Global Macro Research - Insight

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#China / #Growth / #Data indicators

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China outlook: double dragon

November data add to the stronger picture painted by recent activity releases. However, it will be hard to turn market confidence without addressing the twin headwinds of household confidence and the health of the housing market.

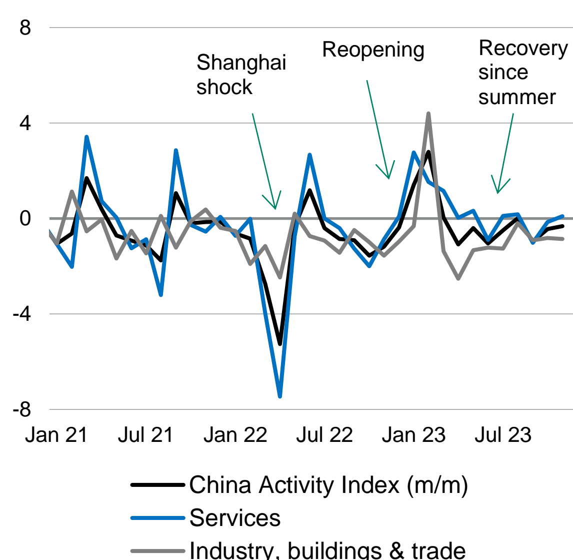
Key Takeaways

- China's November data releases provided further evidence that policy easing to date is gaining traction.
- Month-over-month gains in services and industrial production were strong, helping push our China Activity Indicator slightly higher.
- The property sector remains a major concern. And, while new starts have stabilised since June, other key metrics now point to a continued slide, rather than the tentative stabilisation indicated last month. A faster pace of price falls also implies that households are staying on the sidelines.
- Policy continues to take a targeted and incremental approach. Downpayment criteria have been eased in some Tier 1 cities, while the PBOC provided another larger-than-expected liquidity injection in December.
- The Central Economic Work Conference (CEWC) concluded with little indication of a major change in policy direction. But the authorities seem to be recognising the need for central government assistance and a coordinated approach to ensure stability while addressing local government debt risks. This more balanced approach suggests that the fiscal backdrop should be marginally more supportive.
- Overall, we remain somewhat cautious about the Year of the Dragon and our 2024 growth forecast remains at 4.4%.

Robust end to the year

China posted a strong set of monthly activity data for November, giving more evidence that the economy has found a firmer footing.

Figure 1: Our China Activity Indicator implies the economy has got over its summertime blues



Source: Haver, Refinitiv, abrdn (December 2023)

Industrial production beat consensus expectations by a wide margin, expanding 6.6% year over year – up from 4.6% in October and 0.9ppts above consensus. And, while retail sales fell short of lofty expectations, they still rose to 10.1%.

Arguably, consensus was far too bullish on retail sales: high frequency moves in these key indicators are more than solid.

We estimate that retail sales expanded 6.6% month over month annualised, which takes the three-month growth rate to 9.1%. Similarly, the service sector production index rose 7% on the month.

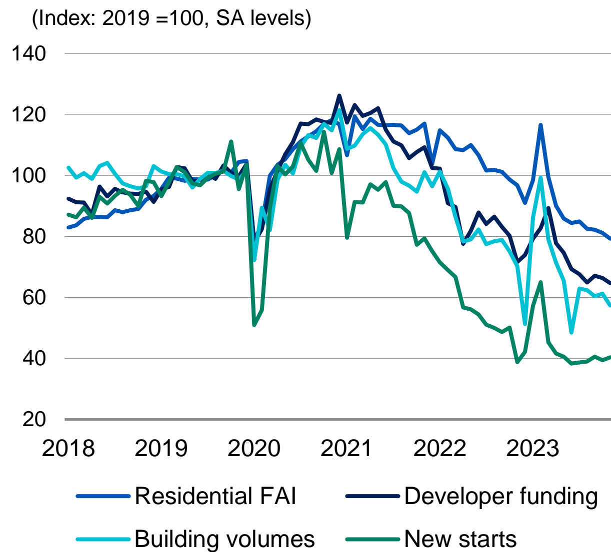
The NBS reported that industrial production was up 11% month-over-month annualised, helped by another decent showing from autos and the previously reported exports.

Putting it all together, our China Activity Indicator (CAI) backs up the conclusion that momentum has picked up from the summer trough (see Figure 1).

A big question remains over the state of real estate and what this means for the growth outlook heading into 2024.

The pipeline of new builds continues to point to a stabilisation, implying we could be getting closer to the nadir for property as a whole. But other metrics – which had looked like they were showing a tentative stabilisation last month – now appear more like a continued slide (see Figure 2). This implies that the real estate adjustment is probably still weighing on the economy via investment and other channels. Overall, the drag from property still likely has some way to go.

Figure 2: New starts are stabilising, but other metrics now show a continued fall

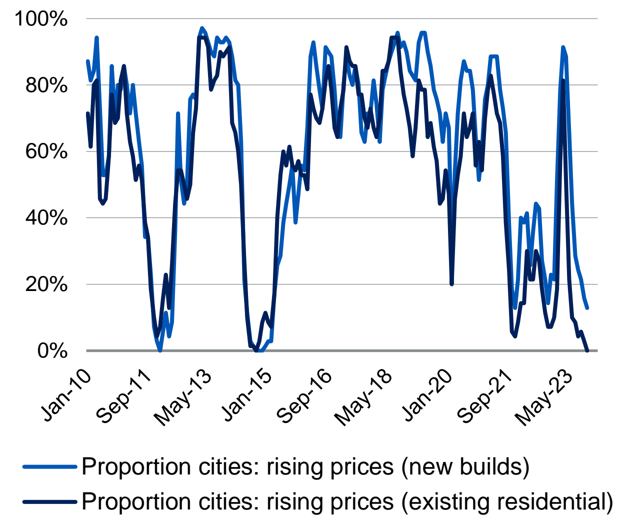


Source: Haver, abrdn (December 2023)

Indeed, more questions are being raised about the state of underlying demand, given a notable acceleration of price declines.

The proportion of cities reporting price rises in existing buildings dropped to zero in November (see Figure 3). And after adjusting for seasonal norms, prices fell at a faster pace in Tier 1 cities. In November, Beijing, Shanghai and Shenzhen reported prices declined by around 1% month over month (non-annualised).

Figure 3: Property price declines are accelerating

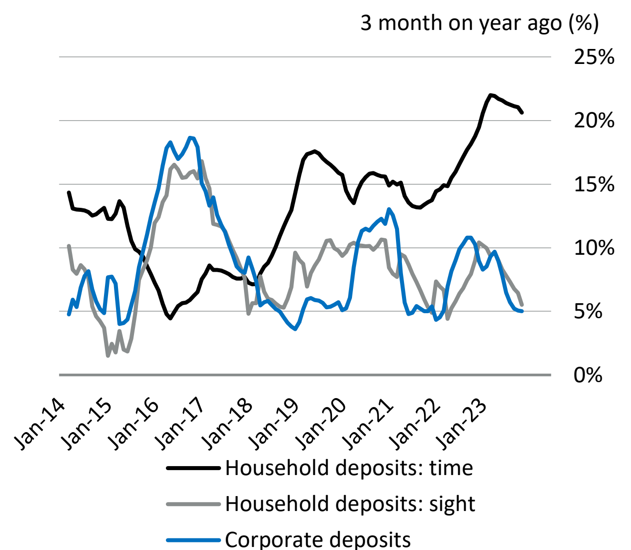


Source: Haver, abrdn (December 2023)

Policy has at least reacted, but it remains far from clear that the cumulative impact of all the small support measures enacted will be enough.

Downpayment ratios and terms have now been cut in both Shanghai and Beijing. That said, as long as households are happy to sit on the sidelines – perhaps hoping for further price falls – their substantial bank deposits may continue to sit in time accounts (see Figure 4). Negative headline inflation (-0.5% year over year) could potentially convince some that returns from their savings accounts are acceptable.

Figure 4: Savings provide a route to housing stabilisation and an upside surprise



Source: Haver, abrdn (December 2023)

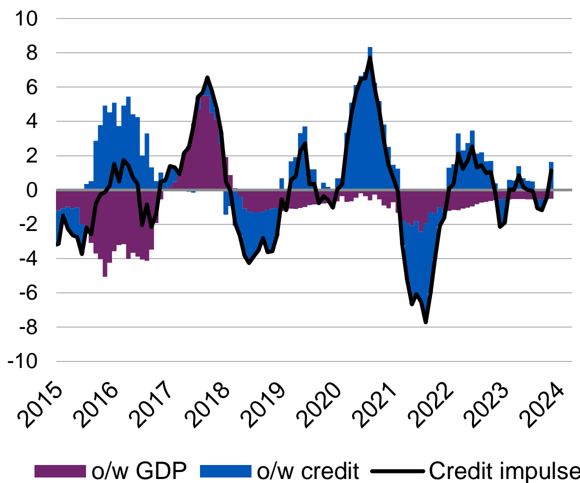
Policy makers are not feeling the heat

China's Central Economic Work Conference (CEWC) concluded last week with little indication of a major change in policy direction.

Better macro data is likely tempering any desire to accelerate stimulus, but the authorities are also likely to want to see how previous actions play out.

Strong government bond issuance over the last four months will continue to filter through to activity as we head into 2024. Indeed, our estimate of the credit impulse has turned back up sharply, returning to positive territory (see Figure 5).

Figure 5: Strong government debt issuance is helping boost credit flows



Source: Bloomberg, Haver, abrdn (December 2023)

Moreover, we estimate that the authorities have managed to push policy into a modestly accommodative position overall (see Figure 6).

The China Financial Conditions Index (CFCI) was little changed on the month, but another larger-than-expected liquidity injection via the medium-term lending facility in December implies the PBOC is still loosening at the margin and is cognisant of the need to help markets digest debt issuance.

Further fiscal easing also seems plausible. And the CEWC struck a somewhat more nuanced tone on government debt.

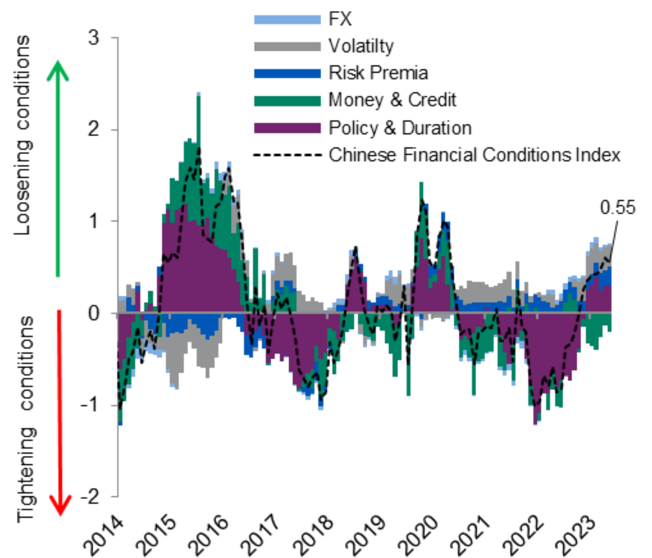
Reading the tea leaves on these announcements is not easy, but the authorities seem to be recognising the need for central government assistance and a coordinated approach to ensure stability while addressing debt risks.

Local governments with strong balance sheets may be asked to do more to help mitigate the economic drag caused by consolidation among those provinces in difficulty.

The authorities also flagged the need to put in place a more robust fiscal framework for the long run. We will need to wait to see what proposals for fiscal reform are drawn up.

Whether growth really has moved up the priority list, or conversely whether addressing government debt is set to become the next phase of de-risking, is a key distinction. We lean towards the former but recognise the risk of the latter.

Figure 6: Financial conditions show policy has gained moderate traction, but risks being insufficient



Source: Bloomberg, Haver, abrdn (December 2023)

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