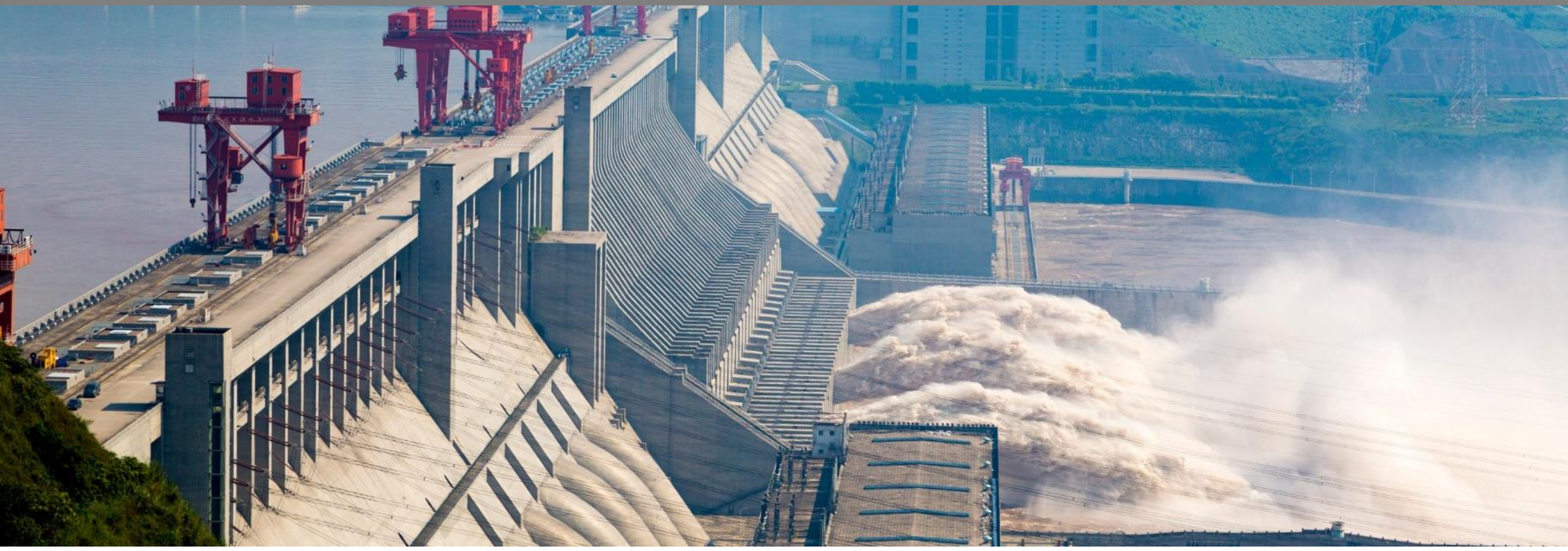
Economic Research Department

16 April 2024

Economic QuickView



Chinese Mainland Economy: Solid Q1 growth moderated towards the quarter-end

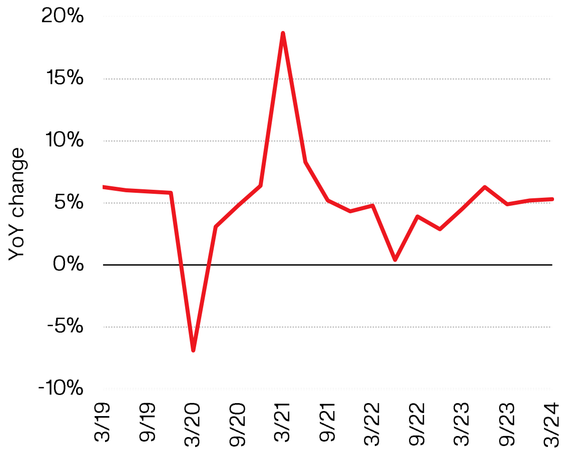
- The Chinese Mainland's economy grew by 5.3% YoY in Q1 2024, faster than expected.
- Monthly economic indicators softened in March due to an uneven post-pandemic comparison base. Retail sales and industrial production grew steadily, while investment accelerated amid strong fiscal spending.
- More macro-policies, in particular those boosting domestic consumption, are expected to drive a more balanced recovery.

The Chinese Mainland economy recorded solid growth in Q1 2024, amid robust services spending and external demand. The Chinese Mainland's real gross domestic product (GDP) expanded by 5.3% year-on-year (YoY) in Q1 2024, up from 5.2% YoY in Q4 2023. On a sequential basis, GDP growth accelerated from 1.2% quarter-on-quarter (QoQ) in Q4 2023 to 1.6% in Q1 2024. Both were higher than market expectations. In addition to a continuous recovery in retail and services spending, external demand has staged a further recovery since the end of 2023. It helped the Chinese Mainland's trade surplus stabilise and delivered a boost to manufacturing output and investment.

Monthly economic indicators softened in March due to an uneven post-pandemic comparison base. In March, overall retail sales and industrial production moderated to 3.1% YoY and 4.5%, down from 5.5% and 7.0% in January and February combined, respectively. The slowdown was mainly due to uneven comparison bases during the same period in 2023. Meanwhile, fixed asset investment (FAI) recorded an accelerating pace of growth, going from 4.2% YoY in the first two months of 2024 to 4.5% in Q1 2024. Despite weaker-than-expected retail sales and industrial production in March, the latest leading indicators, such as manufacturing and non-manufacturing purchasing manager indices as well as mobility and consumption figures during the Ching Ming Festival, all marked a notable recovery, pointing to a continuous recovery ahead.

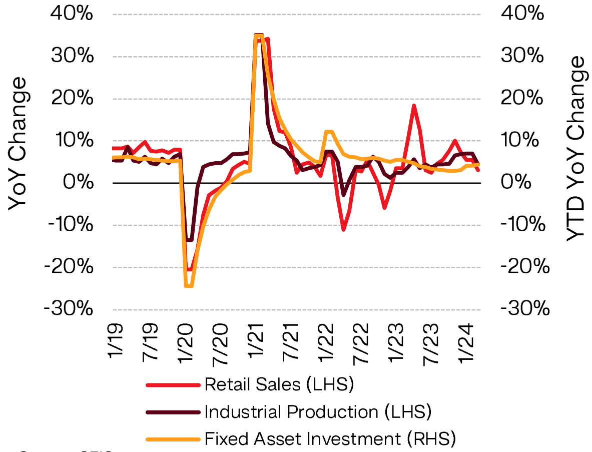
Consumer spending maintained steady growth in Q1. Real per capita consumption expenditure increased by 8.3% YoY in Q1 2024, which was elevated, albeit moderating slightly from a 9.0% growth in 2023. In Q1, overall retail sales grew by 4.7% YoY. Specifically, the retail sales of services (+10.0% YoY) continued to outpace those of commodity goods (+4.0%). Contact-intensive service activities like catering, accommodation, transportation and tourism grew strongly on solid demand. As for goods consumption, retail sales of automobiles posted modest growth at 3.8% YoY in Q1. Besides, retail sales of telecommunication equipment and sports & recreational articles surged by 13.2% YoY and 14.2% in Q1, respectively, which reflected an uptrend in demand for consumption upgrades. Meanwhile, improving demand was seen in the sales of property-related products like household appliances & audio-video equipment (+5.8% YoY), building & decoration materials (+2.4%), and furniture (+3.0%) in Q1. This was probably led by the rise of secondary property market transactions.

Chinese Mainland GDP Growth



Source: CEIC

Retail Sales, Industrial Production and Fixed Asset Investment



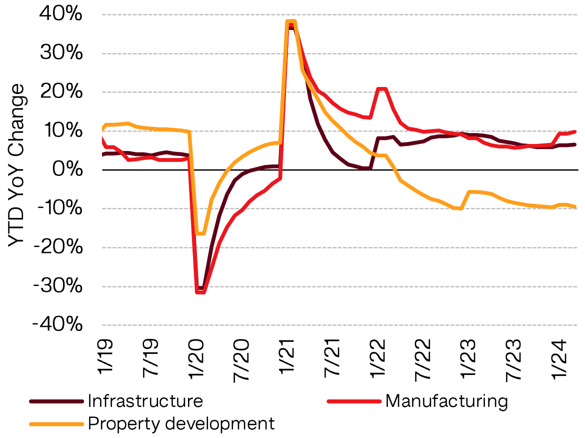
Source: CEIC

Industrial production rose amid strong policy support and recovering external demand. The value-added of industrial enterprises grew solidly by 6.1% YoY in Q1 2024, 0.8 percentage points (ppts) faster than Q4 2023. With the development of a modernised industrial system as the top major task, policy support for high-tech manufacturing remains strong. The value-added of high-tech manufacturing was up by 7.5% YoY in Q1, with brisk growth seen in several high-tech products like semiconductors (+40.0% YoY), new energy vehicles (+29.2%) and solar cells (+20.1%). In March, the manufacturing purchasing managers' index rebounded by 1.7 ppts to 50.8, with its new order sub-index rising notably to an 11-month high at 53.0. This indicates a sanguine outlook for industrial production to expand further in the future.

Investment accelerated and beat consensus. Despite a higher base a year ago, overall FAI expanded by 4.5% YoY in Q1, up from 4.2% in January and February together and above market expectations of 4.0%. Infrastructure and manufacturing FAI grew by 6.5% YoY and 9.9% in Q1, respectively, while property FAI was down by 9.5%. This was likely to be driven by higher fiscal spending amid the issuance of an additional RMB 1 trillion of sovereign bonds last year. High-tech sectors continued to see significant investment, with their FAI increasing by 11.4% YoY in Q1. Meanwhile, private FAI recorded a modest growth of 0.5% YoY in Q1, signalling a further stabilisation in private confidence.

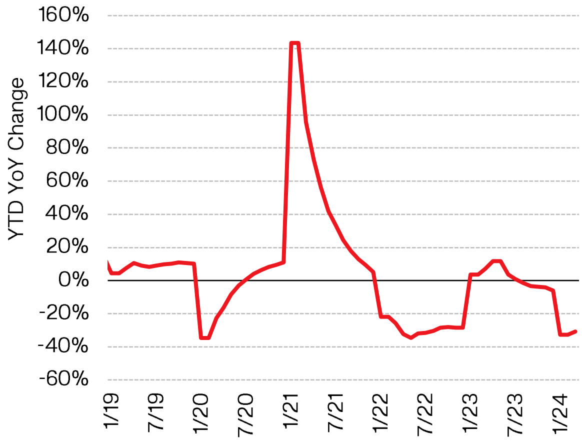
The property market continued to undergo a process of consolidation and adjustment. Major property-related indicators stayed soft in Q1, with declining sales of residential buildings (-30.7% YoY), newly started construction of residential buildings (-28.7%), and funds for real estate development investment (-26.0%). In the meantime, the official measures of home prices continued to hover at low levels. For 2024, the Central Government clearly stated its commitment to stabilise the property market through improving home buyers' confidence, providing financing for developers with justified needs and accelerating the development of a "market-based + affordable housing" dual-track system. Moreover, the local governments have further eased their housing policies on multiple fronts. For example, Guangzhou and Beijing recently increased the quota for housing provident fund loans to buy houses. Together with an accommodating monetary environment, the property market is likely to gradually stabilise alongside the steady economic recovery ahead.

Fixed Asset Investment of Selected Sectors



Source: CEIC

Sales Value of Commercial Residential Property



Source: CEIC

Macro-policies are set to focus on boosting effective domestic demand. Following the remarks made by President Xi in late-February, which called for expanding consumption through trade-ins of consumer goods and large-scale equipment renewals, the Mainland authorities released an Action Plan with more detailed measures in mid-April 2024. Under the Action Plan, new measures will be implemented to support household purchases of automobiles, green and smart home appliances, as well as home renovation. For instance, there will be subsidies, easier financing and supportive guidelines and rules to boost those relevant consumer markets. Meanwhile, the People's Bank of China announced a new relending facility of RMB 500 billion with an interest rate of 1.75% to support enterprises in adapting innovation technology, technical transformation and equipment renewals. Additionally, the China Securities Regulatory Commission issued 9 draft rules to enhance the supervision of initial public offerings, force unqualified companies to delist and strengthen the oversight of high-frequency trading. These rules aim to revive capital market confidence and enhance investor protection. Going forward, a solid start in Q1 suggests that the economy is heading towards attaining the 2024 growth target of around 5.0%. The probability of further RRR and policy rate cuts might be reduced in the near term. However, the spokesperson of the National Bureau of Statistics admitted an uneven recovery. Supportive macro-policies to strengthen domestic consumption, and foster new quality productive forces will continue to be implemented to drive a more balanced recovery ahead.

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