

# China Economics

## Nascent Signs of Bottoming

### Trade Decline Narrows, September Home Sales Pick Up

Trade data out of China showed narrowing declines in September, while policy measures led to a discernible, if short-lived, bump in home sales. Nonetheless, headline inflation eased to 0% after emerging from negative territory the previous month. In a worrying sign, producer prices fell by a sharper pace month-on-month, signaling that lingering slack remains in the industrial sector.

#### Analysts

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

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

### Exports and Imports Post Milder Falls

Exports shrank by -6.2% y-o-y last month. It was the smallest decline in five months and an improvement from the -8.8% fall in August. Notably, the weakness in tech exports moderated (August:-13.2%, September:-8.3%). (Fig 1).

Imports slipped by -6.2%, narrowing from the previous month's -7.3% dip (Fig 2). In volume terms, export growth was robust at +10.1% (from +9.9% in August) but import growth more than halved, from +18.4% in August to +8.6% last month. Overall, China's goods trade surplus improved by nearly \$10b from August, to reach \$77.7b.

### Shipments to ASEAN and EU Drop by Double Digits

Exports to ASEAN tumbled by double digits for the fifth consecutive month, slipping by -15.8% in September (Fig 3). Shipments to the EU fell by -11.6%, while those to the US dropped by -9.3%. The only export market that showed consistent growth was Russia, which saw expansions of +20.6% last month and +56.2% in Jan–Sep 2023. Imports from ASEAN posted their seventh straight month of decline, slipping by -7% (from -5.9% in August) while imports from the US dropped -12.6% (from -7.9% in August) (Fig 4). Shipments from the EU edged up (+0.6%) for the first time since April.

### CPI Inflation Falls to Zero, Core Gauge Holds Steady

After emerging from negative territory in August, CPI inflation slipped to zero (Fig 5). The headline number was weighed down by food prices, which fell by 3.2% on more abundant meat supplies. Excluding food and energy costs, core inflation held steady at 0.8%. (Table 1) In the coming months, headline inflation should rise mildly as the drag from falling fuel costs dissipate. We maintain our forecast for average headline inflation at 0.8% in 2023.

## Producer Price Index Decline Steepens, While YoY Deflation Moderates

In a sign that the industrial sector is still digesting its excess capacity, factory gate prices have yet to find a floor. The Producer Price Index (PPI) dropped for the 12<sup>th</sup> straight month, albeit less sharply on a year-ago basis (September: -2.5%, August: -3%). However, the fall in the PPI steepened in September month-on-month (September: -0.4%, August: -0.2%), led by the producer goods segment.

## Property Sales Slump after September Bump

In late-August and September, the authorities implemented a series of policy measures to stabilize the deteriorating real estate sector. The latest data showed homebuyers responding to the easing moves, especially in the top cities of Beijing, Guangzhou and Shanghai. Daily new home sales spiked in these cities, especially in the latter half of September—but have since slumped by early October (Figs 7 and 8). Nationwide, home sales values by China's 100 largest developers rose +18% in September from August, according to China Real Estate Information Corp (CRIC). Even then, they are down 29% y-o-y, following a drop of 34% in August.

Lower down-payment ratios and mortgage rates have likely drawn out marginal buyers who were waiting on the side-lines. But the ensuing release of pent-up demand seems to have run its course by the second week of October. In contrast, property easing measures have not elicited strong responses in cities such as Shenzhen and Suzhou even throughout September. The patchy recovery across China signals that further policy easing would mainly benefit locales where home-buying demand was previously held back by stringent purchase restrictions. Moreover, even in those cities, it is not a given that the recovery can be sustained. CRIC data showed that daily new home sales in 22 major cities fell 31% during Golden Week, compared to the daily average this September.

## Can Underlying Growth Momentum Be Sustained Post-Revenge Spurt?

Policy easing measures appear to be gradually stabilizing economic momentum in September. They have, at least for the time being, arrested the slide in home sales seen in previous months. However, GDP growth in the coming quarters will be hit by dissipating tailwinds from the unleashing of pent-up consumer spending post-reopening. With the fading of “revenge spending” that has driven GDP growth so far this year, the resilience of private consumption will depend on a recovery in disposable incomes.

In a positive development, households' debt servicing costs have been reduced marginally by a wave of mortgage refinancing between banks and existing mortgage borrowers, in a move encouraged by the central bank. The People's Bank of China reported that the weighted-average interest rate on the stock of outstanding home loans has fallen by 42 bps to 4.29% over September. For first-home owners, the weighted average of outstanding mortgage interest rates eased 73 bps to 4.27% since lower home loan rates took effect on 25<sup>th</sup> September. The reduced mortgage servicing burden should deliver a needed boost to consumers' willingness to spend.

## Maintain GDP Growth Forecast at 4.8% in 2023 & 4.4% in 2024

Despite a steadying of growth momentum in September as modest policy measures take effect, growth is likely to come in at around 4% in 3Q23, a slowdown from 6.3% in the prior quarter. Private investment remains fragile, while the consumption recovery appears to be losing steam. We project that GDP growth will average 4.8% in 2023, below the government's 5% target, before easing to 4.4% next year.

**Fig 1: Exports Slipped by -6.2% in September in Value Terms, but Rose by 10.1% in Volume Terms**



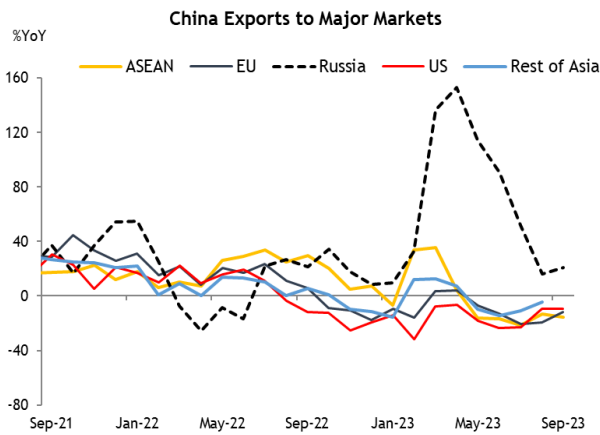
Source: General Administration of Customs, CEIC

**Fig 2: Imports Contracted by a Milder -6.2% in September in Value Terms, but Volume Growth Halved from August**



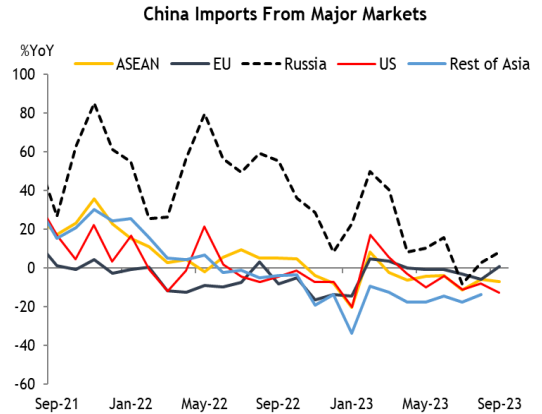
Source: General Administration of Customs, CEIC

**Fig 3: China's Shipments to ASEAN Shrank by -15.8%, the Fifth Consecutive Month of Decline**



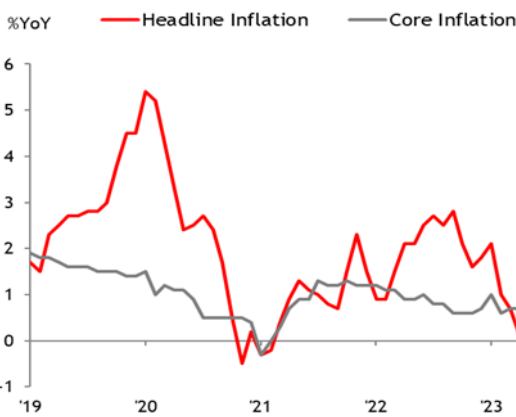
Source: General Administration of Customs, CEIC

**Fig 4: China's Imports from ASEAN Fell for the Seventh Straight Month but Those from EU Ticked Up**



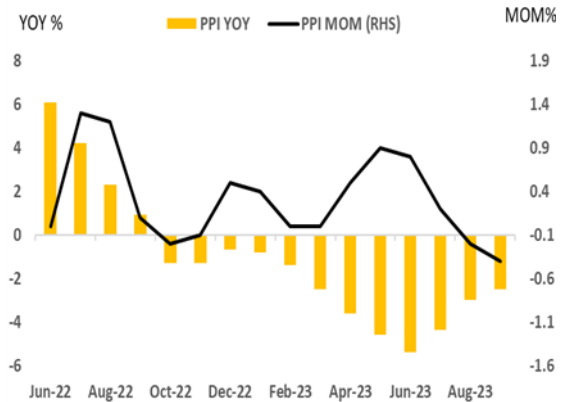
Source: General Administration of Customs, CEIC

**Fig 5: Headline Inflation Eased to Zero, Core Inflation Held Steady (+0.8%)**

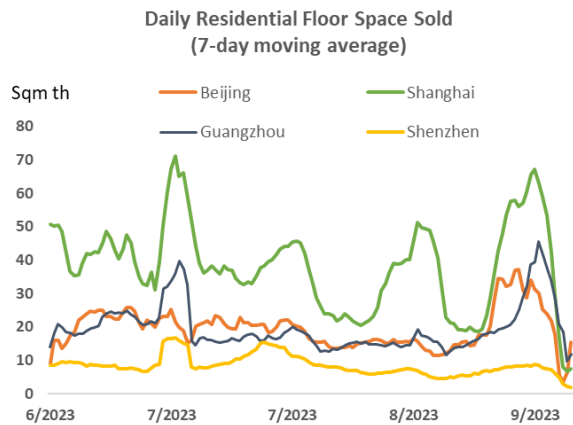


Source: CEIC

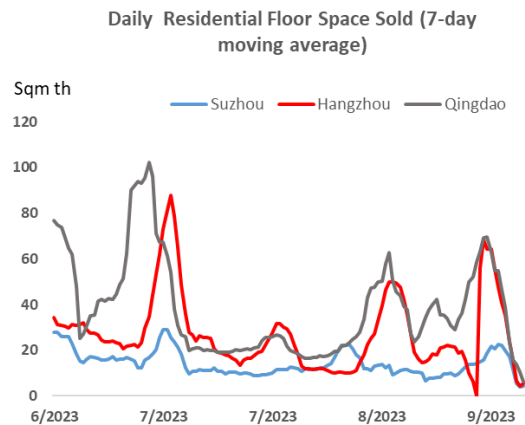
**Fig 6: Producer Prices Posted a Smaller Decline YoY Terms, But Fell More Sharply MoM**



Source: CEIC

**Fig 7: New Home Sales Spiked in Selected Top Cities in September But Slumped in early October**


Source: CEIC

**Fig 8: Cities such as Suzhou Saw Mild Responses to Property Easing Measures**


Source: CEIC

**Table 1: Consumer Price Index Breakdown**

	2021	2022	1Q23	2Q23	3Q23	9M23	Jul-23	Aug-23	Sep-23
<b>Headline Inflation</b>	<b>0.9</b>	<b>2.0</b>	<b>1.3</b>	<b>0.1</b>	<b>-0.1</b>	<b>0.4</b>	<b>-0.3</b>	<b>0.1</b>	<b>0.0</b>
Food, Tobacco & Liquor	-0.3	2.5	3.0	1.3	-0.8	1.2	-0.5	-0.5	-1.5
Clothing	0.3	0.5	0.7	0.9	1.1	0.9	1.0	1.1	1.1
Household Articles & Services	0.4	1.2	1.2	-0.2	-0.4	0.2	-0.2	-0.5	-0.4
Healthcare	0.4	0.6	0.9	1.1	1.2	1.1	1.2	1.2	1.3
Transportation and Communication	4.2	5.2	0.1	-4.6	-2.7	-2.4	-4.7	-2.1	-1.3
Education Services	2.2	2.1	1.2	1.2	1.4	1.2	1.2	1.1	1.8
Tourism	1.6	3.3	6.5	7.8	13.4	9.2	13.1	14.8	12.3
Rent	0.4	-0.2	-0.5	-0.3	-0.1	-0.3	-0.1	-0.1	0.0
Water, Electricity and Fuel	1.9	3.0	0.5	-0.3	0.2	0.1	-0.1	0.3	0.5
Other Goods & Services	-1.3	1.6	2.7	3.0	3.9	3.2	4.1	3.8	3.9
<b>Core Inflation</b>	<b>0.8</b>	<b>0.9</b>	<b>0.8</b>	<b>0.6</b>	<b>0.8</b>	<b>0.7</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>

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.thuhuong@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

**Winson PHOON, FCA**  
Head of Fixed Income  
(65) 6340 1079  
winsonphoon@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  
• Equity Strategy  
• 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 • Automotive • Technology (EMS)

**Arvind JAYARATNAM**  
(603) 2297 8692  
arvind.jayaratnam@maybank.com  
• Technology (Semicon & Software)

**Jeremie YAP**  
(603) 2297 8688  
jeremie.yap@maybank-ib.com  
• Oil & Gas • Petrochemicals

**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

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

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

**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 • Technology • REITs  
• Consumer Discretionary

**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

**Natchaphon RODJANAROWAN**  
(66) 2658 5000 ext 1393  
natchaphon.rodjanarowan@maybank.com  
• Utilities

### 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 • Internet • Construction

**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, 22<sup>nd</sup> 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,  
20<sup>th</sup> - 21<sup>st</sup> 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, 11<sup>th</sup> 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](http://www.maybank.com/investment-banking)  
[www.maybank-keresearch.com](http://www.maybank-keresearch.com)