BEA 東亞銀行

Economic Research

April 2023

Market Monitor – Mainland China

Economic momentum is gathering steam

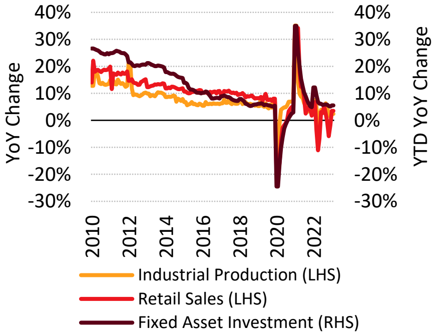
- After the post-pandemic reopening, consumer confidence and activity improved notably, driving the economic recovery in Mainland China.
- The Mainland authorities will enhance policy efforts in a targeted way to drive steady recovery, with a focus on all-rounded policy coordination and effective risk control.
- The momentum of economic recovery in Mainland China is gathering steam, with the Government's growth target of around 5% widely expected to be achieved.

The Mainland's economy recorded a broad-based improvement in the first two months of 2023

The Mainland's economic recovery was gathering steam in the first two months of 2023, driven by stabilizing domestic demand, investment and property market, etc. Against the backdrop of post-pandemic normalization, coupled with a buoyant festive sentiment during the Chinese New Year (CNY), consumption and pandemic-hit services sectors marked a strong recovery, and investment posted steady growth. Meanwhile, the Mainland property market also showed signs of stabilization, driven by enhanced policy support, possibly driving a revival of homebuyer and consumer confidence, as well as broader economic activities.

The consumption and services sector improved notably. In the first two months of 2023, retail sales returned to a 3.5% year-on-year (YoY) growth, marking the end of consecutive declines between October and December 2022. Most notably, restaurant receipts and the services production index rebounded substantially, rising by 9.2% and 5.5% YoY in the first two months of 2023 respectively, following 14.1% and 0.8% YoY declines in December 2022. Meanwhile, metro ridership in major cities recovered to over 90% of the 2019 level, indicating a rapid resumption of people's mobility and economic activity. In 2023, the Mainland authorities will implement targeted policies to expand consumption, including measures for job creation and subsidies, which will fuel a further acceleration in retail sales and services spending in the months ahead.

Fixed Asset Investment, Retail Sales and Industrial Production



Source: CEIC

Fixed asset investment (FAI) maintained steady growth, while industrial production expanded further. Overall, FAI posted a 5.5% YoY growth in the first two months of 2023, with infrastructure investment expanding at an elevated 9.0% YoY during the same period, higher than the 8.1% increase in the same period of last year. The issuance of special-purpose local government bonds has expedited reportedly, likely driving stronger infrastructure investment. Meanwhile, manufacturing investment expanded by 8.1% YoY in the first two months of 2023. Overall industrial production and manufacturing sector's production also accelerated from 1.3% and 0.2% YoY in December 2022 to 2.4% and 2.1% in the first two months of 2023, respectively. With the post-pandemic supply chain easing, declining manufacturers' cost pressure and improving market demand, etc., industrial production will likely head for a faster recovery ahead. Improving investment and industrial activities will also facilitate job creation and improve households' income expectation, thereby boosting consumption and services sector performance in the coming months.

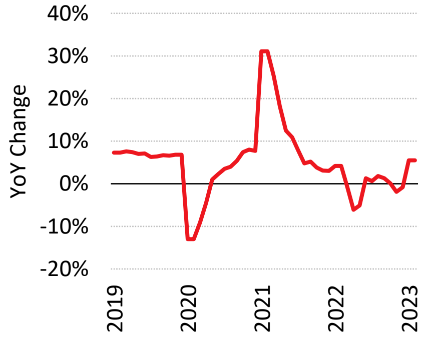
The Mainland property market showed signs of stabilization at a subdued level. On the demand side, the decline of sales by floor space of commercial residential building narrowed to 0.6% YoY in the first two months of 2023, partly due to a lower base of comparison. The new home prices in 70 cities also marked an end to consecutive declines since August 2022. As such, the latest readings pointed to an improving property market sentiment, which is conducive to its stabilization. On the supply side, investment in residential development recorded a narrower contraction at 4.6% YoY in the first two months. With improving funding condition for quality developers, property investment is poised to see further stabilization, or even a modest expansion ahead. Overall, the latest readings showed that the improving market confidence and enhanced policy support are driving the property market stabilization.

Growth target widely expected to be achieved amidst stronger policy support

The Mainland authorities will continue to enhance its policy effort to promote steady growth and high-quality development. The "Two Sessions" 2023 outlined the State Council Institutional Reform Plan, which includes the formation of the National Financial Regulatory Administration, the National Data Administration and the restructuring of the Ministry of Science and Technology. The reform focuses on optimizing financial regulation, promoting a digital economy and achieving self-reliance in technology. Meanwhile, the growth target in the Government Work Report 2023 was set at around 5.0%. Premier Li Qiang signalled to enhance policy effort and coordinate polices on all fronts to strengthen macro-policy, expand domestic demand, promote reform and innovation, as well as enhance risk prevention and mitigation. Potential fiscal measures include targeted refinancing schemes, favourable taxes, fee reductions and subsidies to lower corporate burden in operations, encourage equipment upgrade and drive consumption in specific sectors (e.g. new energy vehicles). Following the "Two Sessions" 2023, the People's Bank of China (PBoC) announced a cut of reserve requirement ratio (RRR) by 25 basis points on 17th March to maintain reasonably ample liquidity in the banking system. In the future, there is still room for further RRR cuts; a slight policy rate cut remains a possibility to enhance support to the real economy.

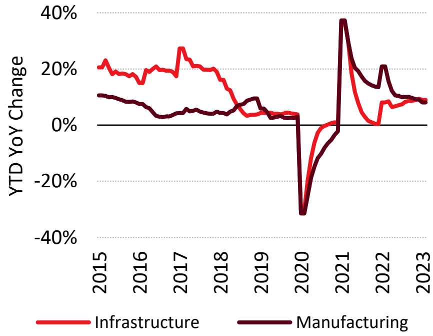
The Mainland authorities will focus on consumption recovery and stabilizing employment, the growth target widely expected to be achieved. In 2023, the policy focus will be on consumption recovery and expansion. The incomes of urban and rural

Services Production Index



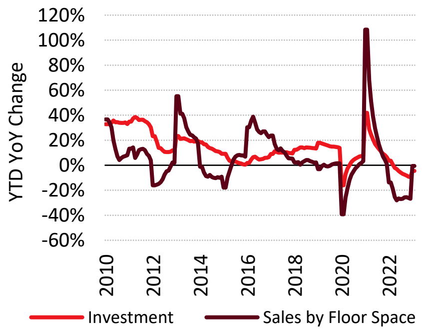
Source: CEIC

Fixed Asset Investment of Selected Sectors



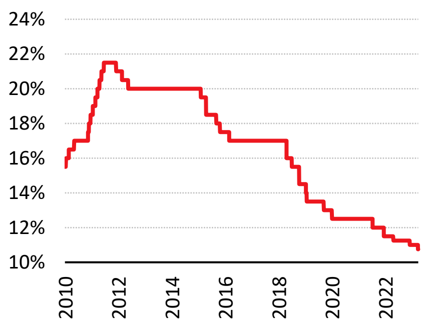
Source: CEIC

Investment and Sales of Commercial Residential Building



Source: CEIC

Reserve Requirement Ratio - Large Depository Institutions



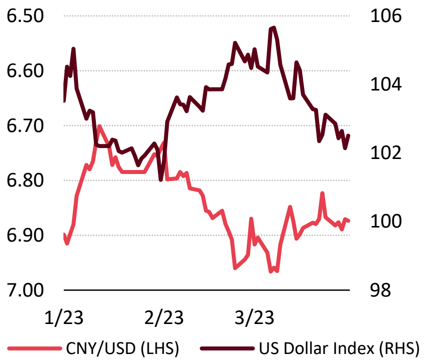
Source: CEIC

residents will be boosted through multiple channels, including job creation, enhancing social security and transfer payments, etc., in order to improve households' income expectation. Meanwhile, accelerating infrastructure projects will also maintain robust investment activities. Consumption and investment will be the major forces driving Mainland China's economic recovery ahead, offsetting the negative impact of the global economic slowdown. The economic growth in Mainland China is expected to reach around 5.7% in 2023, outpacing the Government's growth target.

Global financial volatility exacerbated by a risk-averse sentiment

Over the past month, market confidence and expectations of policy outlook has changed significantly, fuelling a risk-averse sentiment. Following the banking sector confidence crisis in Europe and the US, the expectations of US rate hikes has eased somewhat, leading to a narrowing interest rate spread between China and the US, thereby supporting the RMB exchange rate. However, banking sector confidence crisis in Europe and the US has also affected investors' risk appetite and stock market performance. Overall, Mainland China still maintained a solid pace of economic recovery and its financial system was not affected by the global market turmoil. With a resilient domestic financial system, the financial market remained steady in Mainland China. In March 2023, the onshore and offshore RMB increased by 0.9% and 1.2% against the US dollar, closing at CNY 6.8736 and CNH 6.8703 per US dollar respectively, while A-shares edged down by 0.2% to 3,430.45.

RMB/USD vs US Dollar Index



Sources: Bloomberg, data as of 31/3/2023

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