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# China in Focus

Economics  
China

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## China's Central Economic Work Conference 2024: Building resolve in the face of uncertainties

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- ◆ China's Central Economic Work Conference suggests more proactive policy support to come, especially on consumption
- ◆ Stabilising housing and stock markets, a higher fiscal deficit, and moderately loose monetary policy will help
- ◆ Business sentiment may be boosted by upholding the rule of law while fierce competition may see some relief

### China data review (November 2024)<sup>1</sup>

- ◆ **Retail sales** softened to 3.0% y-o-y in November from a high base from last year and an earlier launch of the 11.11 Singles Day this year. Durable goods sales from the trade-in programs were robust (home appliances: 22.2% y-o-y; car sales: 6.6%), but not enough to turn around the slowing momentum in overall retail sales.
- ◆ **Industrial production** rose by 5.4% y-o-y in November, while manufacturing investment stayed generally buoyant, up 9.3% y-o-y. Some of the improvement in manufacturing production was likely helped by an ongoing boost from trade-in programs for equipment upgrading as well as some front-loading from exporters in anticipation of increased tariffs from the US next year.
- ◆ **Infrastructure investment** (ex-utilities) lost some strength in November, up 3.3% y-o-y vs 5.8% in October, given new guidance to allow a proportion of special local government bond funding to go towards debt swaps (RMB800bn each year for the next five years). The debt swap program may be stimulative for the economy as it can put cash into the hands of enterprises and employees.
- ◆ **CPI inflation** softened to 0.2% y-o-y in November despite a low base, as supply increases weighed on food prices. Meanwhile, **core CPI** remained muted at 0.3% y-o-y. On the producer front, **PPI inflation** rose to -2.5% y-o-y amid a demand pick up for industrial products, though more time and effort may still be needed to tackle excess capacity in some sectors.
- ◆ **Exports** rose by 6.7% y-o-y in November, including by 8% to the US, partly attributed to front-loading given risks of higher tariffs next year, and by 15% to ASEAN, likely helped by supply chain shifts. However, **import** growth dropped to -3.9% y-o-y in November, with iron and copper ore imports down 0.9% and 8.1% y-o-y in volume terms, and the import value of crude oil down 4.7% y-o-y.

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<sup>1</sup> Source: Wind, HSBC

## China's Central Economic Work Conference 2024: Building resolve

China's CEWC reinforced ambitions to support growth

China's top policymakers met for the annual Central Economic Work Conference (CEWC), 11-12 Dec, to discuss the progress on economic growth and to set policy priorities for next year. The tone echoed the stronger policy stance taken at the Politburo meeting on 9 Dec which called for “**extraordinary countercyclical**” **measures to support growth**. Policymakers noted that external pressures have risen while the domestic environment faces its own challenges. They also reiterated their resolve to meet longer-term goals of transitioning the economy.

**No hard figures:** As expected, the CEWC didn't set quantitative economic and policy targets for 2025, which are often unveiled during the annual Two Sessions in March. Qualitatively, the goal is to ‘**maintain steady economic growth**’, which suggests the growth target may not deviate much from this year's c5%.

A stronger fiscal stance is likely next year...

**Fiscal policy to be proactive:** The CEWC continued to give clear forward guidance around fiscal policy, noting that the fiscal deficit should be widened, while also increasing the issuance of ultra-long dated special central and local government bonds. This suggests a **stronger fiscal stance** is likely to come through next year.

...with monetary policy to be 'moderately loose'

**More aggressive monetary policy to come through:** Echoing the language from the December Politburo meeting, the CEWC called for ‘**moderately loose**’ **monetary policy**, with cuts to required reserve ratios (RRR) and interest rates to be made at the appropriate time, while liquidity should remain ample. The People's Bank of China (PBoC) may also purchase treasury bonds in the secondary market to inject liquidity.

**Stepped-up support for consumption:** The CEWC press release noted that ‘special actions to **boost consumption**’ would be taken. These include boosting support for durable goods trade-in and equipment upgrading programs, enhancing social safety nets (including employment support), and increasing basic pensions and financial subsidies for medical insurance. The CEWC also pledged to protect people's livelihood and safeguard social stability.

Support for the housing market remains a priority

**Stabilising housing and equity markets:** As policymakers now see the housing market as systemically important to the economy, **more forceful measures can be expected** if current policies fail to shore up the market. As for the equity market, the latest development is the expansion of the private pension scheme from pilot cities to the entire nation starting from 15 Dec, while making index equity funds and government bonds eligible pension products.

**Preventing ‘involutionary competition’:** The CEWC mentioned that a policy priority is to “comprehensively manage involution-style competition and regulate the behaviour of local governments and enterprises”. We believe this refers to fierce competition in several sectors which has contributed to the profit margin squeeze, over-supply, and deflationary pressure. Taken together, this could mean the government will prioritise consumption support to mitigate supply-demand imbalances, before considering more decisive measures to reduce capacity.

**New law to boost business sentiment:** The Private Economy Promotion law will be enacted to help regulate local government behaviour, particularly regarding extraterritorial and profit-driven law enforcement. The ongoing RMB10trn debt swap has, to some extent, relieved local government debt repayment pressure, and thus reduced incentives for profit-driven law enforcement, but this new law will add an important layer of protection to private enterprises.

Policymakers plan to continue opening-up

**What about the potentially increasing trade tensions?** In addition to more policy support for domestic demand, China is determined to stay open and plans to expand unilateral **opening-up in an orderly manner**. Notably, China has expanded unilateral visa-waiver programs for more countries and visa-free transit policy to more ports. The next step of opening-up may progress towards fewer restrictions on trade and investment flows.

**Key upcoming China economic data**

Date	Indicator	Prior
20 Dec	Loan Prime Rate 1Y	3.10%
20 Dec	Loan Prime Rate 5Y	3.60%
31 Dec	NBS Manufacturing PMI	50.3
1-7 Jan	Caixin Manufacturing PMI Final	51.5
3-10 Jan	Caixin Services PMI	51.5
8-13 Jan	Exports y-o-y	6.7%
8-13 Jan	Imports y-o-y	-3.9%
10-15 Jan	Producer Price Index (PPI) y-o-y	-2.5%
10-15 Jan	Consumer Price Index (CPI) y-o-y	0.2%
15-21 Jan	Retail Sales y-o-y	3.0%

Source: LSEG Datastream

**Performance of key A-share indexes\***

	Current	Last 90-days	Last 1yr
Shanghai Composite	3,462	20.22%	15.25%
Shenzhen Composite	2,113	28.54%	12.19%
CSI 300	4,029	19.56%	17.56%

\* Past performance is not an indication of future returns

Source: LSEG Datastream. As of 13 December 2024 market close

# Disclosure appendix

## Important disclosures

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- 2 All market data included in this report are dated as at close 13 December 2024, unless a different date and/or a specific time of day is indicated in the report.
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