Economic QuickView

Chinese Mainland Economy: A Steady Post-Pandemic Recovery in 2023 with Solid Progress in High-Quality Development

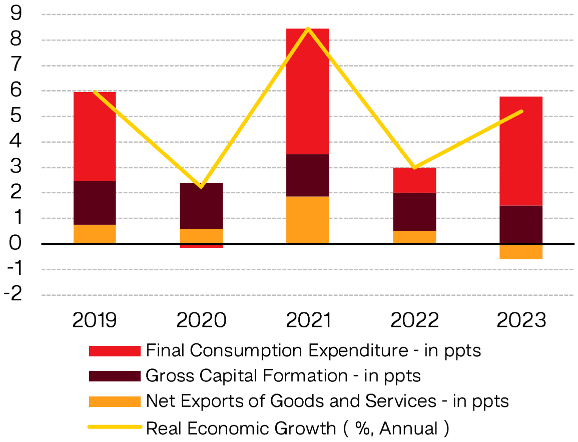
- Economic growth reached 5.2% in 2023, exceeding the Government's 5% growth target.
- Pent-up demand has led private consumption to expand, with the industrial sector growing steadily and investment recovering mildly.
- Macro policies will continue to center on promoting high-quality development in 2024.

The Chinese Mainland economy has staged a steady recovery. In 2023, the Chinese Mainland's real gross domestic product (GDP) grew by 5.2%, exceeding the Government's growth target of around 5%. During the year, final consumption ranked as the top contributor, accounting for 82.5% of the GDP growth, followed by gross capital formation (28.9%). Together, these two components offset the drag from net exports, which setback GDP growth by -11.4%. From Q1 to Q4 2023, a stable growth momentum has been seen, with the year-on-year (YoY) GDP growth for the four quarters at 4.5%, 6.3%, 4.9% and 5.2%. Despite a highly complex global economic landscape, the latest economic readings highlighted the Chinese Mainland's focus on pursuing high-quality development. It echoed the speech by Premier Li Qiang at the Davos World Economic Forum 2024 that China did not resort to massive stimulus to seek short-term growth while accumulating long-term risks. Particularly, solid growth in infrastructure and manufacturing investment was noted in 2023, which reflected the efforts to strengthen internal drivers.

Pent-up demand has led to a private consumption recovery. With various economic activities resuming normalcy in the post-pandemic recovery, the services sector witnessed a notable rebound. In 2023, per capita household services spending increased by 14.4%, accounting for 45.2% of overall household spending (up by 2.0 percentage points from 2022). Furthermore, retail sales of services expanded remarkably by 20.0% in 2023, which was mainly driven by the accommodation and catering industries. Meanwhile, retail sales of consumer goods grew by 7.2%

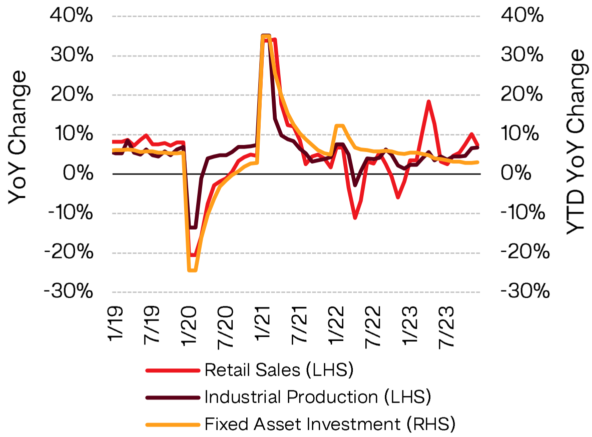
YoY in 2023. Specifically, the sales of automobiles grew by 5.9% YoY in 2023, given the policy support to encourage the purchases of new energy vehicles (NEVs) as well as the discount promotions by car manufacturers. In addition, a wide range of consumption goods recorded double-digit growth in 2023, such as clothes, shoes, hats & textiles (+12.9%), tobacco & alcohol (+10.6%), gold, silver & jewellery (+13.3%) and sports & recreation goods (+11.2%), offsetting the drag from property-related purchases. In December 2023, retail sales of consumer goods increased by 7.4% YoY, which remained above its trend growth rate, albeit softening from a 10.4% growth in November.

Contribution to GDP Growth by Major Components



Source: CEIC

Retail Sales, Industrial Production and Fixed Asset Investment



Source: CEIC

The industrial sector grew steadily. The value added of industrial enterprises expanded by 4.6% in 2023, with its growth in December 2023 picking up to 6.8% YoY from 6.6% in November. In 2023, several advanced industries witnessed faster growth in terms of their value-added, namely automobiles (+13.0%) and electrical machinery & apparatus (12.9%). Among the output of major products, solar cells and NEVs grew markedly by 54.0% and 30.3% in 2023, respectively. The growth of these emerging industries showcased the upgrade of the Chinese Mainland's manufacturing capability, which would be essential to maintaining its competitive edge.

Investment witnessed a mild recovery. The investment in fixed assets (FAI) increased mildly by 3.0% in 2023, with a solid rise in infrastructure (+5.9%) and manufacturing (6.5%) investment offsetting the drag from the contraction in property development investment (-9.6%). In 2023, state-holding investment was up by 6.4%, while private investment was down slightly by 0.4%. Excluding property investment, private investment grew by 9.2%. Despite modest FAI growth, several sectors attained rapid growth in 2023. For instance, investment in railway transportation and electricity, heat power, gas & water facilities grew rapidly by 25.2% and 23.0%, respectively, which reflected the policy push to support growth by investing in public infrastructure. Additionally, investment in electrical machinery & apparatus, automobiles, and special purpose machinery also grew sharply by 32.2%, 19.4% and 10.4%, respectively, which pointed to a continued policy focus on developing a modernised industrial system. Overall, the Chinese Mainland's investment structure indicates a balanced approach to maintain the short-term recovery momentum and generate long-term sustainable growth drivers.

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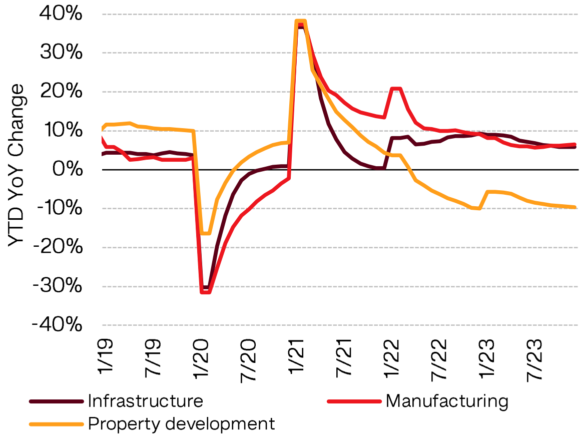
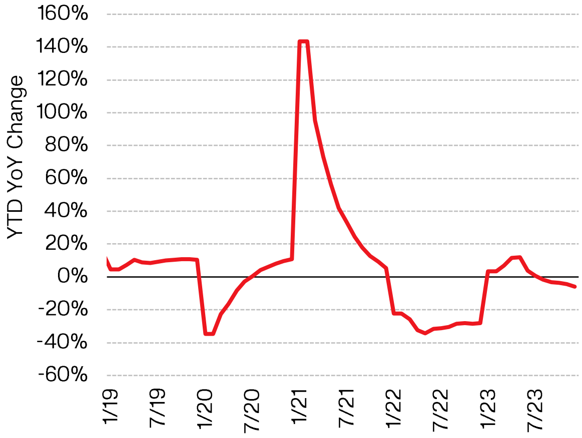
The property market consolidated at low levels while accumulating policy support. In 2023, the property market was in consolidation, with declines seen in the sales of residential property (-6.0%), the newly started construction of residential buildings (-20.9%) and the funds for investments by property developers (-13.6%). That said, there were encouraging signs regarding housing deliveries, as housing completion rose by 17.2% in 2023. Since 2H 2023, a slew of policies have been implemented to encourage housing demand and enhance liquidity support for property developers, such as widespread relaxation of mortgage rules, lower mortgage rates, reduced down payment ratios and an extension of special credit facilities and financial measures for property developers. Near the end of 2023, the People's Bank of China (PBoC) reintroduced its pledge of supplemental lending with a net injection of RMB 350 billion in low-cost funds for policy banks to support investment in three major projects (affordable housing, urban village renovation and emergency infrastructure). In early 2024, the Ministry of Housing and Urban-Rural Development and the National Financial Regulatory Administration jointly announced a plan to establish a financing coordination mechanism for the real estate sector, which will help expedite the financing approval processes for quality developers. Looking ahead, housing policy is set to remain supportive to ensure stable market development in 2024.

Fixed Asset Investment of Selected Sectors



Source: CEIC

Sales Value of Commercial Residential Property



Source: CEIC

Macro policies will continue to center on promoting high-quality development in 2024. Entering 2024, the Chinese Mainland's economic fundamentals remain resilient. Real per capita disposable personal income increased by 6.1% in 2023, faster than overall economic growth. Together with elevated savings levels, private consumption has the potential to expand ahead. Besides, macro policies are poised to remain supportive. On the monetary front, there is room for the PBoC to slightly reduce its policy rates and reserve requirement ratios. Moreover, targeted financing support for the high-tech sector will continue. On the fiscal front, there are rising expectations for higher public spending. Recently, the media reported that the Mainland authorities were considering a new issuance of RMB 1 trillion in ultra-long special sovereign bonds to fund projects related to food, energy, supply chains and urbanisation. Overall, the Mainland authorities are anticipated to maintain a well-coordinated policy mix to advance the progress of high-quality development. The Chinese Mainland's economy is expected to maintain a growth rate of around 5% in 2024.

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