CHINA ECONOMICS WEEKLY

State taking a bigger role in homebuilding

Developers retreating, LGFVs taking their place

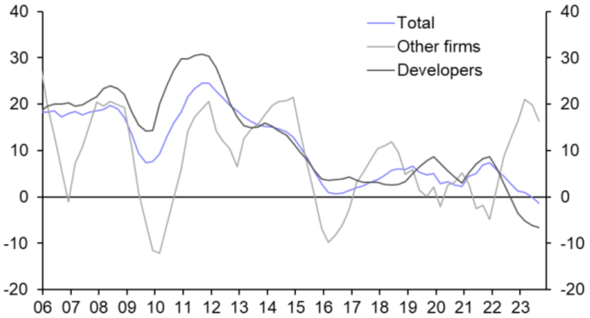
In remarks published by state media last weekend, China's housing minister, Ni Hong, discussed plans to alter the country's real estate development model, shifting the focus from quantity to quality. There is still a shortage of housing in some major cities. But the main task going forward will be to upgrade the housing stock, rather than substantially increase it.

While private developers will play some part in this process, policymakers clearly envisage a greater role for the state. Ni Hong revealed that the central leadership has decided to pursue "three major projects" as part of the new model – the construction of social housing, the renovation of urban villages and the construction of dual-use public facilities that can be used as shelters, logistics hubs or medical centres during emergencies.

These aren't new initiatives. China has been building social housing in various forms for years. Urban village renovation is similar to the shantytown redevelopment scheme that propped up home sales and construction in the mid-2010s. And local authorities began building dual-use public facilities in 2021 to help manage COVID-19 outbreaks.

Indeed, there has already been a step-up in such projects recently, led by local governments and their financing vehicles. This helps explains the pick-up in building construction by non-developers, which has provided a partial offset to the downturn in developer homebuilding. (See Chart 1.)

Chart 1: Floor Space Under Construction (% y/y, 4-qtr rolling)



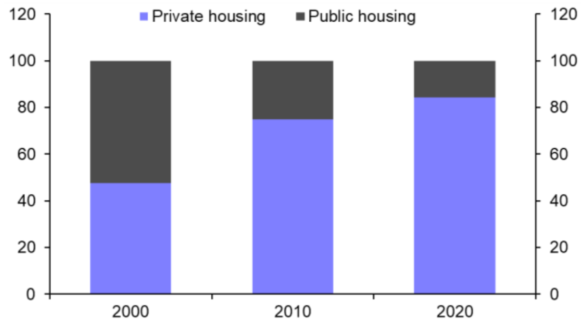
Sources: CEIC, Capital Economics

But with these projects now receiving greater attention from the central leadership, there's a higher likelihood that they will be ramped up further. Media reports suggest that officials are considering providing at least RMB1trn (0.8% of GDP) in low-cost financing to support the "three major projects", most likely via the PBOC's Pledged Supplementary Lending (PSL) facility, the same one used to finance the shantytown redevelopment scheme.

A RMB1trn PSL injection would exceed, in nominal terms, the record injection seen in 2016. That's on top of direct fiscal support – roughly 15% of local government bond issuance is currently directed toward social housing and urban renovations.

Coupled with a step-up in infrastructure spending, this increase in building activity by the state should allow overall construction output to eke out some gains next year, despite a continued decline in homebuilding by developers. It also means that the privatization of China's housing stock over recent decades (see Chart 2) is now going into reverse. Given the leadership's "common prosperity" agenda, we wouldn't be surprised to see this trend continue over the medium-term, with China eventually settling on a hybrid model where private housing plays second fiddle to public housing, similar to the current approach in Singapore.

Chart 2: Share of Urban Housing Stock by Type



Sources: NBS, Capital Economics

The week ahead

The Loan Prime Rate is likely to remain unchanged on Monday. But a reversal in the renminbi will probably open the door to rate cuts before long.

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Data Previews

Mon. 20th Nov. – Loan Prime Rate (Nov.)

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%

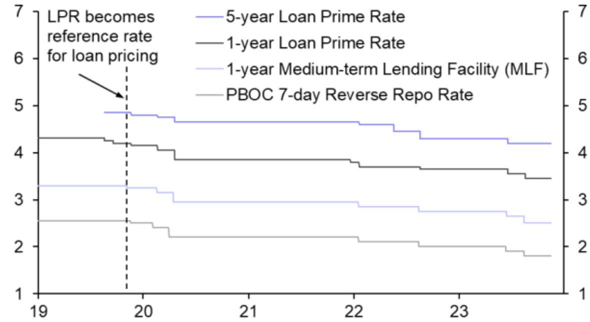
Cuts likely before long, but not this month

The PBOC refrained from cutting the interest rate on its medium-term lending facility (MLF) this month (see Chart 3), typically a precursor to adjustments to the LPR. We therefore don't expect an imminent change.

Admittedly, the PBOC did cut the 5-year LPR last May without first lowering the MLF rate, in a bid to shore up the property market. So a surprise cut isn't out of the question. But policymakers may want more time to assess the impact of the recent repricing of existing mortgage contracts before they make further changes to the benchmark rate.

The big picture though is that, with economic momentum weak and downward pressure on the renminbi reversing, we think rate reductions will come before long. We anticipate 20bp of cuts by the end of Q1 next year.

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*
November						
Mon 20th		**Chn** 1-Year Loan Prime Rate (Nov.)	(09.15)	3.45%	3.45%	3.45%
		Chn 5-Year Loan Prime Rate (Nov.)	(09.15)	4.20%	4.20%	4.20%
Tue 21st		**HK** Consumer Prices (Oct.)	(16.30)	(+2.0%)	(+2.1%)	(+2.1%)
Also expected during this period:						
TBC		**Chn** Government Revenue and Expenditure (Oct.)	-	-	-	-
TBC		**Chn** Trade – Detailed Breakdown (Oct.)	-	-	-	-

Selected future data releases and events:

November		
Mon 27th		**Chn** Profits of Large Industrial Firms (Oct., YTD)
		HK Trade Data (Oct.)
Thu 30th		**Chn** "Official" PMIs (Nov.)
		HK Retail Sales (Oct.)
December		
Fri 1st		**Chn** Caixin Manufacturing PMI (Nov.)
Also expected during this period:		
TBC		Chn CBRC Data on Assets and Liabilities of Financial Institutions (Oct.)
TBC		Chn 3rd Plenum of the 20th Central Committee of the Chinese Communist Party

Main Economic & Market Forecasts

%q/q annualised (%y/y), unless stated	Latest	Q4 2023	Q1 2024	Q2 2024	Q3 2024	2022	2023f	2024f	2025f
Official GDP	+1.3(+4.9)*	(5.1)	(3.9)	(4.5)	(4.3)	(3.0)	(5.0)	(4.5)	(4.0)
GDP (CE CAP-derived estimates)	+0.9(+7.0)*	(9.8)	(5.1)	(4.4)	(4.4)	(-3.7)	(8.0)	(4.5)	(3.0)
Consumer Prices	(-0.2)**	(-0.1)	(0.7)	(0.9)	(1.4)	(2.0)	(0.5)	(1.0)	(1.5)
Producer Prices	(-2.6)**	(-3.5)	(-3.1)	(-1.9)	(-1.3)	(4.0)	(-3.0)	(-2.0)	(-1.0)
Broad Credit (AFRE)	(+9.3)**	(10.3)	(9.4)	(10.0)	(10.1)	(9.6)	(10.3)	(9.7)	(8.4)
Exports (US$)	(-6.4)**	(-8.0)	(-16.0)	(-19.0)	(-17.5)	(7.5)	(-6.5)	(-14.5)	(1.5)
Imports (US$)	(+3.0)**	(-10.0)	(7.0)	(-1.5)	(-6.0)	(1.0)	(-8.0)	(0.0)	(1.5)
RMB/$†	7.24	7.30	7.20	7.10	7.00	6.95	7.30	6.90	6.70
7-day PBOC reverse repo† %	1.80	1.70	1.60	1.60	1.60	2.00	1.70	1.60	1.60
1-year Loan Prime Rate† (LPR) %	3.45	3.35	3.25	3.25	3.25	3.65	3.35	3.25	3.25
1-year MLF Rate† %	2.50	2.40	2.30	2.30	2.30	2.75	2.40	2.30	2.30
10-year Government Bond Yield† %	2.66	2.40	2.50	2.60	2.60	2.85	2.40	2.60	2.60
RRR (major banks)† %	10.50	10.25	10.25	10.25	10.25	11.00	10.25	10.25	10.25
CSI 300 Index†	3,570	3,800	3,900	4,000	4,100	3,872	3,800	4,200	4,900
Hong Kong GDP	(+4.1)*	(5.9)	(1.7)	(3.5)	(5.2)	(-3.5)	(3.5)	(4.0)	(4.5)
Hang Seng Index†	17,619	18,400	19,365	20,325	21,290	19,781	18,400	22,250	25,500

Sources: Bloomberg, Refinitiv, CEIC, Capital Economics *Q3; **Oct.; †End of period

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