

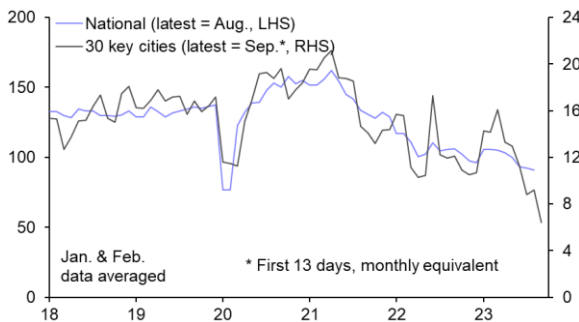
# CHINA ECONOMICS WEEKLY

## Too soon to conclude property easing has failed

Property controls have been substantively relaxed in recent weeks. The [big announcements](#) came on the last day of August. But there has since been plenty of easing at the local level too. At least ten large cities have lifted all home purchase restrictions. Others have relaxed them. For example, Shenzhen and Shanghai are making it easier for non-locals to buy property. Price restrictions are also being lifted in some cities, including Beijing and Guangzhou. Although this may weigh on prices in the near-term, it should facilitate an eventual rebound in sales by giving developers more room to offer discounts.

So far, however, none of this has translated into a meaningful turnaround at the national level. In fact, daily data for large cities suggest that sales have fallen further this month. (See Chart 1.) But we think it is too early to conclude that the easing measures have therefore failed.

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



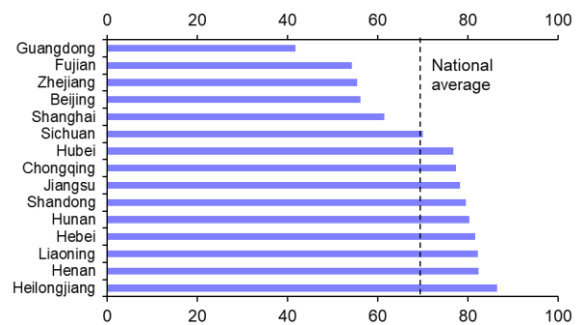
Sources: CEIC, WIND, Capital Economics

Because property controls are set at the local level, the impact of changes to national rules takes time to be felt, as local governments gradually adjust their own policies in response. Most tier two cities have now cut the downpayment ratio for first time buyers to the new floor of 20%, but many only did so in the past few days. Tier one cities have yet to do so but could follow suit if sales remain weak.

As the easing measures are implemented more widely, we think this will meaningfully move the needle on near-term housing demand. Homeownership rates are quite low in the most

prosperous cities along China's eastern coast, as non-locals had been largely excluded from the housing market. (See Chart 2.) With controls being relaxed, that's now changing.

Chart 2: City Home-ownership Rate by Province (% , 2020)



Sources: NBS, Capital Economics

For instance, a non-local who sold their house in their hometown to purchase one in Shenzhen will now be treated as a first-time buyer requiring a 30% downpayment instead of the 80% rate that they would have been subjected to previously.

Admittedly, there are lots of rural migrants who won't be able to afford a home in their host city, even with fewer curbs. But there are also plenty of white-collar migrants. A greater number of them will now be able to realise their aspirations of buying a home in the city where they work and live.

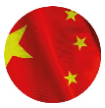
It remains to be seen if this incremental demand will prove sufficient to drive a rebound in home sales. But for what it's worth, Qingdao, Nanjing, Chengdu and Hangzhou, the cities that cut downpayment requirements fastest among those we have data for, have all seen a year-on-year rise in new home sales during the past week. And this may understate the initial boost since it can take a week or more for transactions to show up in the data due to the paperwork involved in finalising sales contracts.

### The week ahead

The Loan Prime Rate is likely to remain unchanged next week given that the PBOC didn't adjust its MLF rate today, the usual precursor to an LPR change.

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## Data Previews

### Wed. 20<sup>th</sup> Sep. – Loan Prime Rate (Sep.)

Forecasts	Time (China)	Previous	Consensus	Capital Economics
Loan Prime Rate (1-year)	09.15	3.45%	3.45%	3.45%
Loan Prime Rate (5-year)	09.15	4.20%	4.20%	4.20%

#### *Further rate cuts likely, but not this month*

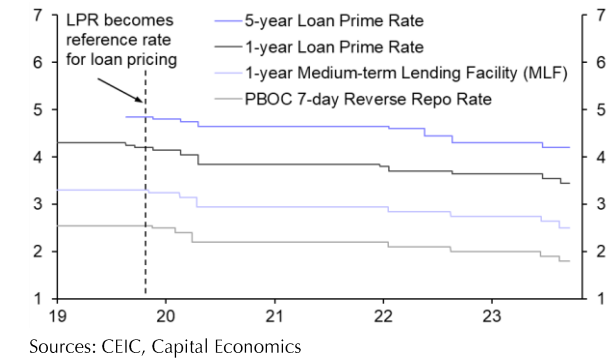
The PBOC **cut** the 1-year Loan Prime Rate (LPR) by 10bps last month, while keeping the 5-year LPR unchanged. (See Chart 3.) We think the central bank will leave both rates on hold this month.

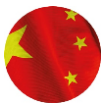
The PBOC refrained from cutting the interest rate on its medium-term lending facility (MLF), typically a precursor to adjustments to the LPR. Admittedly, the central bank announced a 25bps **cut** to banks' required reserve ratios (RRR) yesterday and a 20bps reduction to its 14-day PBOC reverse repo rate today. But some previous RRR adjustments, including the most recent one in March, were not immediately followed by policy rate cuts. And the adjustment to the 14-day PBOC reverse repo rate is just mirroring the reductions in the 7-day rate reductions made earlier this year.

More fundamentally, **credit** and **activity** data were stronger than expected last month, which reduces

the case for a back-to-back reduction in policy rates. Doing so would put pressure on the renminbi and thereby risk undoing the PBOC's recent success in stabilising the exchange rate. That said, with economic momentum still weak and the PBOC likely keen to nurture a stronger recovery, we do still expect another 20bp of rate cuts next quarter.

Chart 3: Policy Rates (%)





# Economic Diary & Forecasts

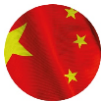
## Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (China)	Previous*	Median*	CE Forecasts*
<b>September</b>						
Tue 19 <sup>th</sup>		<b>HK</b> Unemployment Rate (Aug.)	(16.30)	2.80%	2.80%	2.80%
Wed 20 <sup>th</sup>		<b>Chn</b> 1-Year Loan Prime Rate (Sep.)	(09.15)	3.45%	3.45%	3.45%
		<b>Chn</b> 5-Year Loan Prime Rate (Sep.)	(09.15)	4.20%	4.20%	4.20%
Thu 21 <sup>st</sup>		<b>HK</b> Consumer Prices (Aug.)	(16.30)	(+1.8%)	(+2.0%)	(+2.0%)
Also expected during this period:						
11 <sup>th</sup> – 18 <sup>th</sup>		<b>Chn</b> Foreign Direct Investment (Aug., RMB)	-	(-4.0%)	-	-
TBC		<b>Chn</b> PBOC Balance Sheet Data (Aug.)	-	-	-	-
TBC		<b>Chn</b> Government Revenue and Expenditure (Aug.)	-	-	-	-
TBC		<b>Chn</b> Trade – Detailed Breakdown (Aug.)	-	-	-	-
TBC		<b>Chn</b> CBRC Data on Assets and Liabilities of Financial Institutions (Aug.)	-	-	-	-
<b>Selected future data releases and events:</b>						
<b>September</b>						
Tue 26 <sup>th</sup>		<b>HK</b> Trade Data (Aug.)				
Wed 27 <sup>th</sup>		<b>Chn</b> Profits of Large Industrial Firms (Aug.)				
Thu 28 <sup>th</sup>		<b>Chn</b> Current Account Balance – Final (Q2, USD)				
Fri 29 <sup>th</sup>		<b>Chn</b> Caixin Manufacturing PMI (Sep.)				
		<b>HK</b> Retail Sales (Aug.)				
		<b>Chn</b> Mid-Autumn Festival (National Holiday)				

## Main Economic & Market Forecasts

%q/q annualised (%y/y), unless stated	Latest	Q3 2023	Q4 2023	Q1 2024	Q2 2024	2022	2023f	2024f	2025f
Official GDP	+0.8(+6.3)*	(3.9)	(4.9)	(3.9)	(4.2)	(3.0)	(5.0)	(4.5)	(4.0)
GDP (CE CAP-derived estimates)	+2.5(+11.3)*	(4.7)	(7.7)	(5.2)	(3.4)	(-3.4)	(6.5)	(4.0)	(2.5)
Consumer Prices	(+0.1)**	(-0.2)	(0.0)	(0.9)	(1.0)	(2.0)	(0.5)	(1.0)	(1.0)
Producer Prices	(-3.0)**	(-2.9)	(-2.6)	(-2.2)	(-1.0)	(4.0)	(-3.0)	(-1.5)	(-0.5)
Broad Credit (AFRE)	(+9.0)**	(10.0)	(10.8)	(9.5)	(9.3)	(9.6)	(10.8)	(8.9)	(8.3)
Exports (US\$)	(-8.8)**	(-16.0)	(-5.5)	(-10.0)	(-4.0)	(7.0)	(-8.0)	(-3.0)	(2.5)
Imports (US\$)	(-7.3)**	(-11.0)	(-3.0)	(15.5)	(6.5)	(1.0)	(-7.0)	(7.5)	(1.5)
RMB/\$ <sup>†</sup>	7.28	7.30	7.30	7.20	7.10	6.95	7.30	6.90	6.70
7-day PBOC reverse repo <sup>†</sup> %	1.80	1.70	1.60	1.60	1.60	2.00	1.60	1.60	1.60
1-year Loan Prime Rate <sup>†</sup> (LPR) %	3.45	3.30	3.20	3.20	3.20	3.65	3.20	3.20	3.20
1-year MLF Rate <sup>†</sup> %	2.50	2.40	2.30	2.30	2.30	2.75	2.30	2.30	2.30
10-year Government Bond Yield <sup>†</sup> %	2.63	2.50	2.40	2.50	2.60	2.85	2.40	2.60	2.60
RRR (major banks) <sup>†</sup> %	10.50	10.50	10.25	10.25	10.25	11.00	10.25	10.25	10.25
CSI 300 Index <sup>†</sup>	3,733	3,750	3,800	3,900	4,000	3,872	3,800	4,200	4,900
Hong Kong GDP	(+1.5)*	(7.0)	(10.5)	(7.0)	(10.5)	(-3.5)	(5.5)	(9.0)	(6.0)
Hang Seng Index <sup>†</sup>	18,048	18,100	18,250	23,938	24,875	19,781	18,250	23,000	26,750

Sources: Bloomberg, Refinitiv, CEIC, Capital Economics \*Q2; \*\*Aug.; <sup>†</sup> End of period



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