

Market Monitor – Mainland China

Notable Recovery Expected After a Subdued Year

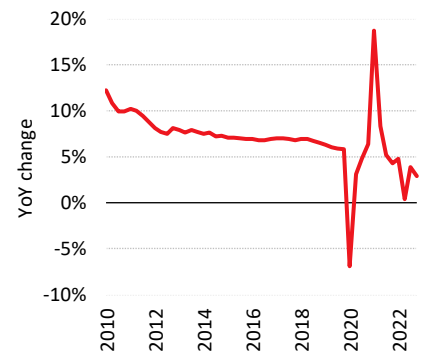


- Gross domestic product (GDP) growth slowed to 3.0% in 2022 amid multiple headwinds including Covid-19 outbreaks, pandemic control measures and a global economic slowdown, etc.
- The economic outlook brightens significantly after an expedited reopening, enhanced housing market and macro-policy support, etc.
- The Mainland economy is expected to reach a 5.7% growth in 2023 and will return to its high quality development path in the post-pandemic era

The Mainland economy grew modestly in 2022

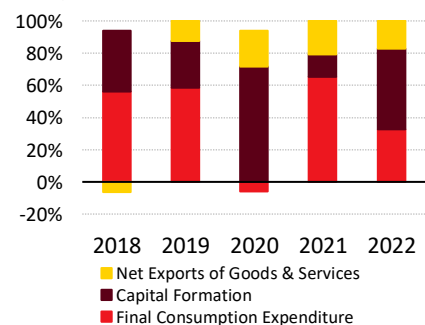
In 2022, Mainland China’s GDP growth slowed to 3.0% after a solid 8.4% recovery in 2021, weighed down by the pandemic and its related restrictions as well as the global economic slowdown. Due to the pandemic outbreaks and its negative impact on consumption and production, growth in 2022 showed a zig-zag pattern of 4.8%, 0.4%, 3.9% and 2.9% year-on-year (YoY) respectively, with Q2 and Q4 being the hardest hit. Against this backdrop, the Mainland authorities have rolled out a series of supportive policies since May 2022 to drive infrastructure investment and production activities in order to stabilise growth and employment. In terms of major economic activities, the secondary industry expanded by 3.8% YoY in 2022, outperforming the 2.3% YoY growth in the tertiary industry weighed by pandemic, its related restriction and fear factor. This was in line with the expenditure approach which showed capital formation contributing to half of economic growth, while consumption was relatively lacklustre with a smaller share to growth at around 32.8%. Net exports contributed to the rest of economic growth at 17.1%. In 2022, Mainland’s economy reached at around USD 18.0 trillion with a GDP per capita at around USD 12,741.

Mainland China GDP Growth



Source: CEIC

Contribution to GDP Growth by Major Items



Source: CEIC

## Economic Research

February 2023

**Retail sales remained sluggish, while industrial production and investment slowed toward the end of 2022.** Despite the orderly relaxation of pandemic control measures since mid-November 2022, the increase in Covid-19 cases continued to weigh on economic activities, especially the retail and consumption sectors. The decline of retail sales narrowed from 5.9% YoY in November to 1.8% in December 2022, the third consecutive months of decline, taking the full year average to a slight 0.2% contraction. Meanwhile, industrial production slowed from 2.2% YoY in November to 1.3% in December 2022, with high-tech and equipment manufacturing continuing to post a higher-than-overall growth, leading to a moderate 3.6% YoY overall growth in 2022. Fixed asset investment picked up somewhat from 4.9% in 2021 to 5.1% in 2022, with manufacturing and infrastructure investment being the main drivers, rising 9.1% and 9.4% respectively, partly offsetting the 10.0% contraction in property investment.

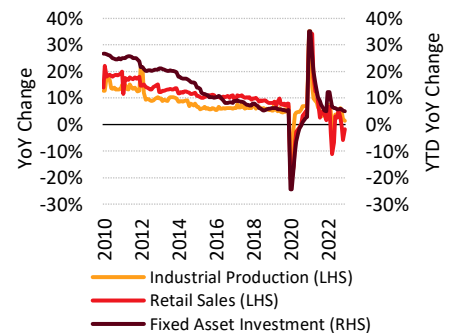
### Notable recovery in 2023 amid abating headwinds and ample macro-policy room

**In 2023, an accelerated reopening from the Covid-19 pandemic is likely to boost a solid recovery in consumption and services sectors, possibly outperforming the industrial and investment sectors.** Since mid-November 2022, the Mainland authorities have picked up the pace of the orderly optimization of Covid-related policies, including shifting the focus from infection control to preventing severe cases, downgrading Covid-19 management, scraping Covid testing and quarantine rule for inbound travellers, etc. Accordingly, people’s mobility has gradually normalized, with the number of air ticket bookings reportedly surging by 628% YoY on the first day of reopening. Official economic data also showed initial signs of recovery, with the official non-manufacturing purchasing managers’ index (PMI) rebounding from 41.6 in December 2022 to 54.4 in January 2023 after staying in the contractionary territory for 3 months. The official manufacturing PMI also returned to expansionary territory at 50.1 in January 2023. With people’s mobility normalizing and a gradual reopening, consumer sentiment and services consumption on restaurant, travel, etc., will be revitalized. Coupled with a lower comparison base in 2022, the consumption and services sectors will take the lead in recovery in 2023, possibly after the Chinese New Year (CNY).

**The property market is expected to stabilize at a low level amid enhanced policy support to quality developers, owner-occupiers and housing improvement.** In 2022, the Mainland China’s property market entered into a correction, with investment and sales by floor space of commercial residential building shrinking by 9.5% and 26.8% in 2022 respectively. The lower-tier cities were the hardest hit when compared with tier-1 and 2 cities, with new home prices increasing by 2.5% YoY in tier-1 cities, and prices declining by 1.1% and 3.9% YoY in tier-2 and tier-3 cities respectively. In response, the Mainland authorities rolled out a series of policies aimed at enhancing the financing conditions of quality developers through bank lending, bond and equity financing channels, and reportedly further postponing the “three red lines”. In addition, the People’s Bank of China (PBoC) and the China’s Banking and Insurance Regulatory Commission (CBIRC) established a dynamic adjustment mechanism on mortgage rates for first-home homebuyers, which is expected to drive a more flexible adjustment of housing policy at the city level to boost homebuyers’ demand. All these measures showed a stronger determination of the Mainland authorities to stabilize the housing market, restore confidence of buyers and manage downside risk.

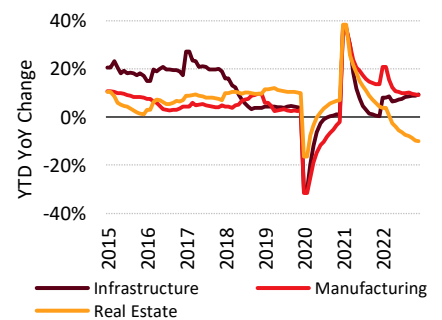
**Ample macro-policy room helps manage the Covid-related transition.** The economic

Fixed Asset Investment, Retail Sales and Industrial Production



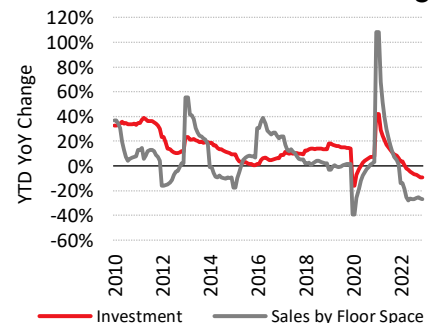
Source: CEIC

Fixed Asset Investment of Selected Sectors



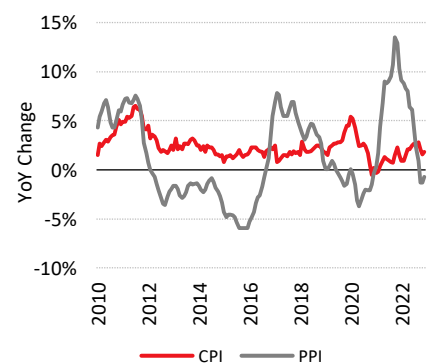
Source: CEIC

Investment and Sales of Commercial Residential Building



Source: CEIC

Inflation



Source: CEIC

## Economic Research

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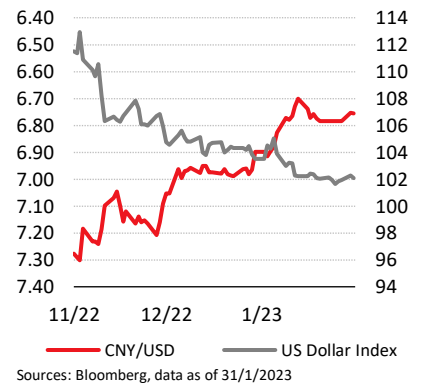
indicators in December 2022 showed the Mainland's economy remaining constrained by a new wave of infections, though the Mainland China still has macro-policy room to support the economy during this transitional period. With the Mainland China's inflationary pressure remaining tame at 2.0% in 2022, and its relatively disciplined fiscal conditions, it will offer ample policy room to stabilize growth. The fiscal deficit ratio and the quota for the issuance of special purpose bonds are reportedly to reach around 3.0% of GDP and RMB 3.8 trillion in 2023 respectively, exceeding the level in 2022. The PBoC also pledged to implement a targeted and forceful monetary policy by lowering corporate financing costs and maintaining reasonably ample liquidity, with further cut of loan prime rates (LPR) and reserve requirement ratio (RRR) couldn't be ruled out in 2023.

Looking ahead, the Mainland China's economy will record a notable acceleration in 2023 driven by the economic reopening, stabilizing property market and policy-boosted demand recovery despite the still challenging external environment. The dual-circulation strategy as well as innovation-driven and technology-led growth will be further upheld to drive Mainland China's high quality development in the next stage. The next important event to watch will be the National People's Congress in March, where the new leadership of financial regulators as well as economic and development targets will be announced.

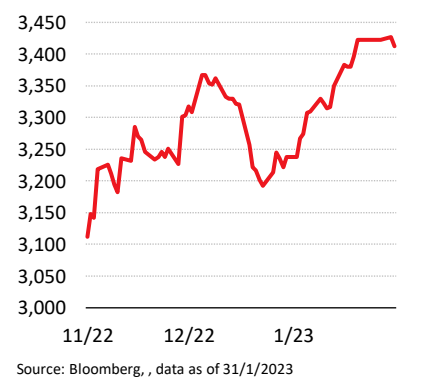
### Market sentiment turned positive

**Market participants turned positive amid improving Mainland's economic outlook and expectation of slowing pace of US's rate hikes, leading to stronger RMB exchange rate and financial market performance.** Mainland's economic performance in Q4 2022 exceeded market expectation. Since early-January 2023, the Mainland authorities expedited the pace of reopening to boost normalization of people's mobility. Coupled with favourable consumer sentiment during CNY holiday, the investors' view on Mainland's economic outlook has been notably improved. Meanwhile, the US inflation retreated from the peak with rising expectation of slowing rate hikes by the US Fed, resulting in the capital returning to the Mainland markets. The onshore and offshore CNY recorded an appreciation of 2.1% and 2.4% against the US dollar in January 2023, trading at CNY 6.7553 and 6.7568 per US dollar respectively, while A-shares increased by 5.4% to 3,412.53.

**RMB/USD vs US Dollar Index**



**A Share Index**



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