China in Focus

Economics
China

National People's Congress wrap-up

- During this year's National People's Congress, ministers detailed concrete measures aimed at bolstering the economy
- Plans include upgrading equipment and consumer goods, which is likely to boost manufacturing and consumption
- The broad fiscal deficit of 8.3% of GDP, one of the largest in recent years, shows a clear proactive policy stance

China data review (January-February 2024)[1]

- On the consumption side, services strength was still the key driver for growth. **Services-related retail sales** were up 12.3% y-o-y for the Jan-Feb period, more than double the pace of overall **retail sales** at 5.5%. During the Lunar New Year holidays, travel spending reached new records and well above pre-pandemic levels. More encouragingly, durable goods demand also shows signs of a pickup, even prior to the announcement of consumer upgrading policies. We expect consumption to remain a key driver for growth this year, with further support for consumer upgrading to help spur broader consumption strength.
- **Industrial production** rose by 7.0% y-o-y in the first two months of the year, boosted by higher-end manufacturing production which was up 7.5%. Within this, automobile production rose by 9.8% y-o-y, other transportation equipment production was up by 11.0%, and computer and communication equipment production grew by 14.6%. We believe the recent policy initiative from the State Council to increase equipment investment by more than 25% by 2027 (compared with 2023) should encourage more equipment upgrading and help to keep manufacturing investment supported this year.
- **Property investment** fell by 9% y-o-y for Jan-Feb, while new home sales were down by c30% in value terms and c20% in volume terms. Also, developer financing fell by 24% y-o-y and new home starts fell by 30% which reflects the weakness seen in the longer-term household lending from the credit data. Even with some green shoots from stronger second-hand home sales, more stimulus may be required to stabilise the sector. A stronger push towards the new housing development model by increasing supply of public housing, such as through increased issuance of pledged supplementary, lending can help.
- After four consecutive months of contractions, **headline CPI** returned to positive territory, rising by 0.7% y-o-y in February. Even considering base effects, the jump was larger than expected, pointing to positive momentum in the domestic demand recovery fuelled by strong consumption during the Lunar New Year. That said, it is too soon to say we have fully shaken off disinflationary pressures and more policy support is still needed to solidify growth to reach the "around 5%" GDP target this year. Meanwhile, **PPI deflation** deepened a touch to 2.7% y-o-y, likely owing to ongoing pressures in the property market.

[1] Source: Wind, HSBC

HSBC

China National People's Conference wrap-up

This year's National People's Congress (NPC) concluded on 11 March after one week of deliberations and six ministerial press conferences: an economic-themed press briefing, a foreign ministry briefing, a people's livelihood-themed press briefing, and three 'Minister Corridor' press conferences. We highlight key insights from senior officials and policy priorities.

Tailwinds to benefit the manufacturing sector

Equipment upgrading to stimulate demand

China's policymakers highlighted ambition to promote **large-scale equipment upgrading**, a market estimated to be worth cRMB5trn annually (c4% of GDP), along with maintaining a focus on recycling during the process. This could accelerate depreciation of existing equipment, thus stimulating replacement demand. Meanwhile, the government's '**AI+' initiative aims to drive transformation of traditional industries**, making AI platforms more accessible and affordable.

However, there are still challenges for the industrial sector, such as "excessively fierce" competition and overcapacity (NPC, 6 March). Even as the domestic recovery gathers strength, it is not yet back to pre-pandemic levels while global demand has been relatively weak. Noting the need to better balance the market and improve capital allocation, the People's Bank of China (PBoC) Governor noted that **funding to sectors facing overcapacity would be curbed.**

Stabilising the housing market

More room to relax private housing restrictions

Under China's new housing development model, policymakers aim to "establish a linkage among people, housing, land, and finance, where people determine housing, housing determines land, and housing determines finance" (Xinhua, 9 Mar). Statements suggest that housing policies will be localised and closely aligned with demographic trends, leaving room for governments **to relax private housing restrictions and convert excess supply into social housing**.

More push to sustain consumption momentum

Consumer upgrading to boost manufacturing spend

Domestic consumption has continued to be a leading force for economic growth over the last year. Alongside the calls to boost equipment upgrading demand, **the government will also launch a consumer upgrading initiative** aimed at boosting sales of large durable consumer goods such as auto sales and household appliances. This can help to broaden out the still strong services consumption and in turn unlock more industrial production and manufacturing investment spending. China has also budgeted more spending on social welfare while looking to promote the urbanisation of 170 million migrant workers and their families yet to settle in cities, which involves granting them social security, housing benefits, and public education.

Capital market reform

Capital market reforms to attract long-term investors

The Chinese Securities Regulatory Commission (CSRC) continued to emphasise the importance of **capital market reforms and strengthened financial market supervision** to better attract long-term investors. They said that they would encourage companies to use dividend payouts while also resolving to crack down on fraudulent disclosures and make improvements on delisting regulations, and merger and acquisition policies. This should help to revive investor sentiment, especially when economic fundamentals and corporate earnings improve.

Accommodating monetary policies to continue

PBoC like to use liquidity and structural easing tools

The NPC a sent clear signal for more proactive policy stance. Fiscal policies will play the leading role, as manifested in the punchier broad fiscal deficit of 8.3%, a 1.3ppt fiscal impulse compared with last year's 7.0% figure. Monetary policy will likely stay accommodative too, with further Reserve Requirement Ratio (RRR) and interest rate cuts on the table in 2024. The PBoC could also inject more liquidity via monetary policy tools such as Pledged Supplementary Lending (following the RMB500bn net injection in December 2023 and January 2024).

Ultra long-term special treasury bonds

Ultra-long term bonds to boost domestic demand

Issuance of ultra-long term special treasury bonds, starting with RMB1trn this year, **is intended to hit multiple targets including**: 1. boosting domestic demand, 2. optimising government debt structure, by shifting more spending responsibilities to the central government, and 3. building the foundation for structural transition, with funds will go towards "major national strategies and security capacity building", according to the head of the National Development and Reform Commission said (NPC, 6 March).

Proactive and coordinated support to drive growth in 2024

The NPC a sent clear signal for more proactive policy stance. Fiscal policies will play the leading role, as manifested the punchier broad fiscal deficit. Compared with last year's 7.0% figure, this means 1.3ppt fiscal impulse. Monetary policy will stay accommodative too, with another RRR cut likely in 2024, as well as a potential rate cut. The PBoC could also inject more liquidity via a variety of monetary policy tools such as pledged supplementary lending (RMB500bn net injection in December 2023 and January 2024).

Key upcoming China economic data

Date	Indicator	Prior
30 Mar	NBS Manufacturing PMI	49.1
31 Mar	Caixin Manufacturing PMI Final	50.9
2 Apr	Caixin Services PMI	52.5
10 Apr	Producer Price Index (PPI) y-o-y	-2.7%
10 Apr	Consumer Price Index (CPI) y-o-y	0.7%
11 Apr	Exports y-o-y	7.1%
11 Apr	Imports y-o-y	3.5%
15 Apr	Retail Sales y-o-y	5.5%
15 Apr	GDP y-o-y	5.2%

Source: Refinitiv Eikon

Performance of key A-share indexes*

	Current	Year-to-Date	Last 1yr
Shanghai Composite	3,085	3.70%	-5.10%
Shenzhen Composite	1,803	-1.87%	-12.46%
CSI 300	3,604	5.03%	-8.97%

* Past performance is not an indication of future returns
Source: Refinitiv Eikon. As of 18 Mar 2024 market close

Disclosure appendix

Important disclosures

Additional disclosures

1 This report is dated as at 19 March 2024.

2 All market data included in this report are dated as at close 18 March 2024, unless a different date and/or a specific time of day is indicated in the report.

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