

CHINA ECONOMICS WEEKLY

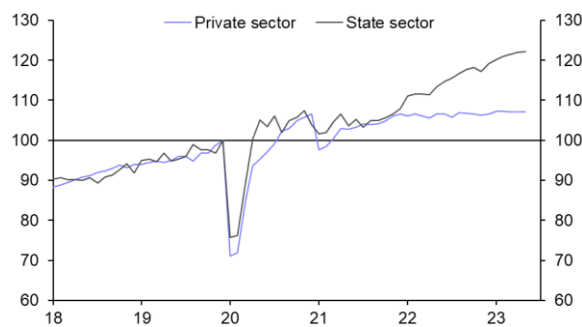
Fiscal stimulus needed, baby bust continues

Monetary easing alone won't suffice

Data published this week made it clear that the reopening recovery has stalled. **Momentum weakened** almost across the board in May, and the labour market began to soften again. Broad credit growth also **slowed sharply**. The PBOC sprung into action, reducing its policy rates by 10bps. We discussed these developments in a Drop-In, which is available on demand [here](#). One takeaway is that more stimulus is almost certainly on its way.

The main challenge will be reviving animal spirits. Households are sitting on large deposit balances, preferring neither to spend nor to invest in property or financial products. Private firms are also holding back. Their capital spending has been largely stagnant over the past couple of years. (See Chart 1.)

Chart 1: Fixed Investment (Dec. 2019=100, seas. adj.)



Sources: CEIC, Capital Economics

Small falls in interest rates won't on their own trigger a jump in household or corporate borrowing and spending. Fiscal transfers offer more promise but their effect will be dampened if, as is likely, a large portion of the windfall is saved rather than spent.

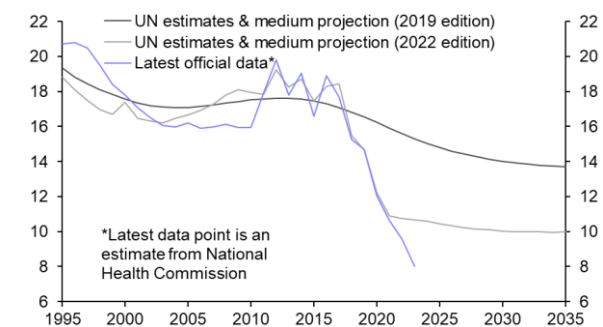
In the short-run, the most effective way for officials to boost demand is to direct state entities to spend more. The constraints here are largely self-imposed and could be relaxed if need be – there is already talk of a RMB1trn sovereign special bond issuance (0.8% of GDP) to fund infrastructure spending. That would mean accepting a further rise in government debt. But that's a price that policymakers are probably willing to pay to keep the recovery alive.

Fewer marriages, fewer babies

Data published this week show that the number of marriages fell a further 10.6% last year, faster than the 6.1% decline the year before. Total marriages have halved since the 2013 peak and were the lowest since 1979. A shrinking population of young adults can take much of the blame. And zero-COVID disruptions probably contributed to last year's decline. But the marriage rate has been falling within age cohorts for many years, a sign that young Chinese are becoming less inclined to tie the knot.

This bodes poorly for the demographic outlook. There were 9.6 million births in 2022, a record low. The decline is continuing this year. Leaked government estimates based on maternity ward bookings suggest that annual births will fall to around eight million. That's a quarter below the projections the UN made only last year and suggests China's population is set to shrink faster than most expect. (See Chart 2.)

Chart 2: Total Number of Births (million)



Sources: CEIC, NHC, UN, Capital Economics

In response, the authorities have made it easier to get married, no longer discourage childbirth outside of marriage and are meeting more of the costs of bearing and raising children. But experience elsewhere suggests this will have a limited effect – shifts in social norms around family size are hard to reverse. The last decade's plunge in births still won't affect the size of China's workforce for a while, but it is already acting as drag on housing demand.

The week ahead

The Loan Prime Rate is set to be cut on Tuesday.



Data Previews

Loan Prime Rate (Jun.)

Tue. 20th Jun.

Forecasts	Time (China)	Previous	Consensus	Capital Economics
Loan Prime Rate (1-year)	09.15	3.65%	3.55%	3.55%
Loan Prime Rate (5-year)	09.15	4.30%	4.20%	4.15%

Cut is a given after policy rate reductions

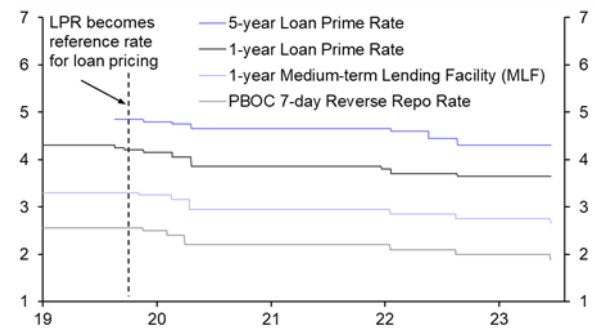
The PBOC cut its 7-day reverse repo rate, the main rate at which it provides short-term liquidity to banks, from 2.00% to 1.90% on Tuesday. It also lowered its 1-year Medium-term Lending Facility (MLF) rate from 2.75% to 2.65% on Thursday. Both were the first cuts since last August. (See Chart 3.)

The Loan Prime Rate (LPR) is set by applying a markup to the MLF rate. Therefore, reductions are pretty much a given. We forecast a 10bps cut to 1-year LPR and a 15bps reduction to the 5-year LPR. The cut to the 5-year LPR is likely to be larger given the PBOC's intention to support the property market.

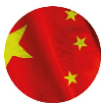
These cuts will lower the cost of new loans, as well as interest payments on existing loans (though not always immediately). That should offer some modest

support to economic activity. But we think it is unlikely to drive a sharp acceleration in credit growth, given still weak credit demand.

Chart 3: 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*
June						
Mon 19 th		HK Unemployment Rate (May)	(16.30)	3.00%	-	3.00%
Tue 20 th		Chn 1-Year Loan Prime Rate (Jun.)	(09.15)	3.65%	3.55%	3.55%
		Chn 5-Year Loan Prime Rate (Jun.)	(09.15)	4.30%	4.20%	4.15%
		HK Consumer Prices (May)	(16.30)	(+2.1%)	-	(+2.4%)
Thu 22 nd		HK Public Holiday - Tuen Ng Festival	-	-	-	-
22 nd – 24 th		Chn Public Holiday – Dragon Boat Festival	-	-	-	-
Also expected during this period:						
TBC		Chn Government Revenue and Expenditure (May)	-	-	-	-
TBC		Chn CBRC Data on Assets and Liabilities of Financial Institutions (May)	-	-	-	-

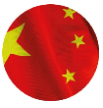
Selected future data releases and events:

June						
Tue 27 th		HK Trade Data (May)				
Wed 28 th		Chn Profits of Large Industrial Firms (May)				
Fri 30 th		Chn “Official” PMIs (Jun.)				
		Chn Current Account Balance (Q1, Fin.)				

Main Economic & Market Forecasts

%q/q annualised (%y/y), unless stated	Latest	Q2 2023	Q3 2023	Q4 2023	Q1 2024	2022	2023f	2024f	2025f
Official GDP	+2.2(+4.5)*	(8.1)	(5.3)	(5.9)	(4.6)	(3.0)	(6.0)	(4.6)	(4.2)
GDP (CE CAP-derived estimates)	+7.0(+4.2)*	(11.5)	(7.6)	(10.6)	(4.8)	(-2.5)	(8.5)	(4.5)	(4.0)
Consumer Prices	(+0.2)**	(0.4)	(0.3)	(1.0)	(2.4)	(2.0)	(0.5)	(2.0)	(1.0)
Producer Prices	(-4.6)**	(-4.1)	(-2.6)	(-1.8)	(-1.0)	(4.2)	(-2.5)	(-0.5)	(-0.9)
Broad Credit (AFRE)	(+9.5)**	(10.1)	(10.1)	(10.7)	(9.2)	(9.6)	(10.7)	(8)	(7.7)
Exports (US\$)	(-7.5)**	(-15.5)	(-19.0)	(-8.0)	(-12.5)	(7.0)	(-11.0)	(-2.5)	(2.5)
Imports (US\$)	(-4.5)**	(-4.0)	(-8.0)	(0.5)	(1.5)	(1)	(-4.5)	(3.5)	(1)
RMB/\$ [†]	7.12	6.95	6.90	6.90	6.80	6.95	6.90	6.50	6.40
7-day PBOC reverse repo [†] %	1.90	1.90	1.80	1.80	1.80	2.00	1.80	1.80	1.80
1-year Loan Prime Rate [†] (LPR) %	3.65	3.55	3.45	3.45	3.45	3.65	3.45	3.45	3.45
1-year MLF Rate [†] %	2.65	2.65	2.55	2.55	2.55	2.75	2.55	2.55	2.55
10-year Government Bond Yield [†] %	2.68	2.80	2.90	2.90	2.85	2.85	2.90	2.70	2.60
RRR (major banks) [†] %	10.75	10.50	10.25	10.25	10.25	11.00	10.25	10.25	10.25
CSI 300 Index [†]	3,924	3,925	3,940	3,950	4,085	3,872	3,950	4,500	5,100
Hong Kong GDP	(+2.7)*	(4.0)	(9.0)	(11.0)	(7.5)	(-3.5)	(6.5)	(7.5)	(6.5)
Hang Seng Index [†]	19,828	19,900	20,050	20,250	21,185	19,781	20,250	24,000	27,500

Sources: Bloomberg, Refinitiv, CEIC, Capital Economics *Q1; **May; [†] End of period



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