BEA 東亞銀行

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Economic QuickView

Chinese Mainland Economy: Further policy efforts to consolidate the economic recovery

- The economy maintained stable growth momentum in July, indicating a steady start in 2H.
- In July, industrial production remained solid; retail sales grew slightly faster, topping expectations; and investment slowed somewhat.
- Further efforts are on the way to stimulate investment and consumption in solidifying economic recovery in the rest of 2024.

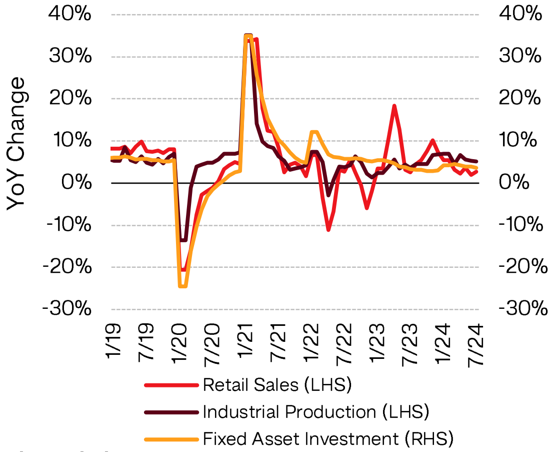
The Chinese Mainland economy kicked off a steady start in 2H. Monthly economic indicators in July pointed to a similar growth pattern as in 1H, with industrial production leading the overall recovery, following by fixed asset investment (FAI) and retail sales. Meanwhile, foreign trade grew at a solid pace, amid highly uncertain external environment. The property sector remained in consolidation with marginal improvements seen. These trends highlighted that the intensity and implementation of policy supports need to be stepped up to consolidate the economic recovery.

Industrial production sustained a solid growth. The value-added of industrial enterprises grew by 5.1% year-on-year (YoY) in July, from 5.3% in June. Specifically, equipment manufacturing grew briskly by 7.3% YoY, serving as a major growth driver (contributing 47.9% of headline growth in July). High-tech manufacturing was also strong with 10.0% YoY growth in July. These reflected the policy boost promoting equipment renewals, as the manufacturing sector is undergoing a structural upgrade towards smart, green and digital production. Meanwhile, Chinese manufacturers are able to stay competitive and expand new revenue sources amid improving global demand this year. Most notably, exports of automobiles, communication equipment and chemical products recorded double-digital growth since December 2023.

Investment slowed somewhat due to seasonal factors. Growth of total FAI softened from 3.9% YoY in 1H to 3.6% in January – July. The slowdown was mainly due to extreme weather conditions, such as heavy rains and high temperatures, which affected certain construction projects. Across the major sectors, industrial investment remained strong at 12.5% YoY in January - July, followed by infrastructure investment (+4.9%). Property investment stayed at low levels, down by 10.2% YoY in January - July (-10.1% in 1H).

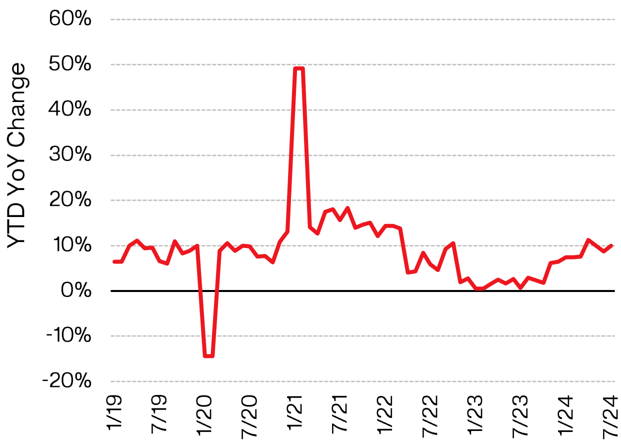
Retail sales picked up slightly. Growth of total retail sales picked up from 2.0% YoY in June to 2.7% in July (January – July 2024: 3.5%), slightly above market expectations. Retail sales of services stayed robust, rising by 7.2% YoY in January – July, after a 7.5% growth in 1H. This reflected strong travel demand during the summer holiday season. That said, subdued demand persisted for certain consumer discretionary items. Particularly, the retail sales of automobile dropped by 4.9% YoY in July, the fourth consecutive monthly decline. Besides, the retail sales of property-related products like household appliances & AV equipment and construction & decoration materials were yet to recover meaningfully. To sustain the overall economic recovery momentum in 2H, a stronger recovery for retail sales will be needed.

Retail Sales, Industrial Production and Fixed Asset Investment



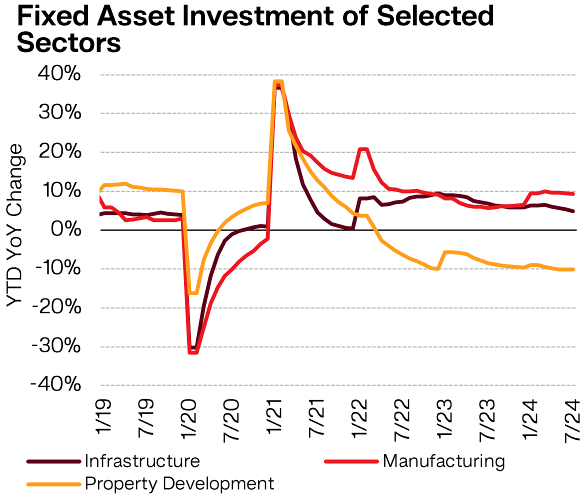
Source: CEIC

High-tech Manufacturing



Source: CEIC

The property market saw marginal improvements with policy effects emerging gradually. Other than property investment, narrower declines were seen in the sales of residential buildings (from -26.9% YoY in 1H to 25.9% in January – July) and the funds for real estate developers (from -22.6% to 21.3%), indicating signs of stabilisation in the property market as market sentiment somewhat improved after the announcement of various policy supports since May. Indeed, these policy effects are yet to be fully realised. For instance, local governments would need to plan carefully for implementing the purchases of unsold housing inventories for conversion to affordable housing, after the RMB 300 billion relending loan facility was announced (thus the take-up rate for this tool was still low). Moreover, the Politburo meeting in July stressed the pledge to promote a steady development of property market by clearing housing inventories and ensuring completions. This suggests that further declines in the property market are likely to be limited, as more forceful policy measures will be implemented to mitigate any downside risks ahead.



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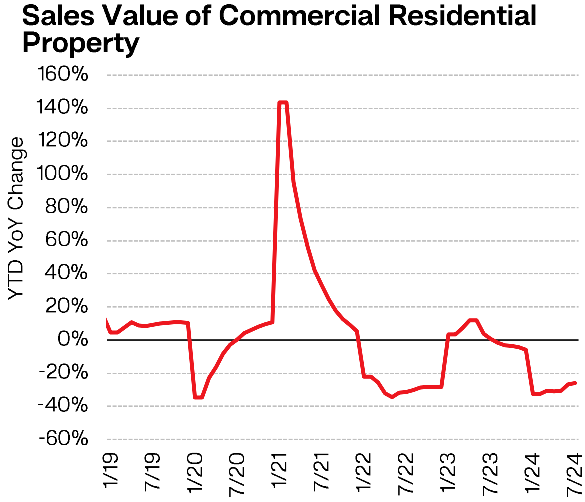

Source: CEIC

Further efforts are on the way to stimulate investment and consumption in 2H. Addressing the issue of insufficient domestic demand has been crucial for the Chinese Mainland economy to deal with the headwinds in its transition to replace old growth drivers by new productive forces. Thus, Mainland authorities have recently stressed that the macro-policies need to be implemented in an effective and expedited manner. Furthermore, fiscal support is playing a bigger role in supporting growth in investment and consumption. On investment, public investment will be sped up driven by an accelerated implementation of various government funds from ultra-long special government bonds, special local government bonds, and investment in the central government budget. Besides, improving corporate profitability is anticipated to improve the resources and appetite for the private sector to increase investment. On consumption, Mainland authorities recently outlined a plan to allocate RMB 300 billion in ultra-long special government bonds to expand an existing trade-in and equipment renewal upgrade policy. A 20-point proposal to promote services consumption was also released in late-July. These policy efforts are intended to boost demand in both investment and consumption. Going forward, a more balanced growth pattern for the Chinese Mainland economy is likely to be achieved ahead.

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