

China Economics

A New Reality Sinks In

Band-Aid, Not Stimulus

We are downgrading our forecasts for China's GDP growth to 4.8% in 2023 (from 5%) and 4.4% in 2024 (from 4.6%). Growth is likely to come in at around 4% in 2H 2023, after expanding by 5.4% in 1H. Trade and inflation data showed moderating deterioration in the economy in August, even as easing measures only gathered pace in end-August. The authorities confounded market expectations of forceful stimulus by rolling out restrained measures to support equity and real estate markets, as well as boost consumption. The steps included halving of stamp duty on stock trades, crimping policy rates, and doubling income tax breaks for childcare. The recent August data reflects economic activity that took place largely before the slew of easing measures, including a 10 bps benchmark rate cut, were announced in late August and early September. It is thus too early to tell if they have a significant impact. Nonetheless, China's policy stance of measured support will likely work to forestall severe downside risks, rather than fuel strong growth.

Analysts

Erica Tay
(65) 6231 5844
erica.tay@maybank.com

Chua Hak Bin
(65) 6231 5830
chuahb@maybank.com

Exports and Imports Narrow Contractions

Exports shrank by a milder -8.8% y-o-y (vs -14.5% in July) while imports fell by -7.3% (vs -12.4% in July). However, reflecting weakness in wholesale prices, shipments fared better in volume terms, with exports rising by +9.9% (vs +11.4% in July) and imports by +18.4% (vs +13.8% in July) (Fig 1 and 2). Overall, China's goods trade surplus tapered to \$68.4b in August, down by \$12.2b from the previous month. We expect exports to revert to positive growth in Q1 2024, as wholesale prices stabilize.

ASEAN Emerges As China's Top Export Market

In Jan–Aug 2023, ASEAN (\$354.7b) overtook the US (\$330.8b) to become China's top export market, led by Vietnam with a 25% share. This comes after ASEAN leapfrogged the EU last year to become the mainland's second-largest export destination. The new pecking order reflects structural shifts in global supply chains, with Vietnam rising in importance as a processing node for China-based manufacturers. Russia was a market that posted exceptional jumps in trade, led by Russian commodity exports such as coal. Shipments from Russia surged by +75.7% in the first eight months of this year, while exports to Russia rose by +17.7% in the same period. On a monthly basis, China's exports to ASEAN (-13.3%), US (-9.5%) and EU (-19.6%) plunged in August (Fig 3), but by smaller magnitudes. China's imports saw a similar pattern (Fig 4). In particular, the drop in value of shipments from ASEAN (-6.1% vs -11.2% in July) nearly halved, while those from Taiwan (-4.8%), South Korea (-14.5%) and Japan (-20.1%) also suffered from soft Chinese demand.

Auto Shipments Continue to Surge

Autos, both traditional and electric, continued to shine amidst the export slump, doubling (+100.3%) in the first eight months this year, albeit increasing by a milder +35.2% in August. While electric vehicle export data for August is not yet available, EVs have accounted for 40% of China's auto shipments to-date this year. Tech exports slumped by double-digits for the fourth consecutive month, although by a smaller margin (-13.2% vs -18.1% in July).

CPI Inflation Turns Positive on Summer Tourism Boost

After a brush with negative inflation, the consumer price index (CPI) returned to positive growth in August (+0.1% vs -0.3% in July), while core inflation held steady at +0.8%. (Fig 5) Even though food and consumer goods inflation continued to be negative, headline inflation was boosted by a 14.8% surge in tourism expenses (Fig 6), as pent-up travel demand during the mainland school holidays pushed up the prices of tour packages, dining and airfares. As the seasonal holiday surge has ended, CPI inflation for the rest of the year is likely to stay tame. Still, weather-related supply disruptions could lift crop and livestock prices in September.

We are forecasting average CPI inflation of 0.8% in 2023 and 2.0% in 2024, as the existing slack in the goods and labor markets slowly unwind.

On the Producer Price Index front, factory gate prices fell at a slower pace in August (-3% vs -4.5% in July), as the costs of manufacturing inputs posted smaller declines across the board. Nonetheless, the computer and telecommunications industry reported steeper falls in wholesale prices (-1.9%) amidst slackening demand.

Household Spending Hinges on Jobs, Property

In 1H 2023, China's GDP growth (+5.4%) had been chiefly driven by consumption (+4.3 percentage points). Looking ahead, with the boost from "revenge spending" on its last legs, sustained strength in household spending will depend on the health of the job and property markets. While data on employment is scant, the weekly number of online job postings in China has shown signs of continued softness, after a surge this March, driven by hospitality vacancies. Active job postings in the week of 28th August were down 46% from a month ago, and 83% lower than the same time last year (Fig 7). Weakness was seen across the services (-82% y-o-y) and manufacturing (-83%) sectors (Fig 8). Although online job postings tend to cover formal white-collar employment, and do not include informal blue-collar hiring such as those by eateries, their numbers are indicative of broad-based slackening in labor demand.

Besides the job market, resale home prices are also tied to Chinese consumer spending, as a large part of households' wealth is held in real estate investments. A bottoming out of resale prices would likely lift consumer confidence through "wealth effects".

Property Sales Pick Up in Beijing, Muted in Other Top Cities

In late August and early September, Chinese policymakers and local authorities rolled out a succession of targeted measures to arrest the decline in the real estate sector. At the local level, selected cities took the initiative to unleash demand by easing *hukou* or residency criteria, and allowing more people to qualify for preferential first-time home buyer policies.

This was followed on 31 August with a nationwide lowering of minimum down-payment rates to 20% for first-time homebuyers and 30% for second-time homebuyers by the People's Bank of China and National Administration of Financial Regulation, effective on 25 September. The authorities also allowed banks to lower interest rates on existing home loans. By early September, all of China's Tier 1 cities have adjusted their policies and allowed those who have paid off their home loans to be considered first-time buyers, thus qualifying for preferential down-payment and lending rates.

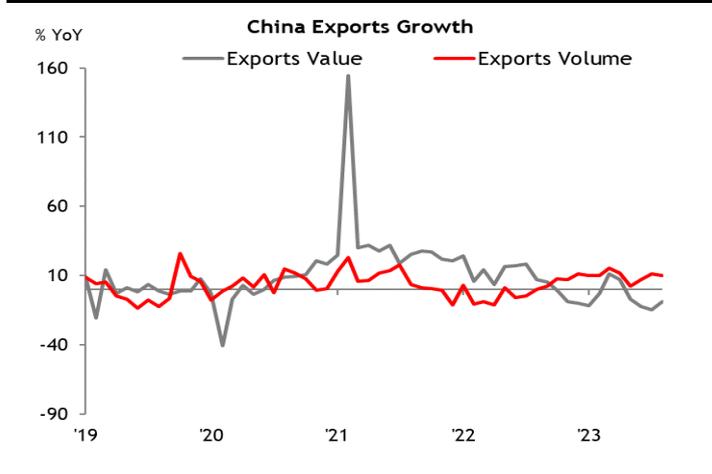
The impact on property demand had been mixed. According to the latest transaction data, daily housing transactions in Beijing soared +80% on 6 September from a week ago, while those in other top cities such as Shanghai, Guangzhou and Shenzhen were more muted (Fig 9). Real estate industry players observed that some potential home-buyers were less swayed by cheaper borrowing costs and down-payment ratios and were staying on the sidelines until transacted prices staged a more decisive recovery.

The authorities are likely to adopt an iterative approach to further property easing and wait for the latest slew of measures to take effect, before adjusting policies until they achieve the goal of stabilizing prices and construction activity. Conversely, they are expected to steer clear of aggressive moves, to avoid overshooting and inadvertently igniting a property bubble.

Cut 2023 and 2024 GDP Growth Forecast to 4.8% and 4.4%

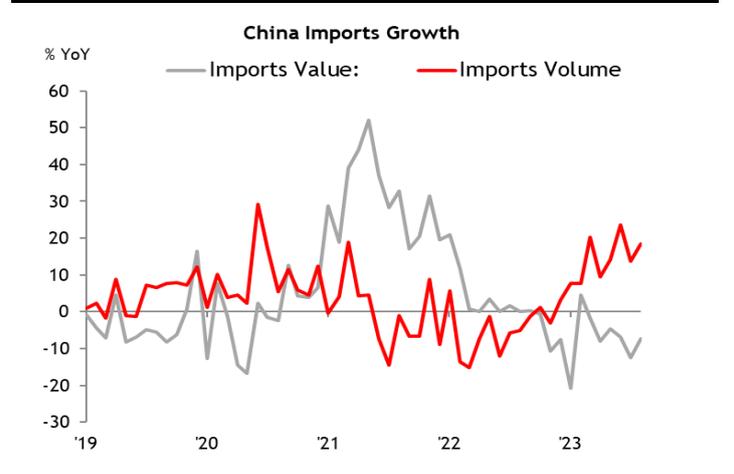
We are downgrading our projections for China’s growth to +4.8% in 2023, from 5.0% previously. We also expect growth to slow to +4.4% in 2024, down from our prior forecast of 4.6%. While the pace of deterioration in domestic demand appears to be moderating, the authorities are signaling a continued stance of restrained measures to keep growth range-bound, without aggressively boosting demand. China’s GDP growth is likely to come in at around +4% in 2H 2023, after expanding by +5.4% in 1H.

Fig 1: Exports Fell By A Narrower Magnitude of -8.8% in August, But Rose by Nearly 10% in Volume Terms



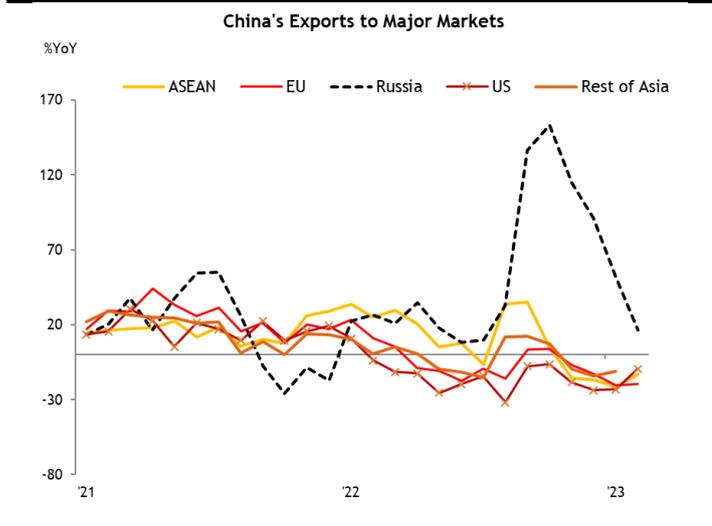
Source: General Administration of Customs, CEIC

Fig 2: Imports Fell By 17.3% by Value, But Jumped 18.4% in Volume



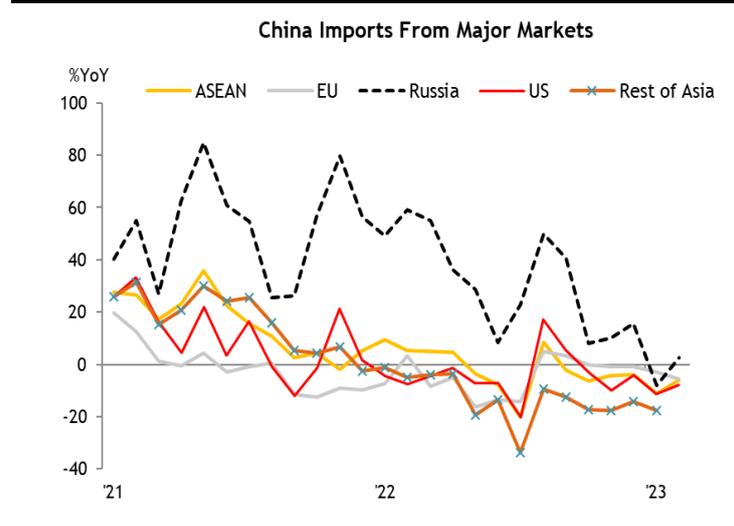
Source: General Administration of Customs, CEIC

Fig 3: China’s Shipments to ASEAN Declined at a Milder Pace (-13.3%), While Those to Russia Outperformed



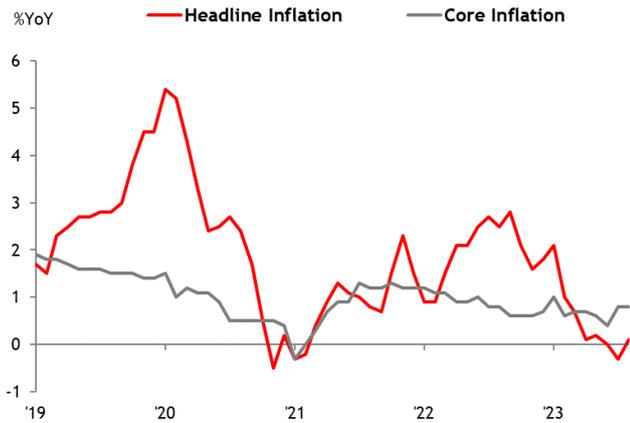
Source: General Administration of Customs, CEIC

Fig 4: China’s Imports from ASEAN, EU and US Plunged in August, Albeit By Smaller Margins



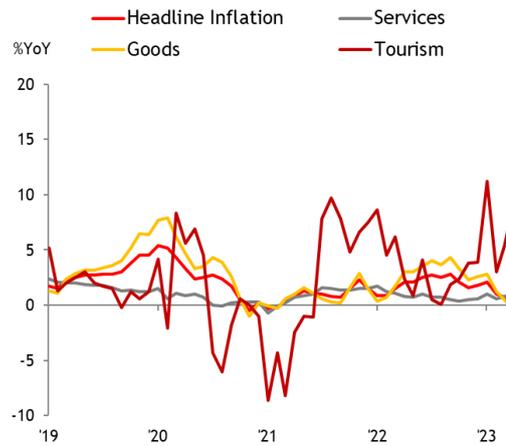
Source: General Administration of Customs, CEIC

Fig 5: Headline Inflation Turned Mildly Positive (+0.1%), While Core Inflation Held Steady (+0.8%)



Source: National Bureau of Statistics, CEIC

Fig 6: Services Inflation Was Buoyed By a 14.8% Jump in Tourism Costs During the School Holidays



Source: National Bureau of Statistics, CEIC

Fig 7: Online Job Postings Slackened in End-August, After A Surge in March



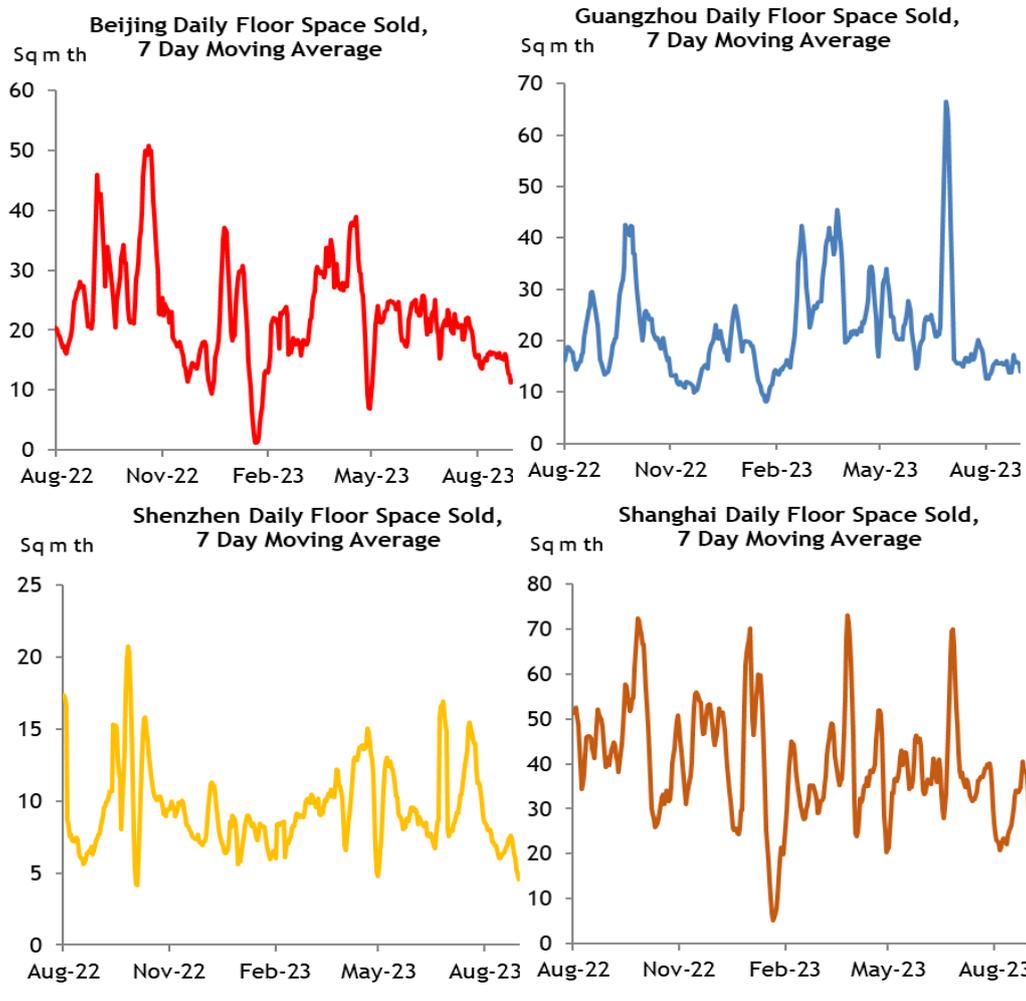
Source: Revelio Labs, CEIC

Fig 8: Soft Hiring Demand Was Observed Across Services and Manufacturing



Source: Revelio Labs, CEIC

Fig 9: Daily Housing Sales by Floor Space Have Yet to Show A Decisive Recovery in the Top Tier Cities of Beijing, Guangzhou, Shenzhen and Shanghai (on 7 Day Moving Average)



Source: CEIC

Table 1: Consumer Price Index Breakdown

	May-23	Jun-23	Jul-23	Aug-23	8M23	2Q23	1Q23	4Q22	2022	2021
Headline Inflation	0.2	0.0	-0.3	0.1	0.5	0.1	1.3	1.8	2.0	0.9
Food, Tobacco & Liquor	1.2	2.0	-0.5	-0.5	1.5	1.3	3.0	4.0	2.5	-0.3
Clothing	0.9	0.9	1.0	1.1	0.9	0.9	0.7	0.5	0.5	0.3
Household Articles & Services	-0.1	-0.5	-0.2	-0.5	0.3	-0.2	1.2	1.5	1.2	0.4
Healthcare	1.1	1.1	1.2	1.2	1.1	1.1	0.9	0.5	0.6	0.4
Transportation and Communication	-3.9	-6.5	-4.7	-2.1	-2.5	-4.6	0.1	2.9	5.2	4.2
Education Services	1.2	1.2	1.2	1.1	1.2	1.2	1.2	1.3	2.1	2.2
Tourism	8.0	6.4	13.1	14.8	8.9	7.8	6.5	3.4	3.3	1.6
Rent	-0.3	-0.2	-0.1	-0.1	-0.3	-0.3	-0.5	-0.7	-0.2	0.4
Water, Electricity and Fuel	-0.4	-0.2	-0.1	0.3	0.1	-0.3	0.5	0.7	3.0	1.9
Other Goods & Services	3.1	2.4	4.1	3.8	3.1	3.0	2.7	2.3	1.6	-1.3
Core Inflation	0.6	0.4	0.8	0.8	0.7	0.6	0.8	0.6	0.9	0.8

Source: National Bureau of Statistics, CEIC

Research Offices

ECONOMICS

Suhaimi ILIAS
Chief Economist
Malaysia | Philippines | Global
(603) 2297 8682
suhaimi_ilias@maybank-ib.com

CHUA Hak Bin
Regional Thematic Macroeconomist
(65) 6231 5830
chuahb@maybank.com

Dr Zamros DZULKAFI
Malaysia | Philippines
(603) 2082 6818
zamros.d@maybank-ib.com

Erica TAY
China | Thailand
(65) 6231 5844
erica.tay@maybank.com

Brian LEE Shun Rong
Indonesia | Singapore | Vietnam
(65) 6231 5846
brian.lee1@maybank.com

Fatin Nabila MOHD ZAINI
(603) 2297 8685
fatinnabila.mohdzaini@maybank-ib.com

Luong Thu Huong
(65) 6231 8467
hana.thuhoang@maybank.com

FX

Saktiandi SUPAAT
Head of FX Research
(65) 6320 1379
saktiandi@maybank.com

Fiona LIM
(65) 6320 1374
fionalim@maybank.com

Alan LAU
(65) 6320 1378
alanlau@maybank.com

Shaun LIM
(65) 6320 1371
shaunlim@maybank.com

STRATEGY

Anand PATHMAKANTHAN
ASEAN
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

FIXED INCOME

Winston PHOON, FCA
Head of Fixed Income
(65) 6340 1079
winstonphoon@maybank.com

SE THO Mun Yi, CFA
(603) 2074 7606
munyi.st@maybank-ib.com

PORTFOLIO STRATEGY

ONG Seng Yeow
(65) 6231 5839
ongsengyeow@maybank.com

MIBG SUSTAINABILITY RESEARCH

Jigar SHAH
Head of Sustainability Research
(91) 22 4223 2632
jigars@maybank.com

Neerav DALAL
(91) 22 4223 2606
neerav@maybank.com

REGIONAL EQUITIES

Anand PATHMAKANTHAN
Head of Regional Equity Research
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

WONG Chew Hann, CA
Head of ASEAN Equity Research
(603) 2297 8686
wchewh@maybank-ib.com

MALAYSIA

Anand PATHMAKANTHAN *Head of Research*
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com
• Strategy

WONG Chew Hann, CA
(603) 2297 8686
wchewh@maybank-ib.com
• Non-Bank Financials (stock exchange)
• Construction & Infrastructure

Desmond CH'NG, BFP, FCA
(603) 2297 8680
desmond.chng@maybank-ib.com
• Banking & Finance

ONG Chee Ting, CA
(603) 2297 8678 ct.ong@maybank-ib.com
• Plantations - Regional

YIN Shao Yang, CPA
(603) 2297 8916 samuel.y@maybank-ib.com
• Gaming - Regional
• Media • Aviation • Non-Bank Financials

TAN Chi Wei, CFA
(603) 2297 8690 chiwei.t@maybank-ib.com
• Power • Telcos

WONG Wei Sum, CFA
(603) 2297 8679 weisum@maybank-ib.com
• Property • Glove

Jade TAM
(603) 2297 8687 jade.tam@maybank-ib.com
• Consumer Staples & Discretionary

Nur Farah SYIFAA
(603) 2297 8675
nurfarahsyifaa.mohamadfuad@maybank-ib.com
• Renewable Energy • REITs

LOH Yan Jin
(603) 2297 8687
lohyanjin.loh@maybank-ib.com
• Ports • Shipping • Automotive

Arvind JAYARATNAM
(603) 2297 8692
arvind.jayaratnam@maybank.com
• Petrochemicals • Technology

TEE Sze Chiah *Head of Retail Research*
(603) 2082 6858 szechiah.t@maybank-ib.com
• Retail Research

Nik Ihsan RAJA ABDULLAH, MSTA, CFTE
(603) 2297 8694
nikmohdihsan.ra@maybank-ib.com
• Chartist

Amirah AZMI
(603) 2082 8769 amirah.azmi@maybank-ib.com
• Retail Research

SINGAPORE

Thilan WICKRAMASINGHE *Head of Research*
(65) 6231 5840 thilanw@maybank.com
• Banking & Finance - Regional
• Consumer

Eric ONG
(65) 6231 5849 ericong@maybank.com
• Healthcare • Transport • SMIDs

Kelvin TAN
(65) 6231 5837 kelvin.tan1@maybank.com
• Telcos • Industrials

LI Jialin
(65) 6231 5845 jialin.li@maybank.com
• REITs

Jarick SEET
(65) 6231 5848 jarick.seet@maybank.com
• Technology

Krishna GUHA
(65) 6231 5842 krishna.guha@maybank.com
• REITs

PHILIPPINES

Jacqui de JESUS *Head of Research*
(63) 2 8849 8840
jacqui.dejesus@maybank.com
• Strategy • Conglomerates

Rachelleen RODRIGUEZ, CFA
(63) 2 8849 8843
rachelleen.rodriguez@maybank.com
• Banking & Finance • Transport • Telcos

Daphne SZE
(63) 2 8849 8847
daphne.sze@maybank.com
• Consumer

Fiozeno de JESUS
(63) 2 8849 8846
fiozeno.dejesus@maybank.com
• Utilities

Alexa Mae CARVAJAL
(63) 2 8849 8838
alexamae.carvajal@maybank.com
• Consumer • Gaming • Property • REITs

THAILAND

Chak REUNGSINPINYA *Head of Research*
(66) 2658 5000 ext 1399
chak.reungsinpinya@maybank.com
• Strategy • Energy

Jesada TECHAHUSDIN, CFA
(66) 2658 5000 ext 1395
jesada.t@maybank.com
• Banking & Finance

Wasu MATTANAPOTCHANART
(66) 2658 5000 ext 1392
wasu.m@maybank.com
• Telcos • REITs

Surachai PRAMUALCHAROENKIT
(66) 2658 5000 ext 1470
Surachai.p@maybank.com
• Auto • Conmat • Contractor • Steel

Suttatip PEERASUB
(66) 2658 5000 ext 1430
suttatip.p@maybank.com
• Food & Beverage • Commerce

INDONESIA

Jeffrosenberg CHENLIM *Head of Research*
(62) 21 8066 8680
Jeffrosenberg.lim@maybank.com
• Strategy • Banking & Finance • Property

Willy GOUTAMA
(62) 21 8066 8500
willy.goutama@maybank.com
• Consumer

Etta Rusdiana PUTRA
(62) 21 8066 8683
etta.putra@maybank.com
• Telcos

William Jefferson W
(62) 21 8066 8563
william.jefferson@maybank.com
• Property

Adi WICAKSONO
(62) 21 8066 8686
Adi.Wicaksono@maybank.com
• Plantations

Satriawan HARYONO, CEWA, CTA
(62) 21 8066 8682
satriawan@maybank.com
• Chartist

VIETNAM

Quan Trong Thanh *Head of Research*
(84 28) 44 555 888 ext 8184
thanh.quan@maybank.com
• Strategy • Banks

Hoang Huy, CFA
(84 28) 44 555 888 ext 8181
hoanghuy@maybank.com
• Strategy • Technology

Le Nguyen Nhat Chuyen
(84 28) 44 555 888 ext 8082
chuyen.le@maybank.com
• Oil & Gas • Logistics

Nguyen Thi Sony Tra Mi
(84 28) 44 555 888 ext 8084
trami.nguyen@maybank.com
• Consumer Discretionary

Tran Thi Thanh Nhan
(84 28) 44 555 888 ext 8088
nhan.tran@maybank.com
• Consumer Staples

Nguyen Le Tuan Loi
(84 28) 44 555 888 ext 8182
loi.nguyen@maybank.com
• Property

Nguyen Thanh Hai
(84 28) 44 555 888 ext 8081
thanhhai.nguyen@maybank.com
• Industrials

Nguyen Thanh Lam
(84 28) 44 555 888 ext 8086
thanhlam.nguyen@maybank.com
• Retail Research

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Malaysia

Maybank Investment Bank Berhad
(A Participating Organisation of
Bursa Malaysia Securities Berhad)
33rd Floor, Menara Maybank,
100 Jalan Tun Perak,
50050 Kuala Lumpur
Tel: (603) 2059 1888;
Fax: (603) 2078 4194

Stockbroking Business:
Level 8, Tower C, Dataran Maybank,
No.1, Jalan Maarof
59000 Kuala Lumpur
Tel: (603) 2297 8888
Fax: (603) 2282 5136

Singapore

Maybank Securities Pte Ltd
Maybank Research Pte Ltd
50 North Canal Road
Singapore 059304

Tel: (65) 6336 9090

Indonesia

PT Maybank Sekuritas Indonesia
Sentral Senayan III, 22nd Floor
Jl. Asia Afrika No. 8
Gelora Bung Karno, Senayan
Jakarta 10270, Indonesia

Tel: (62) 21 2557 1188

Fax: (62) 21 2557 1189

Thailand

Maybank Securities (Thailand) PCL
999/9 The Offices at Central World,
20th - 21st Floor,
Rama 1 Road Pathumwan,
Bangkok 10330, Thailand

Tel: (66) 2 658 6817 (sales)

Tel: (66) 2 658 6801 (research)

London

Maybank Securities (London) Ltd
PNB House
77 Queen Victoria Street
London EC4V 4AY, UK

Tel: (44) 20 7332 0221

Fax: (44) 20 7332 0302

India

MIB Securities India Pte Ltd
1101, 11th floor, A Wing, Kanakia
Wall Street, Chakala, Andheri -
Kurla Road, Andheri East,
Mumbai City - 400 093, India

Tel: (91) 22 6623 2600

Fax: (91) 22 6623 2604

Vietnam

Maybank Securities Limited
Floor 10, Pearl 5 Tower,
5 Le Quy Don Street,
Vo Thi Sau Ward, District 3
Ho Chi Minh City, Vietnam

Tel : (84) 28 44 555 888

Fax : (84) 28 38 271 030

Hong Kong

MIB Securities (Hong Kong)
Limited
28/F, Lee Garden Three,
1 Sunning Road, Causeway Bay,
Hong Kong

Tel: (852) 2268 0800

Fax: (852) 2877 0104

Philippines

Maybank Securities Inc
17/F, Tower One & Exchange
Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines 1200

Tel: (63) 2 8849 8888

Fax: (63) 2 8848 5738

Sales Trading

Indonesia

Helen Widjaja
helen.widjaja@maybank.com
(62) 21 2557 1188

Philippines

Keith Roy
keith_roy@maybank.com
Tel: (63) 2 848-5288

London

Greg Smith
gsmith@maybank.com
Tel: (44) 207-332-0221

India

Sanjay Makhija
sanjaymakhija@maybank.com
Tel: (91)-22-6623-2629

www.maybank.com/investment-banking
www.maybank-keresearch.com