BEA 東亞銀行

Economic Research **April 2024**

Market Monitor – Chinese Mainland

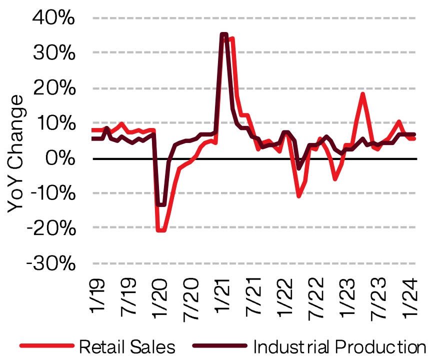
A Broad-based Improvement in Growth Momentum

- The Chinese Mainland economy showed a broad-based improvement in its growth momentum.
- Festive-related services spending led the overall retail sales performance. High-tech manufacturing and infrastructure investment sustained strong growth.
- Macro-policies are set to be enhanced and better coordinated to expand domestic demand and foster new quality productive forces.

A solid start laid the foundation for a stable recovery

The Chinese Mainland economy had a solid start in 2024. The emerging positive impacts derived from well-coordinated policy support have led to a more balanced growth pattern. Although the property sector continued to consolidate at low levels, its drag was diminishing gradually. Overall, GDP growth will likely pick up in the first quarter of 2024, laying a solid foundation for the recovery ahead.

Retail Sales & Industrial Production



Source: CEIC

Festive-related spending led overall consumption expenditure. In January – February 2024, overall retail sales expanded steadily by 5.5% year-on-year (YoY), with the retail sales of services expanding even faster at 12.3% YoY. The buoyant demand for travel and social activity during the Chinese New Year holiday significantly boosted growth in festive-related spending like catering, accommodation and transportation. Meanwhile, retail sales of goods grew by 4.6% YoY, slightly down from 4.8% in December 2023. In terms of spending patterns, the product sales associated with higher-end consumption, such as telecommunication equipment (+16.2%) and automobiles (+8.7%), continued to experience robust growth, while the growth of reopening-related goods like clothes, shoes, hats & textiles (+1.9%) and cosmetics (+4.0%) somewhat moderated.

Industrial activity picked up broadly. The value-added of industrial enterprises accelerated to 7.0% YoY in January – February 2024, up from 6.8% YoY in December 2023. Driven by policy initiatives for emerging strategic industries, high-tech manufacturing continued its strong growth, accelerating from 6.4% YoY in December 2023 to 7.5% in the first two months of 2024. Besides, the growth in manufacturing for consumer goods and industrial exports improved. The business performance of industrial enterprises also recovered notably, with industrial profits returning to a growth of 10.2% YoY in the first two months of 2024 after contracting 2.3% in 2023. These data points signal a broad-based recovery in the industrial sector.

Investment growth accelerated with a stabilising private sector. Fixed asset investment (FAI) grew by 4.2% YoY in January – February 2024, accelerating from 3.0% in 2023. 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 likely reflects a stabilisation of private confidence amid supportive policies for the 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 property development investment (-9.0%).

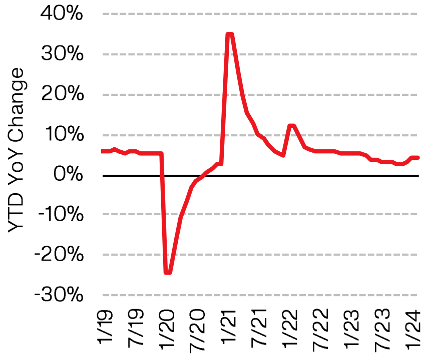
Merchandise trade returned to growth. In the first two months of 2024, Chinese Mainland merchandise exports and imports were better than market expectations, growing by 7.1% YoY and 3.5%, respectively, after declining by 4.6% and 5.5% in 2023. Furthermore, trade surplus reached USD 125 billion, larger than the USD 104 billion recorded in the first two months of 2023. This reflects a recovery in global demand at the start of 2024, as well as policy efforts to upgrade its value chains and enhance advanced manufacturing. The exports of mechanical and electrical products expanded strongly by 8.5% YoY in January-February 2024 after a 2.4% decline in 2023, of which semiconductor exports rebounded from a 10.1% drop in 2023 to a 24.3% YoY growth in the first two months of 2024.

The property market is undergoing a process of consolidation and transformation. In the first two months of 2024, the sales of new residential buildings contracted by 32.7% YoY. However, the People's Bank of China Governor stated that there were some stabilising signs in the property market, including a narrower decline in housing prices and improvements in property-related retail sales. The recent State Council meeting reiterated the need to further optimise housing policies, raising hopes for more supportive measures to ensure stable and healthy market development. Most notably, the housing supply is expected to be further optimised under a dual-track system of "market-based + affordable housing".

A well-coordinated policy mix to ensure steady development

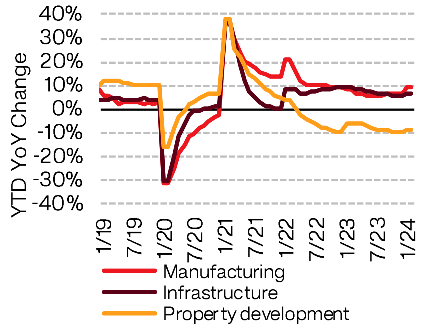
Policies remain focused on expanding domestic demand and fostering new quality productive forces. Fiscal policy features the launch of regular, ultra-long

Fixed Asset Investment



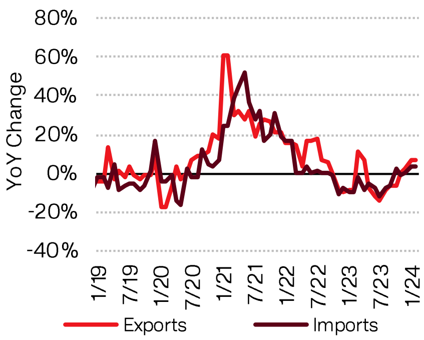
Source: CEIC

Fixed Asset Investment of Selected Sectors



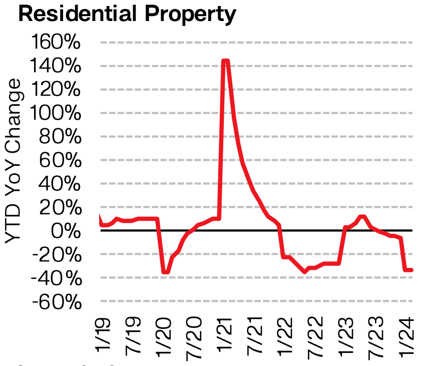
Source: CEIC

Exports & Imports (in USD terms)



Note: Combined figures for January and February
Source: CEIC

Sales Value of Commercial Residential Property



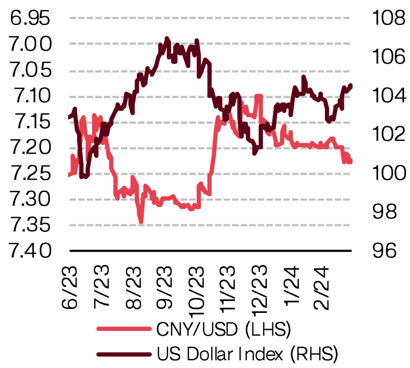
Source: CEIC

special treasury bonds to fuel investment in technological advancement and public infrastructure such as water conservancy and transport. Monetary policy will remain accommodative, with room for further cuts in the reserve requirement ratio. Specifically, the State Council released action plans to promote large-scale equipment renewals and trade-ins of consumer goods as well as high-level opening-up and to attract foreign investment to pursue dual circulation and reinforce domestic consumption and investment. Moreover, the Government Work Report puts the development of a modernised industrial system and new quality productive forces as top policy priorities, followed by enhancing science and education. In this connection, policies will be formulated to promote the development of the digital economy, like big data, AI, smart cities, and the integration of digital technology into the real economy. It will enhance the nation's technology and innovation capacity and build long-term, sustainable productive forces.

Investors stayed largely on the sidelines

Financial markets remained largely steady. In early March, the Government Work Report set a growth target of around 5% for 2024, and called for well-coordinated policy mix to ensure steady growth. Moreover, the economic indicators in the first two months showed a solid start of the year, raising hope that this year's target could be achieved amid further policy support. Nevertheless, there were rising concerns over technology and trade restrictions by the US, weighing on investors' sentiment near the month-end. The Shanghai Stock Exchange A-Share index rose by 0.9% in March, as compared to the previous month. The onshore and offshore RMB depreciated slightly by 0.5% and 0.7% against the US dollar in March compared to the previous month, with the CNY and CNH closing at 7.2224 and 7.2572 per US dollar, respectively.

RMB/USD vs US Dollar Index



Source: Bloomberg, data as of 31/3/2024

Disclaimer

This material is prepared by The Bank of East Asia, Limited ("BEA") for customers' reference only. The content is based on information available to the public and reasonably believed to be reliable, but has not been independently verified. Any projections and opinions contained herein are expressed solely as general market commentary, and do not constitute an offer of securities or investment, nor a solicitation, suggestion, investment advice, or guaranteed return in respect of such an offer. The information, forecasts, and opinions contained herein are as of the date hereof and are subject to change without prior notification, and should not be regarded as any investment product or market recommendations. This material has not been reviewed by the Securities and Futures Commission of Hong Kong, Hong Kong Monetary Authority, or any regulatory authority in Hong Kong.

BEA will update the published research as needed. In addition to certain reports published on a periodic basis, other reports may be published at irregular intervals as appropriate without prior notice.

No representation or warranty, express or implied, is given by or on behalf of BEA, as to the accuracy or completeness of the information and stated returns contained in this material, and no liability is accepted for any loss arising, directly or indirectly, from any use of such information (whether due to infringements or contracts or other aspects). Investment involves risks. The price of investment products may go up or down, and may become valueless. Past performance is not indicative of future performance. The investments mentioned in this material may not be suitable for all investors, and the specific investment objectives or experience, financial situation, or other needs of each recipient are not considered. Therefore, you should not make any investment decisions based solely on this material. You should make investment decisions based on your own investment objectives, investment experience, financial situation, and specific needs; if necessary, you should seek independent professional advice before making any investment.

For more information, please visit our webpage at https://www.hkbea.com/html/en/bea-about-bea-economic-research.html. For any enquiries, please contact the Economic Research Department of BEA (email: lerd@hkbea.com/telephone number: (852) 3609-1504/postal address: GPO Box 31, Hong Kong).