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## China Economics Update: Softer-than-expected 4Q GDP, the recovery remains uneven

### 中国经济评论: 4 季度增长弱于预期, 12 月复苏仍不均衡

**The latest data points to an uneven recovery.** Dec industrial production and investment both beat expectations as the industrial sector continued to show resilience. The property sector was still weak. Although retail sales growth was softer than expected, sequential growth held up and catering spending remained the growth driver. 4Q GDP growth was softer than expected though 3Q momentum was revised up. We maintain our 2024 growth forecast of 5%.

**Macro policy to stay supportive.** The PBoC injected additional long-term liquidity in Jan for the fourth consecutive month while leaving policy rates unchanged. We expect two RRR cuts and one 10bp cut to the policy interest rates in 2024F. Furthermore, we expect a supportive fiscal stance to aid the recovery. Local governments began to front-load special bond issuance in early Jan.

**最新数据表明复苏不均衡。**12 月工业增加值和固定资产投资双双超预期。在产业升级和绿色转型的支撑下, 工业部门持续展现出韧性。房地产仍较疲软。虽然社零增速弱于预期, 但环比增速有所改善, 餐饮消费仍是主要增长动力。4 季度 GDP 增速不及预期, 但统计局上修了 3 季度增速。我们维持 2024 年 5% 的经济增速预测。

**宏观支持政策持续。**1 月份, 中国人民银行连续第四个月额外注入长期流动性, 同时维持政策利率不变。我们预计 2024 年将会有两次降准和一次 10 个基点的政策利率下调。此外, 我们预计未来稳健的财政支出将有助于经济复苏。地方政府 1 月初已经开始提前发行专项债券。

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## Softer than expected Q4 23 GDP

GDP growth slowed from an upward-revised 1.5% QoQ in 3Q to 1.0% QoQ in 4Q, below the consensus forecast of 1.1% QoQ and our own forecast of 1.3% QoQ. Base effects lifted annual growth from 4.9% YoY to 5.2% YoY in 4Q 2023. For the whole of 2023, the Chinese economy grew 5.2% YoY, consistent with the consensus expectation, but above the government's target of 5% YoY.

A GDP breakdown by sector suggests the industrial sector drove economic growth in 4Q with YoY growth accelerating from 4.6% YoY to 5.5% YoY. Services growth picked up by a modest 0.1ppt to 5.3% YoY.

## Strong industrial production (IP), but soft retail sales in December

**IP data grew faster than expected for the second month in Dec.** Dec growth accelerated to 6.8% YoY, better than the consensus expectation and Nov's reading of 6.6% YoY. Seasonal adjusted sequential IP growth edged down to a still-solid 0.5% MoM.

Despite a fall in official manufacturing production sub-PMI, growth in manufacturing output accelerated to 7.1% YoY, the fastest pace since Jun 2021, partly due to the low base last year. Nevertheless, production in car-making, nonferrous metals, chemicals, computers, and electronic equipment remains strong with double-digit growth. Improving overseas demand for consumer electronics may also lend some support.

**Retail sales growth slowed** from 10.1% YoY to 7.4% YoY in Dec (consensus: 8.0% YoY), disappointing markets for the second month. The slowdown reflects the low base in 2022, while seasonally adjusted sequential growth improved from an average of 0.0% MoM from Sep-to-Nov to 0.4% MoM in Dec.

Growth in most categories decelerated in Dec (Fig 2), affected by the base effect. In particular, car sales slowed from 12.7% YoY to 5.2% YoY. Catering spending bucked the trend, however, with year-on-year growth accelerating to 30% YoY, partly because of the low base in 2022. To alleviate the impact of the low 2022 base we use data for Dec 2021 to make a two-year comparison. After this adjustment, two-year growth improves from Nov to Dec for consumer goods, especially communication appliances and car sales. However, housing-related spending contracted by 24% over a two-year period. Growth in catering spending also slowed slightly.

**2023 fixed-asset investment (FAI) growth beat expectations slightly** (actual: 3% versus consensus: 2.9%). We estimate FAI growth picked up to 4.0% YoY in Dec (Fig 3), as accelerating manufacturing investment offset a larger year-on-year contraction in real estate investment. By category:

- **Broad infrastructure investment growth was largely steady at 8.2% YoY in Dec.** Growth in traditional infrastructure investment, such as railways, highways, and industrial parks, has risen in the past two months. In particular, investment in railway transport grew by 25.2% YoY in Dec, pointing to solid public investment momentum. Investment growth in the power sector slowed to 12.7% YoY in Dec, still well above overall FAI growth. [Green investment](#) remains a medium-term theme given China's climate goals.
- **Manufacturing investment growth rebounded** to 8.2% YoY. Top performing industries in 2023 included electrical machinery & equipment, car manufacturing, chemicals, and nonferrous metals, all of which benefitted greatly from investment in industrial upgrades and in the green transition. By contrast, investment in the textile industry and other labor-intensive and low-end manufacturing continued to contract amid supply-chain re-organization.
- **Contraction in real estate investment deepened** to 12.4% YoY in Dec by our estimate. For the whole of 2023, real estate investment contracted for the second straight year by 9.6% YoY, similar to the 10% contraction in 2022. After a brief period of improvement in Nov, year-on-year contraction in funding widened again to 16% YoY, indicating continued funding constraints.

**Volume-based property indicators remained weak.** Property starts and property under construction contracted by 11.6% YoY and 13.8% YoY in Dec, respectively, following brief base effect-induced improvement in Nov. The contraction in property sales widened to 23% YoY in Dec. Furthermore, high frequency data indicates property sales in China's top-30 cities kicked off to a soft start in 2024F, with sales volumes down about 17% YoY for past weeks in Jan (Fig 4). A separate

data release today shows the average price of new properties in the 70 largest Chinese cities fell 0.45% in Dec, with more severe falls in lower-tier cities. Nevertheless, growth in property completions accelerated to 13.4%YoY in Dec, reflecting policymakers' priority of completing existing housing projects.

The surveyed unemployment rate ticked up by 0.1ppt to 5.1% in Dec, the first uptick since Sep. Meanwhile, the National Bureau Statistics (NBS) resumed publication of youth unemployment data after a break to update its methodology. The youth unemployment rate fell to 14.9% in Dec, lower than the 21.3% last published in Jun.

**Our view:**

Our Dec activity update suggests the recovery remains uneven. On the one hand, IP growth held up. Resilience in the economy suggests a robust economic transition driven by industrial upgrades, the green transition, and technological innovation despite a prolonged property downturn. Resilient IP was also supported by improving external demand. The sequential pick-up in retail sales was encouraging but overall momentum remains soft.

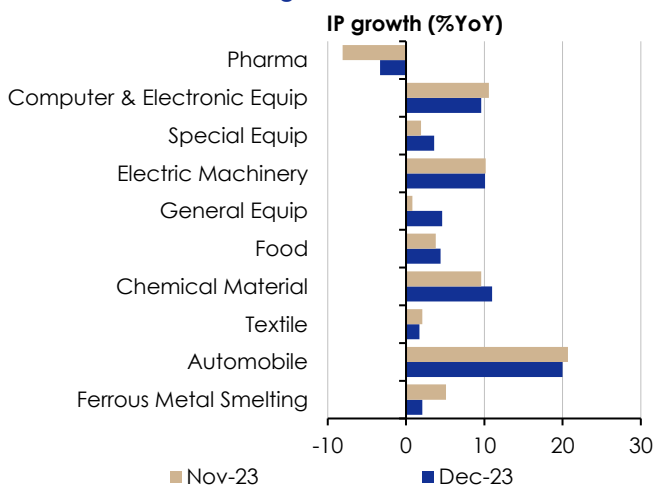
Looking ahead, we expect the Chinese economy to grow 5% YoY in 2024F, supported by a recovery in corporate fundamentals, continued consumption normalization, increased public spending, and improving global manufacturing growth ([Big Picture: 2024 macro outlook – more recovery ahead](#)).

Property sector policy easing will aim to cushion the decline and control risks. In Dec, the PBoC restarted the pledged supplementary lending (PSL) facility by providing RMB350b to policy banks, potentially fueling momentum behind affordable housing, urban village renovation, and emergency public facilities. According to the *Economic Observer*, a local media outlet, under a rental housing initiative, the PBoC may soon extend special funding by as much as RMB100b to participating banks based in eight key cities, including Qingdao and Fuzhou. The purpose of this special monetary tool is to purchase existing apartments to reduce housing inventory and expand the supply of affordable rental housing.

Macro policies are likely to support the recovery. Government bond issuance, mainly RMB1t in central government bond supply, pushed up Total Social Financing (TSF) growth in Nov and Dec 2023. By early Jan, according to Chinabond, local governments had begun to front-load special bond issuance with an estimated RMB482b scheduled for 1Q 2024, representing about 35% of the 1Q 2023 issuance.

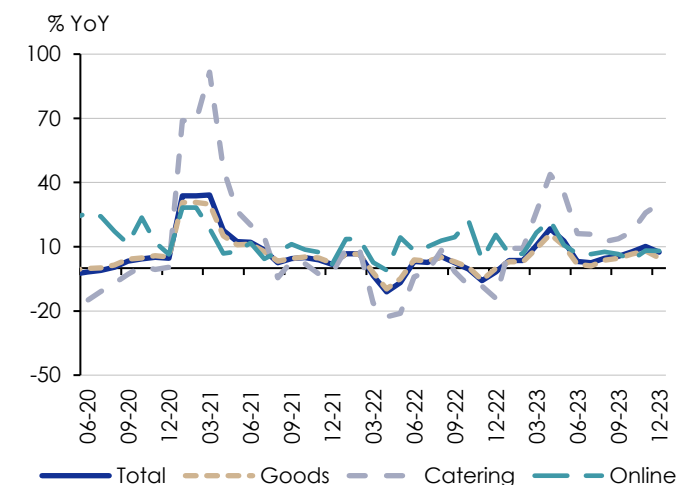
We expect the PBoC to stay accommodative. On 15 Jan 2024, it injected a net RMB216b via the one-year medium-term lending facility (MLF) following a combined RMB1.7t in injections in 4Q 2023, though it kept the MLF rate unchanged at 2.5%YoY. We expect the PBoC will deliver two 25bp cuts to the RRR and a 10bp cut to policy interest rates in 2024F.

**Fig 1: Output in auto, computers & electronics, and chemicals remains strong**



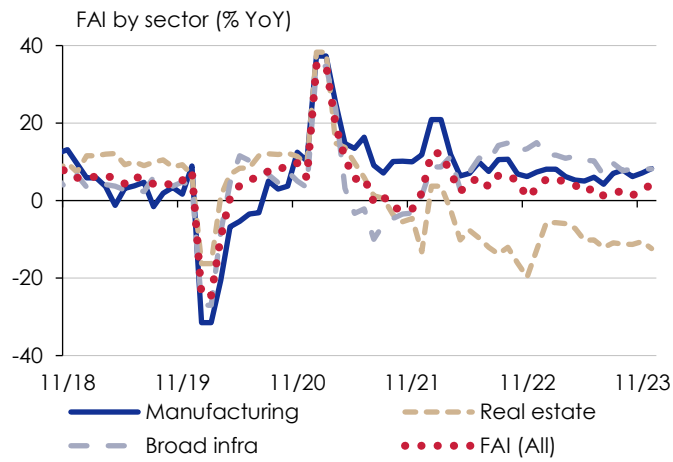
Source: NBS, CCBIS

**Fig 2: Catering spending growth accelerated again in Dec**



Source: NBS, CEIC, CCBIS

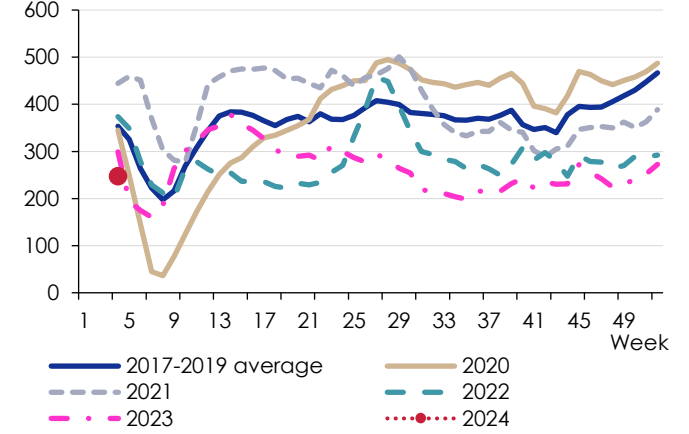
**Fig 3: Manufacturing investment picked up, offsetting falling property investment**



Source: NBS, CCBIS

**Fig 4: Property sales to a soft start in 2024**

**30-Major cities home sales (10 thd sqm, by week)**



Source: NBS, Wind, CCBIS



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