
China in Focus

Economics
China

Strong start to the Year of the Dragon

- ◆ Travel and services spending reached new highs, but lower per capita spend still reflects weak confidence
- ◆ Recent measures demonstrate policymakers' sense of urgency to shore up growth
- ◆ The post-holiday central and local meetings set a positive tone as policymakers gear up for the annual meetings

China data review (January 2024)¹

- The **5-year Loan prime rate** (LPR) was lowered by 25bp to 3.95% in February, while the **1-year LPR** was left unchanged at 3.45%. This was the first cut to the 5-year LPR since June 2023, and also the largest cut in history. This magnitude of cut shows that policymakers are more determined to help support economic growth and it follows recent easing across areas – liquidity injections, capital market support, property market easing.
- **CPI inflation** fell 0.8% y-o-y in January while **core CPI inflation** slowed to 0.4%. However, we don't think there is need to be overly concerned with this data as seasonality played a large role. Last year, Lunar New Year Celebrations were in January (vs February this year) which led to a higher base effect given the usual pick-up in consumer demand. In sequential terms, consumer prices accelerated in January with both headline and core CPI rising by 0.3% m-o-m.
- **Aggregate financing** increased by RMB6.5trn in January, up from an increase of RMB1.94trn in December. New bank loans remained the largest contributor, while government borrowing – the key driver for Total Social Financing in 2H23 – eased rather notably on limited issuance of central government bonds. New credit to the economy added by the shadow banking and net corporate bond issuance also rebounded y-o-y compared to December 2023.
- **PMI** gauges showed a general improvement in January: **services** moved back to expansion territory (50.1), while construction activity (53.9) continued to accelerate, though at a more moderate pace. On the **manufacturing** front, the pace of contraction lessened, though still stayed in contractionary territory for the fourth straight month, at 49.2. Given the ongoing headwinds, policy support has picked up of late, though this won't be reflected in the January survey.

¹ Source: Wind, HSBC

Strong start to Year of the Dragon

Consumption: Services spending still strong

Total spending was up during the holiday period

The number of domestic tourism trips during the main eight-day period of China's Spring Festival rose 19% from last year's level to reach a record high of 474 million. **Total spending was also up, +7.7% from 2019 levels** (Ministry of Culture and Tourism, 18 February), but per capita spend per trip fell 10%, suggesting that consumers are shifting spending habits towards more budget experiences, but going out more. If this robust spending momentum sustains, it could feed into more durable goods spending and provide a boost to retail sales.

International tourism also picked up

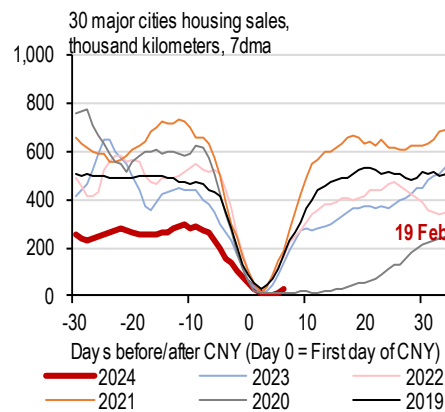
However, strength is not just on the domestic side: **international tourism also boomed** due to mutual visa exemptions and route resumptions as well as a low base. During the holidays, there were approximately 3.6 million outbound tourists, with Southeast Asian countries being popular destinations, and 3.2 million inbound tourists (China Daily, 18 February).

Property: Headwinds remain, but stabilisation in sight

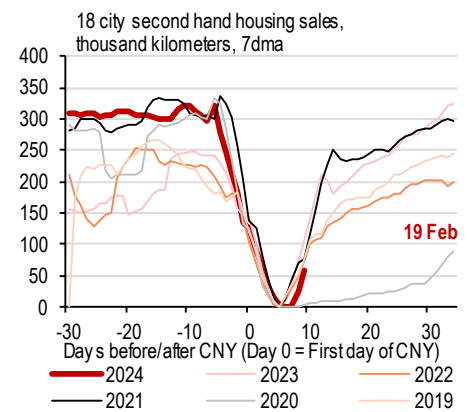
Second hand sales moved higher post holidays

Property sales slowed during the Lunar New Year holidays, as expected, with people travelling or returned home. But we still saw some green shoots. According to high-frequency data, **second-hand home sales ticked higher after the holidays**, despite being elevated beforehand (see charts 1 and 2). We think second-hand home sales are likely to be a leading indicator for further stabilisation in the overall commercial housing market as households look to upgrade their homes.

1. New home sales edged up after the Lunar New Year holidays...



2. ...as did second hand home sales in 18 major cities



The interest rate cut could help boost demand

Meanwhile, on 20 February, a larger-than-expected 25bp cut to the 5-year loan prime rate (LPR) to 3.95% was announced, which could help usher in lower mortgage rates, **boosting sentiment and demand**. Alongside support from eased home purchase restrictions and interest rate cuts, we think further support for developing public housing will also help to stabilise the sector. This could come in the form of additional Pledged Supplementary Lending (PSL) to provide funding for local governments to convert existing commodity housing to public housing.

Policy: Post-holiday meeting revealed the main line of work this year

Speaking at the latest State Council meeting, Premier Li Qiang called for the spring season to be a time of action and for speedy implementation of the plan laid out at the December Central Economic Work Conference (Xinhua News, 19 February). The more aggressive monetary moves point to determination to help support the economy, particularly the property sector, though will likely also benefit longer-term capital expenditure investments.

We expect more coordinated fiscal and monetary policy

As policymakers gear up for the annual meetings of the Chinese People's Political Consultative Conference (CPPCC) and National People's Congress in March (beginning on 4 and 5 March, respectively), we expect more policy coordination. **Fiscal policy will likely play a leading role, but monetary policy may also provide support** through more rate cuts as other central banks begin their easing cycle. Meanwhile, targeted policy support for new growth areas such as manufacturing upgrading and green development will likely continue.

Key upcoming China economic data

Date	Indicator	Prior
29 Feb	NBS Manufacturing PMI	49.2
29 Feb	Caixin Manufacturing PMI Final	50.8
4 Mar	Caixin Services PMI	52.7
6 Mar	Exports y-o-y	2.3%
6 Mar	Imports y-o-y	0.2%
8 Mar	Producer Price Index (PPI) y-o-y	-2.5%
8 Mar	Consumer Price Index (CPI) y-o-y	-0.8%
17 Mar	Retail Sales y-o-y	-
19 Mar	Loan Prime Rate 1Y	3.45%
19 Mar	Loan Prime Rate 5Y	3.95%

Source: Refinitiv Eikon

Performance of key A-share indexes*

	Current	Year-to-	
		Date	Last 1yr
Shanghai Composite	2,989	+0.45%	-9.20%
Shenzhen Composite	1,650	-10.22%	-23.60%
CSI 300	3,487	+1.62%	-15.10%

* Past performance is not an indication of future returns
 Source: Refinitiv Eikon. As of 22 Feb 2024 market close

Disclosure appendix

Important disclosures

Additional disclosures

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