

# China Economy

## Growth further slowed, but may gradually pick up ahead

China's economic activity and business sentiment further deteriorated in November as PMI dropped to the lowest level since this May. Housing market, retail sales and service output all weakened because of stricter lockdowns in cities and towns after the resurgence of Covid cases. Meanwhile, exports also slowed sharply as overseas recession increased. As the 4Q22 growth is much weaker than expected, we revise down the GDP growth forecast for 2022 from 3.3% to 3%. Lower base makes it less difficult for China to achieve its GDP growth target at around 5% in 2023. We maintain the forecast for 2023 and 2024 respectively at 4.9% and 4.5%. New cabinet leaders should focus on pro-growth with reopening of economy, easing macro policies and pro-business stance. China will see a gradual resumption with a mild reflation after the reopening of its economy.

■ **Economic activity and business sentiment sharply deteriorated in November.** China's PMI in manufacturing and service respectively decreased from 49.2% and 47% in October to 48% and 45.1% in November, which were the lowest levels since this May. New order and business sentiment all deteriorated. New order index in manufacturing & service dropped from 48.1% and 41.7% to 46.4% and 41.4%. Meanwhile, business sentiment index in the two sectors declined to 46.7% and 47.1% from 47.6% and 47.9%.

■ **The deterioration of economy & business condition was due to domestic lockdowns and overseas recession risk.** In face of the resurgence of Covid cases, most local governments tightened zero covid policy with stricter lockdowns. About 50% of the largest 40 cities saw a deterioration of traffic flow, passenger flow and customer flow in the past few weeks. Therefore, both retail sales and service output may have further declined in November. Small business was more vulnerable as the PMI of small enterprises dropped to the lowest level since March 2020. At the same time, overseas recession risk increased with an inverted yield curve in global bond market and downward pressure in earning forecast for stocks. Therefore, China's export order index experienced a noticeable decline from 47.6% in October to 46.7% in November.

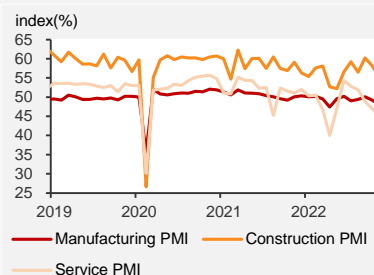
■ **We revise down the GDP growth forecast for 2022 from 3.3% to 3% and maintain the forecast for 2023 and 2024 respectively at 4.9% and 4.5%.** As economic activity is much weaker than expected in 4Q22, we revise down the GDP growth forecast for 2022 from 3.3% to 3%. A lower base should make it less difficult for China to achieve its GDP growth target at around 5% in 2023. However, challenges are still there for 2023 as the resumption of housing market and durable consumption should be gradual while overseas economy is likely to see a recession. We maintain the GDP growth forecast for 2023 and 2024 respectively at 4.9% and 4.5%.

■ **New cabinet leaders should focus on pro-growth with reopening of economy, easing macro policies and pro-business stance.** We believe new cabinet leaders will focus on pro-growth in 2023. First, China has to reopen its economy. China has already adjusted its zero Covid policy recently. It may take a few months for people to adapt to the new stage, but not for long. After the Chinese New Year holiday, cities and towns may face the risk of

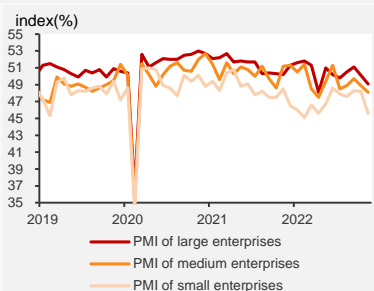
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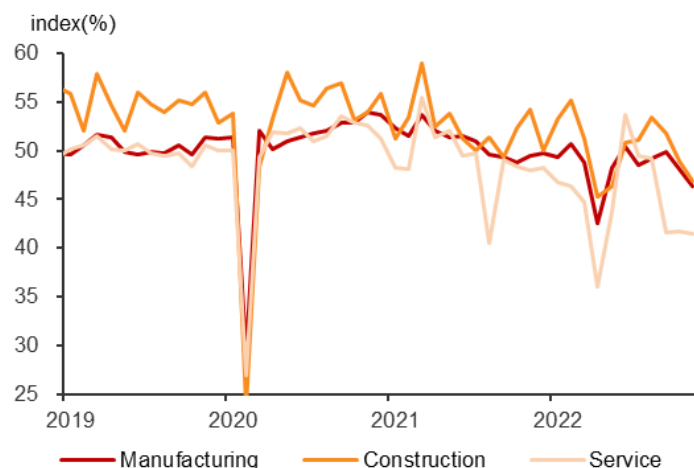
Source: Wind, CMBIGM



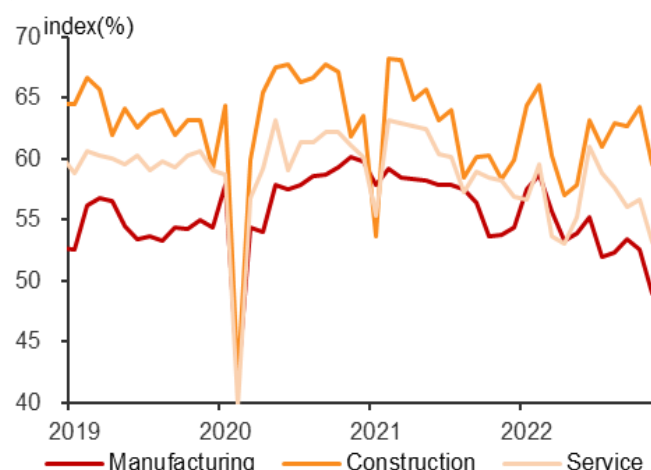
Source: Wind, CMBIGM

large-scale spread of Covid virus as people travel, gather and visit each other in the season. China has to prepare for this scenario. Second, China will maintain easing macro policies. Monetary policy should remain prudent with easing bias. The PBOC will maintain easing liquidity and credit policy with additional RRR and LPR cuts. Credit policy should be accommodative especially for manufacturing, service, SMEs and LGFVs. The central bank may further loosen credit supply for property sector. Fiscal policy should be more proactive with a mild increase of broad deficit. China may extend its tax cut for new energy vehicle consumption and equipment capex, and strengthen fiscal support to newly strategic industries. Last, new cabinet leaders will adopt a pro-business stance. They may launch some reform and opening policies to boost the confidence in financial market and business community.

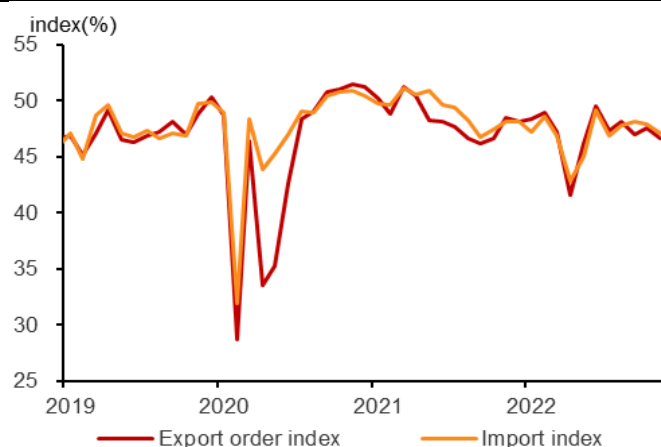
- **China may see a gradual resumption with a mild reflation after the reopening of its economy.** After the reopening, demand for medicine, treatment & health care may increase as the Covid virus infects many people. Meanwhile, demand in transportation service, catering, hotel, tourism & recreational service may rebound rapidly. The resumption of capex, durable consumption and housing market may be gradual as it takes some time for employment, income and confidence to recover. China's service inflation may mildly rise in the reopening process as demand resumes faster than supply in some service sectors. However, the reflation risk should be low as the resumption of domestic capex & consumption should be slow, and overseas recession will cause disinflation pressure in commodities. The massive virus infection should have limited impact on China's labor participation as the virus becomes very weak and the unemployment pressure is high in the country. We expect China's CPI growth to mildly rise from 2% in 2022 to 2.3% in 2023.

**Figure 1: New Order Index**

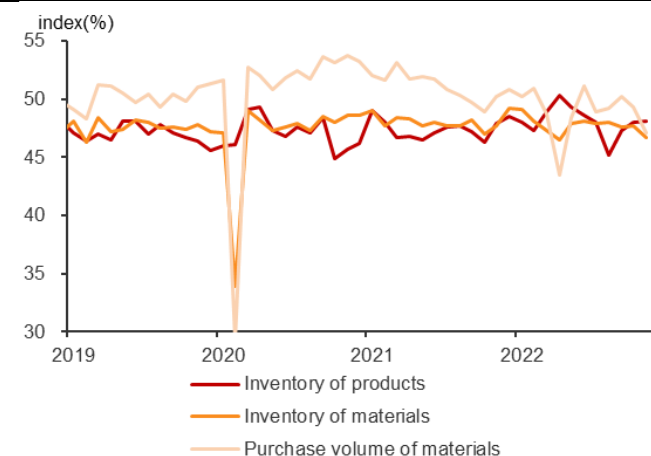
Source: WIND, CMBIGM

**Figure 2: Business Sentiment Index**

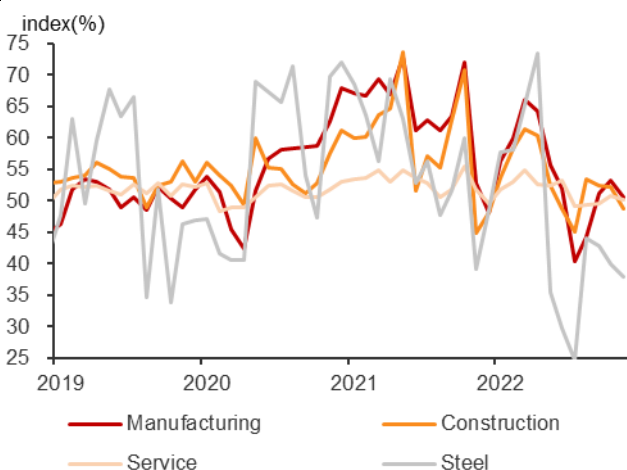
Source: WIND, CMBIGM

**Figure 3: Export Order Index and Import Index**

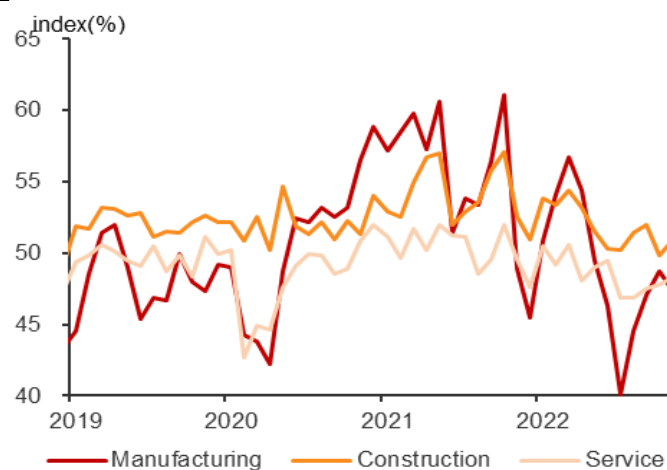
Source: WIND, CMBIGM

**Figure 4: Inventory Index**

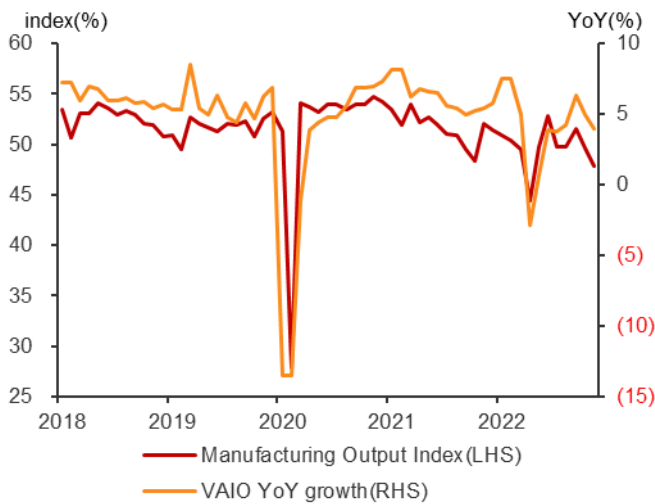
Source: WIND, CMBIGM

**Figure 5: Material Purchase Price Index**

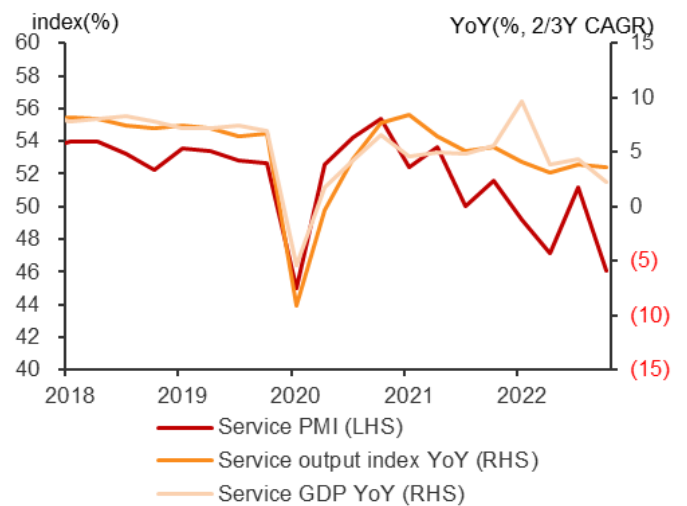
Source: WIND, CMBIGM

**Figure 6: Ex-factory Price Index**

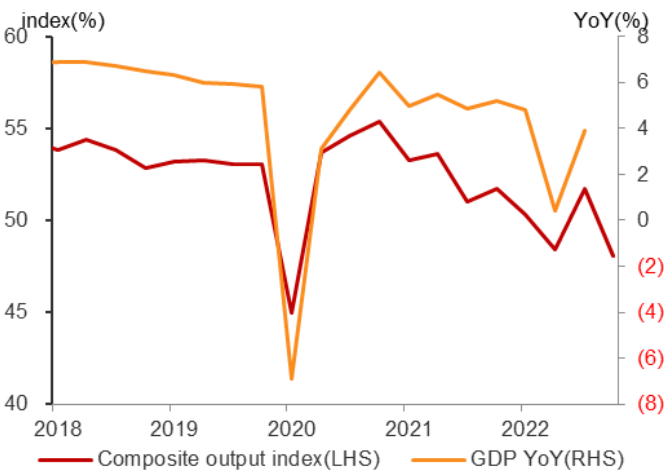
Source: WIND, CMBIGM

**Figure 7: Manufacturing Output Index**

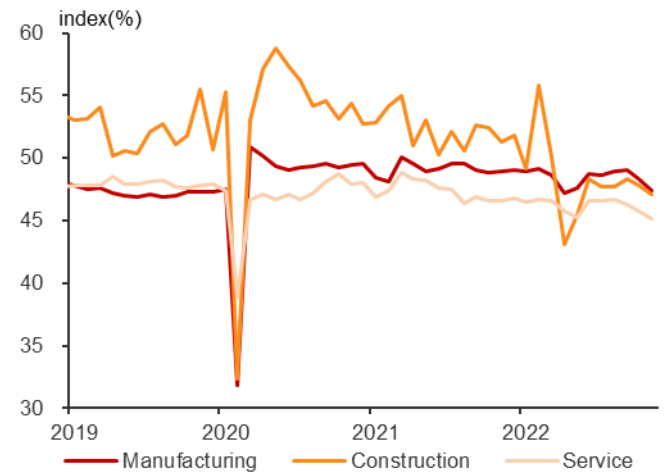
Source: WIND, CMBGM

**Figure 8: Service PMI & Output Index**

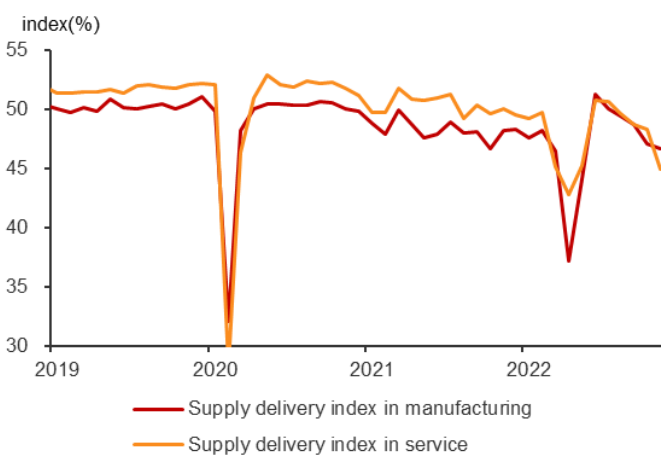
Source: WIND, CMBGM

**Figure 9: Composite Output Index**

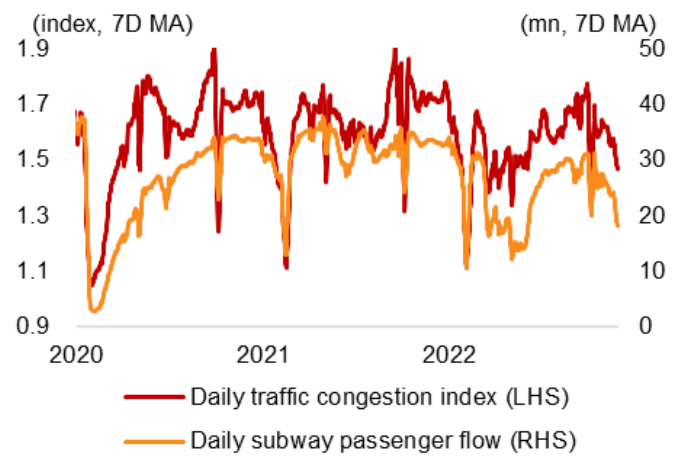
Source: WIND, CMBGM

**Figure 10: Employment Index**

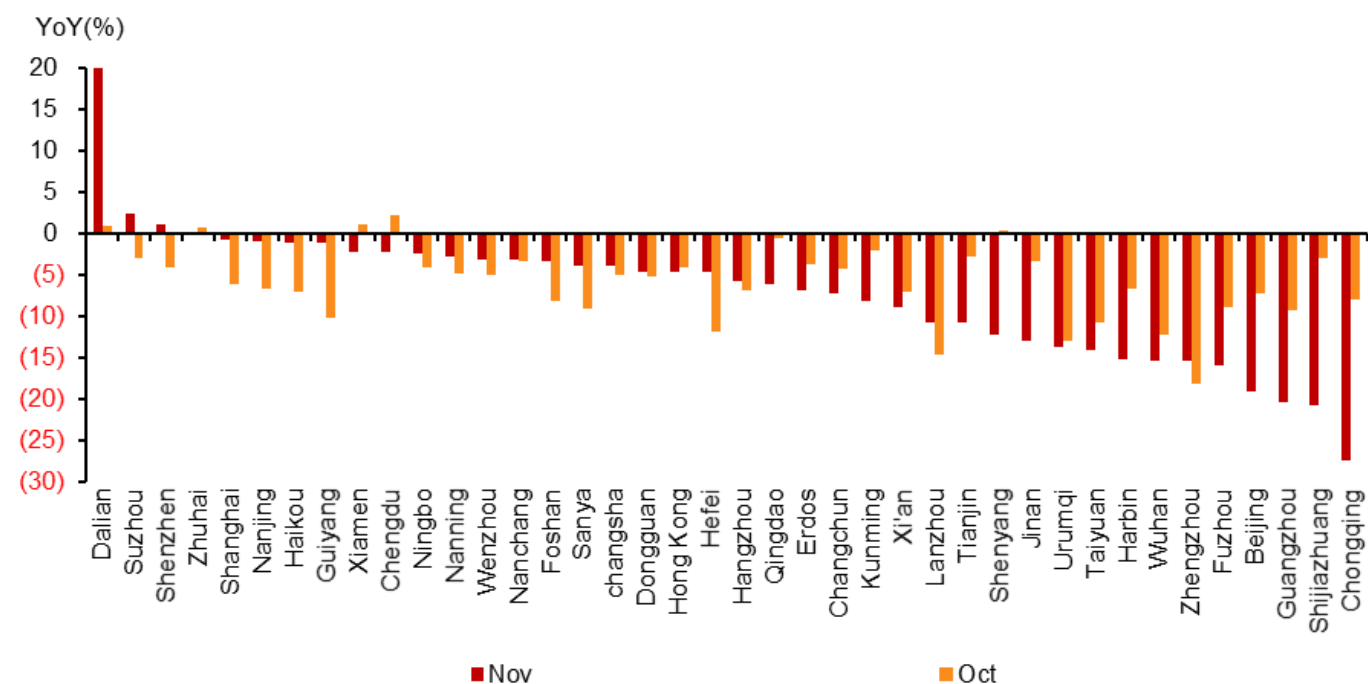
Source: WIND, CMBGM

**Figure 11: Supply Delivery Index**

Source: WIND, CMBGM

**Figure 12: Daily Mobility Index in Tier-1 Cities**

Source: WIND, CMBGM

**Figure 13: YoY Change of Traffic Congestion Index in Cities in Oct. & Nov. 2022**

Source: Wind, CMBIGM

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