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Economic Research Department **18 March 2024**

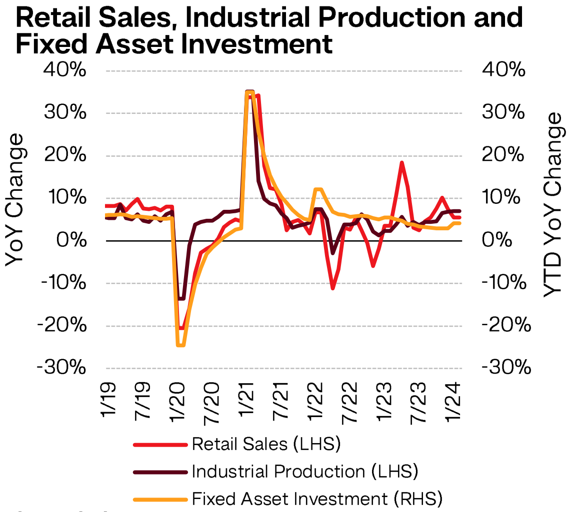
Economic QuickView

Chinese Mainland Economy: A Solid Start in 2024 with Emerging Policy Impacts

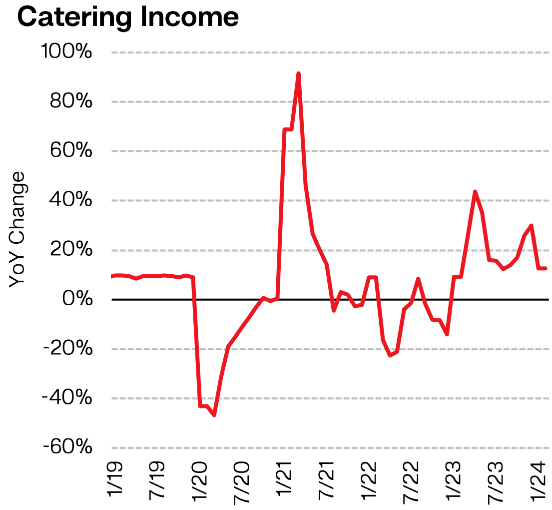
- The Chinese Mainland growth momentum gathered pace, with a more balanced performance from various economic components.
- Spending on services and discretionary goods remained robust. Industrial production grew at faster pace. High-tech manufacturing and infrastructure investment led overall fixed asset investment, offsetting the drag from a consolidating property sector.
- The Mainland authorities are set to roll out more policy measures to foster new quality productive forces and promote a resilient, sustainable and high quality development.

The Chinese Mainland economy posted a solid start in 2024. Economic indicators for the first two months of 2024 were broadly above market expectations, reflecting the positive impacts from a series of supportive macro policies imposed since 2023. Meanwhile, the property sector remained in consolidation but its impacts to the broader economy were further contained. Overall, GDP growth is likely to see a pick-up in Q1 2024, laying a sound foundation for recovery ahead.

Retail sales remained steady, with visible growth in festive-related services spending. In January – February 2024, overall retail sales expanded by 5.5% year-on-year (YoY) (rising by 0.17% and 0.03% month-on-month (MoM) in January and February, respectively), in line with market expectations. The retail sales of services grew by 12.3% YoY, mainly driven by catering income. During the Chinese New Year (CNY) holiday, passenger traffic and tourism revenues grew markedly, reflecting buoyant demand for travel and social activity. Meanwhile, the retail sales of goods posted a 4.6% YoY growth, down slightly from 4.8% in December 2023. In terms of spending patterns, products related to consumption upgrade saw a robust growth in January-February 2024, led by telecommunication equipment (+16.2%), sports & recreational articles (+11.3%) and automobile (+8.7%), while reopening-related products returned to a normalising trend with clothes, shoes, hats & textiles (+1.9%), cosmetics (4.0%) and gold, silver & jewellery (5.0%) posted moderating growth.



Source: CEIC



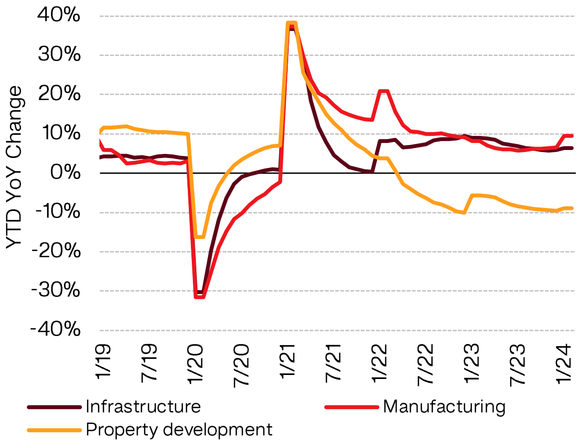
Source: CEIC

Industrial production accelerated with widespread improvements across sectors. The value added of industrial enterprises expanded solidly by 7.0% YoY in January – February 2024 (rising by 1.16% and 0.56% MoM in January and February, respectively), up from 6.8% YoY in December 2023. Over 90% of industrial sectors and 60% of major industrial goods recorded YoY growth. Notably, high-tech manufacturing maintained a strong growth of 7.5% in January – February 2024, up from 6.4% YoY in December 2023. Among various high-tech sectors, the manufacturing of electronic & communication equipment and aerospace equipment registered double-digit growths of 12.6% and 14.1% YoY. This indicated the Mainland's push to promote emerging strategic industries. Besides, the manufacturing for consumer goods and industrial exports also picked-up visibly.

Investment growth accelerated amid sustained policy support. The fixed asset investment (FAI) grew by 4.2% YoY in January – February 2024, accelerating from 3.0% in 2023. On a MoM basis, the growth of FAI picked up from -0.25% in December 2023 to 0.24% in January and 0.88% in February. Private FAI saw early signs of a turnaround, growing by 0.4% YoY in the first two months of 2024, after posting consecutive year-to-date declines from May 2023 to December 2023. This probably reflected a stabilisation in private confidence amid supportive policies on private economy. Across the major sectors, the growth of FAI for manufacturing and infrastructure accelerated to 9.4% and 6.3% YoY in the first two months of 2024, respectively, offsetting the drag from the property development investment (-9.0%). Excluding property development investment, the FAI expanded by 8.9% YoY. With RMB 500 billion from the RMB 1 trillion sovereign bonds issued in late 2023 set to be disbursed in Q1 2024, policy support is likely to keep FAI to grow steadily in the coming months.

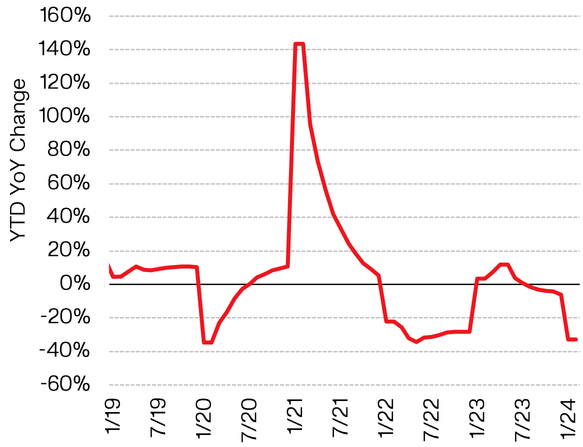
The property market is undergoing a process of consolidation and transformation. Major property market indicators consolidated at low levels. In January – February 2024, the sales of residential buildings, newly started construction of residential buildings and the funds for investments by property developers declined by 32.7%, 29.7%, and 24.1% YoY, respectively. That said, the secondary housing market saw some stabilising signs, with a narrower decline in housing prices in tier-1 cities (from -1.0% MoM in January to -0.8% in February). Furthermore, the retail sales of property related products showed a rebound for household appliances & audio-video equipment (from -0.1% YoY in December 2023 to 5.7% in January – February 2024) and building & decoration materials (from -7.5% to 2.1%). These data showed a gradually transforming property market, with a reduced drag on the broader economy. Indeed, the Mainland authorities have continued to intensify the policy efforts for the property market since 2023, with measures such as reducing 5-year loan prime rate, lowering mortgage rates, re-introducing the pledged supplementary lending program, enforcing a "white list" mechanism to finance eligible real estate projects, relaxing home purchase restrictions across major cities and so on. Going forward, the policy environment is set to remain supportive, in a bid to ensure a stable and healthy market development.

Fixed Asset Investment of Selected Sectors



Source: CEIC

Sales Value of Commercial Residential Property



Source: CEIC

Policy focus emphasises on maintaining a stable growth and building new productive forces. The pick-up in growth momentum during the first two months of 2024 reflected the emerging impacts of the policy mix imposed since 2023. With further policy impacts to be unleashed, the Chinese Mainland economy should maintain a steady recovery ahead. However, external environment remains challenging. The Two Sessions 2024 thereby called for enhanced consistency in macro-policy orientation to promote the development of a modernised industrial system and new quality productive forces. On the fiscal policy front, even the target of deficit-to-GDP remains at 3.0%, additional funding from a higher target for special-purpose local government (RMB 3.9 trillion in 2024, up RMB 100 billion) and ultra-long special treasury bonds (RMB 1 trillion in 2024) is poised to better co-ordinate fiscal resources to generate new growth drivers. Regarding monetary policy, the People's Bank of China signalled that more easing remains on the table, like a cut in the reserve requirement ratio, to ensure sufficient liquidity for the economy. Recently, the State Council released an action plan to promote large-scale equipment renewals, trade-ins of consumer goods, and refinement of energy and technology-related standards for products. Moving forward, more policy measures to boost consumption and investment in related to consumption upgrade and advanced equipment are widely anticipated. Under the above policy guidance, Chinese Mainland's growth drivers are likely to be more balanced in 2024, with a focus on fostering new productive forces and promoting a resilient, sustainable and high quality development.

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