CCBI SECURITIES | RESEARCH

China Economics Update: Improving growth momentum to continue

中国经济评论: 增长动能改善预计持续

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3Q data confirms the growth rebound we expected as Sep data points to improving sequential growth momentum. Retail sales improved, led by catering. Improving consumer goods sales also helped. Accelerating manufacturing investment was a key bright spot. Traditional infrastructure investment growth also picked up in Sep, consistent with calls of increased policy support. Benefitting from recent policy easing, there was a narrower contraction in property starts and property sales. Chinese exports also improved, reflecting the stabilization in global manufacturing.

We expect the modest recovery to continue with supportive fiscal and monetary policy. We expect stronger fiscal spending to support economic growth and reduce local government debt pressure. Policymakers will likely deliver an early batch of the 2024 bond quota to support public infrastructure investment. Monetary policy is likely to stay accommodative given a soft inflation outlook and still-recovering domestic demand, with possibly a 10bp cut to the policy interest rates. Additional RRR cuts cannot be ruled out. We expect a steady recovery ahead and maintain our 2023F GDP growth forecast at 5.3%.

3 季度数据显示经济改善，与我们预期一致。9 月社会零售超预期增长，餐饮业是主要贡献项，同时消费品零售也有所修复。制造业投资加速仍是主要亮点，在稳增长政策发力的作用下，传统基建投资增速在 9 月份有所回升。得益于近期不断出台的宽松政策，房地产开工面积和销售面积的年化跌幅收窄。出口的改善则反映了全球制造业逐步稳定。

我们预计，在宽松财政和货币政策支持下，经济持续温和复苏。我们预计财政支出将增强，支持经济增长并减轻地方政府债务压力。政策制定者可能会提前发放部分 2024 年地方政府债券限额，以支持基建投资。鉴于通胀疲软和内需不足，货币政策将仍会保持宽松。预计政策利率可能会下调 10 个基点。不排除进一步降准的可能性。我们预计四季度国内经济将稳步复苏，并维持 2023 年 GDP 增长 5.3%的预测。

Rebound in sequential GDP growth as we expected

Q3 GDP growth beat market expectations but was roughly in line with our own forecast. Annual GDP growth slowed to 4.9% YoY largely because of base effects, still better than the consensus expectations of a 4.5% YoY rise. Sequential GDP growth, which matters more, picked up from a downward revised 0.5% QoQ to 1.3% QoQ in Q3, in line with our forecast but stronger than the consensus forecast of 0.9% QoQ. Chinese GDP grew 5.2% YoY over the first three quarters, on track to achieve the 2023 growth target of 5.0%.

Solid industrial production (IP) and retail sales

IP growth was steady at 4.5% YoY in Sep, in contrast to the expectations of a small drop to 4.4% YoY. However, the National Bureau of Statistics (NBS) estimated seasonal adjusted sequential IP growth eased slightly from 0.5% MoM to 0.4% MoM, below the monthly average of 0.6%MoM in 2019 during the pre-pandemic period.

Faster growth in electricity output (from 0.2% YoY in Aug to 4.6% YoY in Sep) was the key driver of IP outperformance. Hot weather lifted electricity demand for cooling, but may have also weighed on business activity in certain industries. Growth in mining and manufacturing output slowed to 1.5% YoY and 5% YoY in Sep respectively. However, output growth in auto manufacturing, and electric machinery & equipment remained solid at 9% YoY and 11.5% YoY respectively (Fig 1). Furthermore, strong growth in these downstream sectors supported demand for upstream sectors, such as steel and non-ferrous products, despite weakness in housing construction.

Retail sales growth exceeded expectations in Sep (5.5% YoY actual versus 4.9% YoY expected). However, seasonally adjusted sequential growth decelerated from 0.2% MoM to a mere 0.02% MoM, suggesting soft growth momentum in consumption.

By category, spending in catering, the key growth driver of retail sales, expanded strongly at 13.8% YoY in Sep, slightly faster than in Aug (Fig 2). Online sales growth remained solid. Growth in consumer goods sales picked up for the second straight month to 4.6% YoY. Momentum in car sales eased with growth decelerating to 3.9% YoY, below overall retail sales growth. The year-on-year contraction in housing-related spending widened again in Sep. Petrol spending grew for the second month in Sep, supported by both recovering travel demand and higher fuel prices.

Fixed-asset investment (FAI) growth rebounded for the second straight month to 2.5% YoY in Sep by our estimate (Fig 3). The weak real estate sector remains the key drag. However, accelerating manufacturing investment lifted overall investment growth. By category:

- **Broad infrastructure investment growth remains solid at 7.7% YoY in Sep.** Growth in traditional infrastructure investment, such as railway, highway, and industrial parks, picked up 1.1ppt to 5.0% YoY, supported by increased policy support. Investment in the power sector continues to grow at a robust pace thanks to the decarbonisation initiative.
- **Manufacturing investment growth rose** to 7.9% YoY in Sep, the fastest pace since Feb 2023. Green transition and technology upgrades remain the key driver of manufacturing investment. Year-to-date high-tech manufacturing investment growth remained strong at 11.3% YoY in Sep. Electrical machinery & equipment and auto manufacturing enjoyed the fastest investment pace at 38.1% YoY and 20.4% YoY in Sep. By contrast, traditional industries are facing downward pressure amid supply chain reshuffles. For instance, textiles contracted 2.2% YoY in Sep, the ninth consecutive monthly fall.
- **We estimate the contraction in real estate investment widened slightly to 11.2% in Sep.** Nevertheless, the year-on-year contraction in funding for current year eased by 7ppt to 18% YoY. In particular, domestic loans and self-raised funds have contributed most of the improvement.

Volume-based property indicators improved, but remained soft. The year-on-year contraction in property starts eased for the fourth consecutive month to 15% YoY in Sep. The annual contraction in property sales also narrowed to 20% in Sep after falling 28% YoY in Jun, consistent with a stabilization in high frequency property sales (Fig 4). The volume of property completions tended to rise sharply towards the year-end before the pandemic. Growth in property completions picked up to 24% YoY in Sep.

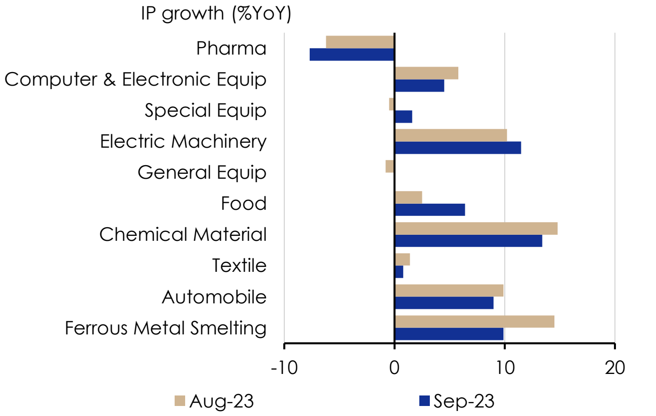
Our view:

Improving growth momentum in Q3 was consistent with our expectation, and we expect a continued recovery. The recent continued improvement in the manufacturing PMI suggests the industrial sector will likely maintain the current growth pace ahead. Stabilizing external demand, as shown in the global manufacturing PMI, bodes well for improving trade growth ahead. We also expect more normalization of services consumption, such as catering, tourism, and entertainment, to support consumer spending, although the pace will likely be slower than pre-pandemic levels. High frequency data into Oct points to generally stable momentum, although the property sector remains under pressure. We maintain our 2023F growth forecast at 5.3%.

Fiscal policy is likely to stay supportive, with faster bond issuance although partly to reduce debt risks. Government bond issuance has also picked up pace. Local governments have completed about 92% of the 2023 special bond issuance quota. Xinhua news agency reported that policymakers are mulling the approval of an early batch of the 2024 local government bond quota, which could be issued in Q4 2023. The front-loaded bond issuance should help ease local finance constraints to support public investment.

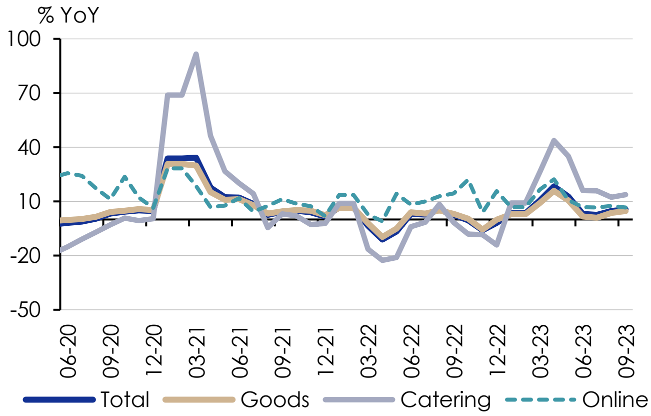
We anticipate additional monetary easing to ensure adequate liquidity amid rising government bond supply. The net liquidity injection of RMB289b via the 1-year Medium-term Lending Facility (MLF) on 16 Oct 2023 helped ease interbank liquidity conditions. In our view, additional easing is still in the pipeline given a soft inflation outlook and still-recovering domestic demand. We maintain the view of an additional 10bp cut to the policy interest rates before the year-end. The PBoC may continue to inject liquidity via structural tools such as the 1-year MLF. However, additional RRR cuts cannot be ruled out.

Fig 1: Output in electric machinery accelerated in Sep



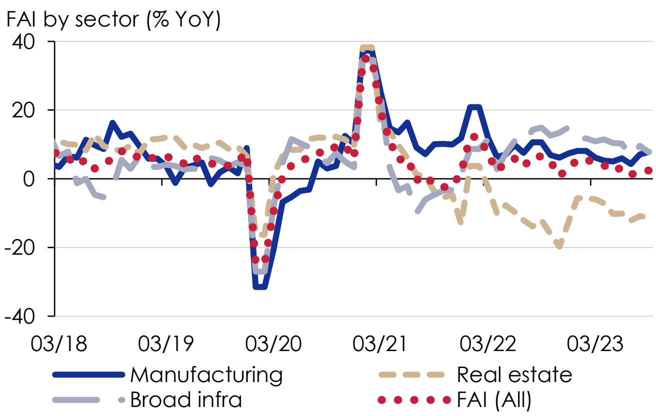
Source: NBS, CCBIS

Fig 2: Catering continued to drive retail sales



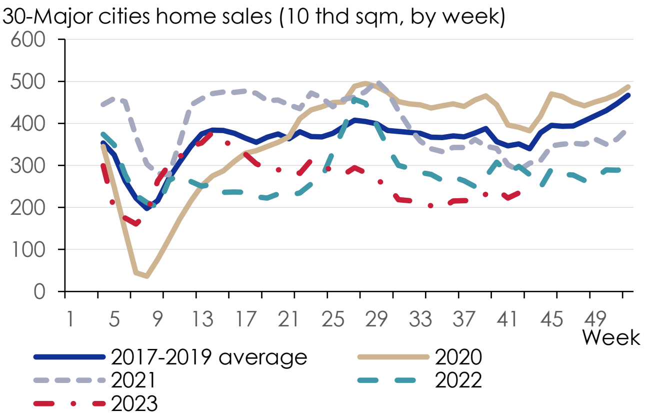
Source: NBS,CEIC, CCBIS

Fig 3: Manufacturing investment picked up, while property investment eased



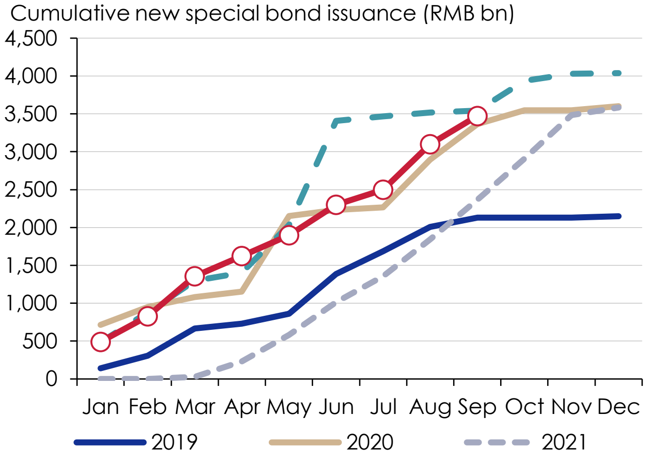
Source: NBS, CCBIS

Fig 4: Property sales stabilized in recent weeks



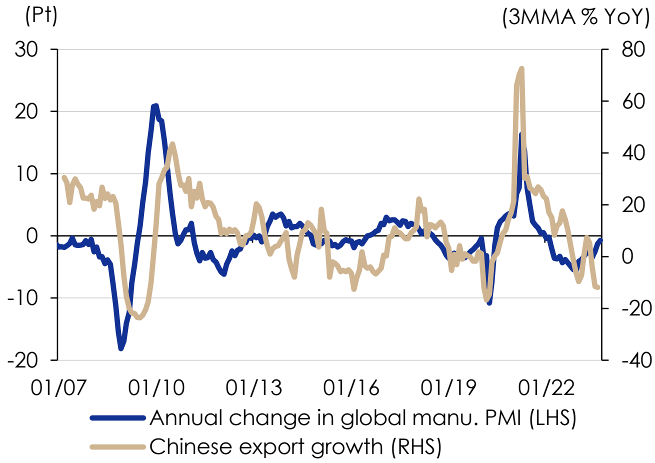
Source: NBS, Wind, CCBIS

Fig 5: Special bond issuance momentum remains solid



Source: NBS, CCBIS

Fig 6: A bottom-out in global manufacturing bodes well for better Chinese exports ahead



Source: CEIC,Wind, CCBIS

Analyst certification:

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