Economic Research

September 2023

*Market Monitor – Chinese Mainland*

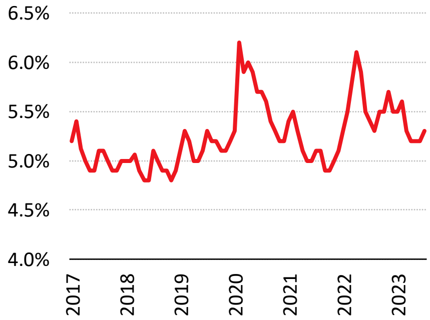
# Further Policy Measures to Drive Steady Recovery


- Moderating growth momentum reflected an uneven post-pandemic recovery as the Government focused on high-quality development.
- Services took the lead in the recovery. Investment and industrial activity missed expectations, but targeted sectors still posted rapid growth.
- The Mainland authorities have stepped up their policy support with better coordination to stabilise growth.

## Growth moderated with the services sector taking the lead

**The pace of the Chinese Mainland's recovery somewhat moderated in July, reflecting uneven post-pandemic growth as the Government focused on high-quality development.** While major economic indicators fell short of market expectations in July, domestic consumption and high-value-added sectors continued to expand briskly, offsetting the drag from weakening external demand and a soft property market. The labour market was largely steady, as the surveyed unemployment rate in July stayed at 5.3%, up slightly from 5.2% in April – June. The uptick could reflect a normal seasonal pattern as new graduates enter the labour force in the summer months.

**Surveyed Urban Unemployment Rate**




Source: CEIC

**The services sector is taking the lead in the recovery.** The National Bureau of Statistics (NBS) introduced a new indicator called service retail sales, which recorded a strong 20.3% year-on-year (YoY) growth in the first seven months of 2023. Restaurant receipts also remained a major support for retail sales, increasing by 15.8% in July and 20.5% YoY in the first seven months. However, property-related retail sales, such as building and decoration materials, furniture, household appliances, audio-video equipment, etc., remained sluggish. Auto sales also faced a high hurdle to maintain a rapid growth pace amid a high comparison base and a more cautious attitude among buyers. Overall, retail sales of consumer goods slowed from 3.1% YoY growth in June to 2.5% YoY growth in July. In the near term, the NBS expects that travel, accommodation, and catering services will continue to record notable growth during the summer holidays, possibly supporting consumption performance.

**Headline fixed asset investment (FAI) and industrial production missed expectations, but targeted sectors still posted rapid growth.** The headline FAI edged down to 3.4% YoY in the first seven months. It was dragged down by weak property and private enterprise investment, which recorded 8.5% and 0.5% YoY contractions, respectively. However, the FAI in electrical machinery and equipment, railway transport, and automobiles maintained strong double-digit growth of 39.1%, 24.9%, and 19.2% YoY, respectively, in the first seven months, showing the continuous focus on high quality and infrastructure development. Faster growth was also seen in the manufacturing of their products. Meanwhile, the growth of industrial production slowed from 4.4% YoY in June to 3.7% in July, weighed down by property-related and external-oriented sectors, including non-metal mineral products, general equipment, textiles, foods, wines, beverages, etc.

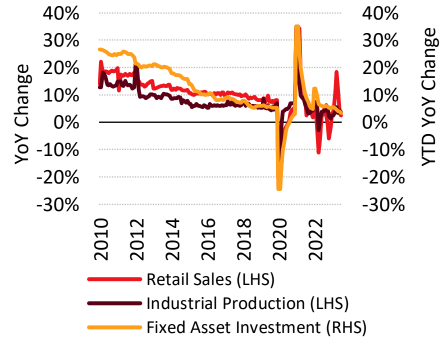
**Recent sales performance showed the property market's momentum remained soft.** In the first seven months of 2023, the sales value of residential property grew by 0.7% YoY, slowing from a 3.7% YoY growth in 1H 2023. The floor space of residential inventory also increased from 18.1% YoY in 1H 2023 to 19.7% YoY in the first seven months. In August, the property market momentum stayed soft, and concerns about the sector revived after a major private developer revealed difficulties in debt repayment.

**Supportive policies for the property sector continued to be strengthened.** The Mainland authorities announced a series of measures to stabilise developers' funding conditions, bolster homebuyers' confidence, and rekindle market activities. For example, the China Securities Regulatory Commission (CSRC) eased refinancing restrictions on listed real estate developers. The Ministry of Housing and Urban-Rural Development, the People's Bank of China (PBoC), and the National Financial Regulatory Administration (NFRA) jointly issued a policy to allow households currently without property ownership to be considered as first-time homebuyers and to enjoy preferential loans regardless of their credit history. This policy will be implemented under the "One City, One Policy" approach, and the tier-1 cities have taken the lead in implementing it. In addition, the PBoC and NFRA have also jointly announced plans to lower the interest rates of existing mortgage loans for first homes, reduce the minimum mortgage rates for second homes, and adjust the minimum down payment ratio for both first and second homes in some cities. These measures are likely to alleviate the financial burdens of homeowners. Moreover, the Government also called for structural reform to facilitate the renovation of urban villages and promote interprovincial mobility, such as Jiangsu relaxing its urban household registration requirements.

## Back-to-back policy support to stabilise growth

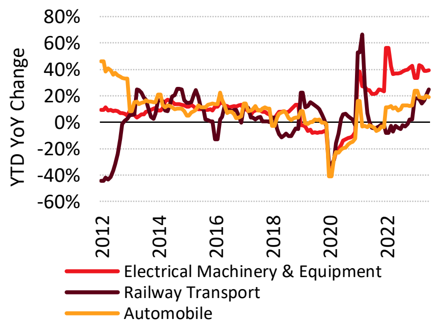
**The services sector and stronger policy support are set to be the two pivotal forces for the economy.** While the services sector is still powering the growth momentum, the Mainland authorities have recently enhanced their policy support to stabilise growth, employment, and confidence. On the monetary policy front, the PBoC reduced its 7-day reverse repurchase rate and 1-year medium-term lending facility rate by 10 and 15 basis points (bps), followed by a 10 bps reduction of the 1-year loan prime rate to 3.45%. The state-owned banks also cut deposit rates to unleash savings and pave the way for lower loan and mortgage rates. In addition, the Ministry of Finance announced cutting stamp duty for securities trading, and the CSRC will temporarily slow the pace of IPOs and lower the minimum margin ratio requirement to boost investor confidence. On the fiscal policy

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



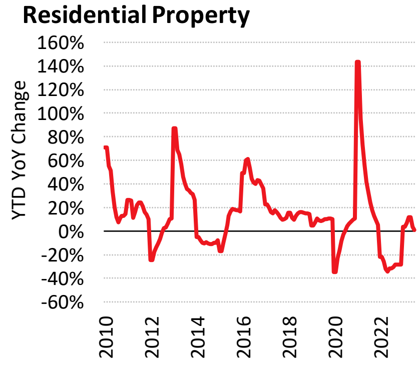

Source: CEIC

**Fixed Asset Investment of Selected Sectors**



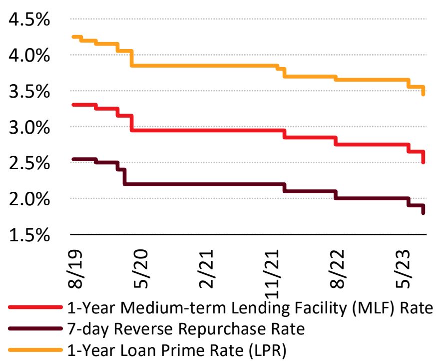

Source: CEIC

**Sales Value of Commercial Residential Property**




Source: CEIC

**Key Policy Rates**



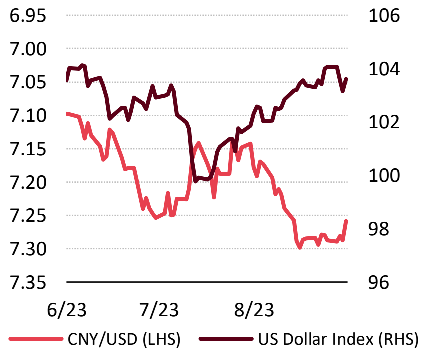

Source: CEIC

front, the authorities strengthened their policy efforts to support targeted sectors, such as government guarantees and interest rate subsidies for entrepreneurship loans offered to small enterprises and unemployed people. Reportedly, new financing for local governments worth RMB 1.5 trillion will likely be part of the comprehensive debt restructuring plan to resolve local debt risk. Going forward, more fiscal and monetary measures are expected to be rolled out, with room for further cuts in the reserve requirement ratio and policy rates, etc. The positive impacts of all the measures are likely to surface gradually to help attain the Government's growth target of around 5.0% in 2023.

## Market sentiment somewhat weakened

**The risk-averse sentiment reignited amid an uncertain global economic outlook.** Investors across the globe turned more cautious in August, given the resurgence of several risk events. First, the US got an unexpected credit rating downgrade by Fitch in early August, which was followed by downgrades on several US banks. These incidents raised fears over the negative impacts of monetary tightening. Then, increasing market expectations for the Fed to keep rates higher for longer also drove US treasury yields higher, boosting the US dollar and damping risk assets. Nonetheless, market sentiment improved near the end of August when the Mainland authorities stepped up their supportive measures, particularly those to invigorate the capital market and boost investor confidence, etc. In August 2023, onshore and offshore RMB depreciated by 1.6% and 1.8% against the US dollar compared to the previous month, with the CNY and CNH closing at 7.2588 and 7.2755 per US dollar, respectively, while the A-shares index fell by 5.2%.

**RMB/USD vs US Dollar Index**




Sources: Bloomberg, data as of 31/8/2023

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