

## Market Monitor – Chinese Mainland

# A Steady Growth Momentum With Targeted Stimulus Ahead



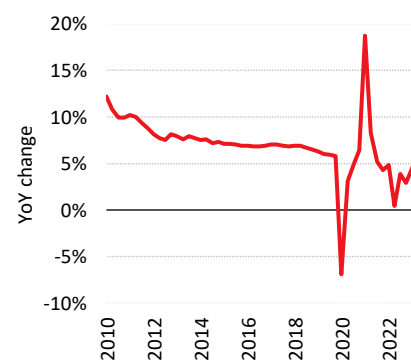
- The Chinese Mainland economy recovered further in Q2, led by solid domestic consumption, notably in accommodation and catering.
- The Mainland authorities enhance counter-cyclical targeted measures to spur consumption and revive confidence.
- The Chinese Mainland economy is poised to recover further in 2H 2023, and is on track to achieve a higher growth rate than its around 5% target for 2023.

### GDP growth reached 5.5% in 1H 2023, led by solid consumption and services sector

**The Chinese Mainland economy extended a consumption and service-led recovery in Q2 2023.** The growth of gross domestic product (GDP) accelerated from 4.5% year-on-year (YoY) in Q1 2023 to 6.3% YoY in Q2 2023, amid a low comparison base and further normalization of economic activity. For 1H 2023, GDP growth reached 5.5%. Final consumption remained the key growth driver, accounting for 77.2% of GDP growth in 1H 2023, offsetting the drag from slowing external demand and the property market.

**Domestic consumption maintained a faster growth rate in Q2, led by stronger demand for consumer-facing services and consumer-discretionary products.** In 1H 2023, the services production index and total retail sales grew by 6.4% and 8.2% YoY, respectively. Both were higher than their respective figures in Q1. Pent-up demand for travel and social activity further supported the sales performance in hotels, restaurants, entertainment, luxury goods, etc. Specifically, accommodation & catering services, sales in gold, silver & jewellery, as well as sports & amusements appliances, all recorded double-digit YoY growth in 1H 2023. As to the monthly readings in June 2023, auto sales, a key driver for retail sales in the first five months of 2023, turned from a growth of 24.2% YoY in May to a contraction of 1.1% YoY in June, given a higher comparison base since June 2022 and the extension of the new-energy vehicle purchase incentive, which could delay buyers' decision. In addition, total retail sales still recorded a 0.23% month-on-month (MoM) expansion in June despite some moderation in consumer sentiment.

Chinese Mainland GDP Growth



Source: CEIC

## Economic Research

August 2023

**Investment in high-tech sectors drove steady growth in overall fixed asset investment (FAI),** which grew modestly by 3.8% YoY in 1H 2023. Specifically, the year-to-date (YTD) growth of investment in infrastructure and manufacturing stayed elevated at 7.2% and 6.0% for 1H 2023, respectively, while that in the property sector remained in contraction at 7.9%. That being said, the policy focus remained on productivity gains and upgrading the economic structure, including supportive measures for mega infrastructure projects and innovation development. High-tech manufacturing industries posted robust YTD growth of 11.8% for 1H 2023. Meanwhile, industrial production was stronger than expected with its growth increasing from 3.5% in May to 4.4% YoY in June 2023. Various intermediate goods like chemical, mineral and metal products reported faster growth, suggesting some signs of stability ahead.

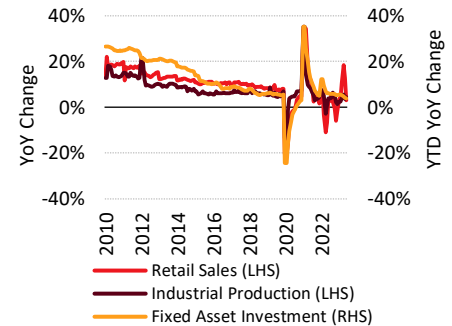
**The property market stabilized at a low level with policy support extended in July.** As of June 2023, new home prices in 70 major cities had stalled since May, partly due to subdued home buyer confidence and an increased promotion campaign among developers to boost sales. Compared to end-2022, new home prices rose 1.4% YTD in June 2023. In 1H 2023, the sales value of residential property increased by 3.7% YoY. In mid-July 2023, the People's Bank of China (PBoC) and the National Financial Regulatory Administration announced an extension of the 16 measures to support the property sector. Specifically, property developers will be given an extra 12 months to repay existing loans, including trust loans, and banks will not have to downgrade the risk classification of loans to support the delivery of unfinished projects before end-2024. Moreover, the Minister of Housing and Urban-Rural Development (MoHURD) suggested lifting restrictions on home purchases, so that homebuyers who have paid off their mortgages and do not own property should be treated as first time buyers. The policy measures are expected to alleviate liquidity and funding pressures faced by property developers and enhance market confidence.

### Targeted stimulus measures to revive confidence

**The Mainland authorities implemented counter-cyclical targeted policies to spur domestic consumption and revitalize confidence.** After the Politburo meeting in July, the Mainland authorities announced a wide range of policy measures to revitalize and expand consumption activities, ranging from relaxation of automobile purchase restrictions, facilitation of local exhibition and entertainment events, renovation of urban villages, implementation of paid-holiday mechanisms, etc. In addition to a basket of fiscal and monetary policies, optimization of housing policy, such as mortgage relaxation, lower down payment ratios, and mortgage interest rates for first-time home buyers, the reduction of tax rates for home upgraders has also been introduced. Following a 31-point action plan announced by the State Council earlier, the National Development and Reform Commission (NDRC) and other departments announced 28 specific measures, including supporting private enterprises to participate in major scientific and technological research, etc., to boost private sector confidence, expand business activities, and boost employment.

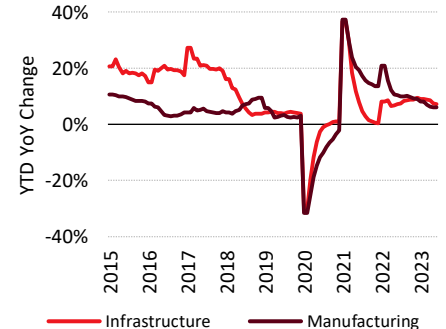
**In 2H 2023, a robust domestic market driven by pent-up demand, a high-level of savings, and strengthened counter-cyclical policy will continue to support the economic recovery.** For example, spending on accommodation and catering services will likely support a relatively faster recovery, while infrastructure and technology-related investments will also stay relatively strong. Together with the Mainland authorities' stepping up macro-policies to stabilize growth, employment and confidence, the Chinese

### Retail Sales, Industrial Production and Fixed Asset Investment



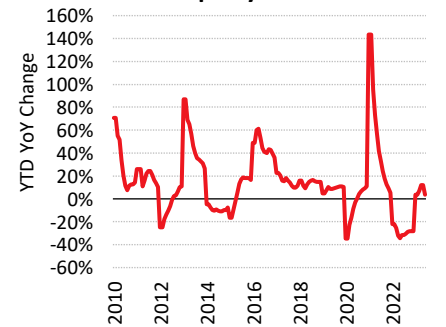
Source: CEIC

### Fixed Asset Investment of Selected Sectors



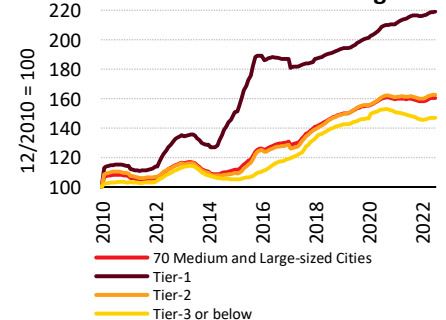
Source: CEIC

### Sales Value of Commercial Residential Property



Source: CEIC

### Sales Prices of Newly Constructed Commercial Residential Buildings



Source: National Bureau of Statistics of China, BEA Economic Research Department

## Economic Research

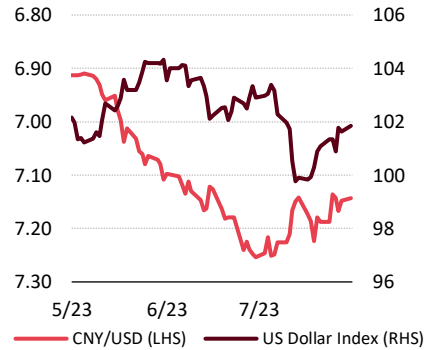
August 2023

Mainland economy is poised to recover further in 2H 2023, and is on track to achieve a higher growth rate than its around 5% target for 2023.

### Stronger signal of policy support boosted market sentiment

**The rolling-out of a series of favourable policy measures has improved investors' sentiment over the past month.** The Mainland authorities have announced a series of stimulus measures in a bid to expand domestic consumption and boost private sector confidence. These measures have reignited investors' confidence towards the recovery outlook for the Chinese Mainland, improving their risk appetite. Moreover, a notable deceleration in US inflation has softened market expectations for further rate hikes by the US Federal Reserve, stabilizing the interest rate differential between the US and China. In July 2023, onshore and offshore RMB appreciated by 1.6% and 1.7% against the US dollar compared to the previous month, with the CNY and CNH closing at 7.1428 and 7.1461 per US dollar, respectively, while the A-shares index rebounded by 2.8%.

RMB/USD vs US Dollar Index



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