

China Economy

Softening growth calls for additional policy support

China's economic activities softened in Apr as PMIs in both manufacturing and service declined. Demand weakened as businesses continued to reduce inventory. Deflation pressure mildly alleviated as purchasing material prices rebounded amid a pick-up in commodities prices. Employment remained subdued as consumer confidence was still weak. The economy still faced severe challenges as property market continued to slump and deflation pressure remained. The politburo vowed to step up support to economy at the recent meeting as top leaders indicated to deal with excessive housing inventories and flexibly use interest rates and RRR to boost the demand. Policymakers may further lift home purchase restrictions in higher-tier cities with targeted cuts in mortgage rates and down-payment ratios especially for first-home and second-home buyers. Meanwhile, local governments may be encouraged to buy commercial houses and turn them into affordable houses to reduce excessive inventories in the market. In addition, the policymakers may provide moderate fiscal subsidies to business equipment upgrade and consumer trade-in programs. We expect China's economy may gradually improve in 2024 thanks to less property shrinkage, moderate recovery of consumption and noticeable improvement of exports. We maintain our forecast on China's GDP growth at 4.8% for 2024.

- Manufacturing activities continued to expand but moderated.** China's manufacturing PMI in Apr slowed down to 50.4% from 50.8% in Mar. Production index further expanded to 52.9% from 52.2%, the highest level since Mar 2023. Demand softened as new order and export order index moderated to 51.1% and 50.6% from 53% and 51.3% while existing order declined to 45.6%. Corporate procurement remained in expansion but decelerated as material purchase volume dipped to 50.5%. Manufacturers continued to reduce inventory as raw materials inventory remained flat at 48.1% while finished goods inventory edged down to 47.3% from 48.9% in Mar. Breaking down by sector, business sentiment indexes in rubber & plastic products, transportation equipment other than vehicle and computer & electronic equipment reached above 55% in high prosperity interval.
- Deflationary pressure eased due to rising prices for raw materials.** Ex-factory price index rose to 49.1% in Apr from 47.4%, while manufacturing material purchase price increased to 54% from 50.5% amid recent rally of commodities price. Ex-factory price may continue to rebound as PPI may see positive MoM growth in upcoming months. Service price index stayed in contraction but increased to 49.5%, while construction price edged up to 48.7% from 48.4%. Looking forward, China's CPI may stay within the lower positive range while PPI gradually narrow its YoY decline due to base effect, surging commodities price and improving export activities.
- Service index missed while construction remained robust.** Non-manufacturing PMI dropped to 51.2% in Apr from 53%, lower than market expectation. PMI in service notably declined to 50.3% in Apr from 52.4%. New order index moderated to 46.5% from 47.2%. Breaking down by sector, activities in rail transport, road transport, postal services and TV & broadcast reached above 55% while real estate and capital market services continued to contract. Construction PMI remained in strong expansion at 56.3%, as construction activities continued to resume. Business sentiment indexes in construction and services both slightly moderated.

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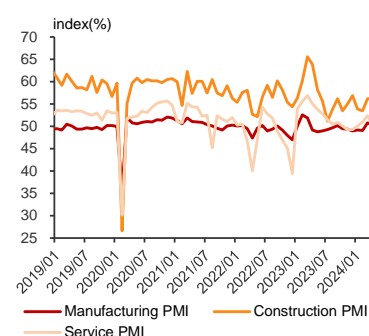
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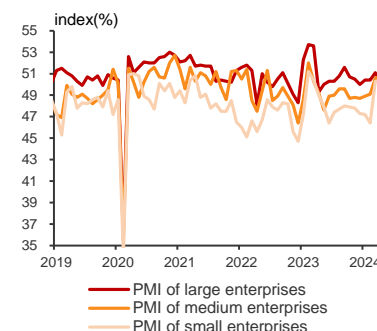
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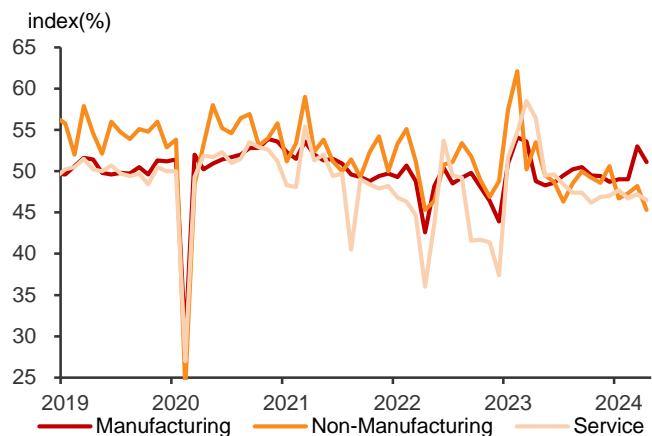
Source: NBS, CMBIGM



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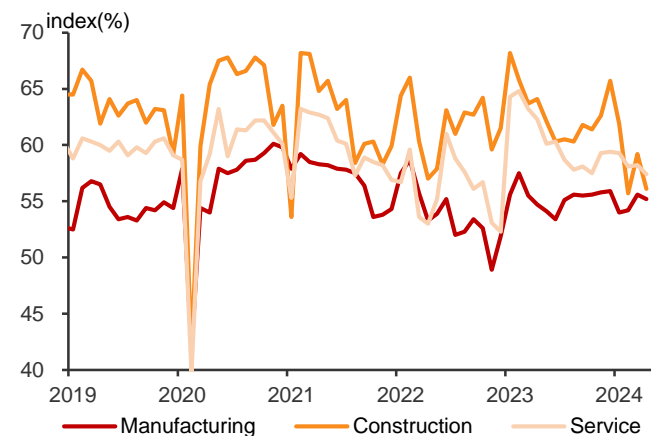
- **Employment remained subdued.** Employment indexes in manufacturing inched down to 48% from 48.1% while employment in service and construction both improved from 46.8% and 45.7% to 47.4% and 46.1%, although they remained in contraction. The employment condition showed no signs of alleviation as recent momentum in manufacturing required less labor intensity due to technology upgrade and advancement.
- **April PMI showed a mixed image as the politburo vowed to step up support for economy.** PMI points to a continued momentum in manufacturing activities with improving demand and relieving deflation pressure while service sector has slowed down ahead of labor day holidays. The economy still faced severe challenges as property market continued to slump and deflation pressure remained. The politburo held a meeting on Tuesday (30 Apr) and vowed to step up support for economy ahead. Top leaders said to increase support to property sector with a focus on dealing with housing inventories. The politburo also said to flexibly use policy tools such as interest rates and RRR to reduce the overall cost of social financing. Policymakers may further lift home purchase restrictions in higher-tier cities with targeted cuts in mortgage rates and down-payment ratios especially for first-home and second-home buyers. To protect banks' NIMs, the central bank may guide banks to further reduce deposit rates before possible mortgage rate cuts. Meanwhile, local governments may be encouraged to buy commercial houses and turn them into affordable houses to reduce excessive inventories in the market. In addition, the policymakers may provide moderate fiscal subsidies to business equipment upgrade and consumer trade-in programs. We expect China's economy may gradually improve in 2024 thanks to less property shrinkage, moderate recovery of consumption and noticeable improvement of exports. We maintain our forecast on China's GDP growth at 4.8% for 2024, which is higher than the 2Y CAGR of 4.1% in 2022-2023.

Figure 1: New Order Index



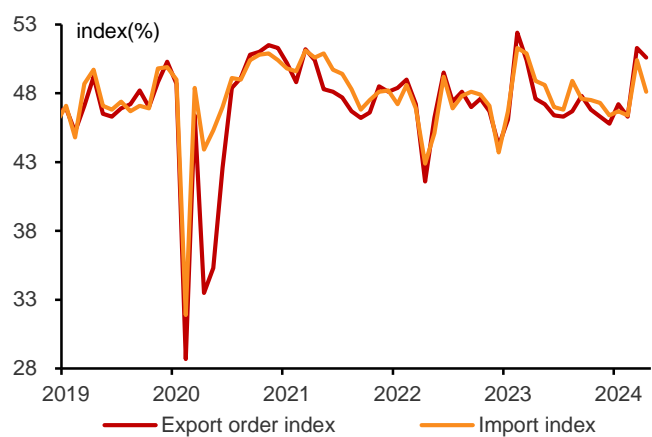
Source: Wind, CMBIGM

Figure 2 : Business Sentiment Index



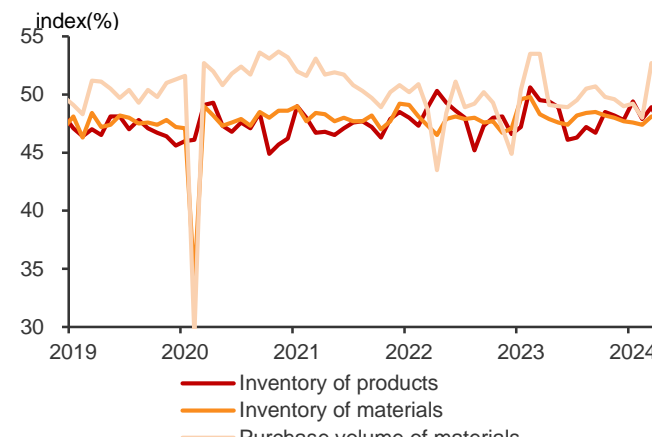
Source: Wind, CMBIGM

Figure 3: Export Order Index and Import Index



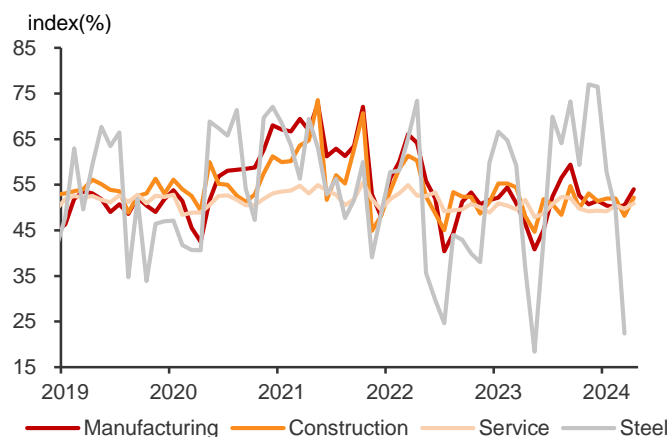
Source: Wind, CMBIGM

Figure 4: Inventory Index



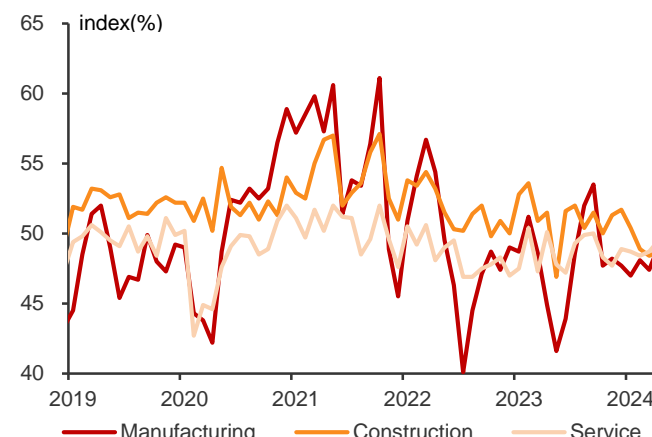
Source: Wind, CMBIGM

Figure 5: Material Purchase Price Index



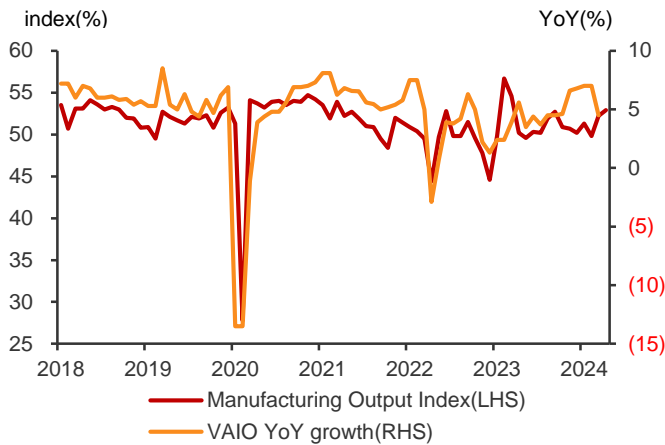
Source: Wind, CMBIGM

Figure 6: Ex-factory Price Index



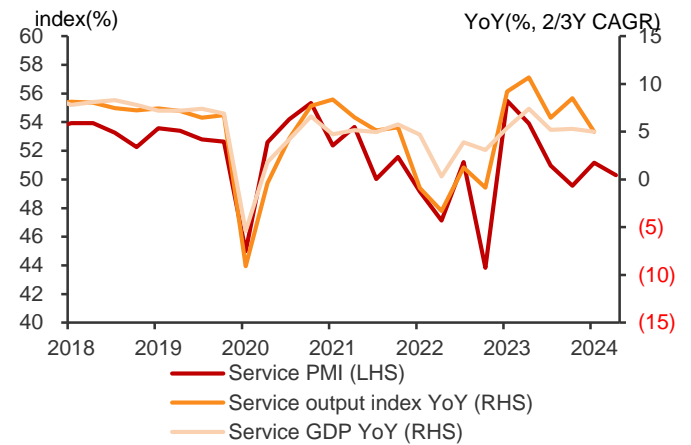
Source: Wind, CMBIGM

Figure 7: Manufacturing Output Index



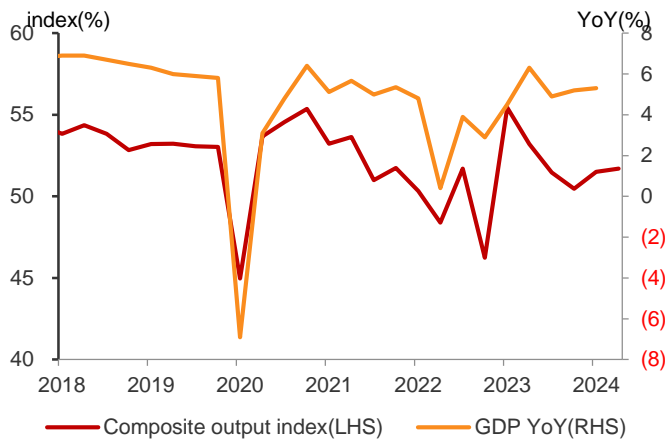
Source: Wind, CMBIGM

Figure 8: Service PMI & Output Index



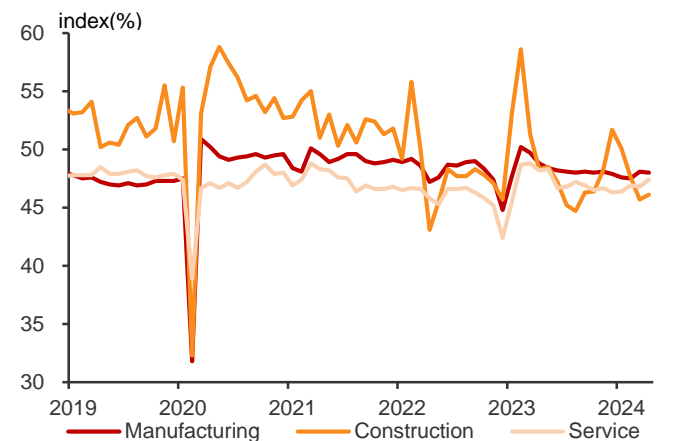
Source: Wind, CMBIGM

Figure 9: Composite Output Index



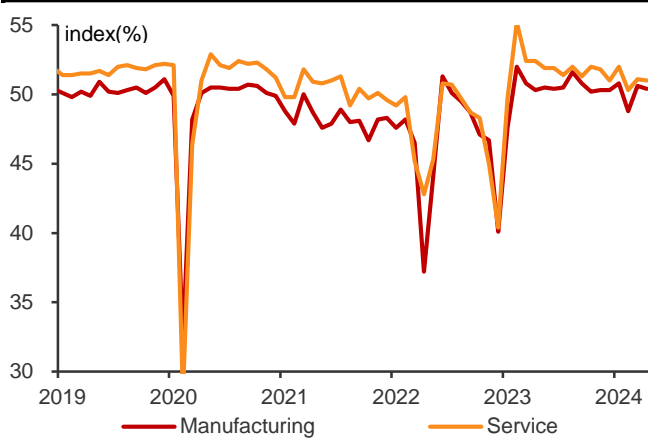
Source: Wind, CMBIGM

Figure 10: Employment Index



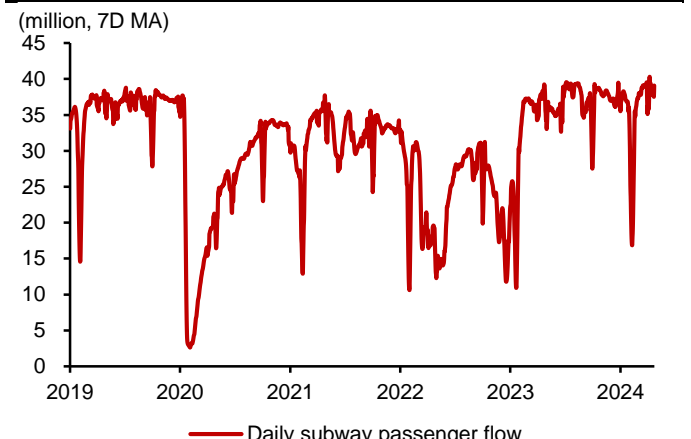
Source: Wind, CMBIGM

Figure 11: Supply Delivery Index



Source: Wind, CMBIGM

Figure 12: Subway passenger flow in tier-1 cities



Source: Wind, CMBIGM

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