BEA東亞銀行

Economic Research Department **15 November 2024**

Economic QuickView

Chinese Mainland Economy: Recovery momentum stabilises as stimulus measures gradually take effect

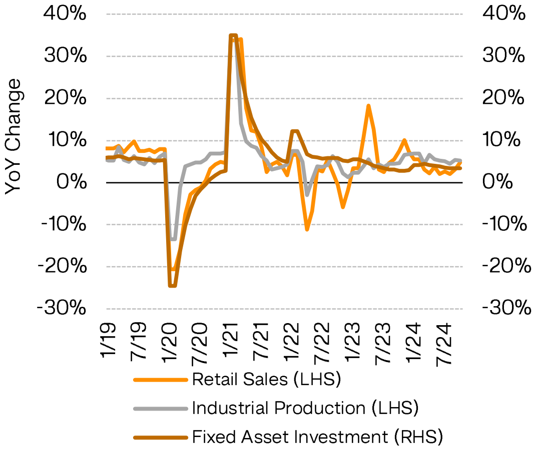
- October's economic indicators pointed to a strengthening growth momentum, reflecting the boost of recent stimulus measures.
- Consumption and trade rebounded visibly, while industrial production and investment remained steady.
- The Mainland authorities introduced additional fiscal resources to resolve local government hidden debt risks and hinted more and stronger supportive policies likely ahead.

The Chinese Mainland economic momentum gathered pace in October. A comprehensive stimulus package introduced since late-September have restored market confidence and improved growth prospects. Key economic indicators for October showed visible improvements, particularly in consumption and trade, indicating a broad-based pickup in demand. Meanwhile, industrial production and investment activity held up in October. Efforts to stabilise employment also bear fruit, with the urban surveyed unemployment rate declining to 5.0% in October, down by 0.1 percentage points (ppts) from the previous month. Trade surplus widened in October and provided tailwinds for Q4 growth, driven by a faster growth in exports. Overall, Chinese Mainland is poised to see a stronger outlook, as the impacts of stimulus measures would be further unleashed.

Consumer spending accelerated amid improving sentiment. Total retail sales growth expedited from 3.2% year-on-year (YoY) in September to 4.8% in October, the fastest pace since March 2024. This uptick was driven by supportive trade-in policies, buoyant consumer sentiment during the National Day Golden Week holiday, and wealth effects from equity market rallies. Certain durable goods saw robust sales growth, like household appliances & AV equipment (from 20.5% YoY to 39.2% in October) and telecommunication equipment (from 12.3% to 14.4%). Automobile sales also recovered further in October (from 0.4% to 3.7%). These reflected the boost of targeted subsidy schemes. Besides, retail sales of services maintained a faster growth of 6.5% YoY in January – October (6.7% in the first three quarters). The services production index accelerated to a growth of 6.3% YoY, up 1.2 ppts from the previous month. Improvements were widely seen across sectors including financial, property, wholesale and retail trade. Going forward, a further recovery in consumer sentiment will be vital in sustaining the Chinese Mainland's economic momentum.

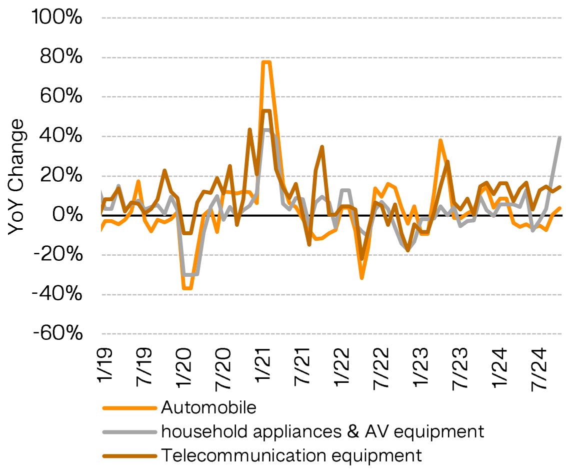
Exports supported steady industrial production. External demand expanded strongly in October, with exports surging by 12.7%, up from 2.4% in September. This was driven by the exports of high-tech products. In addition, pro-consumption policies lifted domestic demand for manufacturing of durable goods. Together, these positive drivers support a robust industrial sector. The value-added by industrial enterprises grew by 5.3% YoY in October, compared to 5.4% in September.

Retail Sales, Industrial Production and Fixed Asset Investment



Source: CEIC

Retail Sales of Selected Sectors



Source: CEIC

Investment maintained a stable growth, with a policy focus on structural upgrade. Fixed asset investment stabilised, growing at 3.4% YoY in January – October. Manufacturing investment continued to grow strongly at 9.3% YoY in January – October, supported by policies promoting equipment renewal and technological upgrades. Moreover, infrastructure investment picked up to 4.3% YoY in January – October, putting an end to its moderating trend from April, as Mainland authorities have been stepping up the construction works of large-scale projects. In the meantime, property investment remained in consolidation, with its declines widening slightly to 10.3% YoY in January – October. While overall investment is set to continue a steady growth, Mainland authorities has been emphasising on upgrading the structure of investment, fostering new quality productive forces with resilience to ensure sustainable long-term economic development.

The property market showed signs of reviving activities. The declining trends of property market indicators narrowed further. Notably, the sales of residential buildings dropped by 22.0% YoY in January – October, compared to a 24.0% drop in Q1 – Q3. The price indices for new homes also saw narrower declines on a month-on-month basis in October. Furthermore, policy support continued to intensify. In mid-November, the Ministry of Finance (MoF) and two authorities jointly announced to lower taxes for home purchases, including a reduction of deed tax to 1% for 1st and 2nd homes (up to 140 sqm) from up to 3%; lowering the threshold for the land appreciation tax by

0.5 ppts; and scrapping the distinctions between ordinary and non-ordinary housing. Going forward, the Mainland authorities are expected to sustain supportive policies to stabilise the property market and prevent further declines.

A large fiscal package was introduced to resolve hidden local government debt risks. Additional fiscal resources totalling RMB 10 trillion (~8% of GDP) were approved in early November. This included raising the debt ceiling for local governments by RMB 6 trillion over next three years (RMB 2 trillion per year) to replace existing hidden debts and issuing RMB 4 trillion in local government special bonds over the next five years (RMB 800 billion per year) to boost fiscal resources. These measures aim to reduce local governments' hidden debt burden significantly, mitigating potential financial risks. This scheme is expected to reduce local governments' hidden debts from RMB 14.3 trillion in 2023 to RMB 2.3 trillion by 2028 and save approximately RMB 600 billion in interest payments over the next five years, thus enabling local governments to reallocate fiscal resources towards investment, consumption, technological advancement and other public services.

The Mainland authorities signalled more and stronger supportive policies on the way. In early November, the MoF signalled more fiscal spending ahead to enhance growth impetus, possibly involving higher deficit ratios; expanding the size and usage of special bonds; and strengthening the transfer of fiscal funding between central and local governments. Meanwhile, further policy boosts for consumption remain possible, as the Mainland authorities are considering expanding the coverage of trade-in subsidies to include more consumer goods. Besides, more housing policies are on the horizons to absorb housing inventories, such as purchasing idle lands and existing unsold homes for conversion into affordable housing units using special bond funding. Regarding monetary policies, the People's Bank of China reiterated its supportive policy stance to ease financing costs, likely with further interest rate cuts and reductions in reserve requirement ratios in the near term. The measures to inject core capital of large-state-owned banks with special treasury bonds are likely to be implemented soon. Looking ahead, intensified policy implementation is set to support Chinese Mainland's economy to achieve the growth target around 5.0% for 2024. And more policy details to sustain growth momentum are widely anticipated at the upcoming Central Economic Work Conference in December.

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