

China Economy

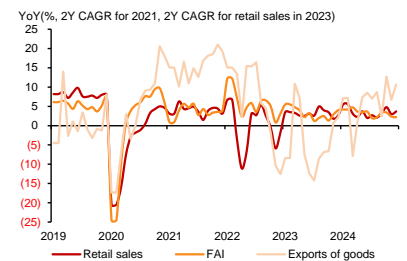
In a moderate recovery

China's GDP met the 2024 growth target of 5% thanks to the latest policy stimulus and record-breaking trade surplus. Housing sales continued to recover especially in higher-tier cities. Retail sales rebounded driven by durable goods eligible for the trade-in subsidy policy like home appliance and furniture. Fixed asset investments moderated dragged by contraction of property investments, as recovery in property sales has yet to translate into developers' investment willingness restrained by their debt overhang and confidence weakness. Industrial output beat market expectation thanks to recovering durable consumption and robust exports. Despite the solid real GDP growth, Chinese stocks remained weak as investors were concerned about the recovery sustainability of housing market and durable consumption, continued deflation pressure as well as the trade war risk in Trump 2.0 era. We believe China's economy will maintain the recovery momentum in 1H25 as the recovery of housing sales should indicate a gradual improvement of consumer demand and Trump's most important agendas in the first 100 days should be lowering inflation and deporting illegal immigrants instead of raising tariffs. But the situation may change in 2H25 as the policy stimulus gradually diminish and Trump might escalate trade tensions after the US inflation further declines. We expect China's GDP growth to decelerate from 5% in 1H25 to 4.5% in 2H25 with the full-year growth at 4.7%. China might launch additional policy stimulus in 2H25.

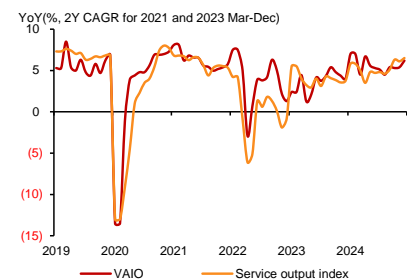
- GDP met the 2024 growth target while GDP deflator was still negative.** China's GDP growth in YoY terms (all on a YoY basis unless otherwise specified) rose from 4.6% in 3Q24 to 5.4% in 4Q24, beating the 5% market expectations. Meanwhile, the seasonally adjusted QoQ growth of GDP moderately rebounded from 1.3% to 1.6% in 3Q24. GDP met the annual growth target of 5% while the deflation pressure persisted as GDP deflator stayed negative for the second year at -0.73% in 2024.
- China may maintain the 5% growth target in 2025.** The 2025 GDP growth target is likely to remain at around 5% as the policymakers try to show their pro-growth attitude and commitment to meet the 14th Five-Year Economic Plan. Another scenario of significant pressure to meet the GDP growth target, triggered by external shocks like tariffs or a notable domestic economic slowdown, could lead to a new round of policy stimulus, similar to what have occurred in last September.
- Housing market continued to recover, but trends varied across cities.** New housing market continued to recover following the latest policy stimulus, with gross floor area (GFA) sold for buildings respectively rebounded to -12.9% in 12M24 after dropping 14.3% in 11M24 while housing start remained flat at -23%. The recovery rate of new housing sales in 30 major cities compared to 2018 & 2019 dropped to 53.7% in first half of Jan from 68.2% in Dec, with tier-1 cities markedly remained robust from 101.4% to 121%, while 2&3- tier cities remained subdued. Meanwhile, the recovery rate of second-hand housing sales in 11 selective cities continued to strengthen on a high base from 142.1% to 152% in early Jan. Housing price extended the rebound in tier-1 cities while tier 2&3 cities continued to see price drop in new and existing houses. If the recovery in tier-1 cities sustains, the durable goods sales and sentiment in overall housing market may continue to rebound. However, as the existing potential demand releases, the recovery sustainability may gradually face challenges from cyclical weaknesses like sluggish business confidence, employment & household income as well as structural problems like aging population and weak social safety net.
- Retail sales rebounded thanks to the trade-in subsidy.** Retail sales growth bounced up to 3.7% in Dec from 3% in Nov, beating market consensus at 3.5%. Durables qualified for trade-in scheme were the major

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Source: Wind, CMBIGM



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drivers as home appliance and furniture respectively surged to 39.3% and 8.8% thanks to the rebound in housing sales, while auto slowed down to 0.5% in Dec from 6.6%. Telecom equipment notably rebounded from -7.7% in Nov partly due to the “double-11” distortions to 14% in Dec. We might see the continuous uptick in cell phone as it was included in trade-in scheme in 2025. Staples like food and daily used good remained robust. Discretionary items were lethargic as clothing, cosmetics and gold, silver & jewellery saw another decline. Looking forward, retail sales may rise from 3.5% in 2024 to 4.7% in 2025, with possible strong recovery in 1H25 driven by the expanding trade-in schemes, but this could come at the expense of future demand, as we may see a slowdown in 2H25

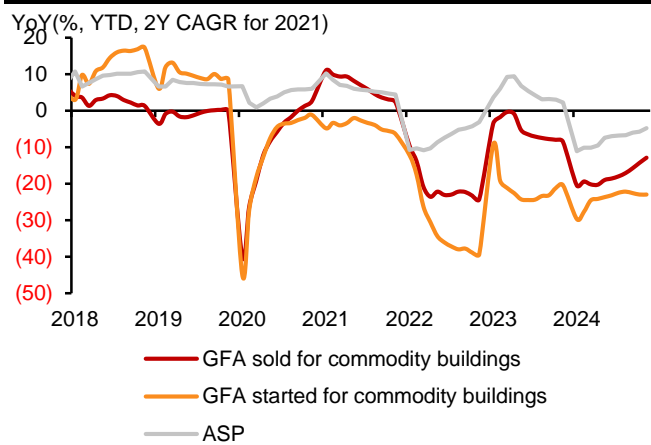
- **FAI moderated in Dec dragged by the still contracting property investments.** Total FAI growth edged down to 3.2% in 12M24 from 3.3%, slightly lower than market expectations of 3.4%. Its monthly YoY growth dropped to 2.2% in Dec from 2.4%. By sector, property development investment contracted deeper from -11.5% in Nov to -13.5%. The recovery in property sales has yet to translate into developers' investment willingness, as their financial conditions remain challenging. Major developers are still under market scrutiny on their ability to repay upcoming bond maturities. Infrastructure FAI remained relatively robust but moderated from 9.7% to 7.4% in Dec, given the much higher base last year. Infrastructure FAI may see stronger growth in next two quarters in 1H24 as the latest fiscal stimulus centres on granting local government's greater scope to support economic growth. Manufacturing FAI moderated from 9.3% to 8.3% in Dec. Looking forward, FAI growth might mildly accelerate from 3.2% in 2024 to 3.7% in 2025 thanks to the narrower declines of property development investments. The drag of property development investments on GDP growth is likely to decline from 2.3ppts to 2.1ppts. Manufacturing, while infrastructure investment growth is likely to fall from 9.2% and 9.2% in 2024 to 8.5% and 8.7% in 2025.
- **Industrial output beat market expectation thanks to strong manufacturing activities.** VAIO growth increased to 6.2% in Dec from 5.4% in Nov, notably above market consensus of 5.5%. Mining and public utility dropped to 2.4% and 1.1% in Dec from 4.2% and 1.6%, while manufacturing rallied to 7.4% from 6%, which has remained strong and resilient throughout the year driven by robust export. Auto and electrical equip sharply accelerated from 12% and 5.2% in Nov to 17.7% and 9.2% in Dec. Production in plastic & rubber, ferrous & non-ferrous metals, and general & special equip continued to grow thanks to the equipment upgrade subsidy while medicine, textile and computer & electronics moderated. The YoY growth of service output index increased to 6.1% from 6.5%, extending the upward trajectory since Sep. Looking forward, industrial output may decelerate as headwinds from trade intensify.
- **Steady GDP growth alongside subdued CPI may persist, but market may not like it.** The latest policy stimulus and the record-breaking trade surplus have contributed another year of solid real GDP growth. However, Chinese stocks remained weak as investors were still concerned about the recovery sustainability of housing market and durable consumption, continued deflation pressure as well as the trade war risk in Trump 2.0 era. China's economy will maintain the recovery momentum in 1H25 as the recovery of housing sales should indicate a gradual improvement of consumer demand and Trump's most important agendas in the first 100 days should be lowering inflation and deporting illegal immigrants instead of raising tariffs. But the scenario may change in 2H25 as the policy stimulus gradually diminish and Trump might escalate trade tensions after the US inflation further declines. We expect China's GDP growth to decelerate from 5% in 1H25 to 4.5% in 2H25 with the full-year growth at 4.7%. China may maintain accommodative policy in 1H25 and launch additional policy stimulus in 2H25.

Figure 1: China's economic indicators

YoY(%)	2019	2020-2021	2022-2023	2023	2024	1Q24	2Q24	3Q24	4Q24	Nov	Dec
GDP	6.0	5.3	4.1	5.2	5.0	5.3	4.7	4.6	5.4		
VAIO	5.7	6.1	4.1	4.6	5.8	6.1	5.9	5.0	5.6	5.4	6.2
-Mining	5.0	2.9	4.8	2.3	3.1	1.6	3.3	4.0	3.7	4.2	2.4
-Manufacturing	6.0	6.6	4.0	5.0	6.1	6.7	6.3	4.9	6.3	6.0	7.4
-Public utility	7.0	6.6	4.6	4.3	5.3	6.9	5.0	7.0	2.7	1.6	1.1
Delivery value for exports	1.3	8.3	0.7	(3.9)	5.1	0.8	6.0	5.0	7.2	7.4	8.8
Service output index	6.9	6.3	3.9	8.1	5.2	5.5	4.3	4.8	6.3	6.1	6.5
Retail sales	8.0	4.0	3.4	7.2	3.5	4.7	2.6	2.7	3.8	3.0	3.7
Exports of goods	0.5	15.9	0.3	(4.7)	5.9	1.4	5.6	6.0	10.0	6.7	10.7
Imports of goods	(2.7)	13.7	(2.4)	(5.5)	1.1	1.7	2.6	2.4	(1.7)	(3.9)	1.0
Urban FAI (YTD)	5.4	3.9	4.0	3.0	3.2	4.5	3.9	3.4	3.2	3.3	3.2
-Property development	9.9	5.7	(9.8)	(9.6)	(10.6)	(9.5)	(10.1)	(10.1)	(10.6)	(10.4)	(10.6)
-Manufacturing	3.1	5.4	7.8	6.5	9.2	9.9	9.5	9.2	9.2	9.3	9.2
-Infrastructure	3.3	1.8	9.9	8.2	9.2	8.8	7.7	9.3	9.2	9.4	9.2
GFA sold for commodity building (YTD)	(0.1)	2.2	(16.8)	(8.5)	(12.9)	(19.4)	(19.0)	(17.1)	(12.9)	(14.3)	(12.9)
GFA started for commodity building (YTD)	8.5	(6.4)	(30.5)	(20.4)	(23.0)	(27.8)	(23.7)	(22.2)	(23.0)	(23.0)	(23.0)

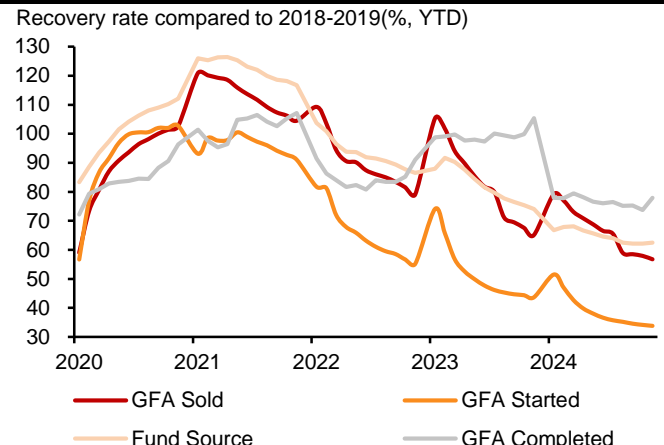
Source: Wind, CMBIGM estimates

Figure 2: Property sales growth



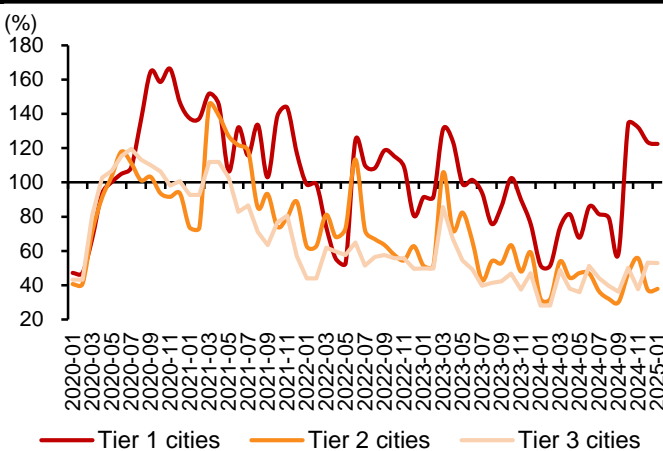
Source: Wind, CMBIGM

Figure 3: Recovery rates compared to 2018-2019



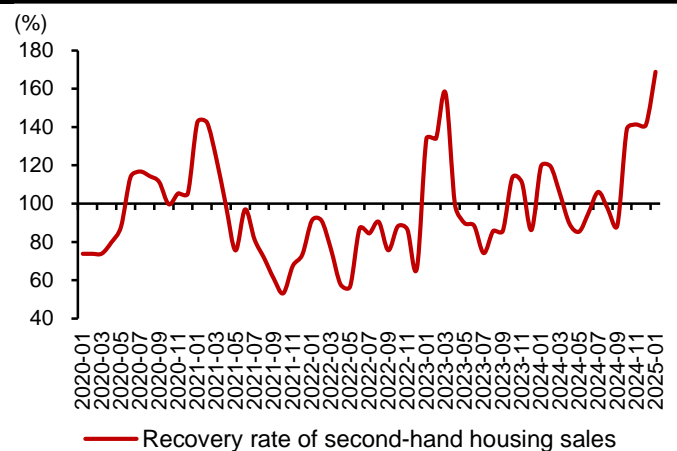
Source: Wind, CMBIGM

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



Source: Wind, CMBIGM

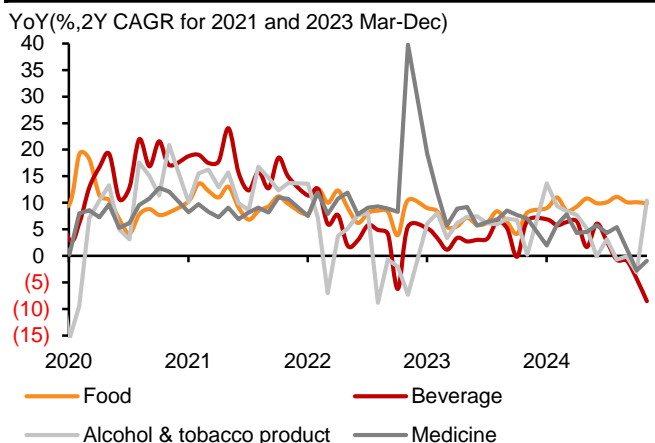
Figure 5: Recovery rate of second-hand housing sales compared to 2019 in 11 selective cities



Source: Wind, CMBIGM

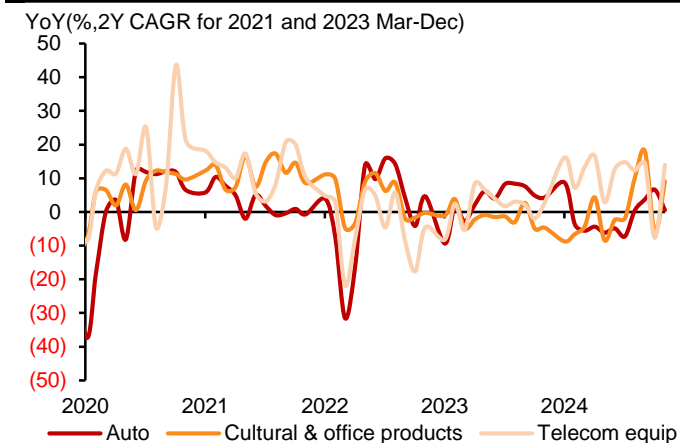
Note: The 11 cities include Beijing, Shenzhen, Hangzhou, Nanjing, Chengdu, Qingdao, Suzhou, Xiamen, Wuxi, Dongguan and Foshan

Figure 6: Retail sales of staples



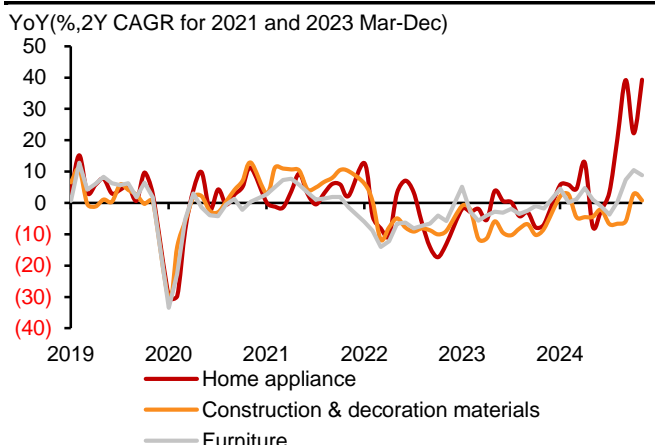
Source: Wind, CMBIGM

Figure 7: Retail sales of auto & electronics



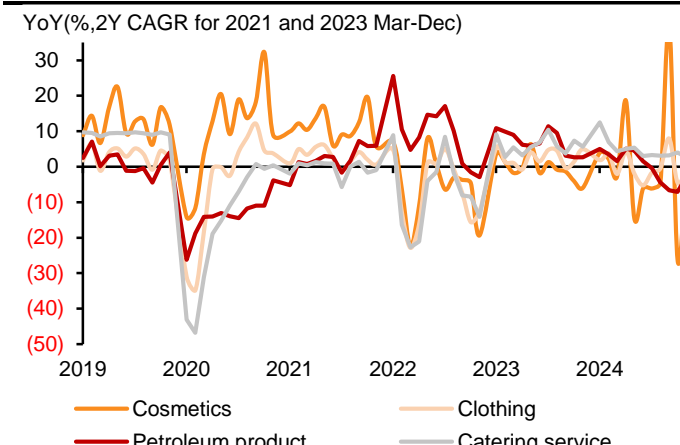
Source: Wind, CMBIGM

Figure 8: Home appliance & furniture retail sales



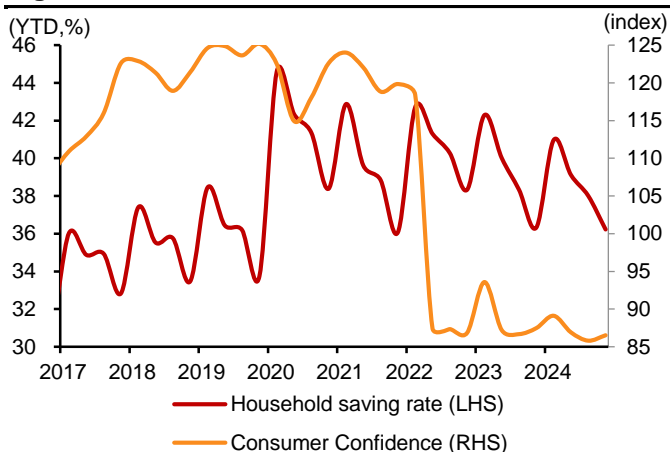
Source: Wind, CMBIGM

Figure 9: Retail sales related to outgoing activities



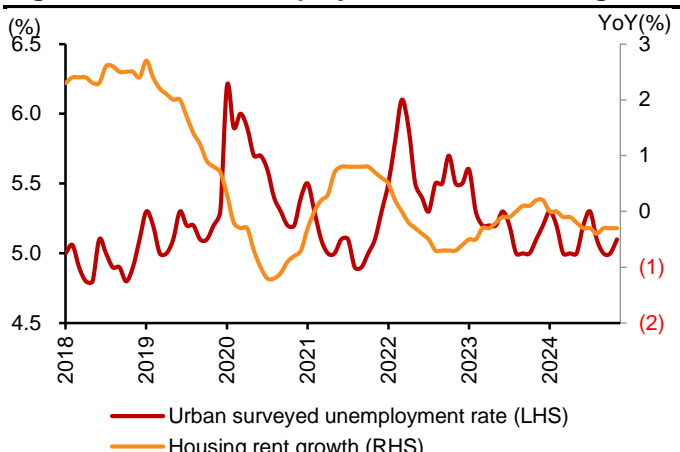
Source: Wind, CMBIGM

Figure 10: Consumer confidence



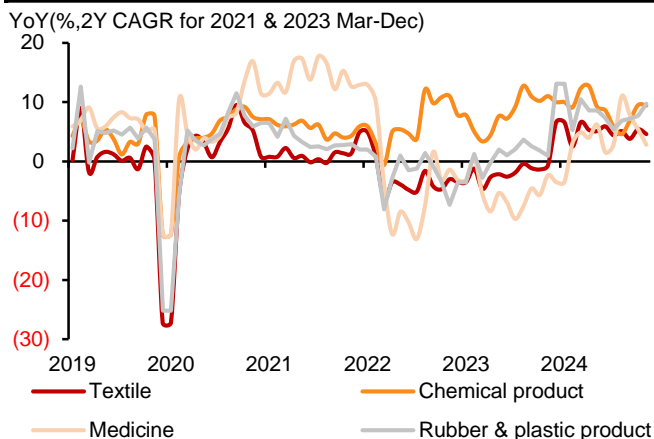
Source: Wind, CMBIGM

Figure 11: Urban unemployment rate & housing rent



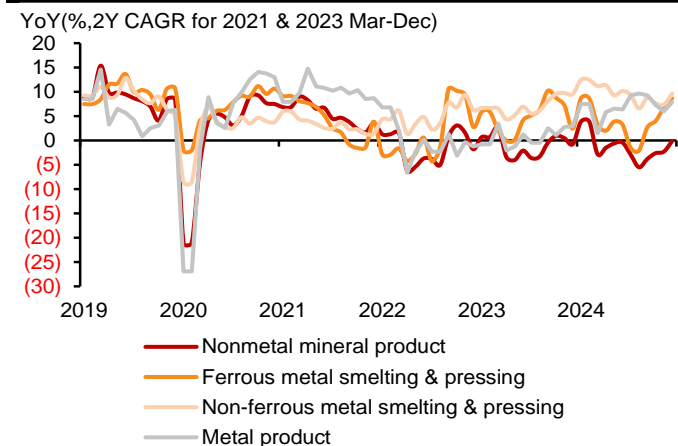
Source: Wind, CMBIGM

Figure 12: VAIO in textile & chemical products



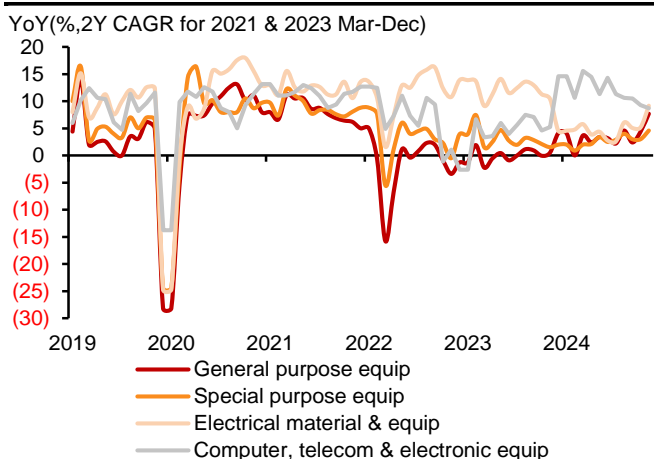
Source: Wind, CMBIGM

Figure 13:VAIO in mineral & metal products



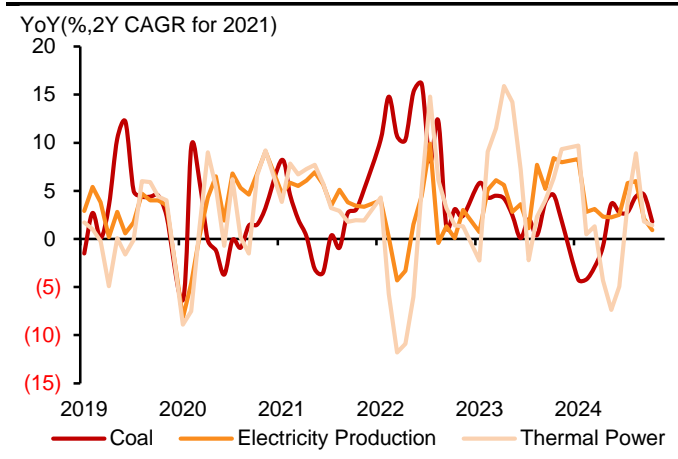
Source: Wind, CMBIGM

Figure 14: VAIO in equipment



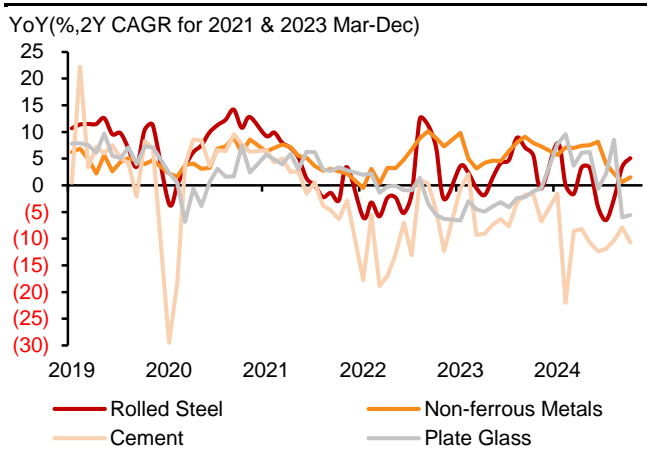
Source: Wind, CMBIGM

Figure 15: Output in energy and electricity



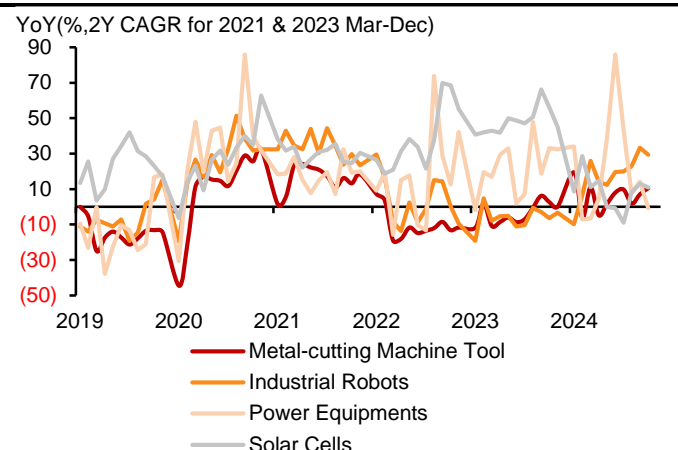
Source: Wind, CMBIGM

Figure 16: Output in steel & construction material



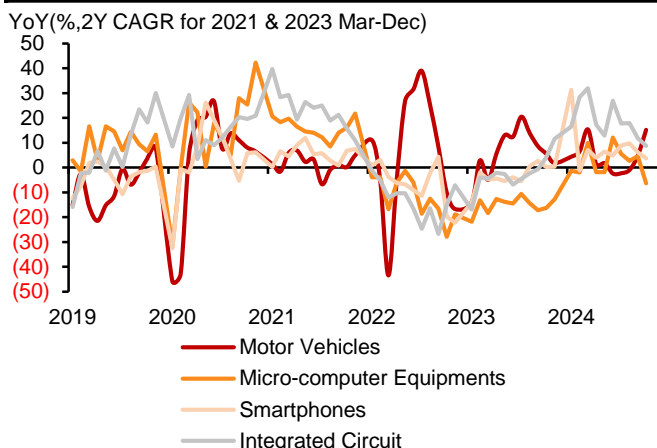
Source: Wind, CMBIGM

Figure 17: Output in capital goods



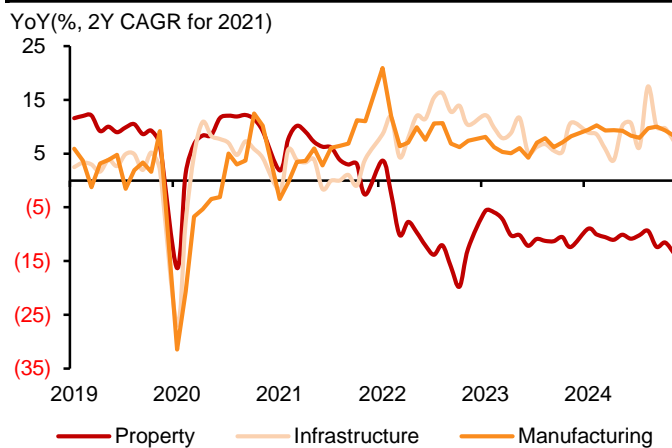
Source: Wind, CMBIGM

Figure 18: Output in auto, computer & smartphone



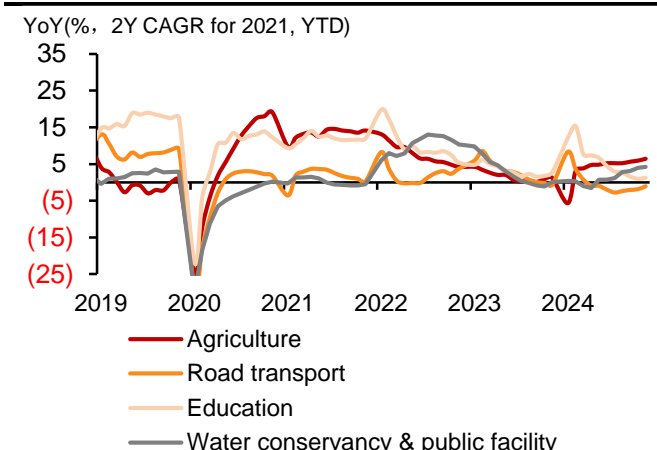
Source: Wind, CMBIGM

Figure 19: FAI by sector



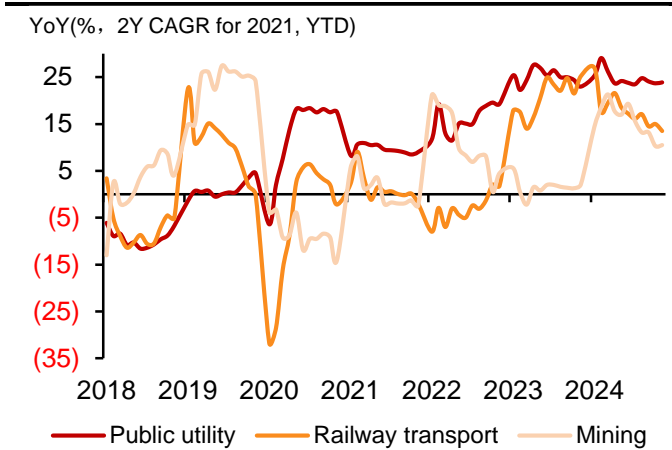
Source: Wind, CMBIGM

Figure 20: FAI in agriculture & local infrastructure



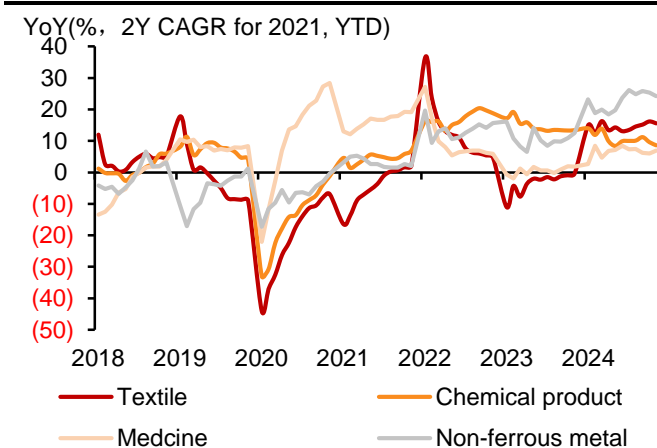
Source: Wind, CMBIGM

Figure 21: FAI in central infrastructure & mining



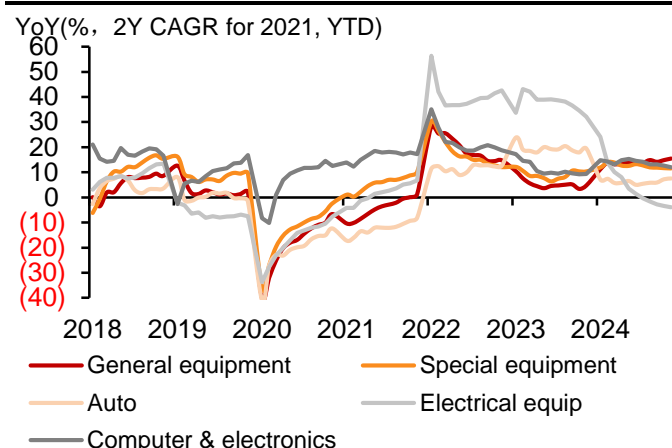
Source: Wind, CMBIGM

Figure 22: FAI in chemical products



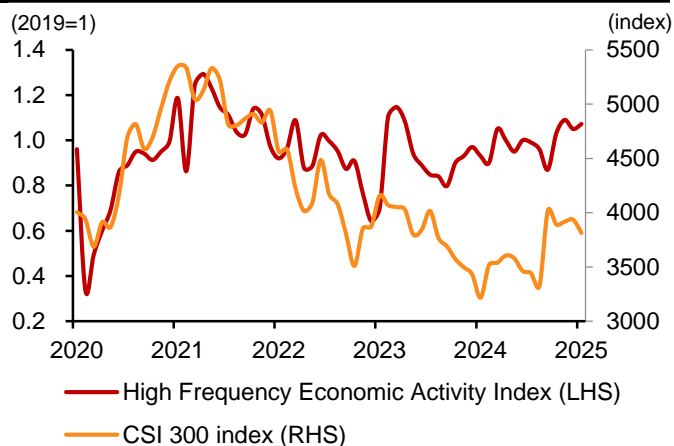
Source: Wind, CMBIGM

Figure 23: FAI in equipment



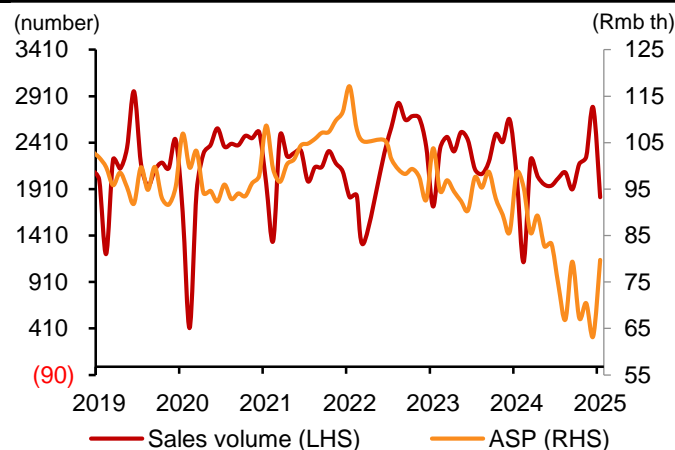
Source: Wind, CMBIGM

Figure 24: Economic activity & A-share index



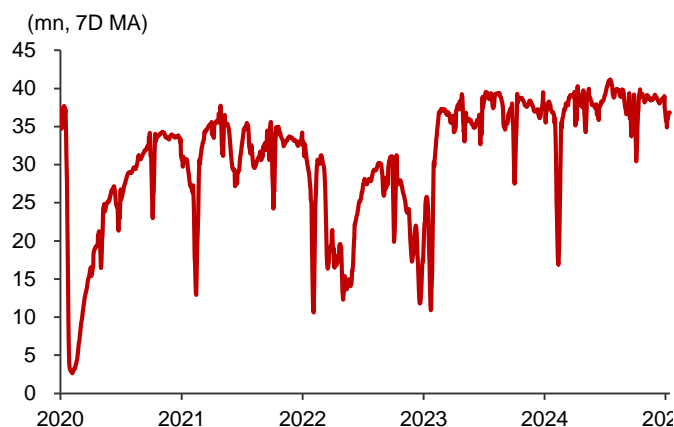
Source: Wind, CMBIGM

Figure 25: Used vehicle sales in Shanghai market



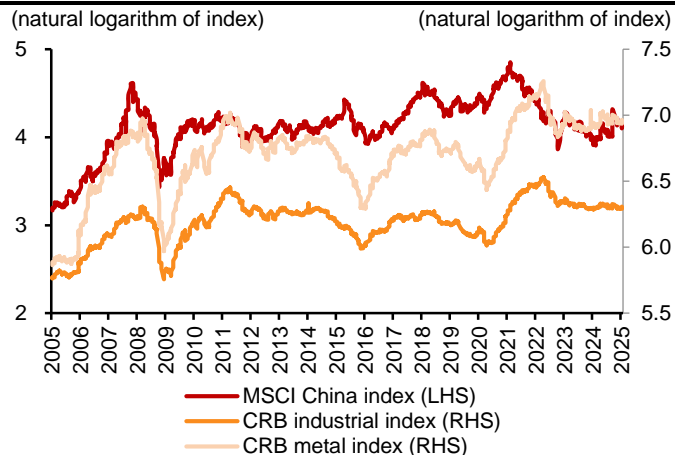
Source: Wind, CMBIGM

Figure 26: Subway passenger flow in tier-1 cities



Source: Wind, CMBIGM

Figure 27: MSCI China and commodity prices



Source: Wind, CMBIGM

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