
China in Focus

Economics
China

Policies supporting property and investment growth

- ◆ China's central bank is promoting a financial support scheme for affordable housing in a bid to boost the property sector
- ◆ However, measures may need time to take effect while more support could be rolled out to better stabilise the sector
- ◆ Meanwhile, policy support for equipment and consumer goods trade-ins continues to spur investment growth

China data review (May 2024)¹

- **Retail sales** rose by 3.7% y-o-y in May, helped by some easing of base effects and the ongoing strength in services consumption as well as trade-in programmes. This, in turn, reflected the above pre-pandemic levels of tourism activity seen during the Labour Day holidays in May. Moreover, the recent push for consumer upgrading policies, such as encouraging trade-ins of consumer durable products for new and more energy efficient ones, also contributed.
- **Industrial production** softened to 5.7% y-o-y in May. Higher-end manufacturing continued to be the bright spot, however, rising by 10.0% y-o-y, while computer and communication picked up by 14.5% y-o-y. Manufacturing of transportation equipment production was another strong area as railway, ship, aerospace and other transportation equipment saw double-digit growth of 11.8% y-o-y. Auto production also expanded by 7.6% y-o-y.
- **Fixed Asset Investment** growth slowed to 3.4% y-o-y in May due to the ongoing drag from the property sector. Property-related investment fell faster, down 11% y-o-y, while primary residential home sales were down 23% y-o-y in volume terms, despite the recent slew of property-related policy easing. However, these new policies still need time to take effect and we think more can and likely will be rolled out to help stabilise the sector.
- **CPI inflation** was unchanged at 0.3% y-o-y in May, though it softened a touch sequentially, -0.1% m-o-m. This was driven by weaker core CPI, which may be reflective of some slowing in consumption demand. Pork prices, however, picked up strongly. Meanwhile, **PPI deflation** eased to 1.4% y-o-y, driven by a pickup in global commodity prices and base effects, though the still tepid property sector remained a headwind.
- **Exports** picked up by 7.6% y-o-y in May, a significant rise from the 1.5% growth in April, possibly due to more favourable base effects and a recovery in overseas demand. Meanwhile, the growth momentum slowed on the **imports** front, to 1.8% y-o-y, driven by moderating demand for commodities. Although net exports improved, we think domestic demand will stay the key growth driver this year.

¹ Source: Wind, HSBC

Policies supporting property and investment growth

Property: New RMB300bn affordable housing relending scheme is being promoted

The PBoC is promoting affordable housing lending

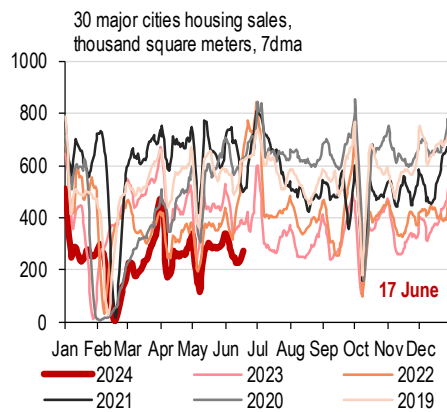
On 12 June, the People's Bank of China (PBoC) held a meeting to discuss the promotion of the affordable housing relending scheme – **financial support aimed at accelerating sales of unsold housing stock**. The PBoC Governor said that local governments willing to use the scheme can promote the initiative by establishing a working mechanism and arranging appropriate financial and taxation policy support with local authorities.

The PBoC also laid out rules for acquiring unsold homes to ensure that the RMB300bn relending scheme is implemented in the most appropriate and effective manner. Among them, a city government can only choose up to two local state-owned enterprises (SOEs), which meet the credit requirements of commercial banks, as property acquirers (PBoC, 12 June). Meanwhile, an earlier RMB100bn relending scheme for rental house lending will be consolidated into the new affordable housing relending scheme (Xinhua News, 13 June).

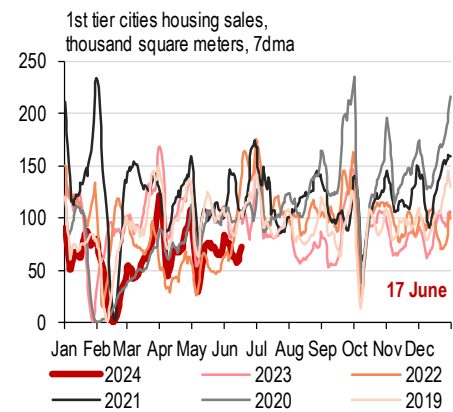
The measures will need time to take effect

Nonetheless, the new property measures will still need time to take effect. The high frequency data alongside the recent soft activity data print show **that the property sector remains under pressure and more support is likely needed to help stabilise the sector**. Primary home sales across city tiers remain below historical levels, though green shoots remain from more elevated second-hand home sales in larger cities (see Charts 1 and 2).

1. New home sales picked up after the Dragon Boat holiday



2: New home sales in Tier-1 cities remained below historical levels



Investment: Provinces roll out policies for equipment renewal and goods trade-ins

The NDRC is supporting equipment trade-in policies

The National Development and Reform Commission (NDRC) held a meeting on 18 June highlighting the ongoing support for the equipment renewal and consumer goods trade-in policies. The NDRC reported that from January to May, investment in equipment and tools increased by 17.5% y-o-y, **contributing more than 50% to the total investment growth**.

Meanwhile, sales of home appliance trade-ins on major e-commerce platforms increased by more than 80% from January to May. This reflects the stronger rebound in sales of home appliances in May, which rose 13% y-o-y. The NDRC stated it would work with relevant departments to increase policy support, while 31 provinces have already announced implementation plans (NDRC, 18 June).

**Provinces are providing
fiscal and tax support**

Many of them are strengthening fiscal and tax support to reduce the pressure on enterprises to update equipment. Henan, Heilongjiang, Zhejiang and other provinces recently announced **fiscal support policies for equipment renewal and trade-in of consumer goods**, including loan interest subsidies, fiscal subsidies, technical transformation subsidies, and government fund investment (Caixin, 17 June).

Key upcoming China economic data

Date	Indicator	Prior
29 Jun	NBS Manufacturing PMI	49.5
30 Jun	Caixin Manufacturing PMI Final	51.7
2 Jul	Caixin Services PMI	54.0
9 Jul	Producer Price Index (PPI) y-o-y	-1.4%
9 Jul	Consumer Price Index (CPI) y-o-y	0.3%
11 Jul	Exports y-o-y	7.6%
11 Jul	Imports y-o-y	1.8%
14 Jul	Retail Sales y-o-y	3.7%
14 Jul	GDP y-o-y	5.3%
21 Jul	Loan Prime Rate 1Y	-
21 Jul	Loan Prime Rate 5Y	-

Source: Refinitiv Eikon

Performance of key A-share indexes*

	Current	Year-to- Date	Last 1yr
Shanghai Composite	3,030	1.86%	-7.43%
Shenzhen Composite	1,702	-7.37%	-18.28%
CSI 300	3,546	3.34%	-10.54%

 * Past performance is not an indication of future returns
 Source: Refinitiv Eikon. As of 17th June 2024 market close

Disclosure appendix

Additional disclosures

- 1 This report is dated as at 19 June 2024.
- 2 All market data included in this report are dated as at close 18 June 2024, unless a different date and/or a specific time of day is indicated in the report.
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