

# CHINA ECONOMICS WEEKLY

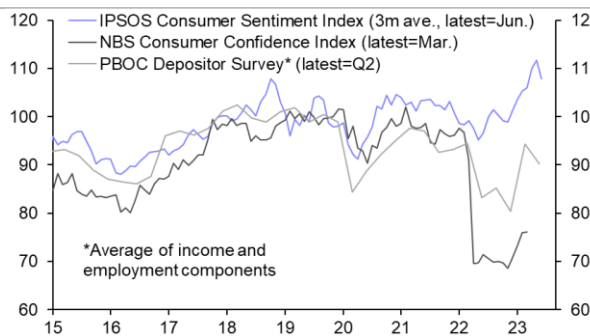
## Households remain cautious, loan demand softens

### PBOC surveys offer clues on propensity to spend...

Yesterday, the People's Bank (PBOC) published the latest results of its quarterly surveys, in which it polls 3,200 banks, 5,000 industrial enterprises and 20,000 households across 50 cities. These offer a valuable window into conditions and sentiment on the ground.

The signals on consumer confidence were mixed. Households reported feeling less upbeat about their income and employment prospects. That's in line with the trajectory of the IPSOS consumer sentiment index which, while still high by historic standards, has also dropped back. (See Chart 1.)

Chart 1: Consumer Confidence Indices (2019 = 100)

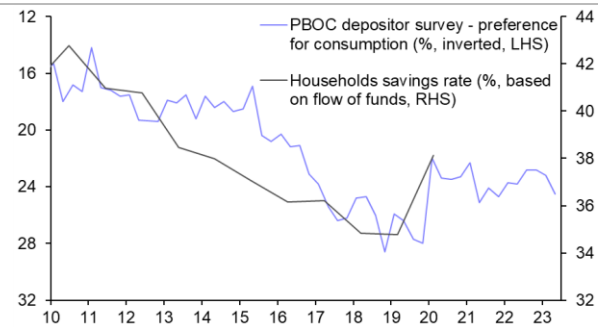


Sources: CEIC, Capital Economics

At the same time, the share of respondents to the PBOC survey voicing a preference for consumption, rather than saving or financial investment, rose to its highest in six quarters. This measure doesn't have a good relationship with estimates of the savings rate based on the quarterly household survey. But it does roughly align with less timely flow of funds data, which ought to be more accurate. (See Chart 2.)

The implication is that the household savings rate probably declined further in Q2 but that it may still be well above pre-pandemic levels, which could be a key reason for the underwhelming recovery in consumer spending. If so, the good news is that there is still room for the savings rate to drop back further. The bad news is that this is unlikely to happen without greater policy support to help arrest the renewed deterioration in household sentiment.

Chart 2: Household Savings Rate

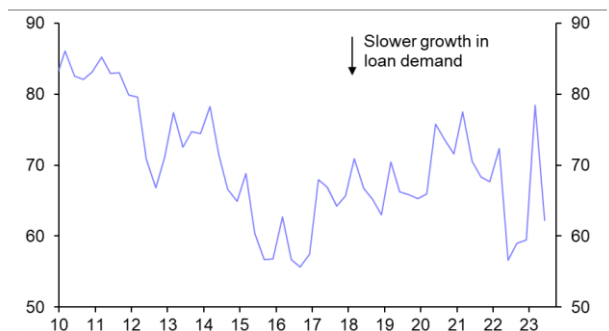


Sources: CEIC, Capital Economics

### ...and bad news on loan demand

The only concrete stimulus measures so far have been this month's 10bps cuts to policy rates. We expect at least one more cut fairly soon. But with the PBOC moving in tiny increments this will do little to revive loan demand. The PBOC surveys suggest that, after a short-lived spike following reopening, loan demand fell sharply in Q2 close to the depressed levels it was at when virus and zero-COVID disruption was damaging appetite for borrowing. (See Chart 3.) At the time, monetary easing had little impact and failed to prevent a further slowdown in credit growth. Policymakers are likely to face the same challenge this time too.

Chart 3: PBOC Banking Survey - Loan Demand (diffusion index)



Sources: CEIC, Capital Economics

### The week ahead

The Caixin PMIs on Monday and Wednesday will give us a second look at the strength of the economy in June.

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## Economic Diary & Forecasts

### Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (China)	Previous*	Median*	CE Forecasts*
<b>July</b>						
Mon 3 <sup>rd</sup>		<b>Chn</b> Caixin Manufacturing PMI (Jun.)	(09.45)	50.9	50.0	50.0
		<b>HK</b> Retail Sales (May)	(16.30)	(+15.0%)	(+23.3%)	-
Wed 5 <sup>th</sup>		<b>Chn</b> Caixin Services PMI (Jun.)	(09.45)	57.1	56.2	54.0
Fri 7 <sup>th</sup>		<b>Chn</b> Foreign Exchange Reserves (Jun., USD)	-	+3177b	-	-

### Selected future data releases and events:

#### July

Mon 10<sup>th</sup> **Chn** Inflation Data (Jun.)

Thu 13<sup>th</sup> **Chn** Trade Data (Jun.)

Sat 15<sup>th</sup> **Chn** Home Prices (70 Cities, Jun.)

Also expected during this period:

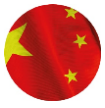
9<sup>th</sup> – 15<sup>th</sup> **Chn** Credit Data (Jun., RMB)

11<sup>th</sup> – 18<sup>th</sup> **Chn** Foreign Direct Investment (Jun., RMB)

### 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)	(4.8)	(3.0)	(6.0)	(4.6)	(4.2)
GDP (CE CAP-derived estimates)	+7.0(+4.2)*	(11)	(7.6)	(11.2)	(4.8)	(-2.5)	(8.5)	(4.5)	(4.0)
Consumer Prices	(+0.2)**	(0.2)	(0.0)	(0.5)	(1.7)	(2.0)	(0.5)	(2.0)	(1.5)
Producer Prices	(-4.6)**	(-4.1)	(-2.6)	(-1.9)	(-1.2)	(4.2)	(-2.5)	(-0.7)	(-0.9)
Broad Credit (AFRE)	(+9.5)**	(9.9)	(10.0)	(10.8)	(9.5)	(9.6)	(10.8)	(8.9)	(8.3)
Exports (US\$)	(-7.5)**	(-10.0)	(-16.0)	(-5.5)	(-10.0)	(7.0)	(-8.0)	(-3.0)	(2.5)
Imports (US\$)	(-4.5)**	(-6.0)	(-11.0)	(-3.0)	(15.5)	(1)	(-7)	(7.5)	(1.5)
RMB/\$ <sup>†</sup>	7.25	7.25	7.05	6.90	6.80	6.95	6.90	6.50	6.40
7-day PBOC reverse repo <sup>†</sup> %	1.90	1.90	1.80	1.80	1.80	2.00	1.80	1.80	1.80
1-year Loan Prime Rate <sup>†</sup> (LPR) %	3.55	3.55	3.45	3.45	3.45	3.65	3.45	3.45	3.45
1-year MLF Rate <sup>†</sup> %	2.65	2.65	2.55	2.55	2.55	2.75	2.55	2.55	2.55
10-year Government Bond Yield <sup>†</sup> %	2.69	2.69	2.80	2.80	2.70	2.85	2.90	2.70	2.60
RRR (major banks) <sup>†</sup> %	10.75	10.75	10.50	10.25	10.25	11.00	10.25	10.25	10.25
CSI 300 Index <sup>†</sup>	3,837	3,837	3,984	3,950	4,088	3,872	3,950	4,500	5,100
Hong Kong GDP	(+2.7)*	(4.0)	(9)	(10.5)	(7)	(-3.5)	(6.5)	(7.5)	(6.5)
Hang Seng Index <sup>†</sup>	18,984	18,984	19,350	19,750	23,500	19,781	19,750	23,500	27,000

Sources: Bloomberg, Refinitiv, CEIC, Capital Economics \*Q1; \*\*May; <sup>†</sup>End of period



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