

Chartbook

28 March 2024

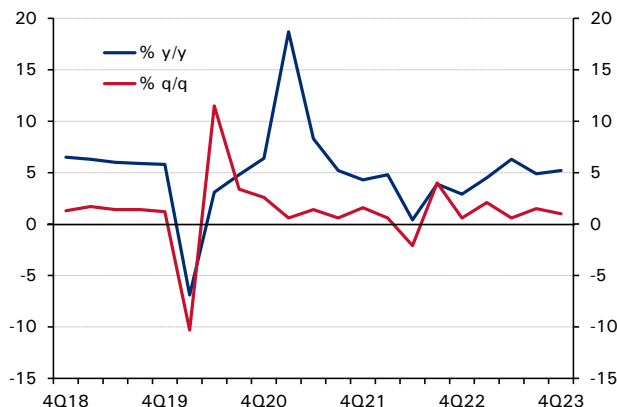


China: Economy starts 2024 on a more solid footing, but uncertainties linger

After surpassing the government's 5% growth target in 2023, the economy has started 2024 on a relatively strong note. Trade data came in better than expected, with imports rising during January-February this year after falling in 2023, underpinning early signs of revival in domestic demand, while exports surged further. Similarly, industrial output grew the fastest in two years, retail sales growth beat consensus forecasts and the stock market has rallied off its lows. Moreover, consumer prices escaped a four-month period of deflation, rising 0.7% y/y in February – although a shift in the Lunar Year holiday may have pushed the reading higher. Producer prices, on the other hand, extended their decline, suggesting that deflationary pressures have not been dispelled for good. And despite the overall more positive data signals, recent PMI surveys have been mixed, pointing to an economic recovery that for now lacks conviction.

The People's Bank of China loosened monetary policy in January by lowering banks' reserve requirement ratio by 50 bps, while public banks allocated \$8 billion to support the troubled property sector. In addition, the authorities have also tried to restrict short selling in the stock market to arrest the decline. These measures have delivered some intended outcomes for now. However, in the absence of any major policy stimulus, the recovery seen since the start of the year could still lose steam. Meanwhile, the government has set an 'around 5%' growth target for 2024, and to achieve this seemingly challenging target, more forceful policy actions could be needed.

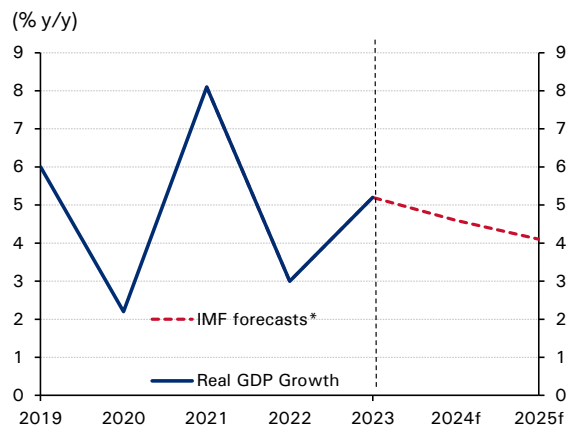
Chart 1: Real GDP growth



Economic growth picked up in Q4 2023 (+5.2% y/y), on the back of a pickup in manufacturing and service activities. In quarterly terms, growth decelerated to 1% from 1.5%.

Source: Haver Analytics

Chart 2: GDP growth forecasts

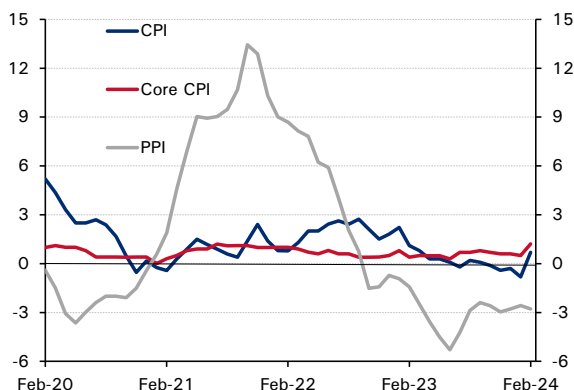


The IMF expects growth to decelerate to 4.6% this year and to 4.1% in 2025, dragged down by ongoing property market woes and demographic imbalances.

Source: Haver Analytics, IMF; *January 2024 WEO forecast.

Chart 3: Consumer and producer price inflation

(% y/y)

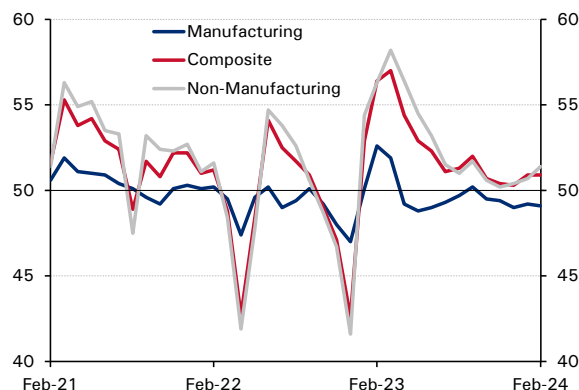


Consumer price inflation rose 0.7% y/y in February, the first positive print since last August amid robust spending during the Lunar New Year holidays.

Source: Haver Analytics

Chart 4: Purchasing Managers' Index surveys

(index; above 50 = expansion)

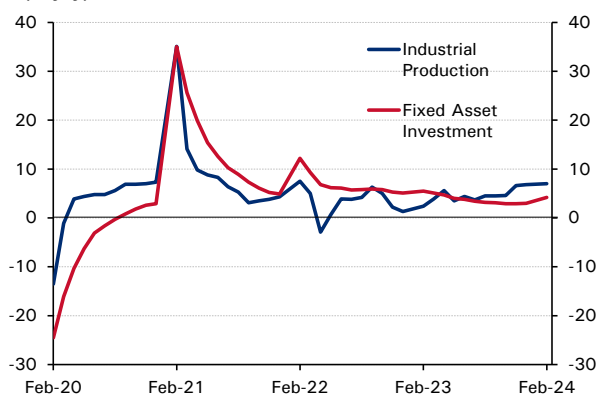


Composite PMI readings remained stable at 50.9 in February, dragged lower by decline in manufacturing gauge to 49.1 from 49.2 but offset by rise in non-manufacturing PMI to 51.4.

Source: Haver Analytics

Chart 5: Industrial output and fixed investment

(% y/y)

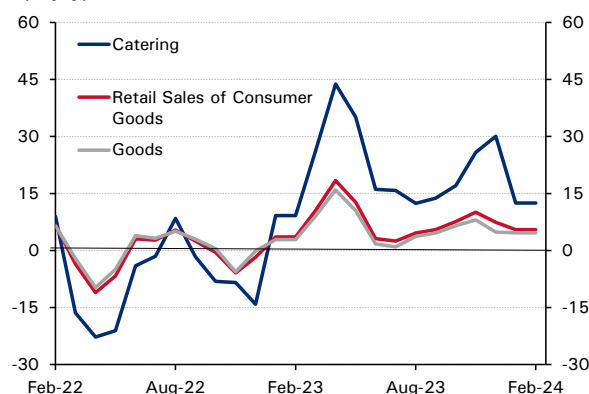


Industrial production grew at 7% y/y in the January-February period, the fastest rate in two years, while fixed asset investment growth rose slightly to 4.2% y/y.

Source: Haver Analytics

Chart 6: Retail sales

(% y/y)

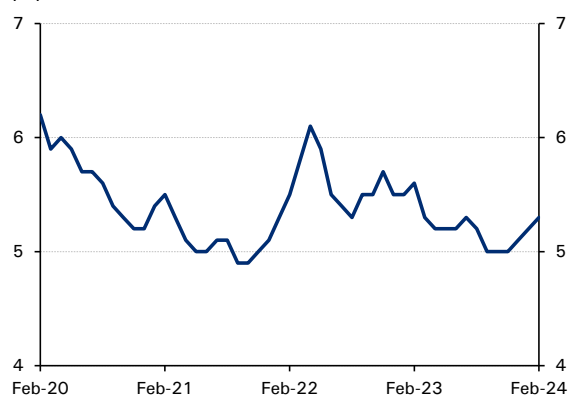


The pace of retail sales growth decelerated to 5.5% y/y in the January-February period as the base effects from lockdowns in the prior period diminish.

Source: Haver Analytics

Chart 7: Unemployment rate

(%)

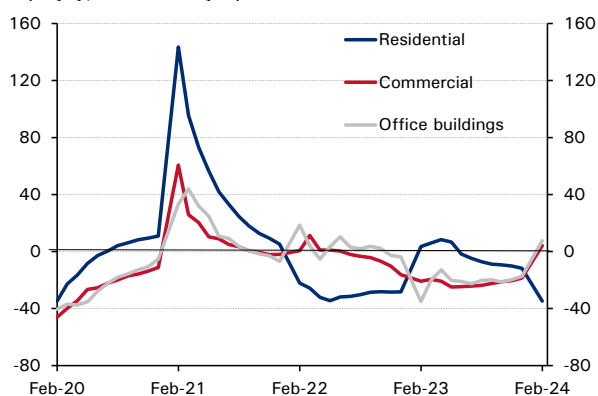


The unemployment rate ticked up slightly to 5.3% in February from 5.2% the prior month, its highest reading since July of last year.

Source: Haver Analytics.

Chart 8: Real estate unit sales

(% y/y, Cumulative ytd)

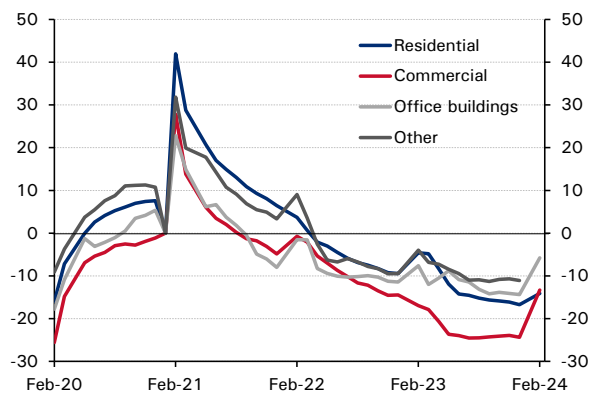


Residential real estate unit sales continued the downward trend it largely exhibited over the past three years though commercial property saw a pickup.

Source: Haver Analytics

Chart 9: Real estate investment

(% y/y, Cumulative ytd)

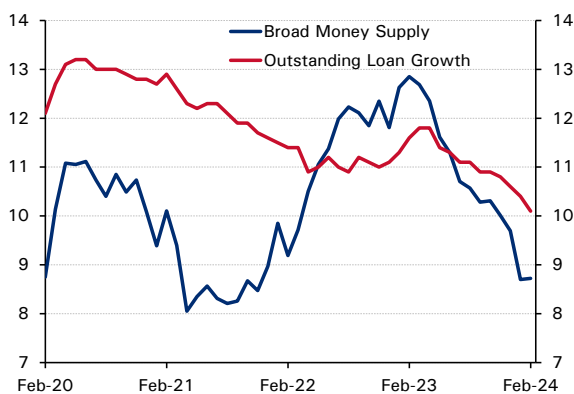


Public banks earmarked \$8 billion worth of loans for eligible property projects to help stimulate demand, as property investments continued to fall – though at a slower pace.

Source: Haver Analytics

Chart 11: Money supply (M2) and credit growth

(% y/y)

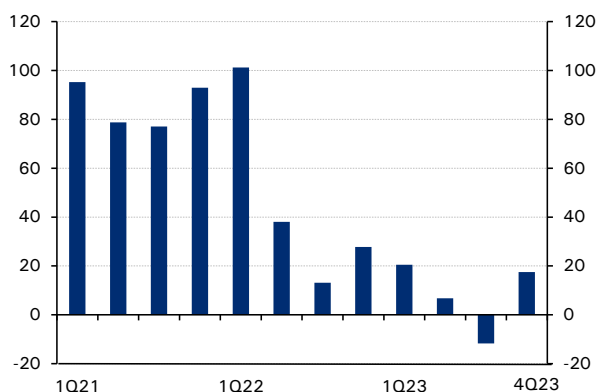


Outstanding loan growth decelerated in February to 10.1% y/y while the broad money supply growth rate stabilized at 8.7%.

Source: Haver Analytics

Chart 13: Quarterly FDI inflows

(USD billion)

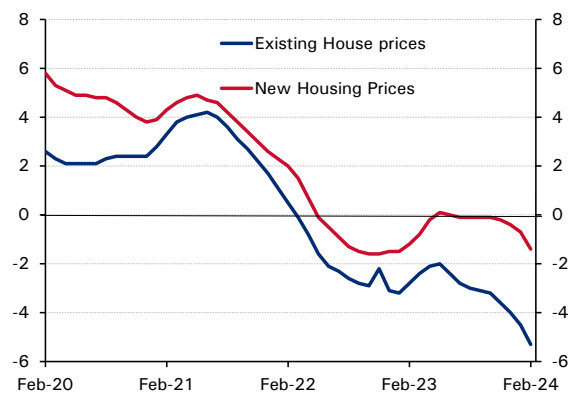


Foreign direct investment inflows returned to positive territory in 4Q23 increasing to \$17.5 billion, a sign of renewed foreign investor interest.

Source: Haver Analytics

Chart 10: House prices in 70 medium & large cities

(% y/y)

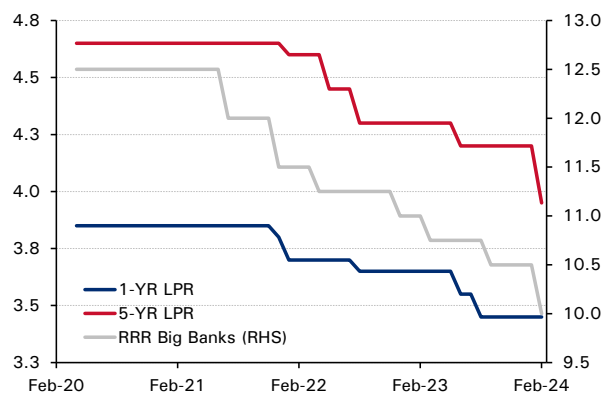


House prices remain on a downward trajectory from their highs in 2021 amid ongoing deleveraging and muted demand, experiencing a sharper drop in February.

Source: Haver Analytics

Chart 12: Interest rates

(%)

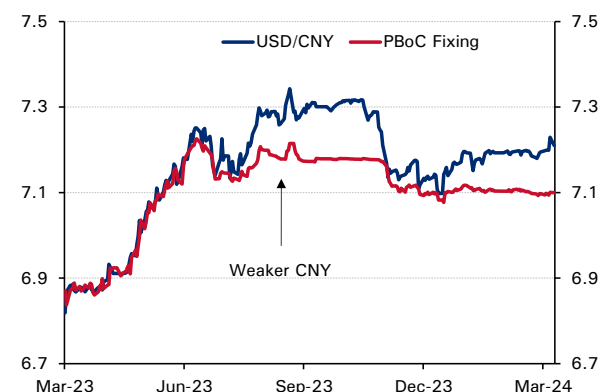


The PBoC cut the reserve requirement ratio for banks by a steep 50 bps to 10% in February while the reference rate for mortgages dropped by 25 bps.

Source: Haver Analytics

Chart 14: Dollar-yuan exchange rate

(USD/CNY)

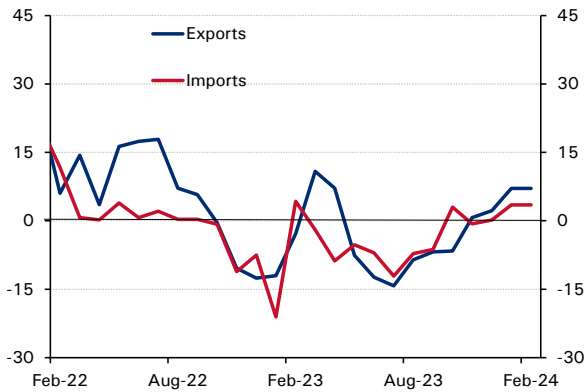


The yuan depreciated above the 7.2 level as the hotter US inflation prints in the first two months of the year, coupled with PBoC interest rate cuts, weighed on the currency.

Source: Haver Analytics

Chart 15: International trade

(% y/y)

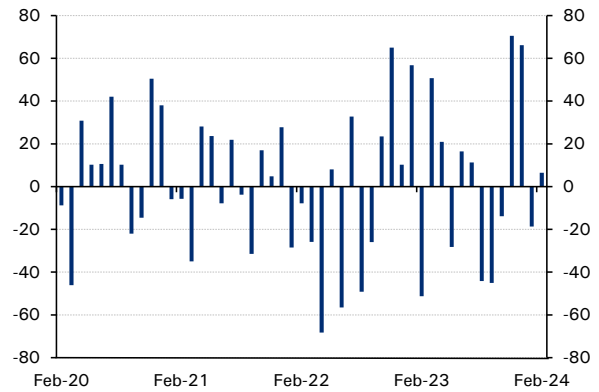


Exports surged 7.1% y/y in the combined January-February period on stronger demand abroad. Imports rose 3.5% y/y during the same period, beating market forecasts.

Source: Haver Analytics

Chart 16: Monthly FX reserve changes

(USD billion)

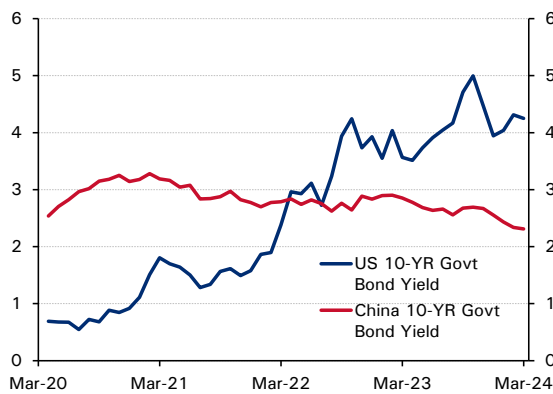


Foreign exchange reserves rose \$6.5 billion in February from January helped by favorable trade figures in the first two months of the year.

Source: Haver Analytics

Chart 17: China and US government bond yields

(%)

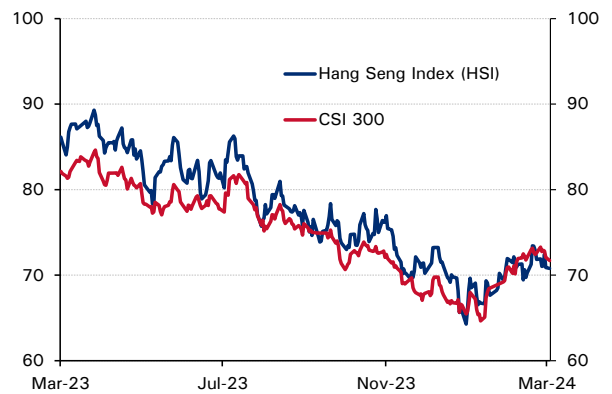


Yields on Chinese government bonds continued to fall amid looser monetary policy while US equivalents saw minor drops as the Fed policy outlook shifted.

Source: Haver Analytics

Chart 18: Stock market

(Normalized; 3 January 2020 = 100)



Equity markets rebounded in March, more than recouping ytd losses after the government restricted short-selling and instructed its wealth fund to buy exchange traded funds.

Source: Haver Analytics

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