BEA東亞銀行

Economic Research Department

18 October 2023

Economic QuickView

Chinese Mainland Economy: Growth Gets Boosted by Stronger Policy Mix in Q3, Paving the Way to Meet Government's Growth Target

- Better-than-expected economic growth in Q3 showed that the impacts of recent policy efforts are feeding through to the real economy.
- Domestic consumption maintained strong growth, notably in services spending. Infrastructure and high-tech investment expanded steadily, supporting a more balanced recovery.
- The Mainland authorities will balance well between supporting near-term growth and promoting long-term, high-quality development needs.

The Chinese Mainland economy gained some traction, driven by a mix of pro-growth measures. China Mainland's economy expanded by 4.9% year-on-year (YoY) in Q3, beating market expectations. On a sequential basis, GDP growth in Q3 accelerated to 1.3% quarter-on-quarter (QoQ), up from 0.5% growth in Q2. Most monthly economic indicators also grew at a stronger pace than in August. Overall, it indicated improving growth momentum. For the first three quarters of 2023, GDP growth reached 5.2% YoY. Among the major economic components, final consumption served as the primary growth driver, accounting for 94.8% of GDP growth for the first three quarters (adding 4.6 percentage points (pps) to headline growth). Gross capital formation came next, contributing 22.3% of GDP growth (adding 1.1 pps). Meanwhile, net exports led to a 0.8 pps subtraction to GDP growth amid weak external demand. These figures indicated that a robust recovery in domestic consumption and steady investment expenditure helped power the Chinese Mainland economic recovery and offset the contraction in exports. In addition, the urban unemployment rate dropped from 5.2% in August to 5.0% in September, which would support a sustained expansion in consumer spending. Looking ahead, the Chinese Mainland economy is on track to meet the Government's 5% growth target for 2023 if GDP growth in Q4 reaches 4.4% YoY or higher. With a strengthened recovery pace, the growth target should be safely achieved.

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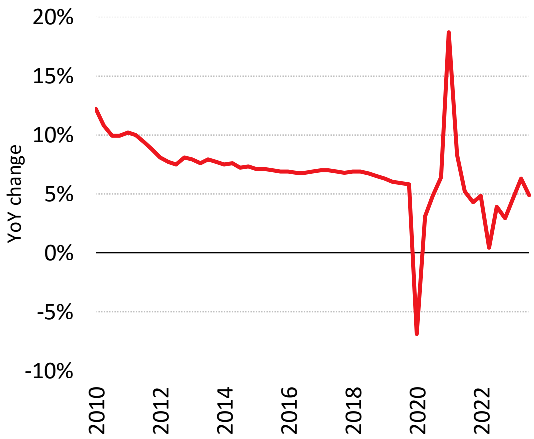
Domestic consumption has staged a robust recovery with stronger growth in both services and goods. In the post-Covid normalization period, the services sector, particularly in contact-intensive industries, has benefited rapidly from the rebound in people's mobility. Catering, travel, education, cultural & entertainment, etc. all recorded a sharp recovery. In the first three quarters of 2023, per capita consumption of services grew by 14.2% YoY, accounting for 46.1% of overall per capita consumption. Meanwhile, retail sales of consumer goods grew by 6.8% for the first three quarters of 2023. In September, its growth pace increased to 5.5% YoY, up from 4.6% in August. Specifically, restaurant receipts have maintained double-digit growth rates at 13.8% YoY in September, up from 12.4% in August. Retail sales in automobiles also recovered from 1.1% YoY in August to 2.8% YoY in September, given the boost from greater discounts by sellers and favourable policies to encourage automobile purchases. During the week-long Mid-Autumn Festival and National Day holidays, a wide range of indicators such as passenger traffic, hotel stays, tourist visits, restaurant revenues, etc. all recorded remarkable growth. It revealed that the Chinese Mainland's consumption market has further revived, providing a sustained boost to economic growth ahead.

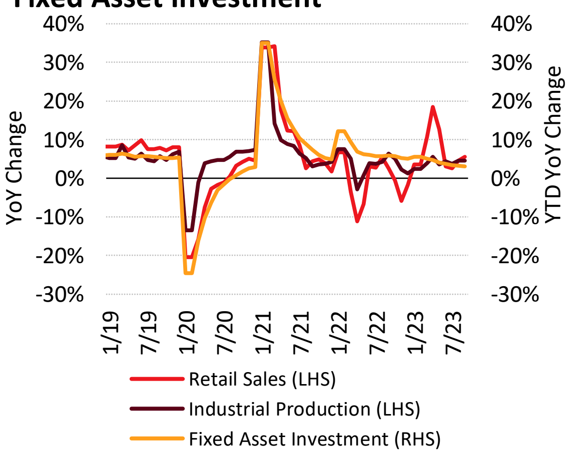
Industrial production and investment stabilized further, indicating a more balanced recovery. The industrial sector has shown broadening signs of recovery. Even with a higher base of comparison, the total value added of established industrial enterprises kept its growth at 4.5% YoY in September (January – September: +4.0% YoY). The official Manufacturing Purchasing Managers' Index also returned to expansionary territory of 50.2% in September, after staying in contraction for 5 consecutive months. The profits made by industrial enterprises turned to a positive YoY growth of 17.2% as both market demand and output prices started to rebound. Regarding investment, the growth of headline fixed asset investment (FAI) was at 3.1% YoY in January - September, down marginally from 3.2% in January – August. Across sectors, infrastructure and manufacturing investment continued to take the lead, with both growing by 6.2% YoY in January – September. Property development investment remained subdued, contracting by 9.1% YoY in January – September. With faster issuances of special local government bonds and continued credit support for the technology sector, high-tech and infrastructure investment will keep a stronger growth pace ahead, providing support for employment and promoting the Chinese Mainland's technological advancement.

Chinese Mainland GDP Growth



Source: CEIC

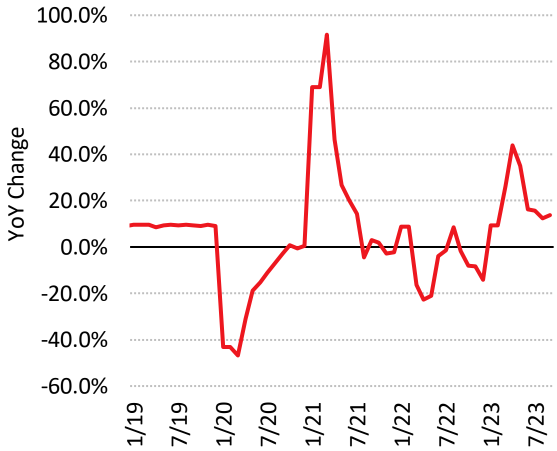
Retail Sales, Industrial Production and Fixed Asset Investment



Source: CEIC

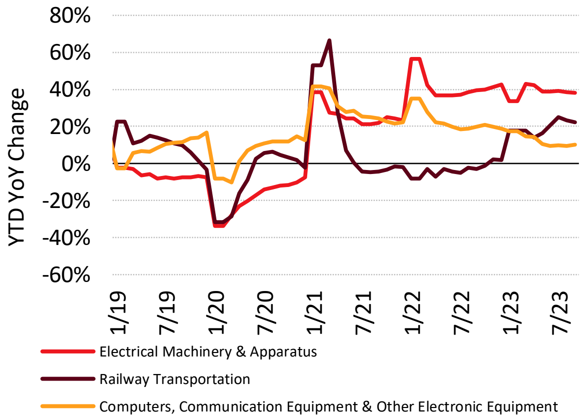
Enhanced policy support helped limit the downside risks of the property market. Since 2023, various measures have been implemented to support the property market. In late-August, more policy supports, including relaxation of mortgage rules, reduced mortgage rates, lower down payment ratios, etc., were rolled out. Most notably, existing first-home mortgage borrowers enjoyed a reduction in payments as the weighted-average interest rate was cut by 0.73 pps to 4.27%. Besides, more local governments are stepping up their efforts to increase homebuyers' incentives and revitalise market activity. For example, Guangzhou and Shenzhen reduced the minimum mortgage rates for first homes (Loan Prime Rate minus 10 basis points), and some tier-2 cities (e.g. Nanjing and Zhengzhou) lifted their home purchase restrictions. The impacts of these policy supports started to emerge, as shown by the recent stabilisation of property market activity. Total residential transactions (including new homes and secondary homes) in 70 major cities turned to a positive month-on-month growth of 2.8% in September after months of declines since April. In terms of house prices, the Tier-1 cities stayed firmer, with their new home prices rising by 0.21% YoY in September (Tier-2 cities: 0.01% ; Tier-3 or below cities: -0.69%), according to the China Index Academy.

Restaurant Receipts



Source: CEIC

Fixed Asset Investment of Selected Sectors



Source: CEIC

Policy mix recharges the recovery momentum, with more stimulus measures expected ahead. Faced with moderating growth momentum in Q2, the Mainland authorities implemented a mix of policy supports to fuel the near-term economic recovery and maintain long-term economic sustainability. The stimulus measures ranged from monetary easing (e.g. reduction of policy rates and reserve requirement ratio) and the extension of fiscal spending, to support targeting the property market, consumption, private enterprises, etc. Most recently, the National Financial Regulatory Administration issued new measures to boost consumer finance for the purchase of automobiles, by lowering the down payment ratio for auto loans, and extending the term of auto loans, etc. Furthermore, the media reported in early October that the Mainland authorities were considering increasing their budget deficits with the additional issuance of sovereign debts worth CNY 1 trillion to support the economy and address the risks from local government financial vehicles. To further sustain the ongoing economic recovery, more stimulus measures are likely to be implemented. All in all, there is still room for the Mainland authorities to further enhance policy support to stabilise growth and confidence.

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