

# China Economy

## Signs of recovery with challenges ahead

China's economy recovered in Oct thanks to the latest stimulus policies. Home sales remarkably rebounded especially in tier-1 cities while durables and discretionary consumption picked up thanks to the trade-in subsidy scheme and the early launch of "Double 11" promotions. FAI stayed flat with robust infrastructure and manufacturing investment while industrial output growth edged down. However, investors have been concerned about the recovery sustainability as the policy effects may gradually fade while Trump might escalate the US-China trade tensions next year. China needs additional policy support to strengthen the economic recovery momentum. Chinese top leaders might signal continued policy loosening with ample policy flexibility to deal with possible external shocks at the Central Economic Work Conference in the second or third week of December. We expect broad fiscal deficit ratio may moderately increase next year. The PBOC may further ease liquidity and credit supply, potentially cutting RRR by 0.5-1ppt and lowering LPR & deposit rates by 20-40bps in 2025. We maintain our forecast for China's GDP growth at 4.9% in 2024 and 4.6% in 2025.

■ **New home sales rebounded markedly in tier-1 cities, while others remained subdued.** The contraction of new housing market continued to narrow in Oct with growth of gross floor area (GFA) sold for buildings bounced up to -15.8% in 10M24 from -17.1% in 9M24. Tier-1 cities saw the most significant rebound with the recovery rate of new housing sales in 30 major cities compared to 2018 & 2019 rising to 134.3% in Oct compared to 58.6% in Sep, while recovery rate for tier-2 and -3 cities only saw mild rebounds to 46.9% and 50.1% in Oct from their historic lows at 30.3% and 36.2% in Sep. Tier-1 cities continued to show great resilience in the first half of Nov, edging up to 135.2%, while momentum in tier-2&3 cities retreated. The recovery rate of second-hand housing sales in 11 selective cities jumped from 88.6% to 139% in Oct, and reached 154.7% in early Nov. Other indicators including floor space started and finished both remained in deep contraction. The MoM declines in new and second-hand housing prices across all city tiers have narrowed, with second-hand housing prices in tier-1 rising by 0.4% after 12 months of decline. Looking forward, the recovery momentum of housing sales in tier-1 cities may last for a few months, while new home sales in tier-2&3 cities may face further headwinds due to the "Siphon effect". The recovery sustainability may gradually face challenges from cyclical weaknesses like sluggish business confidence, employment & household income as well as structural problems like an aging population and weak social safety net. It might need further support to rebalance housing supply and demand as the latest policies including monetized resettlement and excess land & housing acquisition gradually yield effects.

■ **Retail sales continued to surge thanks to the trade-in subsidy and "Double 11" promotions.** Retail sales growth extended its rally to 4.8% in Oct from 3.2% in Sep, notably above market consensus at 3.9%. Durables continued to surge thanks to the trade-in subsidy scheme as home appliances, furniture, cultural & office products and autos respectively surged to 39.2%, 7.4%, 18% and 3.7% in Oct from 20.5%, 0.4%, 10% and 0.4% in Sep. Items outside of the subsidy scheme also notably rebounded partly because the "Double 11" promotions started earlier this year. Telecom equipment grew 14.4% in Oct after rising 12.3%. Discretionary items also expanded remarkably as clothing, cosmetics and daily used goods surged to 40.1%, 8% and 8.5% in Oct from -4.5%, -0.4% and 3%. Staples like food, beverage and medicine slowed down while catering

**Bingnan YE, Ph.D**

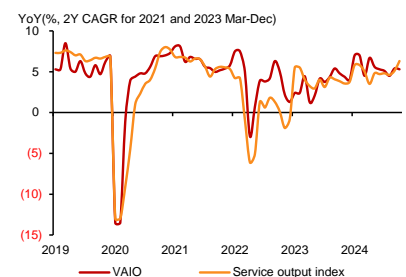
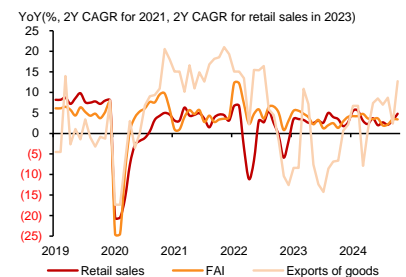
(852) 3761 8967

yingbingnan@cmbi.com.hk

**Frank Liu**

(852) 3761 8957

frankliu@cmbi.com.hk



services and construction & decoration materials remained weak. Looking forward, we expect retail sales to remain robust in 4Q24 thanks to the trade-in subsidy and the latest sentiment improvement amid the policy stimulus. However, trade-in programs would pull forward some of the future demand, while the possibility of a trade war in 2025 poses a risk to private-sector confidence and market stability. We expect retail sales to grow 4% in 2024 and 4.5% in 2025.

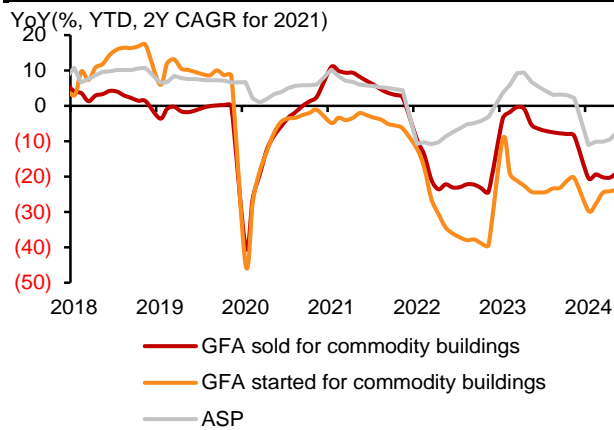
- **FAI stayed flat amid robust manufacturing and infrastructure investment and weakening property investment.** YTD growth of FAI stayed flat at 3.4% for the 3rd months in 10M24, with its monthly YoY growth also unchanged at 3.4% in Oct. By sector, manufacturing FAI edged up to 10% in Oct from 9.7% in Sep as investment growth in non-ferrous metals, other transport equipment and food processing remained elevated. Infrastructure FAI remained robust, though it has moderated from 17.5% to 10% in Oct. With expediting government bond issuance in the remainder of the year, we expect infrastructure investment to remain elevated. However, property development investment further contracted from -9.4% in Sep to -12.4% in Oct. Looking forward, FAI growth might mildly accelerate from 3% in 2023 to 3.7% in 2024 and 4.2% in 2025 thanks to a pick-up of growth in manufacturing and a narrowing of decline in property.
- **Industrial output edged down.** VAIO growth inched down to 5.3% in Oct from 5.3% in Sep, below market consensus of 5.6%. Mining and manufacturing picked up 4.6% and 5.4% in Oct compared to 3.7% and 5.2% in Sep, while public utility slowed down from its peak in Sep at 10.1% to 5.4%. Medicine and other transport equipment excluding autos slowed down to 7.8% and 4.4% from 11% and 13.7%, while rubber & plastic products, ferrous metal smelting & pressing and computer & electronic equipment remained robust at 7.2%, 7.7% and 10.5%. The YoY growth of service output index increased to 5.1% from 4.8%. Looking forward, industrial output may mildly recover in near term thanks to the stimulus package but may face intensifying headwinds in 2025 due to a potential slowdown in exports.
- **Economic recovery faces the challenges of sustainability as additional policy support is needed.** Since the policy pivot in late Sep, we have seen a mild resurgence in the economy among consumption, property sales and infrastructure investment. However, investors have been concerned about the recovery sustainability as the policy effects may gradually fade while Trump might escalate the US-China trade tensions next year. China needs additional policy support to strengthen the economic recovery momentum. Chinese top leaders might signal continued policy loosening with ample policy flexibility to deal with possible external shocks at the Central Economic Work Conference in the second or third week of December. Firstly, we expect the general fiscal deficit, local government special bond quota, and ultra-long Special Treasury Bond quota may increase from RMB4.06tn (3.1% of GDP), RMB3.9tn (3% of GDP), and RMB1tn (0.8% of GDP) in 2024 to RMB4.3tn (3.1% of GDP), RMB4tn (2.9% of GDP), and RMB2tn (1.4% of GDP) in 2025. Secondly, the PBOC may further ease liquidity and credit supply, potentially cutting RRR by 0.5-1ppt and lowering LPR & deposit rates by 20-40bps in 2025. Thirdly, the policy focus might gradually shift to boosting household consumption especially if Trump escalates the US-China trade tensions. We maintain our forecast for China's GDP growth at 4.9% in 2024 and 4.6% in 2025.

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

YoY(%)	2019	2020	2021	2022	2023	1Q24	2Q24	3Q24	Sep	Oct	2020-2021	2022-2023
GDP	6.0	2.2	8.4	3.0	5.2	5.3	4.7	4.6			5.3	4.1
VAIO	5.7	2.8	9.6	3.6	4.6	6.1	5.9	5.0	5.4	5.3	6.1	4.1
-Mining	5.0	0.5	5.3	7.3	2.3	1.6	3.3	4.0	3.7	4.6	2.9	4.8
-Manufacturing	6.0	3.4	9.8	3.0	5.0	6.7	6.3	4.9	5.2	5.4	6.6	4.0
-Public utility	7.0	2.0	11.4	5.0	4.3	6.9	5.0	7.0	10.1	5.4	6.6	4.6
Delivery value for exports	1.3	(0.3)	17.7	5.5	(3.9)	0.8	6.0	5.0	3.4	3.7	8.3	0.7
Service output index	6.9	0.0	13.1	(0.1)	8.1	5.5	4.3	4.8	5.1	6.3	6.3	3.9
Retail sales	8.0	(3.9)	12.5	(0.2)	7.2	4.7	2.6	2.7	3.2	4.8	4.0	3.4
Exports of goods	0.5	3.6	29.6	5.6	(4.7)	1.1	5.7	6.0	2.4	12.7	15.9	0.3
Imports of goods	(2.7)	(0.6)	30.1	0.7	(5.5)	1.6	2.5	2.5	0.3	(2.3)	13.7	(2.4)
Urban FAI (YTD)	5.4	2.9	4.9	5.1	3.0	4.5	3.9	3.4	3.4	3.4	3.9	4.0
-Property development	9.9	7.0	4.4	(10.0)	(9.6)	(9.5)	(10.1)	(10.1)	(10.1)	(10.3)	5.7	(9.8)
-Manufacturing	3.1	(2.2)	13.5	9.1	6.5	9.9	9.5	9.2	9.2	9.3	5.4	7.8
-Infrastructure	3.3	3.4	0.2	11.5	8.2	8.8	7.7	9.3	9.3	9.4	1.8	9.9
GFA sold for commodity building (YTD)	(0.1)	2.6	1.9	(24.3)	(8.5)	(19.4)	(19.0)	(17.1)	(17.1)	(15.8)	2.2	(16.8)
GFA started for commodity building (YTD)	8.5	(1.2)	(11.4)	(39.4)	(20.4)	(27.8)	(23.7)	(22.2)	(22.2)	(22.6)	(6.4)	(30.5)

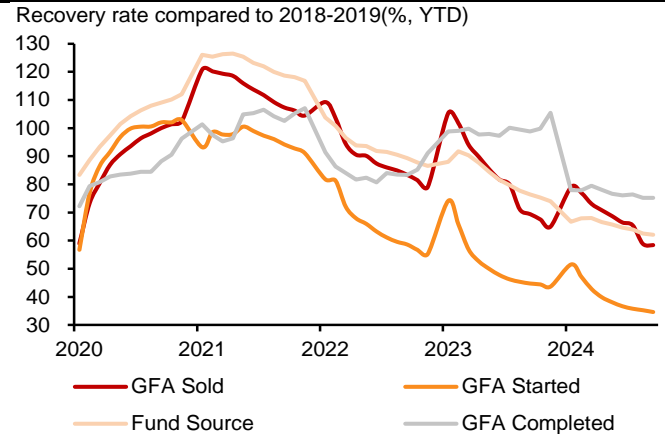
Source: Wind, CMBIGM estimates

**Figure 2: Property sales growth**



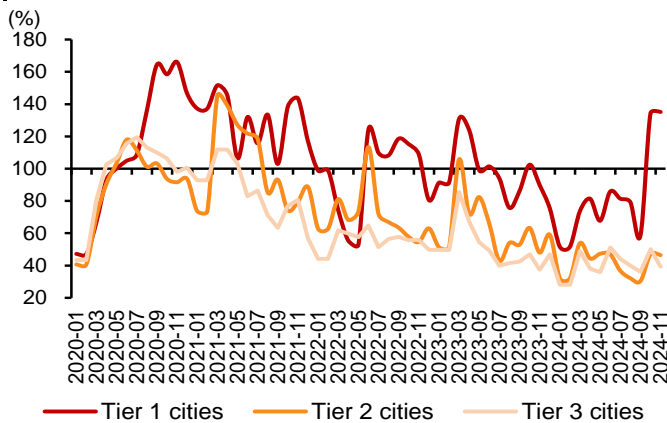
Source: Wind, CMBIGM

**Figure 3: Recovery rates compared to 2018-2019**



Source: Wind, CMBIGM

**Figure 4: New housing sales recovery rates compared to 2018-2019 in 30 cities**



Source: Wind, CMBIGM

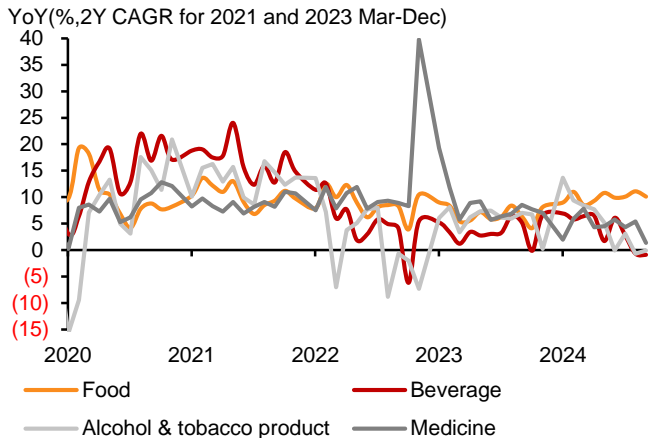
**Figure 5: Recovery rate of second-hand housing sales compared to 2019 in 11 selective cities**



Source: Wind, CMBIGM

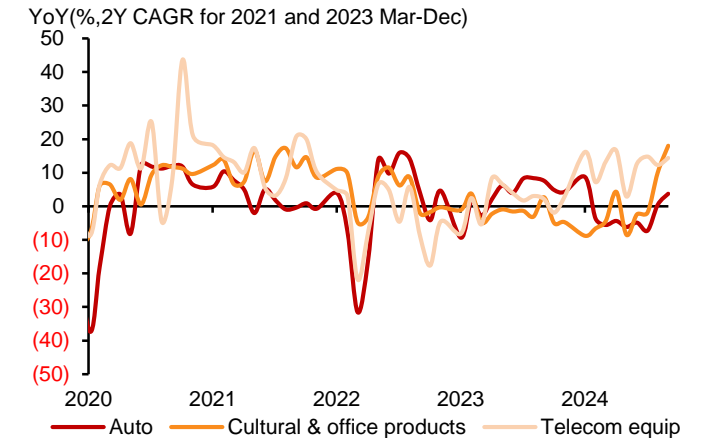
Note: The 11 cities include Beijing, Shenzhen, Hangzhou, Nanjing, Chengdu, Qingdao, Suzhou, Xiamen, Wuxi, Dongguan and Foshan

**Figure 6: Retail sales of staples**



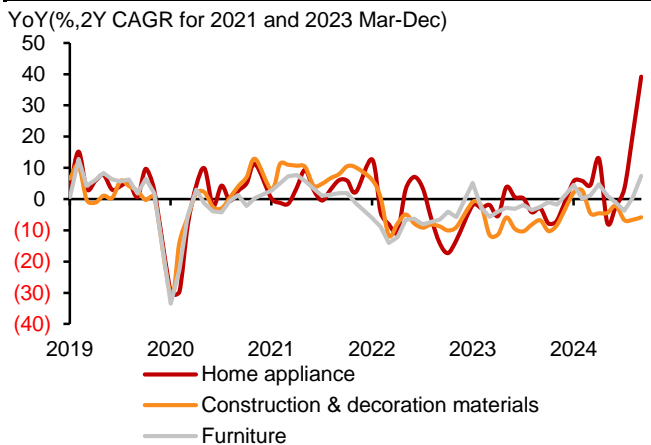
Source: Wind, CMBIGM

**Figure 7: Retail sales of auto & electronics**



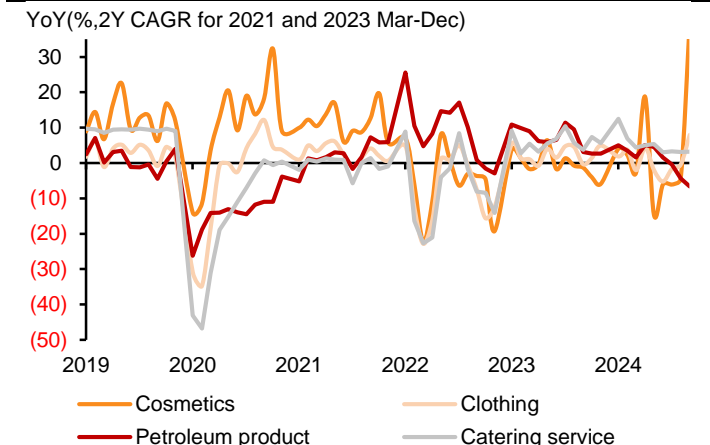
Source: Wind, CMBIGM

**Figure 8: Home appliance & furniture retail sales**



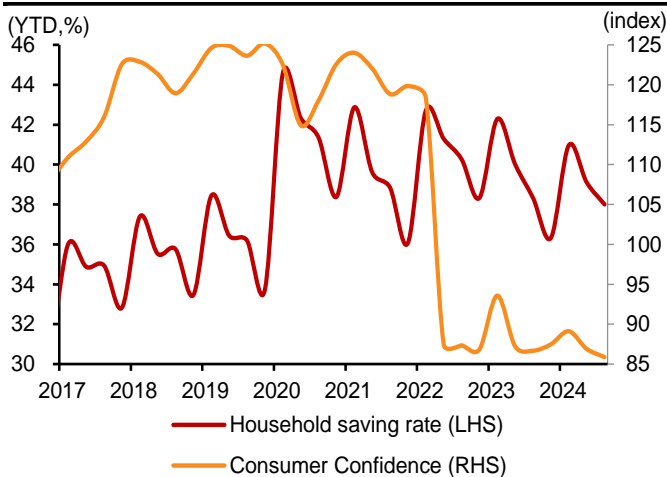
Source: Wind, CMBIGM

**Figure 9: Retail sales related to outgoing activities**



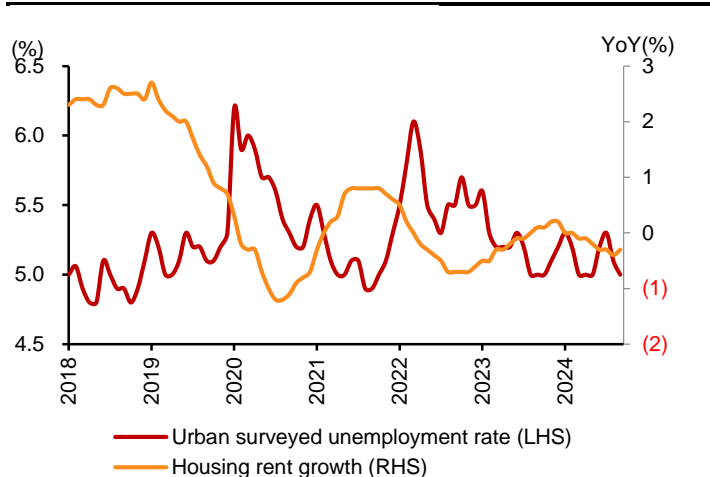
Source: Wind, CMBIGM

**Figure 10: Consumer confidence**



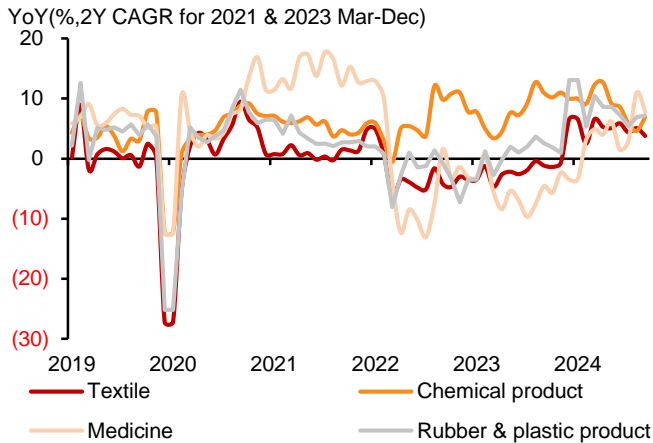
Source: Wind, CMBIGM

**Figure 11: Urban unemployment rate & housing rent**



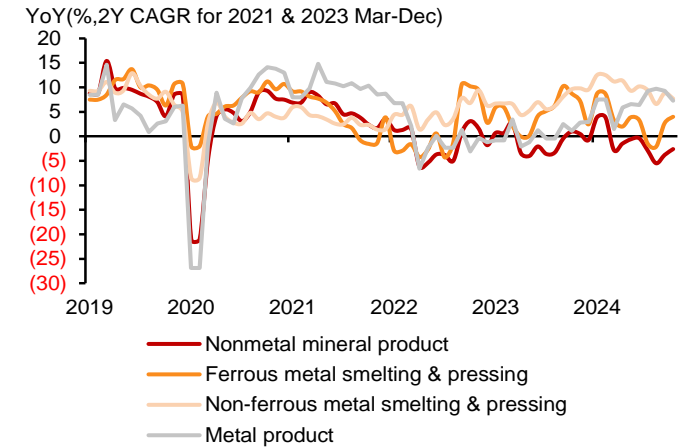
Source: Wind, CMBIGM

**Figure 12: VAIO in textile & chemical products**



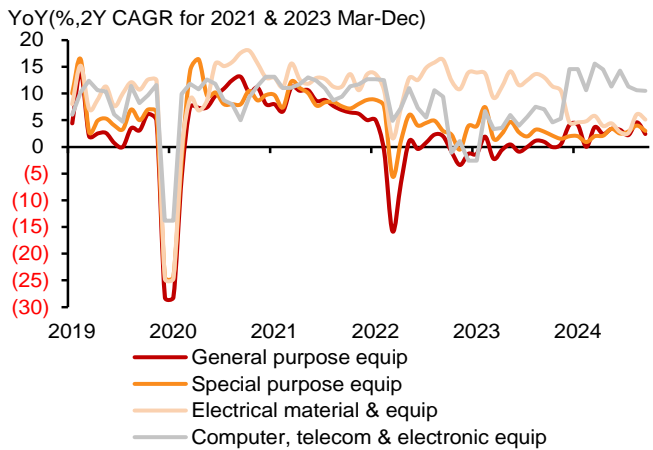
Source: Wind, CMBIGM

**Figure 13:VAIO in mineral & metal products**



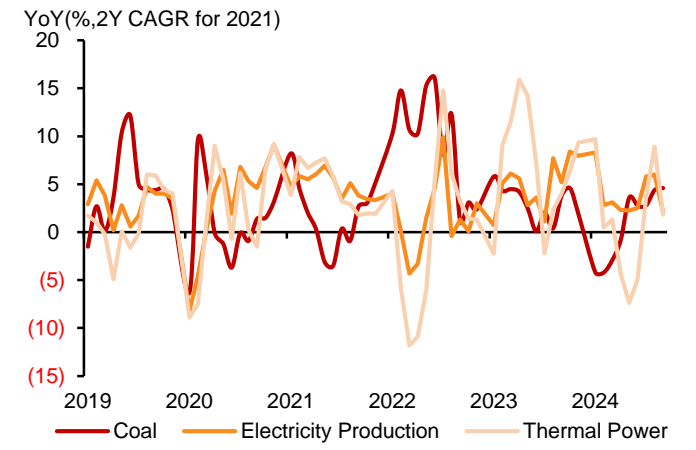
Source: Wind, CMBIGM

**Figure 14: VAIO in equipment**



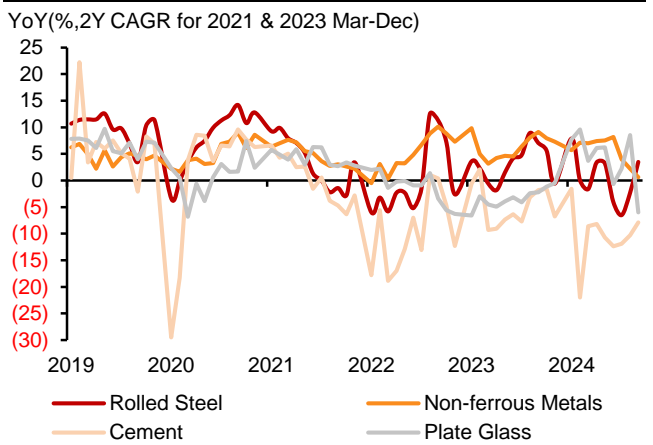
Source: Wind, CMBIGM

**Figure 15: Output in energy and electricity**



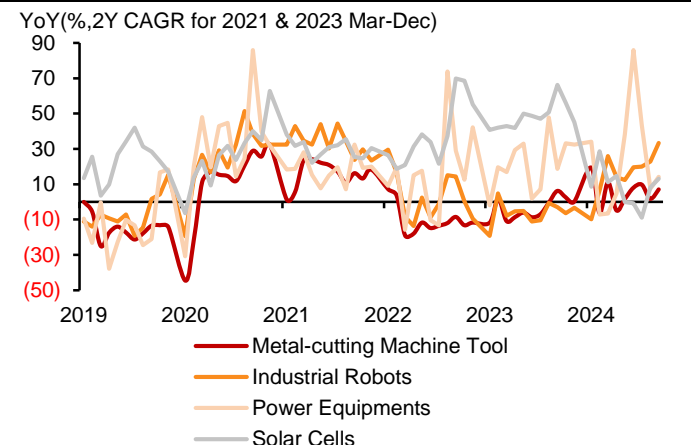
Source: Wind, CMBIGM

**Figure 16: Output in steel & construction material**



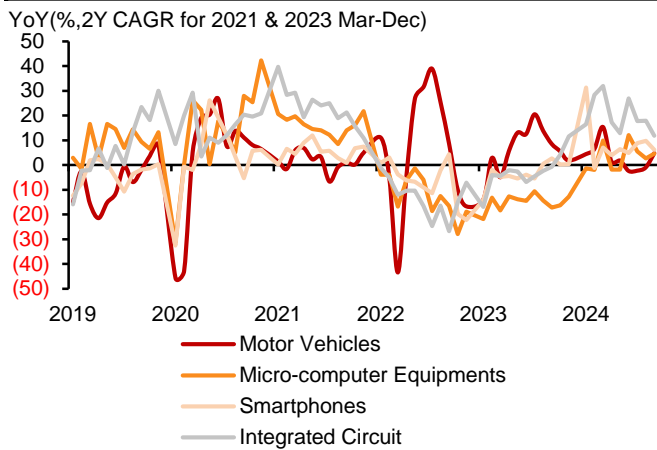
Source: Wind, CMBIGM

**Figure 17: Output in capital goods**



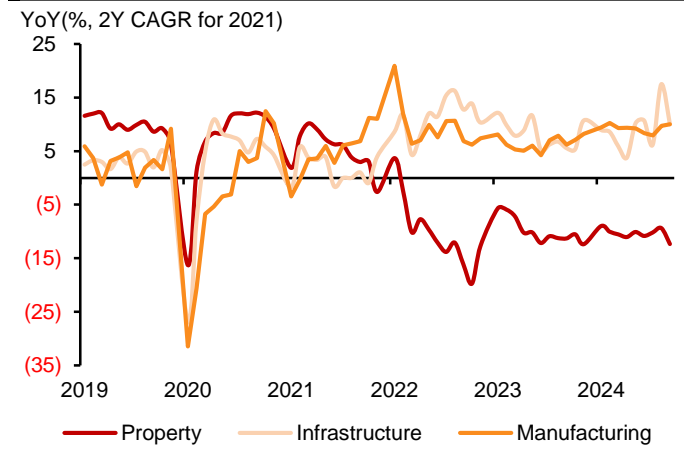
Source: Wind, CMBIGM

**Figure 18: Output in auto, computer & smartphone**



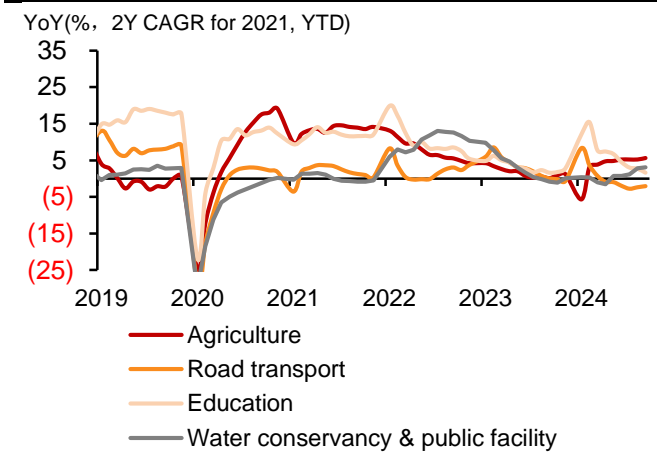
Source: Wind, CMBIGM

**Figure 19: FAI by sector**



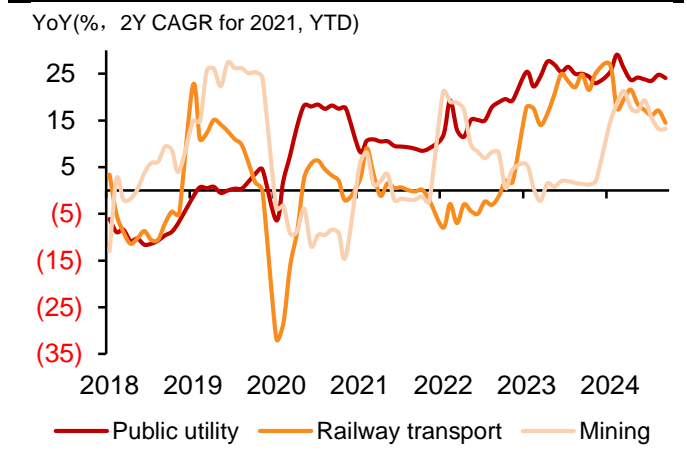
Source: Wind, CMBIGM

**Figure 20: FAI in agriculture & local infrastructure**



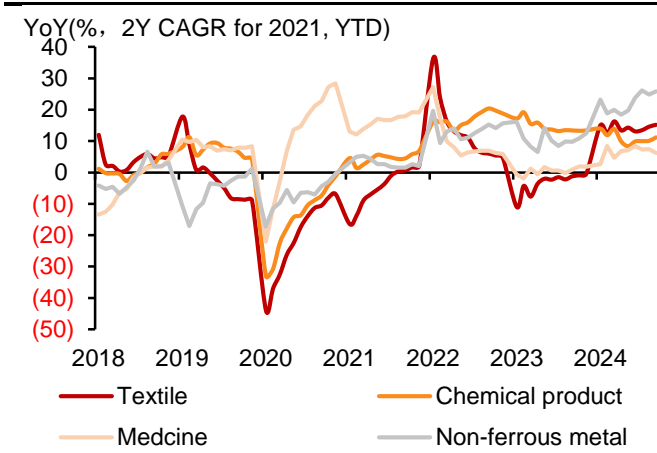
Source: Wind, CMBIGM

**Figure 21: FAI in central infrastructure & mining**



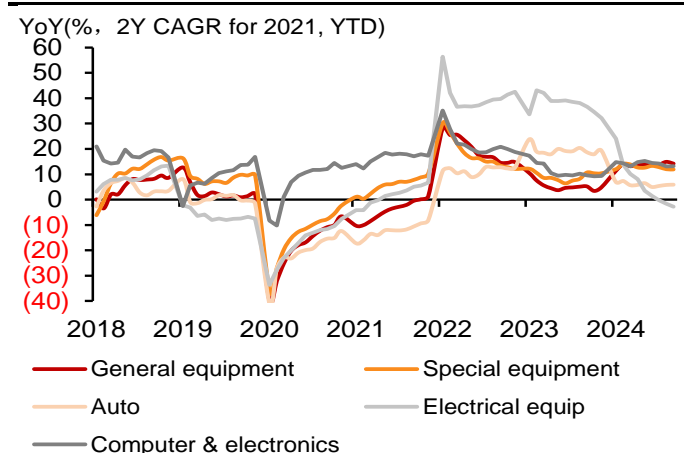
Source: Wind, CMBIGM

**Figure 22: FAI in chemical products**



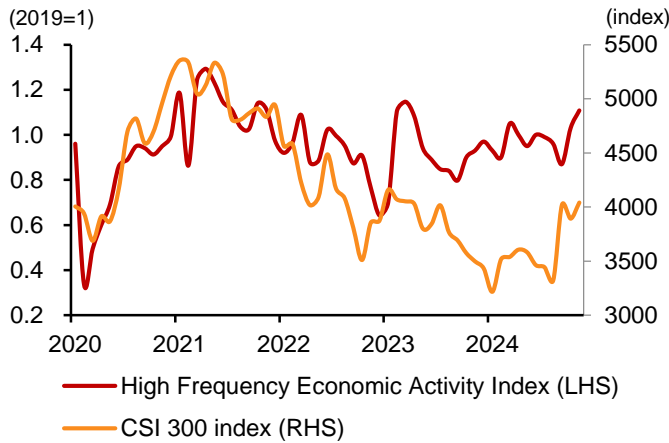
Source: Wind, CMBIGM

**Figure 23: FAI in equipment**



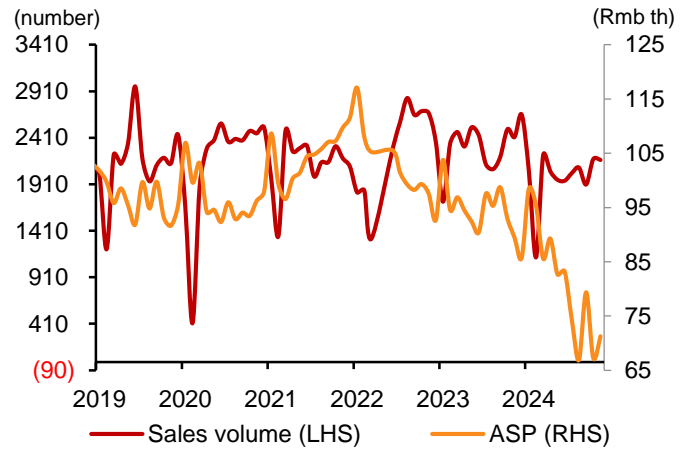
Source: Wind, CMBIGM

**Figure 24: Economic activity & A-share index**



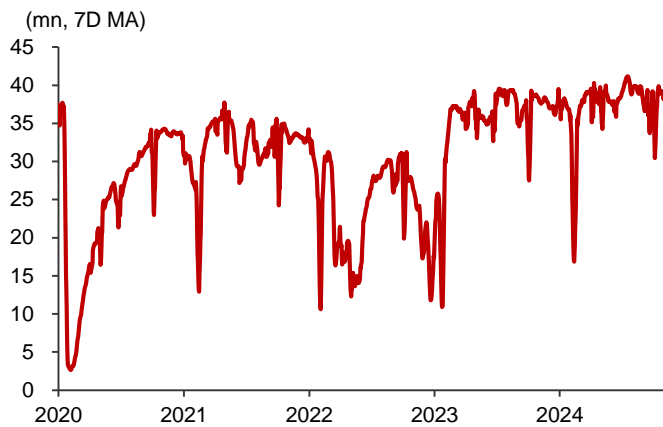
Source: Wind, CMBIGM

**Figure 25: Used vehicle sales in Shanghai market**



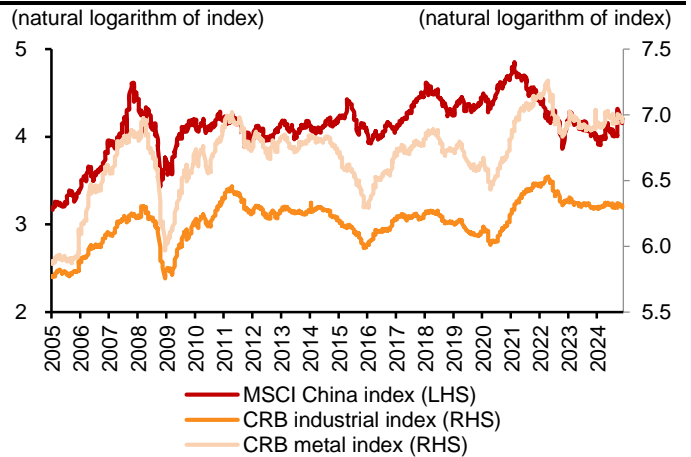
Source: Wind, CMBIGM

**Figure 26: Subway passenger flow in tier-1 cities**



Source: Wind, CMBIGM

**Figure 27: MSCI China and commodity prices**



Source: Wind, CMBIGM

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIGM Ratings

**BUY** : Stock with potential return of over 15% over next 12 months  
**HOLD** : Stock with potential return of +15% to -10% over next 12 months  
**SELL** : Stock with potential loss of over 10% over next 12 months  
**NOT RATED** : Stock is not rated by CMBIGM

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
**MARKET-PERFORM** : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months  
**UNDERPERFORM** : Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Global Markets Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

**CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

### For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

### For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

### For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.