



CHINA ECONOMICS WEEKLY

Sign of a property turnaround are building

Buyer sentiment seems to be improving

New home sales have taken a beating since their peak in early 2021. But there are some green shoots in the recent data which show sales in large cities rising at the start of this year. (See Chart 1.) We think this could mark a turning point for the housing market. The structural headwinds that are weighing on housing demand haven't gone away. But sales are so downtrodden that we see some room for a cyclical rebound as sentiment improves.

Chart 1: New Home Sales (million sqm, seas. adj.)



Sources: CEIC,WIND, Capital Economics

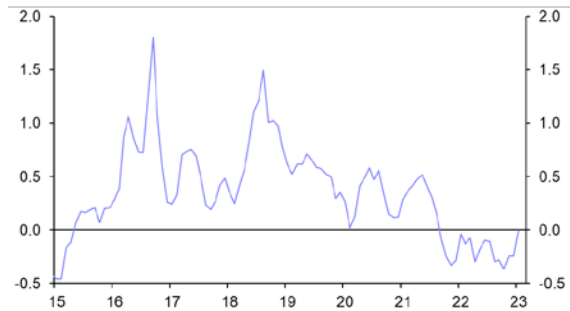
Admittedly, the sector has been through a couple of false starts recently. An uptick in sales in late 2021, when policymakers began to ease property controls, was derailed by the arrival of the Omicron variant. And the subsequent rebound following the lifting of Shanghai's lockdown was undone by mortgage boycotts, which undermined confidence in the ability of developers to deliver pre-sold apartments.

There are good reasons to think the latest upturn could prove more durable, however. For a start, the risk of future lockdowns is now gone. More generally, the shift toward living with COVID has improved the economic outlook, which should boost sentiment among homebuyers. It's noteworthy that, following a record 16-month decline, home prices stopped falling in January. (See Chart 2.)

Constraints on developer access to financing have also been relaxed recently, giving them more breathing room. Defaults on their bonds have

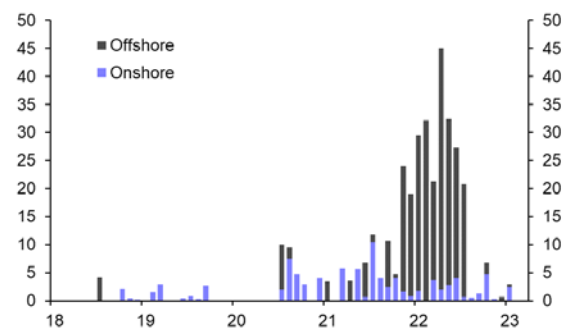
dropped back (see Chart 3) and they are making headway restarting stalled projects. This should help ease homebuyer concerns about counter-party risk.

Chart 2: New House Price (% m/m, 70 city ave.)



Sources: CEIC, Capital Economics

Chart 3: Real Estate Sector Bond Defaults (RMB bn)



Sources: WIND, Bloomberg, Capital Economics

Signs of a turnaround have yet to show up in the mortgage lending data, which was still weak in January. But this data may have been distorted by households prepaying their mortgages using cheap loans offered by banks as part of a government campaign to boost consumption. And in any case, mortgage lending typically lags home sales by a month or so, as the mortgage approval process takes place after the sales agreement has been signed.

The week ahead

The lack of any adjustment to the PBOC's MLF rate means the LPR is also likely to remain unchanged. And with Hong Kong's economy on the mend, we expect the city's government to outline plans for fiscal consolidation in its 2023/24 budget statement.

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Data Previews

Loan Prime Rate (Feb.)

Mon. 20th Feb.

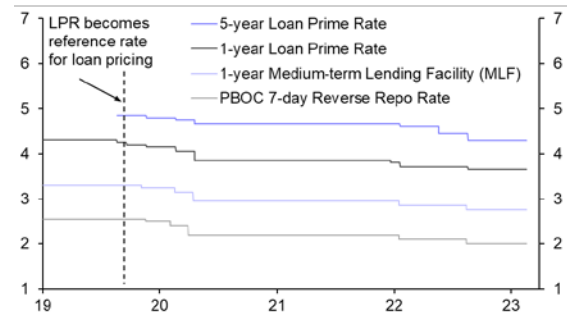
Forecasts	Time (China)	Previous	Consensus	Capital Economics
Loan Prime Rate (1-year)	09.15	3.65%	3.65%	3.65%

To soon to rule out rate cuts

The PBOC opted not to alter the rate on its medium-term lending facility (MLF) earlier this week, the usual precursor to changes in the Loan Prime Rate (LPR). As such, we don't expect any next week.

Still, we think it's too early to rule out rate cuts over the coming months. Admittedly, with the economy now on the mend, the case for cuts is arguably diminishing. But it wouldn't be the first time the PBOC has waited until the recovery is well underway before cutting rates. After staying on the sidelines during the initial post-Shanghai lockdown rebound, it eventually surprised markets with a cut last August. (See Chart 4.)

Chart 4: Policy Rates (%)



Sources: CEIC, Capital Economics



Economic Diary & Forecasts

Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (China)	Previous*	Median*	CE Forecasts*
February						
Mon 20 th		Chn 1-Year Loan Prime Rate (Feb.)	(09.15)	3.65%	3.65%	3.65%
Wed 22 nd		HK 2023/24 Budget Announcement	-	-	-	-
Thu 23 rd		HK Consumer Prices (Jan.)	(16.30)	(+2.0%)	-	(+1.6%)
Also expected during this period:						
TBC		Chn Government Revenue and Expenditure (Jan.)	-	-	-	-
TBC		Chn CBRC Data on Assets and Liabilities of Financial Institutions (Jan.)	-	-	-	-
Selected future data releases and events:						
February						
Mon 27 th		HK GDP (Q4, Fin.)				
		HK Trade Data (Jan.)				
March						
Wed 1 st		Chn Official PMIs (Feb.)				
		Chn Caixin Manufacturing PMI (Feb.)				
Thu 2 nd		HK Retail Sales (Jan.)				
Fri 3 rd		Chn Caixin Services PMI (Feb.)				

Main Economic & Market Forecasts

%q/q annualised (%y/y), unless stated	Latest	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	2022	2023f	2024f
Official GDP	0.0(+2.9)*	(3.4)	(7.6)	(5.1)	(6.4)	(5.6)	(3.0)	(5.5)	(5.0)
GDP (CE CAP-derived estimates)	-2.6(-5.9)*	(-0.9)	(7.2)	(5.9)	(10.3)	(6.7)	(-2.4)	(5.5)	(5.0)
Consumer Prices	(+2.1)***	(2.8)	(2.1)	(2)	(2.2)	(2)	(2.0)	(2.4)	(1.6)
Producer Prices	(-0.8)***	(-1.2)	(-3)	(-0.7)	(0.1)	(0.1)	(4.1)	(-1.0)	(0.5)
Broad Credit (AFRE)	(+9.4)***	(9.1)	(9.2)	(9.8)	(10.4)	(10.4)	(9.6)	(10.4)	(9.2)
Exports (US\$)	(-9.9)**	(-14.2)	(-16.4)	(-18.3)	(-8.4)	(-1.2)	(7.0)	(-14.5)	(0.0)
Imports (US\$)	(-7.5)**	(2.9)	(-3.4)	(-8)	(1.2)	(1.2)	(1.1)	(-2)	(3.5)
RMB/\$ [†]	6.87	6.75	6.80	6.65	6.50	6.48	6.95	6.50	6.40
7-day PBOC reverse repo [†] %	2.00	1.90	1.80	1.80	1.80	1.80	2.00	1.80	1.80
1-year Loan Prime Rate [†] (LPR) %	3.65	3.55	3.45	3.45	3.45	3.45	3.65	3.45	3.45
1-year MLF Rate [†] %	2.75	2.65	2.55	2.55	2.55	2.55	2.75	2.55	2.55
10-year Government Bond Yield [†] %	2.90	2.80	2.70	2.90	3.10	3.10	2.85	3.10	3.10
RRR (major banks) [†] %	11.00	10.75	10.75	10.75	10.75	10.75	11.00	10.75	10.75
CSI 300 Index [†]	4,094	4,150	4,300	4,550	4,770	4,850	3,872	4,770	5,110
Hong Kong GDP	(-4.2)*	(1.5)	(2.3)	(7.4)	(9.8)	(9.5)	(-3.5)	(5.5)	(9.5)
Hang Seng Index [†]	20,958	22,500	23,750	25,000	26,000	26,375	19,781	26,000	27,500

Sources: Bloomberg, Refinitiv, CEIC, Capital Economics *Q4; **Dec.; ***Jan.; [†] End of period



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