Economic Research Department 15 November 2023

Economic QuickView

Chinese Mainland Economy: Recovery Momentum Held Up with Greater Stimulus Likely

- Economic indicators in October pointed to a continued recovery trend, with retail sales and the industrial sector beating market expectations.
- Domestic consumption grew briskly, driven by buoyant holiday sentiment, pent-up demand and intensified pro-consumption measures.
- Continued policy support is set to strengthen the foundation for recovery.

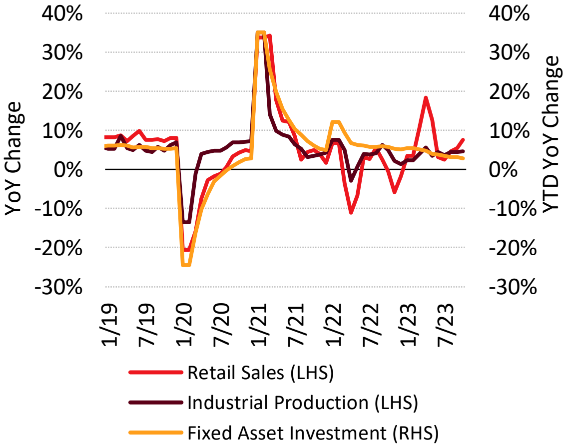
The Chinese Mainland economic recovery held up in October. As a host of macro-policies continued to take effect, consumer spending and manufacturing activity expanded steadily, with retail sales and industrial production growing at a stronger pace than expected in October. On the contrary, fixed asset investment (FAI) grew slower due to subdued property investment. On a month-on-month (MoM) basis, retail sales of consumer goods, industrial production and FAI expanded for three months in a row, increasing by 0.07%, 0.39% and 0.10% in October, respectively. This indicates sustained recovery momentum.

The services sector and consumption accelerated, driven by buoyant holiday sentiment and sales promotions. Robust travel-related spending during National Day and Mid-Autumn Festival holidays led to an acceleration in the services sector, with overall services production increasing by 7.7% year-on-year (YoY) in October, up by 0.8 percentage points (pps) from September. Specifically, accommodation and catering production rose by 21.3% YoY in October. In the first ten months, overall services production registered a YoY growth of 7.9%. On the demand side, retail sales of services picked up by 0.1 pps to 19.0% YoY in the first ten months. The retail sales of consumer goods also grew faster, at 7.6% YoY in October, up from 5.5% in September. The acceleration was fuelled by faster sales growth in automobiles (from +2.8% in September to +11.4% YoY in October), household appliances & AV equipment (from -2.3% to +9.6%) and telecommunication equipment (from +0.4% to 14.6%). With a stabilizing labour market, domestic consumption is set to remain a primary growth engine for the Chinese Mainland economy.

Industrial production showed broad-based improvements. Despite higher base effects a year ago, the growth of industrial production increased by 0.1 pps to 4.6% YoY in October. This was mainly led by equipment manufacturing, which accelerated for the third consecutive month to 6.2% YoY growth in October, contributing 45.1% of the overall growth of industrial production. In particular, automobile and electrical machinery & apparatus manufacturing maintained solid growth of 10.8% and 9.8% YoY in October (January – October: 11.3% and 13.6% YoY), respectively. Furthermore, over half of the manufacturing sectors reported improving production in October, with stellar growth rates seen in different new industries like semiconductor & artificial intelligence related equipment, aviation & aerospace, smart cities, new energy and green products, etc.

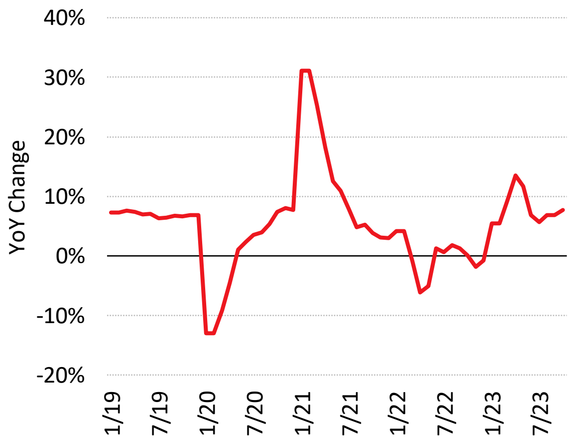
Investment grew moderately as surging high-tech and infrastructure FAI offset the drag from property FAI. Overall FAI slowed to 2.9% YoY in January – October 2023, down from 3.1% in January – September 2023. Among the FAI breakdown figures, manufacturing and infrastructure FAI maintained solid growth at 5.9% and 6.2% YoY in January – October, while property development FAI contracted by 9.3%. For manufacturing FAI, capacity building in innovation and technological advancement has remained a policy focus, with investment in high-tech sectors expanding by 11.1% YoY in January – October 2023. Among them, FAI in special purpose equipment and electrical machinery & apparatus remained at a rapid growth rate of 10.7% and 36.6% YoY, respectively. For infrastructure FAI, funding support from faster issuances of special-purpose bonds and greater usage of these bonds continued to lift the sector. Most notably, FAI in railway transportation and electricity, thermal power, gas and water facilities registered a strong growth of above 20% YoY in January – October 2023.

Retail Sales, Industrial Production and Fixed Asset Investment



Source: CEIC

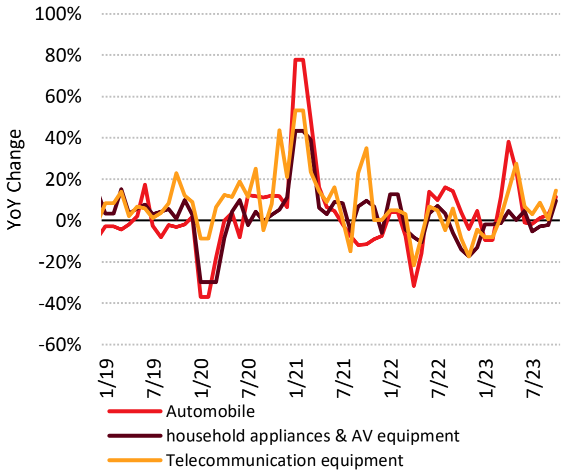
Services Production Index



Source: CEIC

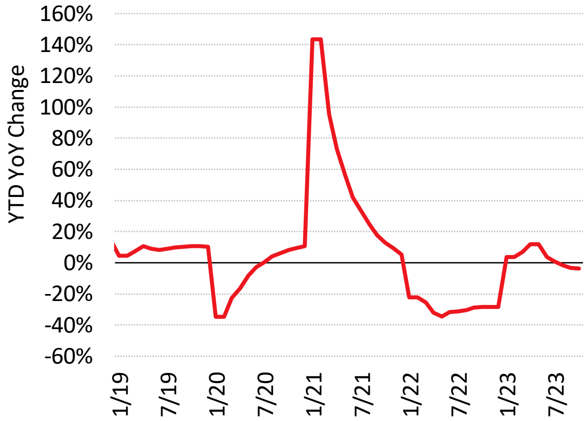
Expectations for more policy measures to support the property sector run high. Following a string of support measures since late-August (e.g., relaxation of mortgage rules and reductions of mortgage rates and down payment ratios, stronger support for provident fund loans, etc.), it is important to note that it takes time for these measures to fuel a visible property market recovery. In January – October 2023, the sales of residential buildings decreased by 3.7% YoY (from -3.2% YoY in January – September 2023). In mid-November, the media reported that the People's Bank of China was considering providing at least RMB 1 trillion of low-cost financing through policy banks to urban village renovation and affordable housing programs. If implemented, the new financing support is expected to boost housing demand and bolster market confidence ahead.

Retail Sales of Selected Sectors



Source: CEIC

Sales Value of Commercial Residential Property



Source: CEIC

Continued policy support is set to strengthen the foundation of recovery. Since 2H 2023, the Mainland authorities have continued to step up the policy mix to sustain the economic recovery. On the monetary front, the PBoC pledged to enhance credit support for the targeted sectors and intensified its efforts to dissolve risks from small & medium-sized financial institutions, the property sector and local government financing vehicles. Moreover, there is room for the PBoC to slightly reduce the reserve requirement ratio further to unleash stronger liquidity support for the economy. On the fiscal front, funding from the additional sovereign debts worth RMB 1 trillion is poised to support investment activity and stabilise employment in the coming months. With the effects of various policy measures starting to feed through into the real economy, the Chinese Mainland economy is likely to stay on a steady recovery trend in 2024.

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