

China Economy

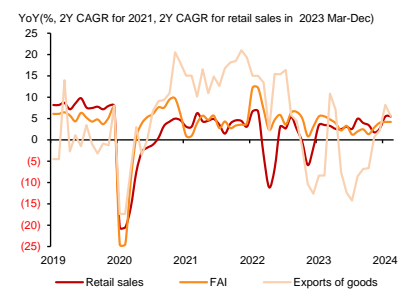
Economic data beat with targeted policy easing ahead

Economic data in 2M24 came in mostly above expectations as exports, fixed investment and industrial output exhibited a solid rebound. Retail sales also improved in comparison with the 2Y CAGR in the past two years. This February has one working day more than last February, which may have contributed over 1.5ppt to the output growth in the first two months. However, property sector remained a severe drag as housing sales further slumped and developers' debt risk continued to erode market confidence. While the possibility of comprehensive strong policy stimulus remains low, China may launch targeted policy support to boost housing demand and relieve debt risk. Higher-tier cities may continue to loosen restrictions on home purchase and the hukou system. The PBOC is likely to maintain a moderate easing of monetary policy with additional RRR cuts by 50bps in total, LPRs cut by 10bps and structurally targeted mortgage rate cut by 20bps in the next three quarters. The central bank may also lower deposit rates to protect banks' NIMs. Meanwhile, China may enhance its credit and fiscal support to tech innovation and industrial upgrading for high-quality development. The MoF may provide more tax credits and fiscal subsidies for R&D expenses and equipment upgrading to facilitate the substitution of imports by domestic-made products. We maintain our forecast on China's GDP growth at 4.8% in 2024, compared to the 2Y CAGR of 4.1% in 2022-2023.

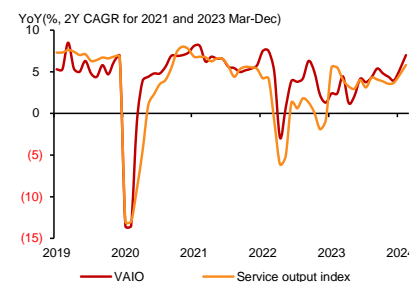
- Property market remained a severe drag on economy, confidence and financial stability.** The gross floor area (GFA) sold and the GFA started for commodity buildings respectively dropped 20.5% and 29.7% in 2M24 after decreasing 8.5% and 20.4% in 2023. Property development investment declined 9% in 2M24 after dropping 9.6% in 2023. The recovery ratio of housing sales in 30 major cities compared to the same period in 2019 dipped to 49.9% in 2M24 and 41.1% in the first half of Mar. Second-hand housing sales saw a solid rebound in 2M24 as the recovery ratio in 11 selective cities rose from 74.1% in 2022 to 96.4% in 2023 and over 100% in YTD 2024. Property developers' debt risk continued to erode market confidence about China's economy and financial system. We expect additional loosening of property policies in the next three quarters to boost housing demand and relieve debt risk. Higher-tier cities may further loosen their restrictions on home purchase and the hukou system. The PBOC may launch targeted cuts in mortgage rates and down-payment ratios especially for first-home and second-home buyers. We expect GFA sold for commodity buildings to drop 5% in 2024 after decreasing 8.5% in 2023.
- Retail sales gently eased amid less favorable base effect.** Retail sales growth slowed down to 5.5% in 2M24 from 7.2% in 2023. Food-related consumption including catering services, food, beverage and alcohol & tobacco products showed robust growth in 2M24, increasing 12.5%, 9%, 6.9% and 13.7% in 2M24 after rising 20.4%, 5.2%, 3.2% and 10.6% in 2023. Property-related consumption also rebounded as furniture, home appliance and construction & decoration materials increased 4.6%, 5.7% and 2.1% in 2M24 after rising 2.8%, 0.5% and -7.5% in 2023, thanks to the recovery in second-hand housing sales. Durable goods including autos and telecom equip also saw a sharp rebound, growing 8.7% and 16.2% in 2M24 from 5.9% and 7% in 2023. Clothing, gold, silver & jewellery, cultural & office products and petroleum products notably declined. Looking forward, consumption may mildly improve in 2024 structurally especially in

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Source: Wind, CMBIGM



Source: Wind, CMBIGM

recreational, experimental and self-pleasing consumption. We expect retail sales to grow 5.3% in 2024 after rising 7.2% in 2023.

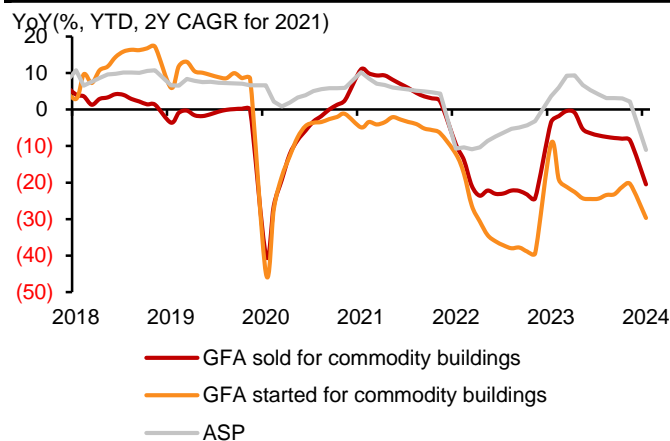
- **Service activity slowed down while industrial output accelerated.** The YoY growth of service output index declined from 8.1% in 2023 to 5.8% in 2M24, yet higher than the 2Y CAGR of 3.9% in 2022-2023. VAIO (value-added industrial output) came in above market expectation at 7% growth in 2M24, compared to 4.6% in 2023. VAIO in chemical products, rubber & plastic products, transportation equip excluding autos and computers, telecom & electronic equip saw solid growth at 10%, 13.1%, 11% and 14.6% in 2M24. Auto production remained strong at 9.8% in 2M24, in-line with the growth in exports. Industrial production showed surprising resilience even though the manufacturing PMI has been in contraction since early 2023. Looking forward, service and industrial output may moderately improve in 2024 thanks to a recovery in service consumption, an end of the de-stocking cycle and alleviation of deflation.
- **FAI growth edged up thanks to expanding manufacturing and narrowing decline of property investments.** FAI rose 4.2% in 2M24, slightly higher than 4% in 2023. The investment growth in manufacturing sector accelerated to 9.4% from 8.2%, thanks to the continuous policy support on industrial upgrade and manufacturing advancement, while the decline of property development investment narrowed from 12.4% to 9% in 2M24. Infrastructure investment eased to 9% in 2M24 from 10.7%. Suspension of infrastructure projects in 12 debt-laden provinces and fiscal restraints of local governments from declining land sales may weigh on future infrastructure investment dominated by local SOEs. Looking forward, we expect FAI to accelerate from 3% in 2023 to 4.2% in 2024, with growth in manufacturing and infrastructure sectors to reach 6.5% and 7.8% in 2024 after rising 6.5% and 8.2% in 2023, while the decline of property investment to moderate to 7% in 2024 from 9.6% in 2023.
- **China needs additional monetary and fiscal support, especially on the demand side.** The economic data in 2M24 continued to show a divergence with solid recovery in exports, industrial production and FAI compared to mediocre consumption and a deteriorating property sector. While we expect a mild recovery in economy, the continuous slump of property sector and weakness of consumption with deflation pressure are fuelling the market concern about the possibility of Japanization in the next decade. China needs additional monetary and fiscal support especially on the consumer side. However, there is no policy signal on consumption stimulus. While the possibility of comprehensive strong policy stimulus remains low, China may launch targeted policy support to boost housing demand and relieve debt risk. Higher-tier cities may continue to loosen restrictions on home purchase and the hukou system. The PBOC is likely to maintain a moderate easing of monetary policy with additional RRR cuts by 50bps in total, LPRs cut by 10bps and structurally targeted mortgage rate cut by 20 bps in the next three quarters. The central bank may also lower deposit rates to protect banks' NIMs. Meanwhile, China may enhance its credit and fiscal support to tech innovation and industrial upgrading for the high-quality development. The MoF may provide more tax credits and fiscal subsidies for R&D expenses and equipment upgrading to facilitate the substitution of imports by domestic-made products. We maintain our forecast on China's GDP growth at 4.8% in 2024, compared to the 2Y CAGR of 4.1% in 2022-2023.

Figure 1: China's economic indicators

	YoY (%)							2Y CAGR (%)			
	2019	2020	2021	2022	2023	Dec 23	2M24	1Q23	1H23	3Q23	2023
GDP	6.0	2.2	8.4	3.0	5.2	5.2		4.6	4.0	4.1	4.1
VAIO	5.7	2.8	9.6	3.6	4.6	6.8	7.0	4.7	3.6	3.9	4.1
-Mining	5.0	0.5	5.3	7.3	2.3	4.7	2.3	6.9	5.5	5.0	4.8
-Manufacturing	6.0	3.4	9.8	3.0	5.0	7.1	7.7	4.5	3.5	3.8	4.0
-Public utility	7.0	2.0	11.4	5.0	4.3	7.3	7.9	4.7	4.0	4.5	4.6
Delivery value for exports	1.3	(0.3)	17.7	5.5	(3.9)	(3.2)	0.4	4.1	2.7	2.1	0.7
Service output index	6.9	0.0	13.1	(0.1)	8.1	8.5	5.8	4.6	4.1	3.9	3.9
Retail sales	8.0	(3.9)	12.5	(0.2)	7.2	7.4	5.5	4.5	3.7	3.7	3.4
Exports of goods	0.5	3.6	29.6	5.6	(4.6)	2.3	7.1	6.0	4.3	2.4	0.4
Imports of goods	(2.7)	(0.6)	30.1	0.7	(5.5)	0.2	3.5	1.2	(1.0)	(2.2)	(2.4)
Urban FAI (YTD)	5.4	2.9	4.9	5.1	3.0	3.0	4.2	7.2	4.9	4.5	4.0
-Property development	9.9	7.0	4.4	(10.0)	(9.6)	(9.6)	(9.0)	(2.6)	(6.7)	(8.6)	(9.8)
-Manufacturing	3.1	(2.2)	13.5	9.1	6.5	6.5	9.4	11.2	8.2	8.1	7.8
-Infrastructure	3.3	3.4	0.2	11.5	8.2	8.2	9.0	10.6	9.7	9.9	9.9
GFA sold for commodity building (YTD)	(0.1)	2.6	1.9	(24.3)	(8.5)	(8.5)	(20.5)	(8.0)	(14.2)	(15.2)	(16.8)
GFA started for commodity building (YTD)	8.5	(1.2)	(11.4)	(39.4)	(20.4)	(20.4)	(29.7)	(18.4)	(29.5)	(31.1)	(30.5)

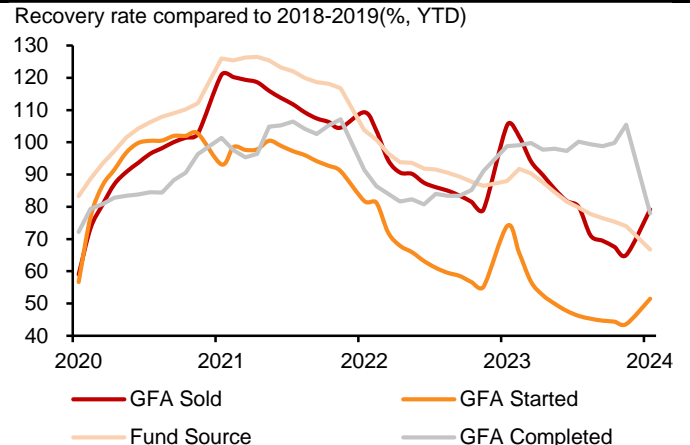
Source: Wind, CMBIGM estimates

Figure 2: Property sales growth



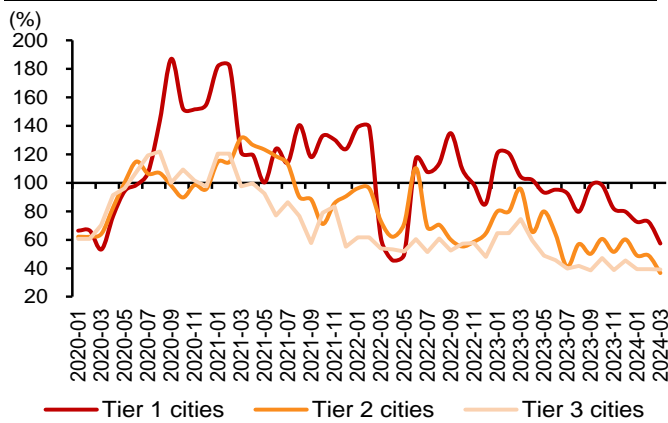
Source: Wind, CMBIGM

Figure 3: Recovery rates compared to 2019



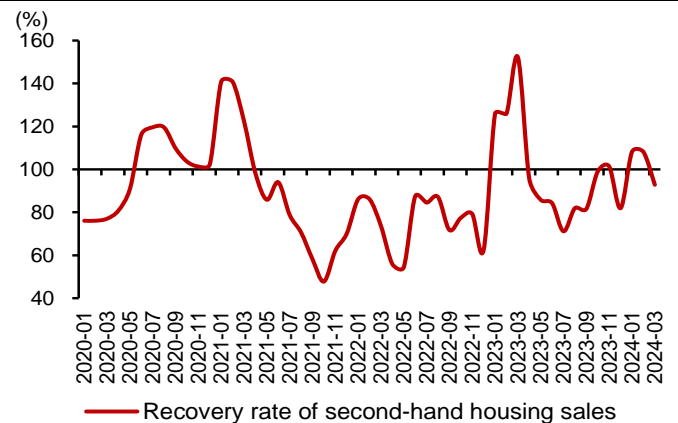
Source: Wind, CMBIGM

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



Source: Wind, CMBIGM

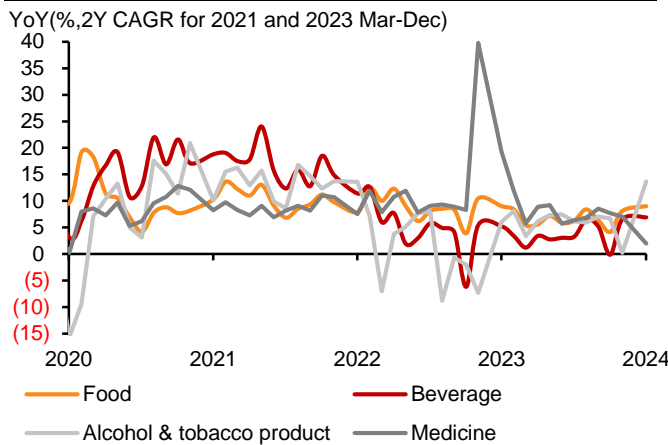
Figure 5: Recovery rate of second-hand housing sales compared to 2019 in 11 selective cities



Source: Wind, CMBIGM

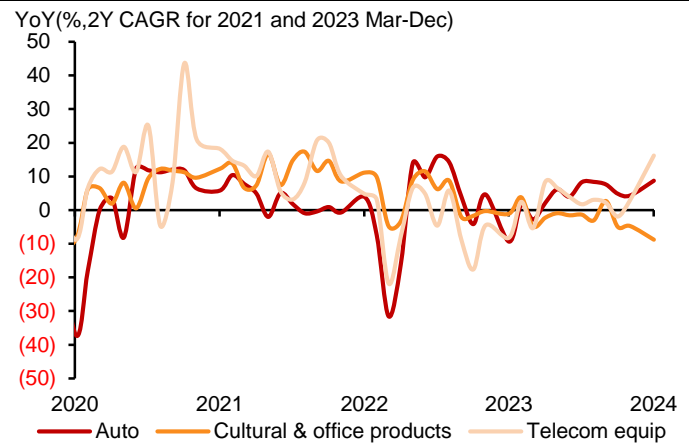
11 cities include Beijing, Shenzhen, Hangzhou, Nanjing, Chengdu, Qingdao, Suzhou, Xiamen, Wuxi, Dongguan and Foshan

Figure 6: Retail sales of staples



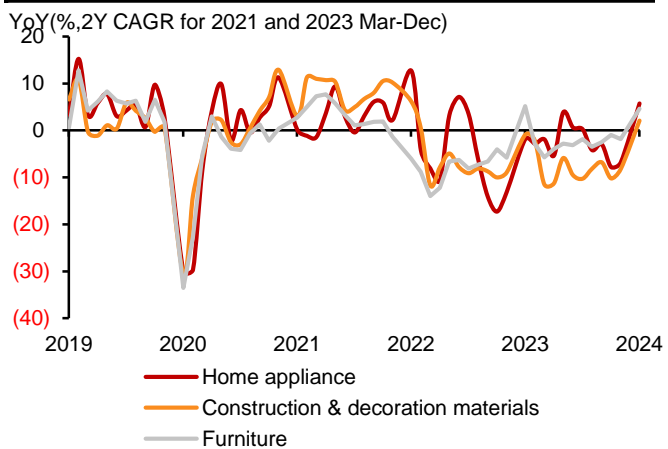
Source: Wind, CMBIGM

Figure 7: Retail sales of auto & electronics



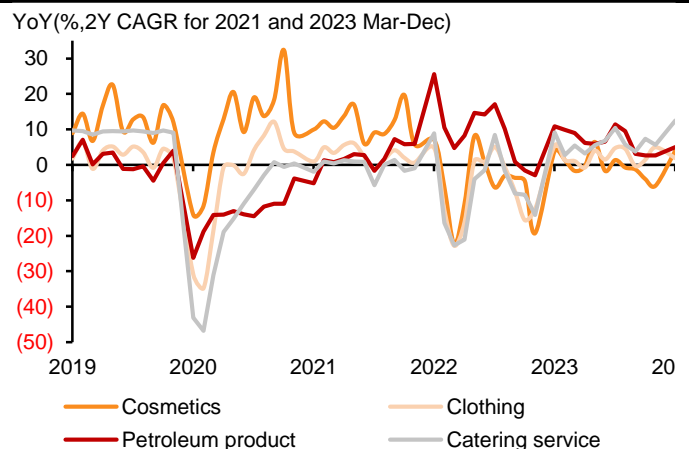
Source: Wind, CMBIGM

Figure 8: Home appliance & furniture retail sales



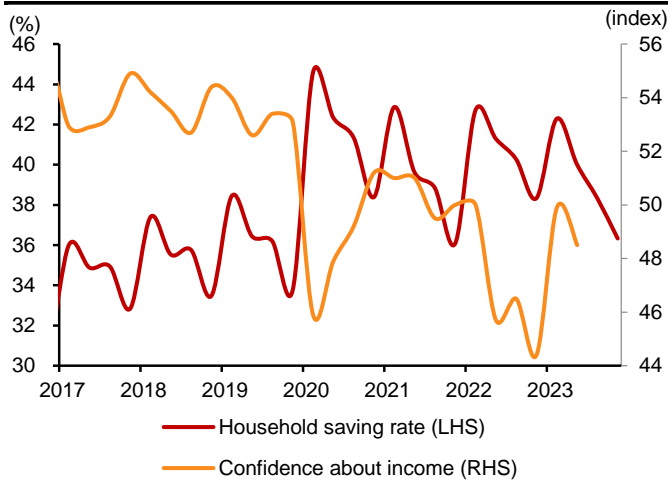
Source: Wind, CMBIGM

Figure 9: Retail sales related to outgoing activities



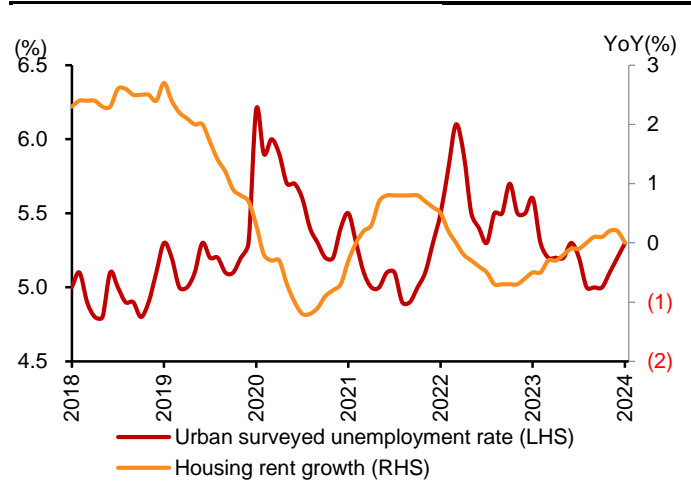
Source: Wind, CMBIGM

Figure 10: Consumer confidence



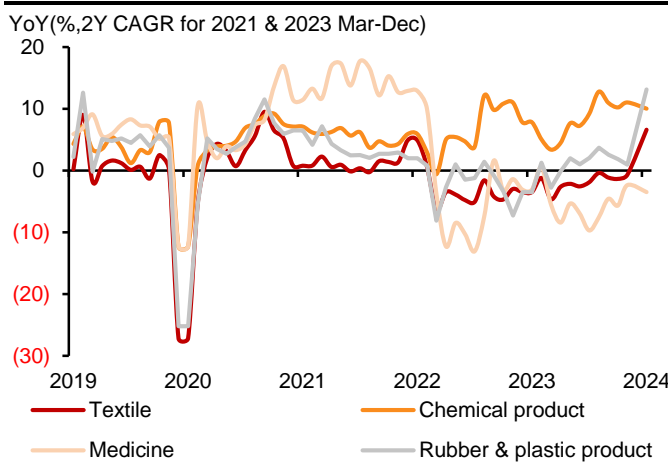
Source: Wind, CMBIGM

Figure 11: Urban unemployment rate & housing rent



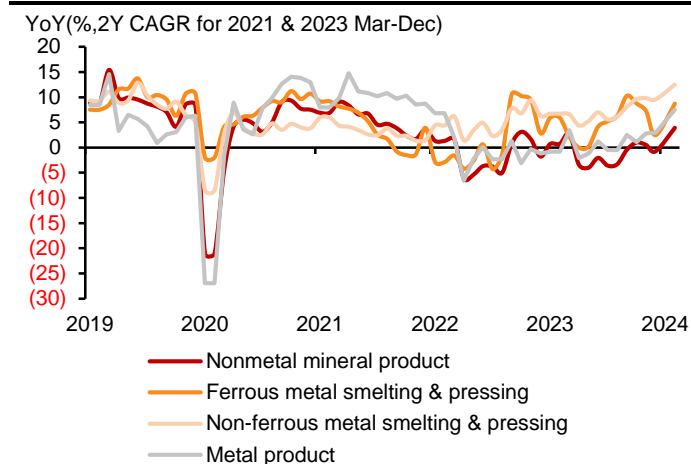
Source: Wind, CMBIGM

Figure 12: VAIO in textile & chemical products



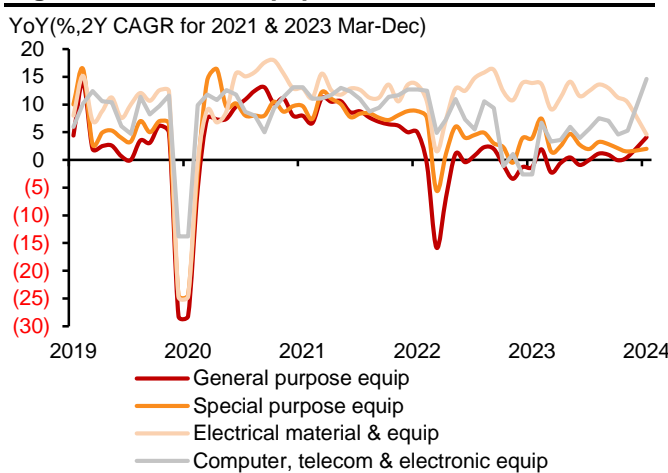
Source: Wind, CMBIGM

Figure 13: VAIO in mineral & metal products



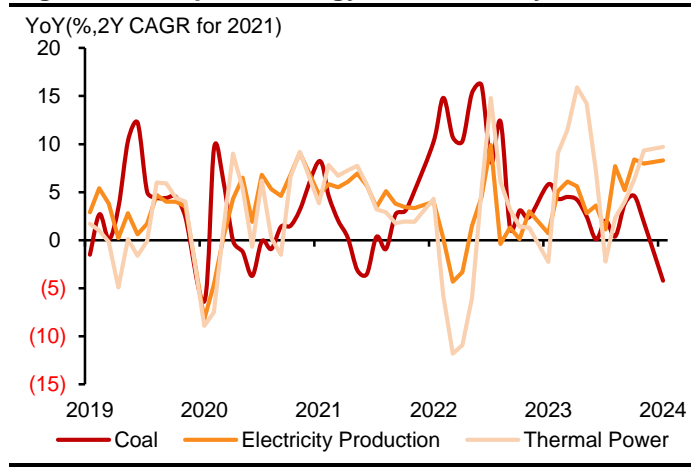
Source: Wind, CMBIGM

Figure 14: VAIO in equipment



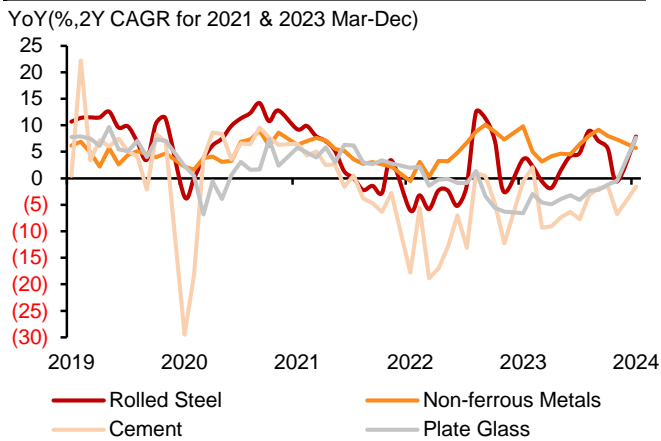
Source: Wind, CMBIGM

Figure 15: Output in energy and electricity



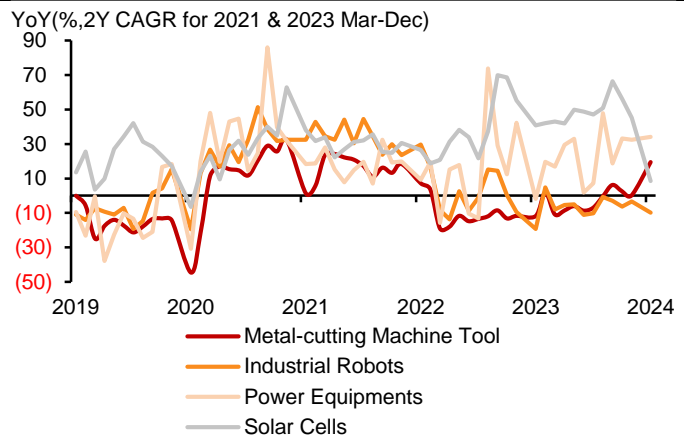
Source: Wind, CMBIGM

Figure 16: Output in steel & construction material



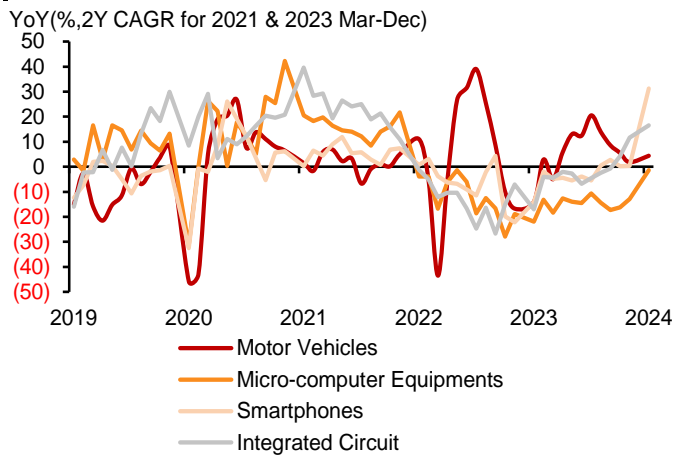
Source: Wind, CMBIGM

Figure 17: Output in capital goods



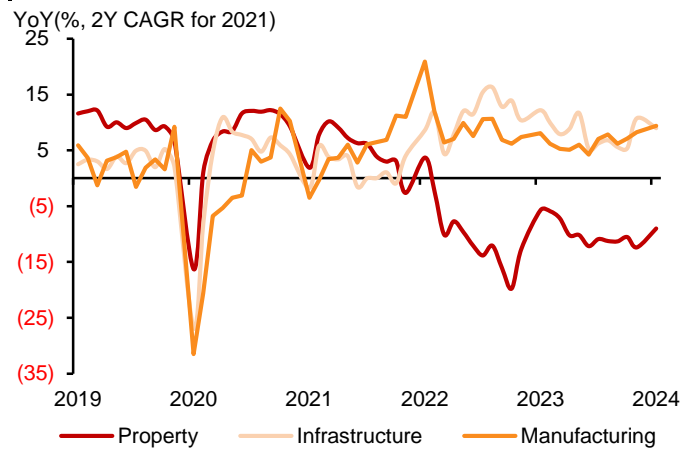
Source: Wind, CMBIGM

Figure 18: Output in auto, computer & smartphone



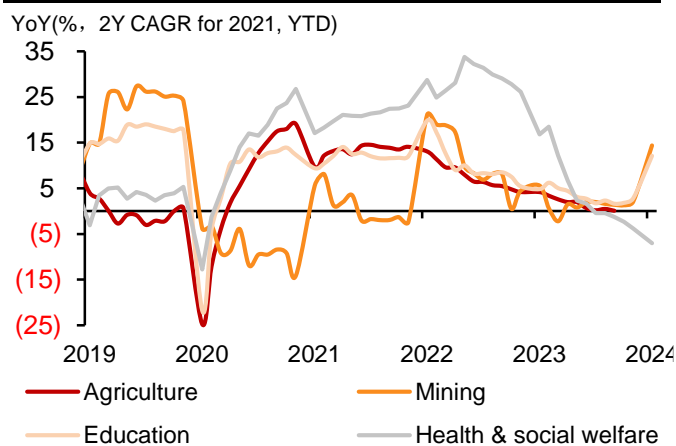
Source: Wind, CMBIGM

Figure 19: FAI by sector



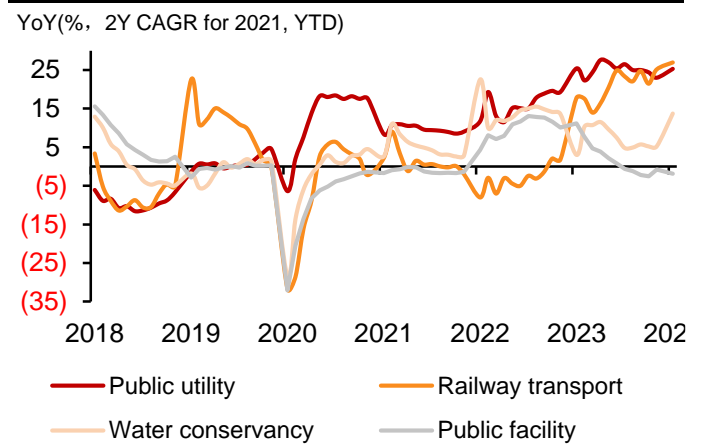
Source: Wind, CMBIGM

Figure 20: FAI in mining & public service



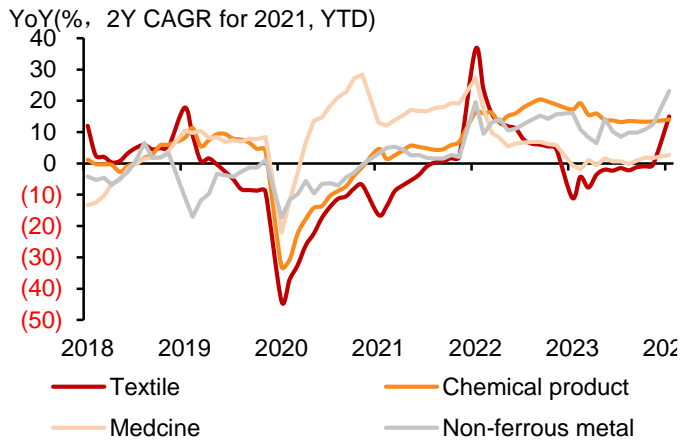
Source: Wind, CMBIGM

Figure 21: FAI in infrastructure sectors



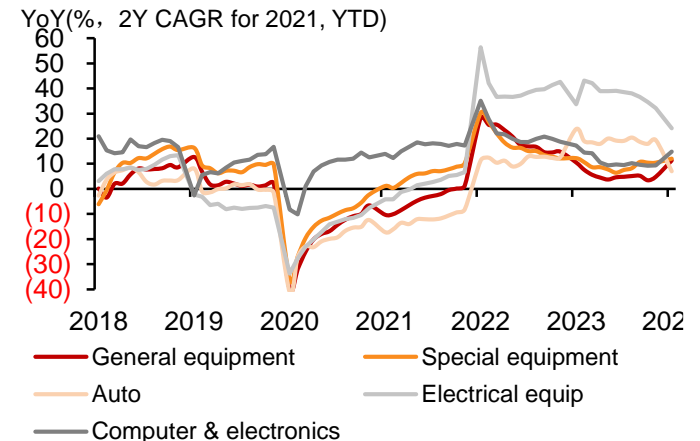
Source: Wind, CMBIGM

Figure 22: FAI in chemical products



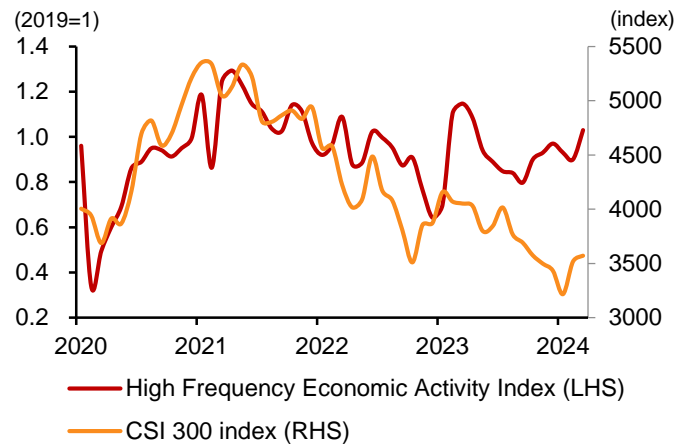
Source: Wind, CMBIGM

Figure 23: FAI in equipment



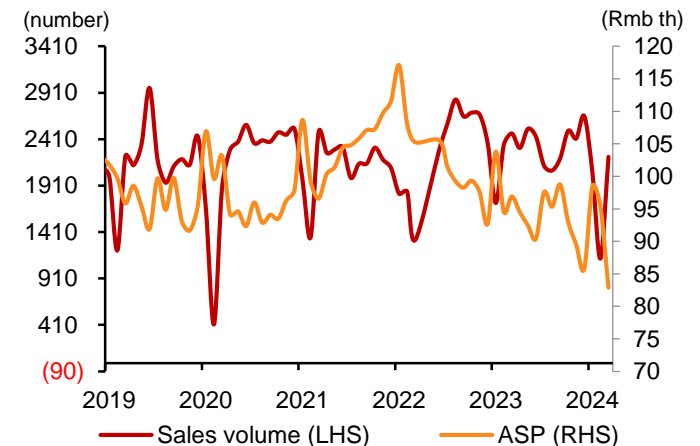
Source: Wind, CMBIGM

Figure 24: Economic Activity & A Share Index



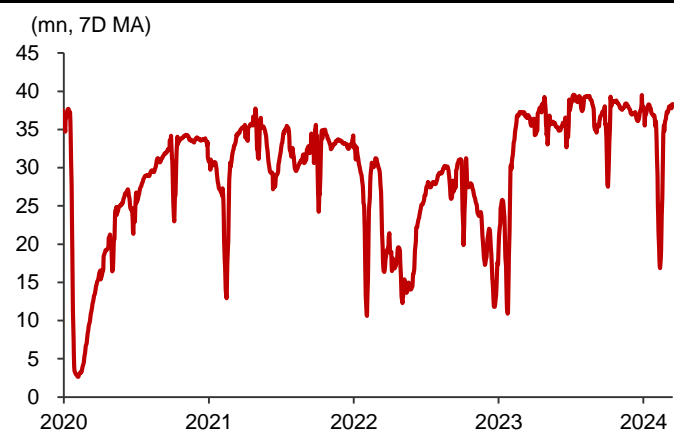
Source: Wind, CMBIGM

Figure 25: Used vehicle sales in Shanghai market



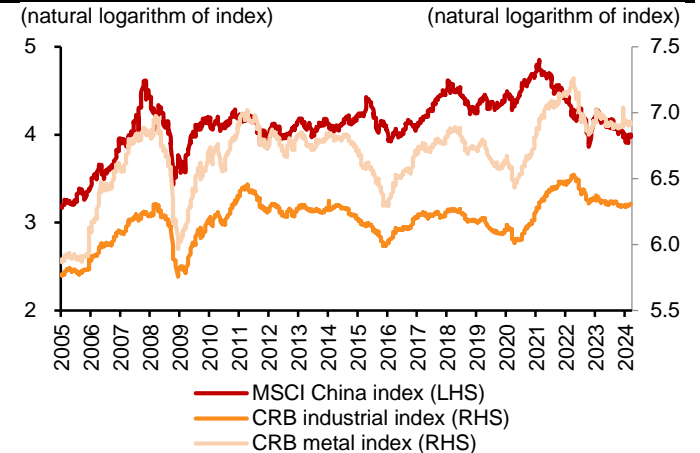
Source: Wind, CMBIGM

Figure 26: Subway passenger flow in tier-1 cities



Source: Wind, CMBIGM

Figure 27: MSCI China and Industrial& Metal Index



Source: Wind, CMBIGM

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