Research Institute - Insight

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China: Firmer data reduce downside risks

Stronger-than-expected data across September and August should moderate some of the pessimism around China's outlook, but risk tempering stimulus.

Key Takeaways

- Q3 GDP data and several key monthly indicators beat consensus expectations, pointing to a firming of growth and potentially indicative of past policy easing gaining traction.
- Revisions to the GDP back data make it exceptionally easy for the authorities to hit their 5% growth target for 2023.
- We have revised our 2023 forecast up to 5.4% (+0.5ppts) to reflect the stronger-than-expected Q3 growth rate (1.3% quarter over quarter) and slightly better monthly data prints.
- Our China Activity Indicator (CAI) broadly supports the assertion that activity has found a more stable footing over the past three months, helped by recent improvements in some aspects of the property market and a further normalisation in household savings.
- That said, the economy is not out of the woods. The real estate adjustment will still weigh on growth beyond this year.
- Our latest estimate suggests that the plethora of incremental policy loosening continues to keep financial conditions in a moderately accommodative stance.
- One downside of the recent stabilisation is that there is some risk that it reduces the impetus for the authorities to loosen policy further.
- As a result, we remain cautious about the outlook for 2024 and beyond: our latest 2024 forecast has been revised up only modestly (4.2%, +0.2ppts).

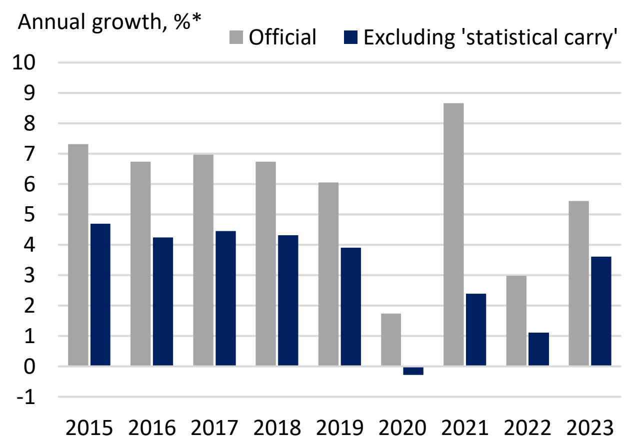
2023 growth target in the bag

Headline GDP for Q3 came in at 4.9% year over year, 0.4ppt above consensus expectations, while sequential GDP rose 1.3% quarter over quarter (5.3% annualised).

NBS revisions to the back data – which pushed down on growth over 2021 and 2022 – raise the 'statistical carry' by 0.4ppts, making it exceptionally easy for Q4 to deliver the authorities' 5% growth target.

Even a contraction of -0.8% quarter over quarter in Q4 would still deliver 5% annual growth, while a figure closer to trend means that 5.5% or higher is easily achievable (see Figure 1).

Figure 1: Downward revisions to 2022 GDP flatter the 2023 annual growth rate



Source: Refinitiv, abrdn (October 2023)

Monthly data continue to back up the picture of a growth stabilisation

Statistical quirks are not the only reason to expect consensus to push 2023 growth forecasts higher. The breakdown of the monthly data flows for September was generally reassuring, adding to the stronger-than-expected data released in August.

Headline industrial production and retail sales growth both rose slightly more than expected (4.5% year over year and 5.5% year over year), although fixed asset investment was a bit weaker than consensus and the previous month's estimate (3.1% year to date year over year). We still have no sign of youth unemployment statistics returning, but the NBS reported that nationwide unemployment declined to 5% (-0.2ppts).

Our China Activity Indicator (CAI) supports the picture of a stabilisation over the past three months (see Figure 2), with the last two close to pre-pandemic averages.

Figure 2: A recovery in the industrial sector has helped to put a floor on the activity deceleration

Source: Haver, Refinitiv, abrdn (October 2023)

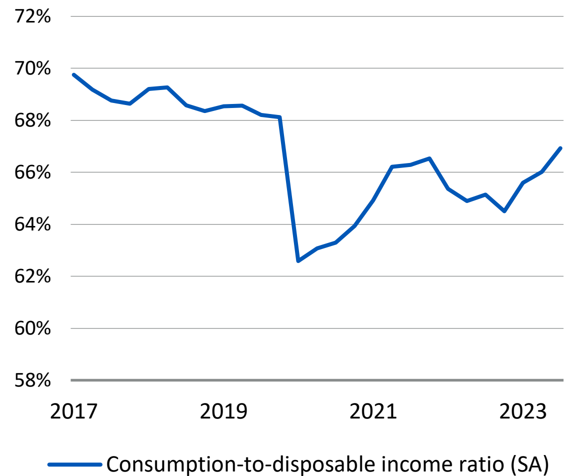
A stronger performance by exporters and auto manufacturers over the past two months has helped strengthen the industrial sector overall.

Services and retail sales have also improved on a sequential basis, rising 1-2% in real terms since July. As a result, both sectors appear to be putting activity on a firmer footing.

Consumption and real estate are key to our forecasts

Consumer confidence surveys remain very weak, but Q3 data show that households continue to normalise their savings rate (and equivalently their consumption rate). Savings are now running only 1.2ppts below their pre-pandemic norms, having dropped 0.9ppts compared to Q2 (see Figure 3).

Figure 3: Consumption normalisation helped support growth in Q3, while excess savings are an upside risk



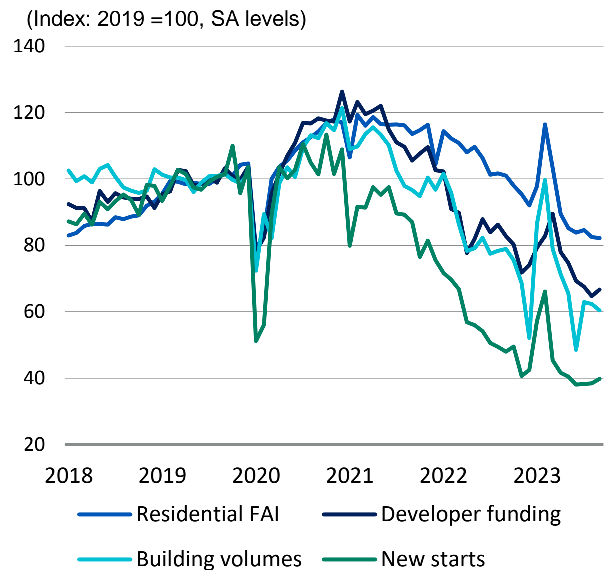
Source: Haver, abrdn (October 2023)

There is a risk that the saving rate has been permanently shifted higher by the experience of living through zero-Covid. Households – particularly the self-employed – may want to save even more to insure against a less benign world with a greater number of negative shocks.

Cautious household sentiment undoubtedly reflects ongoing stress and uncertainties within property, including the ability of developers to deliver on pre-sold homes.

In that regard, the tentative stabilisation in several key real estate metrics is a welcome outcome: new starts and developer funding rose 4% on the month, while residential fixed asset investment was flat (see Figure 4).

Figure 4: Where's the bottom in real estate?



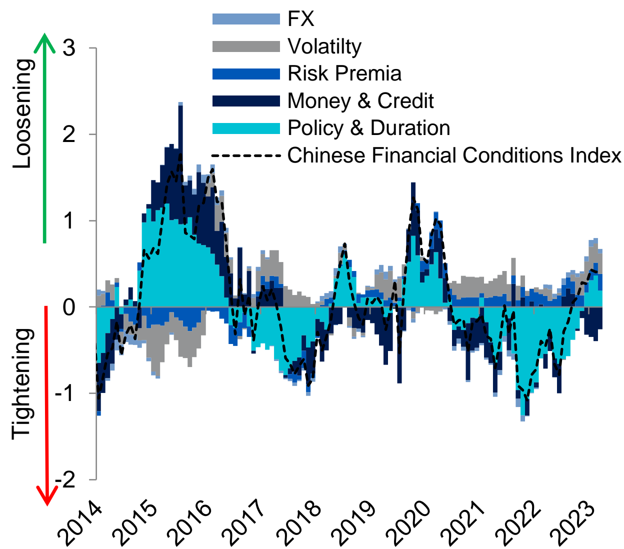
Source: abrdn, Haver, October 2023

Financial conditions remain modestly accommodative

Our China Financial Conditions Index (CFCI) suggests that conditions remain supportive as the plethora of policy easing enacted thus far by authorities makes its way through the financial system and economy (see Figure 5).

Policy & Duration factors continue to be a key driver of accommodative financial conditions. Through September higher yields tightened financial conditions somewhat, but loosening via the reserve requirement ratio (RRR) and benchmark rate cuts largely offset the effect on the CFCI from higher yields.

Figure 5: Financial conditions remain loose, but more easing is required given the scale of challenges faced



Source: Bloomberg, Haver, abrdn, October 2023

September's credit data – total social financing (TSF) – came in higher than expected, driven by strong government bond issuance, with the headline measure increasing by RMB 4.1trn versus the RMB 3.7trn expected by consensus.

However, the credit impulse – which tracks the momentum in credit relative to overall growth in activity – remains negative, suggesting that a bigger outturn in credit flows would be required for this channel to loosen financial conditions further.

Other elements of Money & Credit factors have become supportive though, with money growth loosening conditions on the month.

The key question is: Is policy easing to date enough?

More adverse outcomes are limited by our expectation that policy makers will ease further and would also accelerate easing should the economy enter a sharper downturn.

But it is still difficult to have confidence that enough has been done to turn market confidence, even if fears of an economic freefall seem increasingly far-fetched.

The desire to hold the line on real estate de-risking and bolster domestic resilience while tensions with the US remain front and centre are strong reasons why policy support may err on the side of doing too little, too late.

Indeed, the latest growth data reduce the urgency to do more in the near term, which – alongside an incomplete real estate adjustment – is a reason why we continue to expect growth to disappoint in 2024.

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