Economic QuickView

Chinese Mainland Economy: Growth momentum showed marginal improvements in Q3, with stimulus package boosting confidence

- The Chinese Mainland economy expanded by 4.8% YoY in the first three quarters of 2024, with monthly indicators showing marginal improvements in September.
- The top leadership has intensified policy support to stabilise growth, with measures to increase fiscal resources, resolve local government debt risks, and support asset markets.
- Given intensified policy support, the economy is expected to extend its improving growth momentum in Q4 and is on track to achieve the growth target of 2024.

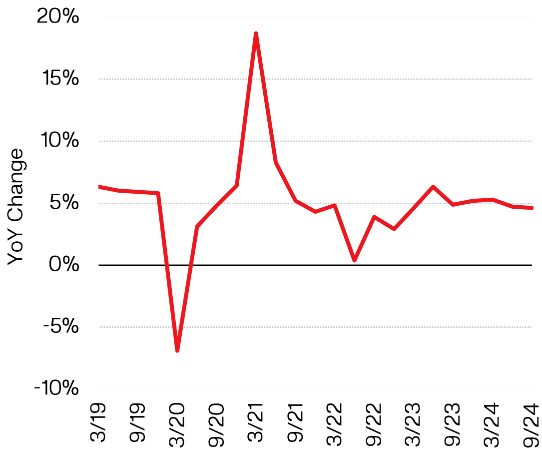
The Chinese Mainland economy maintained stable performance. Chinese Mainland's real gross domestic product (GDP) grew by 4.8% year-on-year (YoY) in the first three quarters of 2024. Final consumption remained the primary growth driver in the first three quarters (contributing 49.9% of GDP growth), followed by gross capital formation (26.3%) and net exports (23.8%). In Q3, GDP growth largely held up at 4.6% YoY in Q3, from 4.7% in Q2. On a quarter-on-quarter (QoQ) basis, growth momentum improved from 0.5% in Q2 to 0.9% in Q3. On labour market, employment situation remained steady, with the surveyed urban unemployment rate at 5.1% in the first three quarters. The National Bureau of Statistics highlighted that positive factors for the economy have been strengthening following the stimulus package announced in September. This has boosted confidence, supporting the economy in achieving the growth target of around 5.0% for 2024.

Domestic activity showed an improvement in September after a moderation in August. Industrial production and retail sales both beat market expectations in September. Industrial production accelerated from a growth of 4.5% YoY in August to 5.4% in September, driven by stronger domestic demand for advanced products. High-tech manufacturing continued to outperform, growing by 10.1% YoY in September (after 8.6% in August) and offsetting softer external demand. In addition, consumer demand saw emerging signs of recovery, with growth of total retail sales accelerating to

3.2% YoY in September from 2.1% in August. This partly reflected the impacts of trade-in policies for consumer goods, with the sales of household appliances & AV equipment rising at a double-digit pace in September. Besides, automobile sales resumed to a slight YoY growth in September, ending five months of declines since March 2024. Retail sales of services sustained a resilient growth of 6.7% YoY in the first three quarters (6.9% for January – August).

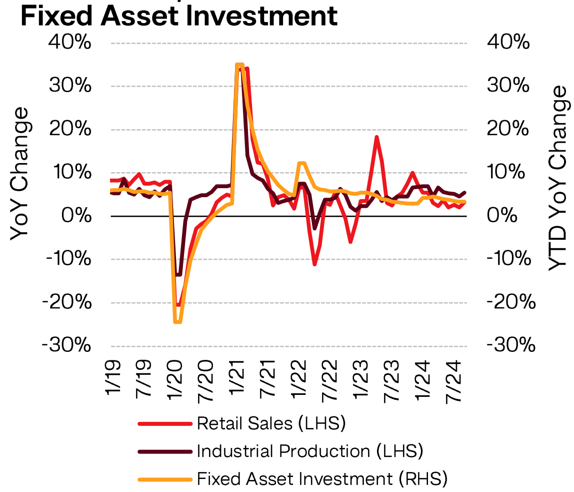
Investment stabilised following months of slowdown. Fixed asset investment grew by 3.4% YoY in the first three quarters (January – August: 3.4%). Among the major sectors, manufacturing investment remained strong, with growth picking up from 9.1% YoY in January – August to 9.2% in Q1 – Q3, while the declines in property investment narrowed slightly from 10.2% YoY to 10.1%. However, infrastructure investment moderated further from a growth of 4.4% in January – August to 4.1% in the first three quarters. This reflected that additional time is needed for the local governments to prepare the appropriate investment projects following increases in government bond issuances during August and September.

Chinese Mainland GDP Growth



Source: CEIC

Retail Sales, Industrial Production and Fixed Asset Investment



Source: CEIC

The top leadership has intensified policy support to stabilise growth. At the Politburo meeting on 26 September, the top leadership called for stronger counter-cyclical fiscal and monetary adjustments as well as measures to halt declines in the property market. Subsequently, various Mainland authorities including the People's Bank of China (PBoC), the Ministry of Finance (MoF), and the Ministry of Housing and Urban-Rural Development, have announced a slew of supportive measures to stabilise growth momentum and bolster stock and housing markets.

A range of incremental fiscal policies has been introduced to balance the needs to defuse risks and boost domestic demand. Firstly, the MoF took targeted measures to defuse local government debt risks, including a sharp increase in the debt ceiling and a large-scale debt swap programme to replace existing hidden debts of local governments. These policies aimed to reduce the funding pressure on local governments, allowing them to free up more resources for economic development. Second, the MoF announced plans to shore up the banking sector by liquidity injection, thereby building a stronger lending capacity to serve the real economy. Specifically, the MoF will replenish the core tier-1 capital of large-state-owned banks with special treasury bonds, laying a solid backdrop for credit growth ahead. In addition, there will be more measures to boost consumption like increasing financial aid for low-income group and college students. Furthermore, the MoF stated that the central government still possesses ample room to raise debts and increase the budget deficit going forward, signaling a stronger determination to support the economy by allocating more fiscal resources. Particularly, special-purpose bonds available for use in Q4 are estimated to reach RMB 2.3 trillion. It is worth monitoring the upcoming State Council executive meeting or the National People's Congress Standing Committee meeting in late October, where details on fiscal stimulus are likely to be released.

New monetary policy tools to boost the stock market. In late-September, the PBoC announced two innovative tools to ensure a steady development of the capital market, namely: a swap programme amounting to RMB 500 billion, enabling financial institutions to obtain liquidity for equity investment; and a special relending facility up to RMB 300 billion to support share purchases and buybacks. These tools marked a proactive shift to support equity investment. Since the policy announcement, risk-on sentiment has resumed, driving Chinese stocks to soar in recent weeks. The rally pointed to a stronger confidence in policy stance to propel the economy and the stock market. A stronger stock market performance is expected to lift confidence, encouraging households to increase consumption and make investment.

Enhanced policy package to stabilise the property market. After the Politburo's call for halting declines in the property market, the Mainland authorities have implemented a string of policies including cancelling restrictive measures, lowering interest rates & down payment ratio, increasing the completion of housing renovation projects by 1 million units, and raising the credit lines for the "white-list" housing projects to over RMB 4 trillion. These policy measures have yielded positive market response and improved homebuyer sentiment, with increased visits to new home projects and sales of pre-owned homes since late-September. Looking ahead, the housing market looks set to become more balanced, given the policy efforts to facilitate completions and absorb inventories. A more steady recovery outlook is expected to be in sight soon.

Intensified stimulus measures to revive growth momentum. The forceful measures outlined above will help address potential risks from the ongoing property market correction and local government debt issues, bolstering market confidence in Chinese Mainland's economic outlook. Furthermore, stronger fiscal spending and a buoyant equity market will revitalise demand for investment and consumption. As supportive policies continue to permeate the real economy, the Chinese Mainland economy is set to extend its improving growth momentum into Q4 2024.

BEA 東亞銀行

Economic Research Department 18 October 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).