figure 3: Recovery rates compared to 2019



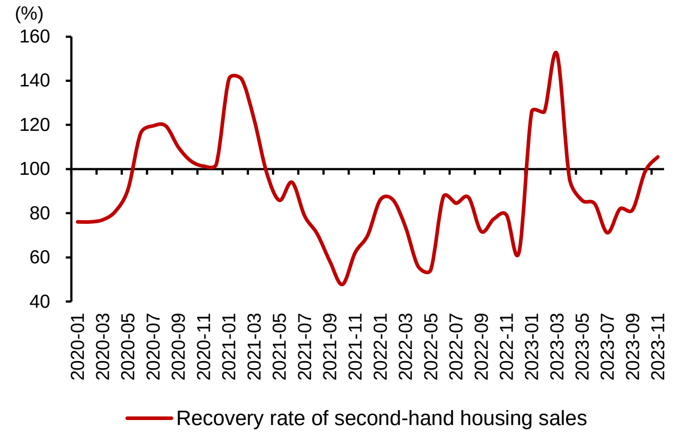
Source: WIND, CMBIGM

Figure 4: Housing sales recovery rates compared to 2019 in 30 Cities



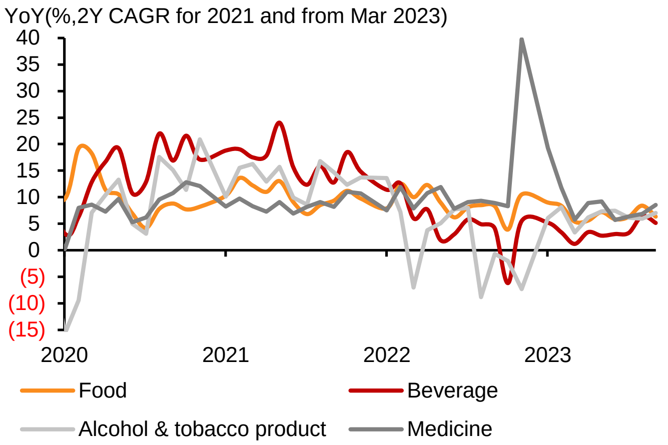
Source: WIND, CMBIGM

Figure 5: Second-hand housing sales recovery rates compared to 2019 in 11 cities



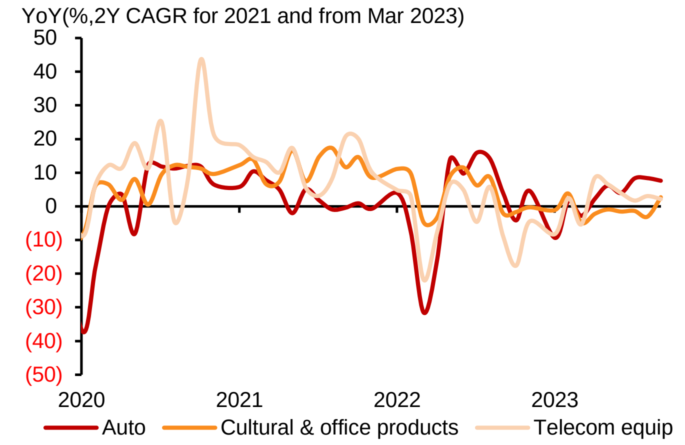
Source: WIND, CMBIGM
11 cities include Beijing, Shenzhen, Hangzhou, Nanjing, Chengdu, Qingdao, Suzhou, Xiamen, Wuxi, Dongguan and Foshan

Figure 6: Retail sales of staples



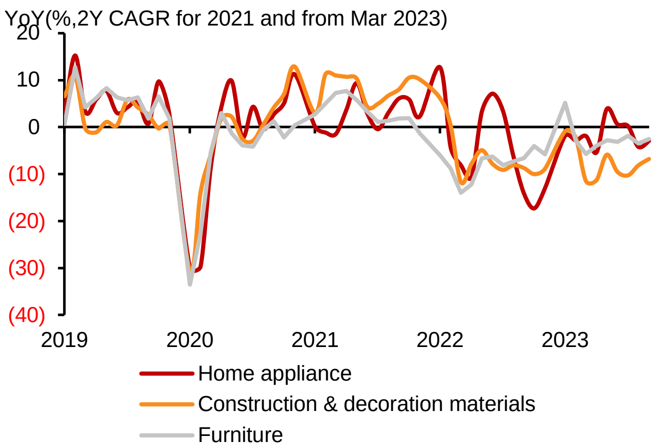
Source: WIND, CMBIGM

Figure 7: Retail sales of auto & electronics



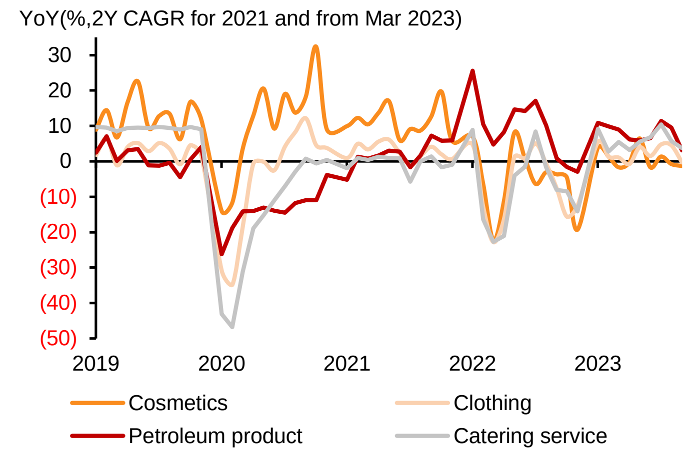
Source: WIND, CMBIGM

Figure 8: Home appliance & furniture retail sales



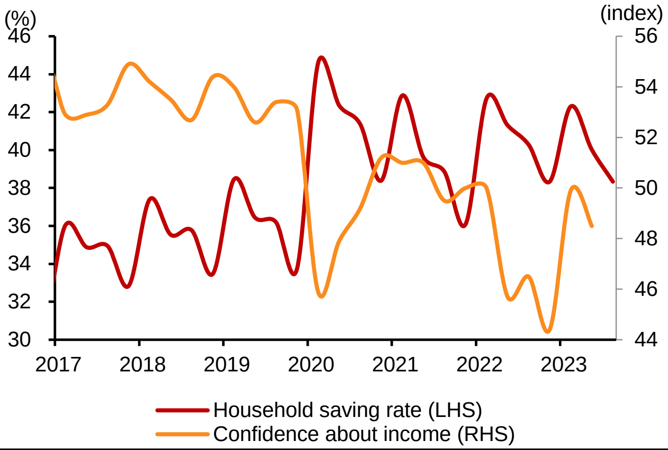
Source: WIND, CMBIGM

Figure 9: Retail sales related to outgoing activities



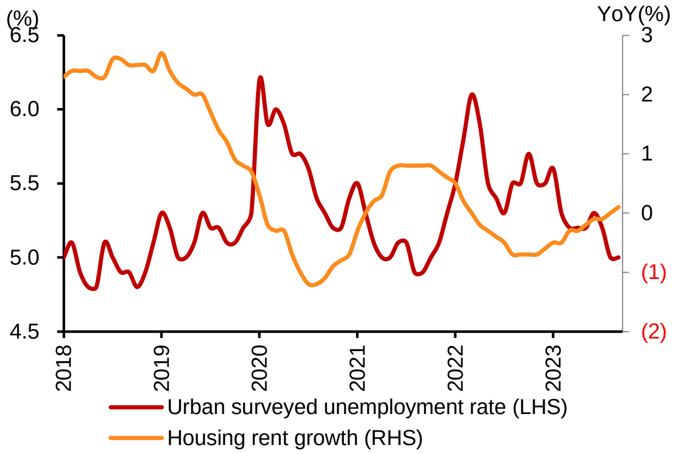
Source: WIND, CMBIGM

Figure 10: Consumer confidence



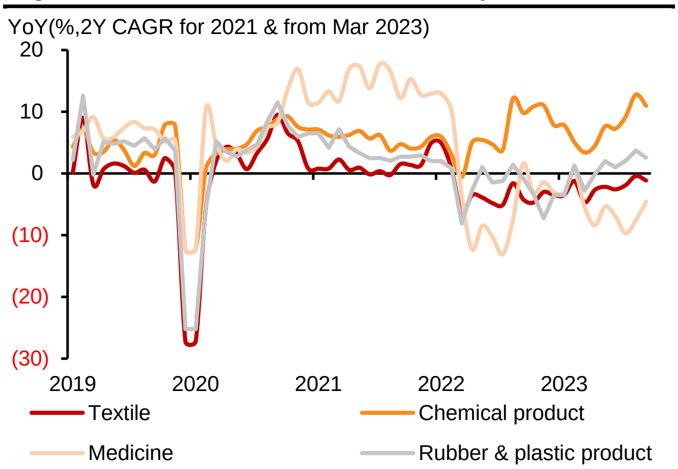
Source: WIND, CMBIGM

Figure 11: Urban unemployment rate & housing rent



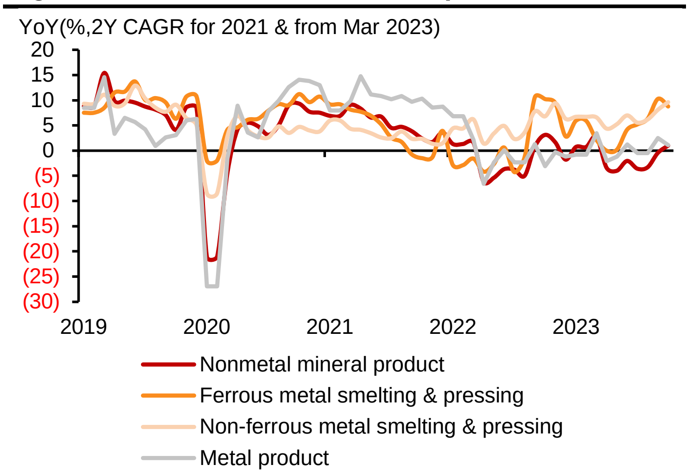
Source: WIND, CMBIGM

Figure 12: VAIO in textile & chemical products



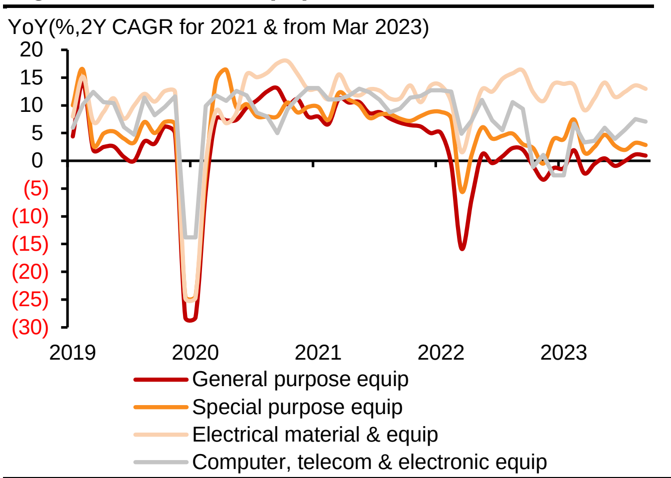
Source: WIND, CMBIGM

Figure 13:VAIO in mineral & metal products



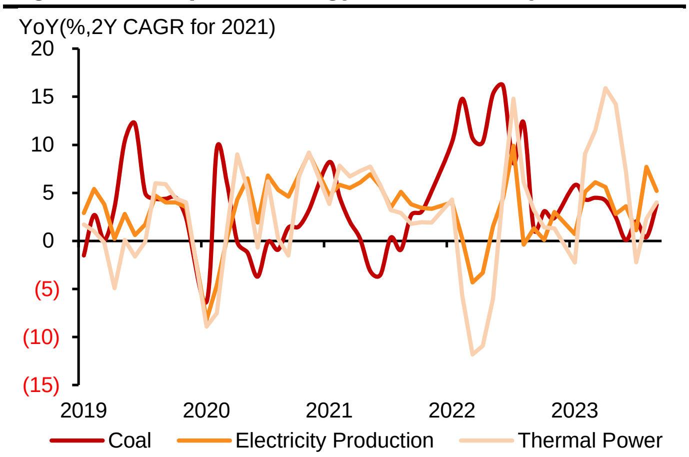
Source: WIND, CMBIGM

Figure 14: VAIO in equipment



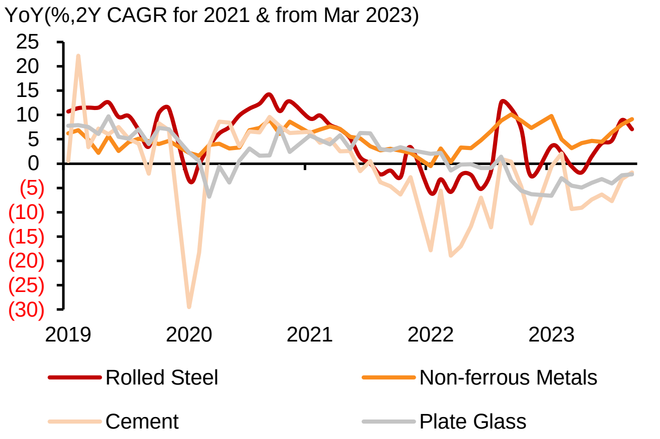
Source: WIND, CMBIGM

Figure 15: Output in energy and electricity



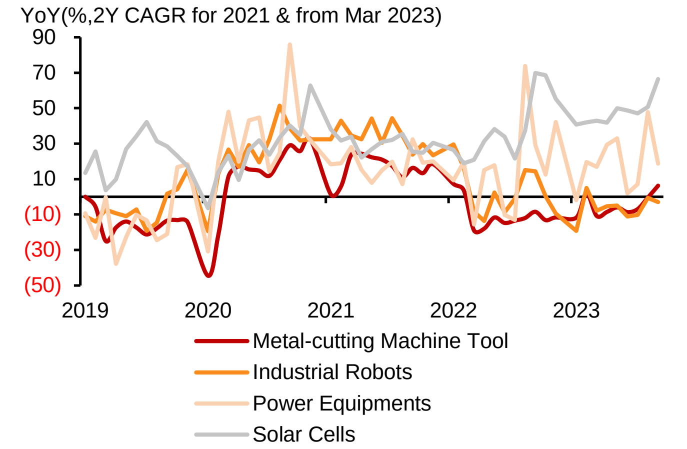
Source: WIND, CMBIGM

Figure 16: Output in steel & construction material



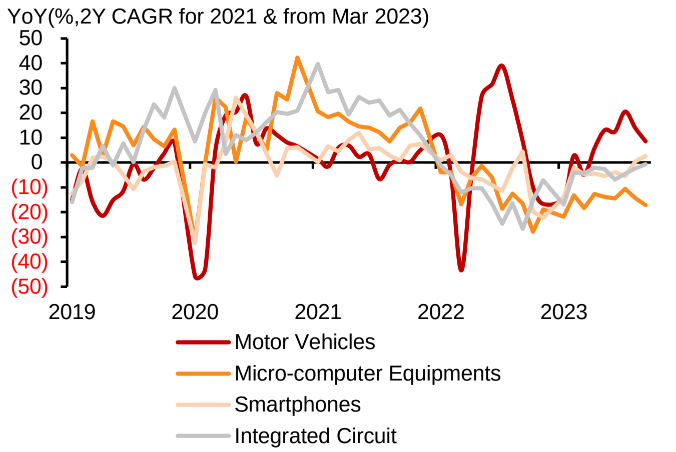
Source: WIND, CMBIGM

Figure 17: Output in capital goods



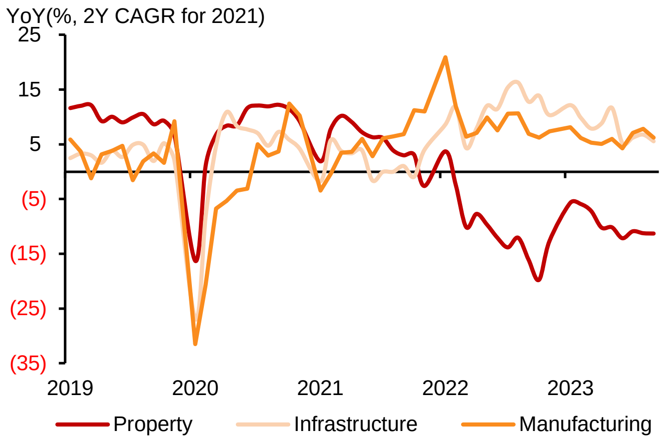
Source: WIND, CMBIGM

Figure 18:Output in auto, computer & smartphone



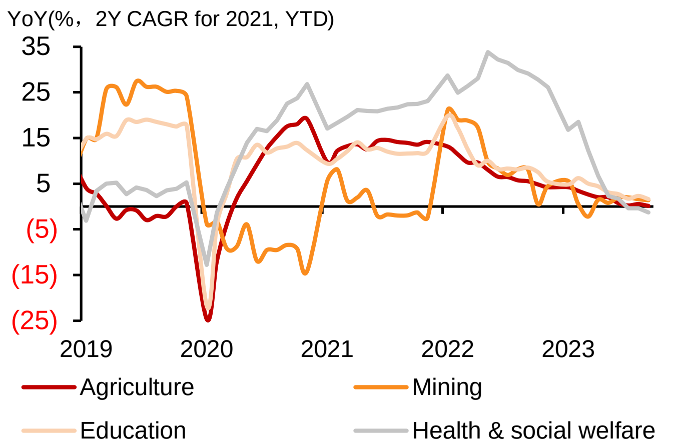
Source: WIND, CMBIGM

Figure 19: FAI by sector



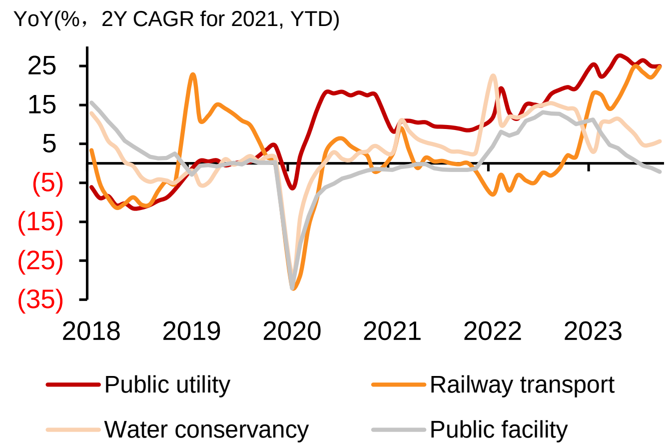
Source: WIND, CMBIGM

Figure 20: FAI in agriculture& public service



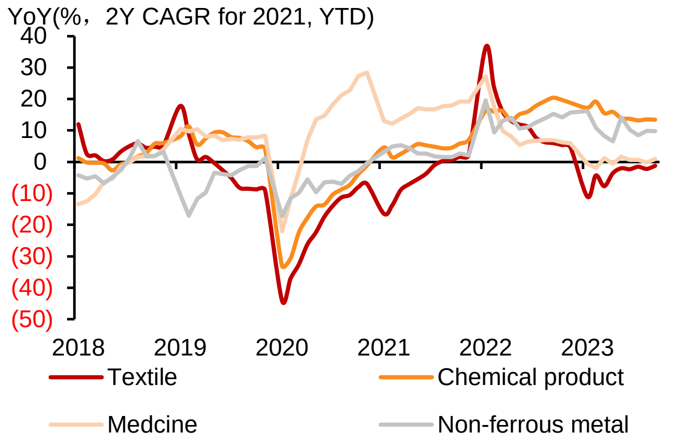
Source: WIND, CMBIGM

Figure 21: FAI in infrastructure sectors



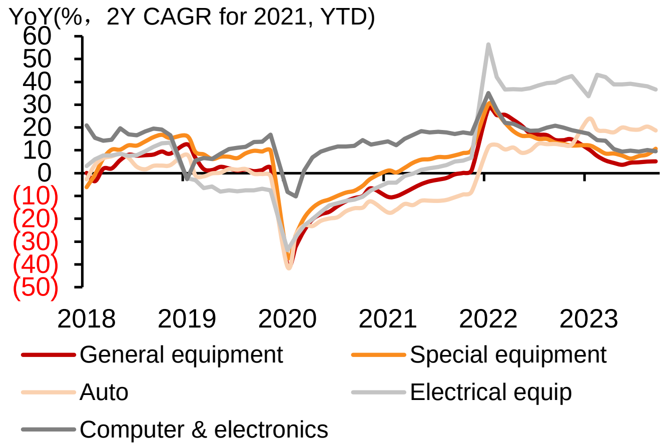
Source: WIND, CMBIGM

Figure 22: FAI in chemical product & non-ferrous metal



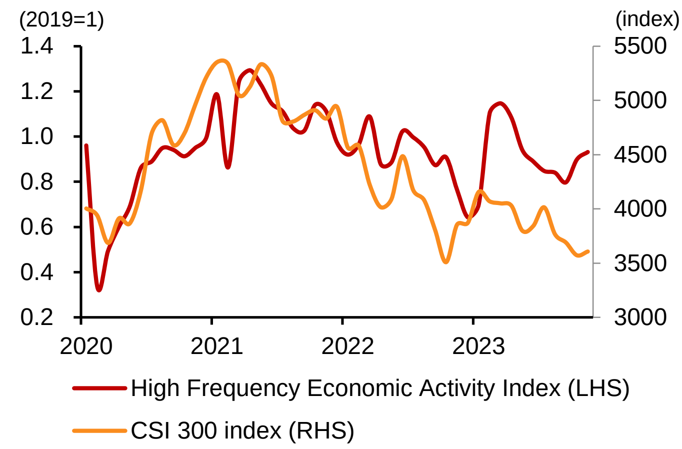
Source: WIND, CMBIGM

Figure 23: FAI in equipment



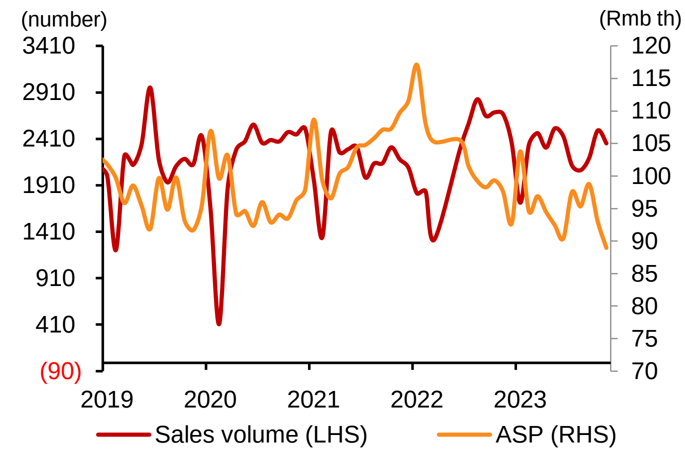
Source: WIND, CMBIGM

Figure 24: Economic activity & A-share index



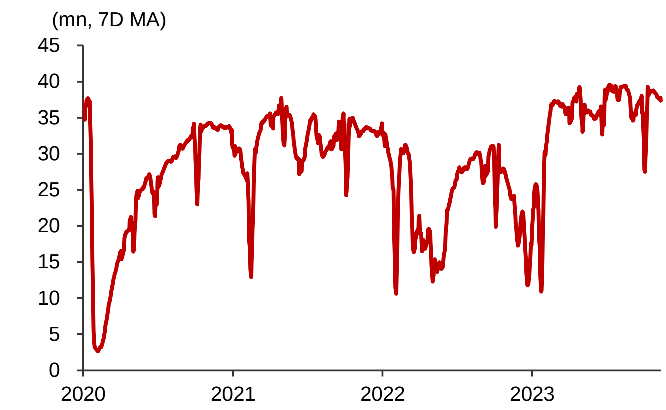
Source: WIND, CMBIGM

Figure 25: Used vehicle sales in Shanghai market



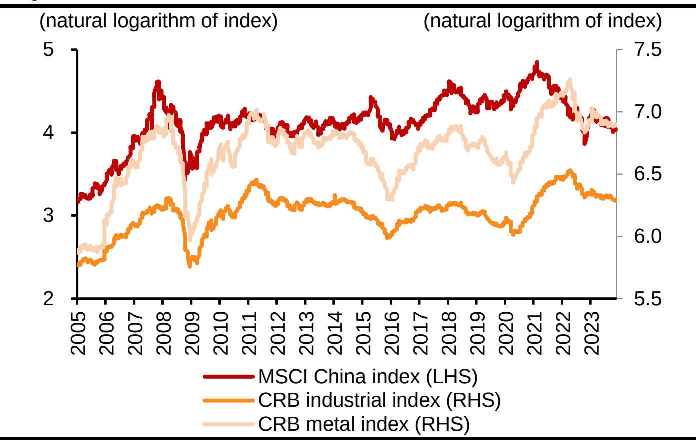
Source: WIND, CMBIGM

Figure 26: Subway passenger flow in tier-1 cities



Source: WIND, CMBIGM

Figure 27: MSCI China and Industrial& Metal Index



Source: WIND, CMBIGM

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