Economic Research

November 2023

Market Monitor – Chinese Mainland

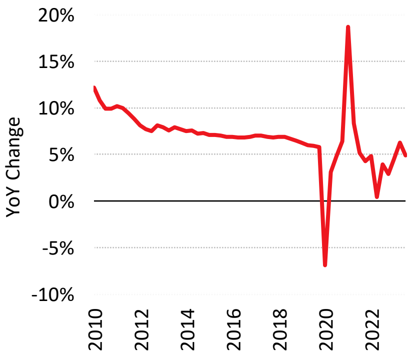
Q3 Growth Bolstered by Stronger Supportive Policies

- Steady economic growth in Q3 was boosted by a stronger policy mix.
- Services-led consumption maintained robust growth; infrastructure and high-tech investment expanded steadily.
- The Mainland authorities' policy mix is gaining momentum, though they continue to balance between stabilising near-term growth and promoting long-term, high-quality development needs.

Growth gets boosted by an enhanced policy mix

The Chinese Mainland economy regained some traction, driven by a mix of pro-growth measures. The Chinese Mainland's economy expanded by 4.9% year-on-year (YoY) in Q3. On a quarter-on-quarter basis, GDP growth picked up from 0.5% in Q2 to 1.3% in Q3, which indicated improving growth momentum. Among the major economic components, final consumption served as the primary growth driver (contributing 94.8% of headline growth) in Q3, while gross capital formation came next (22.3%), with both offsetting the drag from weaker net exports (-17.1%). For the first three quarters of 2023, GDP growth reached 5.2% YoY. 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.

Chinese Mainland GDP Growth



Source: CEIC

Domestic consumption has staged a robust recovery with stronger growth in both services and goods. In the post-Covid normalisation period, the services sector, particularly contact-intensive ones, has benefited 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 of automobiles also recovered, given the boost from greater discounts given by sellers and favourable policies to encourage automobile purchases.

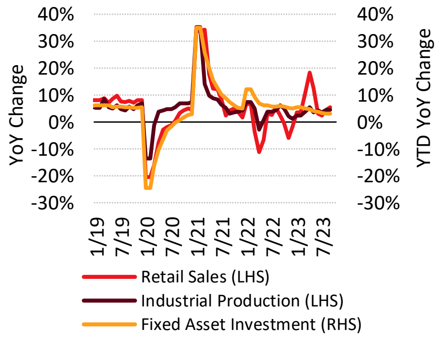
Industrial production and investment stabilised further, indicating a more balanced recovery. The industrial sector has shown broadening signs of recovery. Even with a higher base of comparison, the total value added of established industrial enterprises kept its growth at 4.5% YoY in September (January – September: +4.0% YoY). Regarding investment, the growth of headline fixed asset investment (FAI) was at 3.1% YoY in January - September, led by infrastructure and manufacturing investment (+6.2% YoY for both sectors). Property investment remained subdued, contracting by 9.1% YoY in January – September. With faster and front-loaded 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 steady support for employment and the overall economy.

Enhanced policy support limits 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 repayments as the weighted-average interest rate was cut by 0.73 percentage points 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-home buyers (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 policies started to emerge, as shown by the 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 (MoM) growth of 2.8% in September after months of declines since April. New home prices in tier-1 cities stayed flat in September compared to the previous month, outpacing the 0.3% MoM contraction for both tier-2 and tier-3 cities.

Enhancing policy mix to sustain the recovery

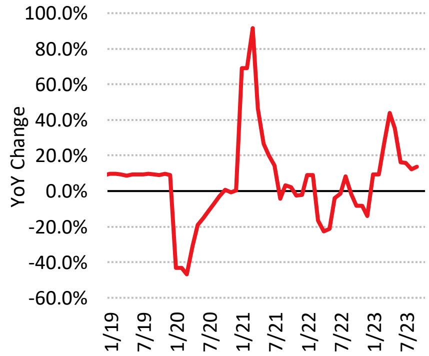
The Mainland authorities are enhancing their policy mix. In response to the moderating growth momentum since Q2, the Mainland authorities have implemented a wide range of policy measures, from monetary easing to the extension of fiscal spending, support for the property market, etc. Most recently, a plan to issue new sovereign bonds worth RMB 1 trillion was approved to support disaster reconstruction. This move will raise the 2023 fiscal deficit from 3% of GDP to 3.8% of GDP. Additionally, local governments are allowed to frontload part of their 2024 special bond issuance to support public spending and maintain investment. The National Financial Regulatory Administration also issued new measures to boost consumer finance for the purchase of automobiles by lowering the down payment ratio for auto loans, and extending their loan terms, etc. On October 30-31, the Central Financial Work Conference called for establishing a mechanism for resolving local debt risks and fulfilling the financing needs of property developers. These policies could likely stabilise market confidence, stimulate consumption and infrastructure investment, and mitigate risks from local government debts and the property sector. As various support measures have begun to filter through, more notably, to the real economy, the Chinese Mainland economy is expected to maintain a steady growth path ahead.

Retail Sales, Industrial Production and Fixed Asset Investment



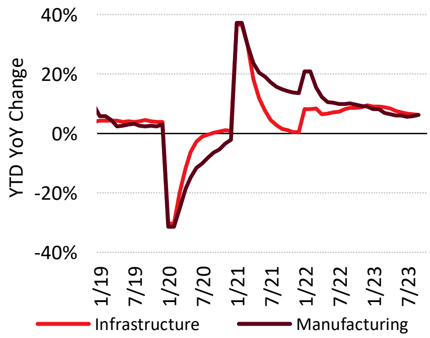
Source: CEIC

Restaurant Receipts



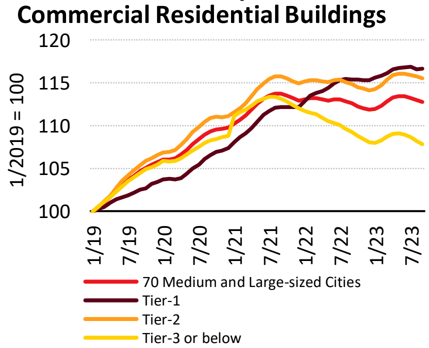
Source: CEIC

Fixed Asset Investment of Selected Sectors



Source: CEIC

Sales Prices of Newly Constructed Commercial Residential Buildings

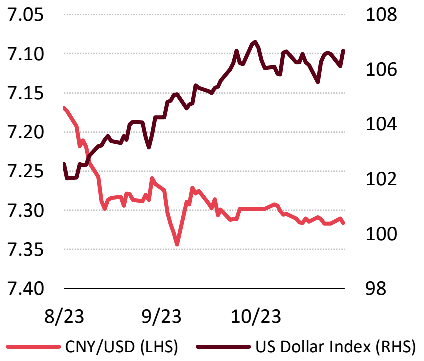


Source: National Bureau of Statistics of China, BEA Economic Research Department

A more favourable policy backdrop somewhat boosted the market appetite

Despite global uncertainty, a more favourable policy backdrop in the Mainland somewhat boosted market sentiment. The equity market first declined in the first half of October on the back of multiple headwinds from a prolonged high interest rate environment globally, weakening external demand and escalating geopolitical tensions. In mid-October, the Mainland authorities announced additional policy support to stabilise investment and growth ahead, particularly raising the fiscal deficit ratio, issuing additional sovereign debts, and frontloading special bonds, etc. This drove a somewhat better market appetite and equity market performance in the second half of October. However, the Shanghai Stock Exchange A Share index still fell by 2.9% in October, while onshore and offshore RMB depreciated by 0.3% and 0.7% against the US dollar compared to the previous month, with the CNY and CNH closing at 7.3164 and 7.3416 per US dollar, respectively.

RMB/USD vs US Dollar Index



Sources: Bloomberg, data as of 31/10/2023

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