CAPITAL ECONOMICS
凯投宏观

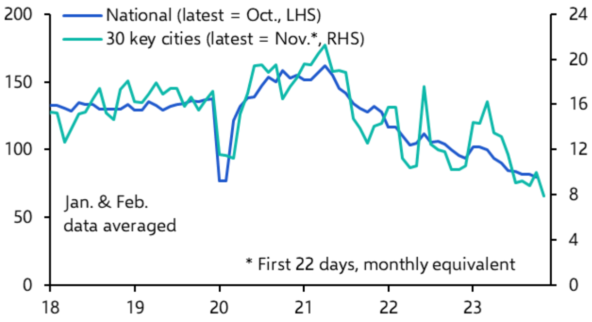
CHINA ECONOMICS WEEKLY

Property rescue efforts intensify

More credit support for developers in the works

Policymakers have been trying, and largely failing, to stabilise the property sector for some time. There was a major step-up in support in September, when downpayment requirements and purchase controls were relaxed in many major cities. But this has so far failed to put a floor beneath the volume of new home sales, which continued to trend down at the national level in October. Sales in 30 large cities did pick up at first. But high-frequency data suggests that the initial rise has since more than reversed in November. (See Chart 1.)

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

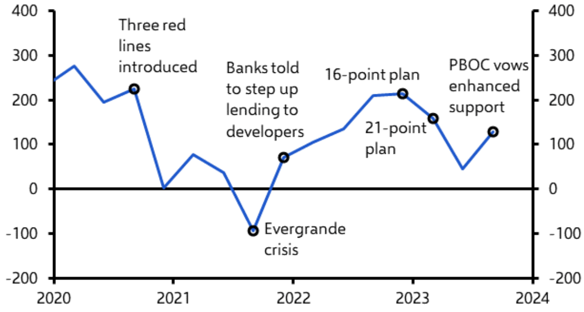


Sources: CEIC, WIND, Capital Economics

Additional demand-side support continues to be rolled out. Shenzhen cut downpayment ratios this week, for example. But policymakers are now refocusing on developer financing. They have drawn up a whitelist of 50 developers, including names such as Country Garden, Vanke and Longfor, to which banks will be encouraged to lend.

Officials never intended to engineer such an abrupt pullback in property lending and have spent the past couple of years trying to slow the decline. Although far from a panacea, these efforts have had some effect. Banks' property-related loans began to fall outright last quarter. But that was due to a decline in mortgages. Lending to developers is holding up better. After a brief pullback during the Evergrande crisis, loans began rising again in late 2021 thanks to window guidance from regulators. Lending softened during the first half of this year but picked up in Q3 as policymakers stepped up efforts to direct financing to developers. (See Chart 2.)

Chart 2: Net Change in Bank Loans to Developers (RMBbn, seas. adj.)



Sources: CEIC, Capital Economics

What's noteworthy about the new measures is that banks are being told to ensure that lending to private developers keeps pace with lending to their state-owned counterparts. That hasn't been the case recently. Since the Evergrande crisis, banks (and homebuyers) have been favouring state developers. As a result, most private developers, even relatively strong ones, have faced reduced access to loans.

The impact of the new guidelines will largely depend on how strictly they are enforced. Banks won't willingly lend more to private developers given the credit risks involved. But officials are presumably aware of this and will likely take steps to compel banks to comply. We anticipate at least some pick-up in lending to developers as a result. This could help accelerate some of the recent progress in reducing the stock of unfinished homes.

Whether this alone can convince potential homebuyers to enter the market is less certain. That may require an additional round of demand-side measures and an improvement in the wider economy. But with households sitting on large deposit balances and new home sales below our estimates of underlying demand, we still think that the housing market will bottom out at some point over the coming year.

The week ahead

The high-frequency data for November have been weak so far. We'll be looking to see if that is reflected in another set of disappointing PMI readings.

Julian Evans-Pritchard, Head of China Economics, julian.evans-pritchard@capitaleconomics.com

Data Previews

Thu. 30th Nov. / Fri. 1st Dec. – Manufacturing PMIs (Nov.)

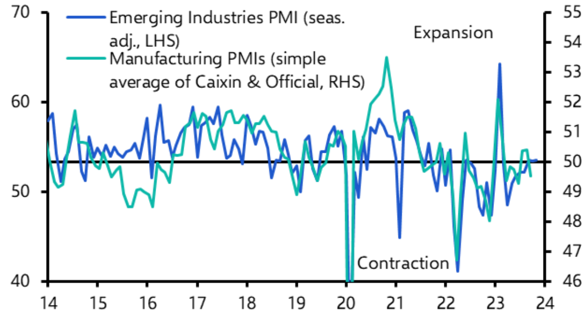
Forecasts	Time (China)	Previous	Consensus	Capital Economics
"Official" PMI (30th Nov.)	09.30	49.5	49.7	49.5
Caixin/S&P Global PMI (1st Dec.)	09.45	49.5	49.3	49.5

Factory activity struggling for momentum

The manufacturing PMIs fell under 50 in October, consistent with a renewed deterioration in factory activity. We think the surveys will be little changed in November.

Most early indicators point to subdued momentum. Admittedly, the timely Emerging Industries PMI – which covers high-tech parts of industry – held broadly steady in November, at levels that would normally be consistent with slightly higher PMI readings. (See Chart 3.) But other indicators have been more downbeat. Steel output declined while cement inventories rose. And the flash PMIs for some of China's major trading partners (EU, Japan, UK) point to continued weakness this month, hinting at some potential downside to external demand.

Chart 3: Manufacturing & Emerging Industry PMIs



Sources: CEIC, S&P Global, Capital Economics

Thu. 30th Nov. / Mon. 5th Dec. – Non-manufacturing PMIs (Nov.)

Forecasts	Time (China)	Previous	Consensus	Capital Economics
"Official" PMI (30th Nov.)	09.30	50.6	51.1	50.5
Caixin/S&P Global PMI (5th Dec.)	09.45	50.4	-	50.5

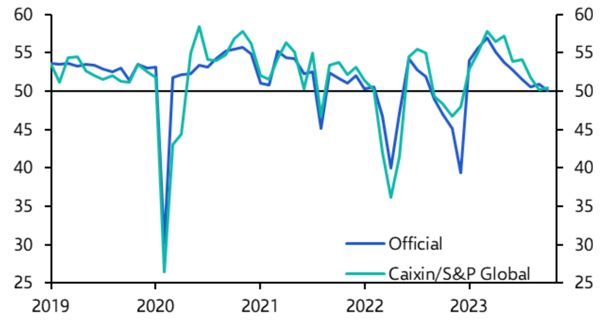
Mixed signals on service sector health

The average of the services PMIs edged down slightly in October and were consistent with sluggish growth. (See Chart 4.) The high frequency data suggest that may have remained the case in November.

Admittedly, the IPSOS consumer sentiment index – which correlates reasonably well with retail sales – continued to improve this month. But home sales appear to have tumbled again, car sales stagnated and service sector job posting continued to slide. As such, any improvement in overall services activity may have been marginal.

Construction activity, which is part of the official non-manufacturing PMI, probably dropped back. Admittedly, bond issuance by local government rose this month, hinting at a pick-up in infrastructure construction. But new housing starts almost certainly fell again. The decline in steel output, increase in cement inventories and lower asphalt operating rate for November suggests that softer homebuilding more than offset any acceleration in infrastructure construction.

Chart 4: Services PMIs



Sources: CEIC, S&P Global, Capital Economics

Economic Diary & Forecasts

Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (China)	Previous*	Median*	CE Forecasts*
November						
Mon 27th		**Chn** Profits of Large Industrial Firms (Oct., YTD)	(09.30)	(-9.0%)	-	-
		HK Exports (Oct.)	(16.30)	(-5.3%)	(-3.5%)	(-3.5%)
		HK Imports (Oct.)	(16.30)	(-0.4%)	(+6.9%)	(+8.0%)
		HK Trade Balance (Oct., HKD)	(16.30)	-64.6bn	-46.5bn	-65.0bn
Thu 30th		**Chn** "Official" Manufacturing PMI (Nov.)	(09.30)	49.5	49.7	49.5
		Chn "Official" Non-manufacturing PMI (Nov.)	(09.30)	50.6	51.1	50.5
		HK Retail Sales (Oct.)	(16.30)	(+13.0%)	(+7.3%)	(+13.0%)
December						
Fri 1st		**Chn** Caixin Manufacturing PMI (Nov.)	(09.45)	49.5	49.3	49.5
Also expected during this period:						
TBC		**Chn** Current Account Balance – Preliminary (Nov.)	-	-	-	-

Selected future data releases and events:

December

Mon 5th		**Chn** Caixin Services PMI (Nov.)
Wed 7th		**Chn** Trade Data (Nov.)
		Chn Foreign Exchange Reserves (Nov.)
Also expected during this period:		
TBC		**Chn** Central Economic Work Conference
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)	+0.7(+6.8)*	(9.6)	(6.1)	(4.3)	(4.6)	(-3.5)	(8.0)	(4.5)	(3.0)
Consumer Prices	(-0.2)**	(0.0)	(0.8)	(1.0)	(1.5)	(2.0)	(0.5)	(1.0)	(1.5)
Producer Prices	(-2.6)**	(-3.4)	(-3.1)	(-1.9)	(-1.3)	(4.0)	(-3.0)	(-1.5)	(-0.5)
Broad Credit (AFRE)	(+9.3)**	(10.3)	(9.4)	(10.0)	(10.1)	(9.6)	(10.3)	(9.7)	(8.4)
Exports (US$)	(-6.4)**	(-8.0)	(-16.0)	(-18.0)	(-15.5)	(7.0)	(-6.0)	(-14.0)	(1.5)
Imports (US$)	(+3.0)**	(-7.5)	(9.0)	(0.0)	(-4.0)	(0.5)	(-7.5)	(1.0)	(1.0)
RMB/$†	7.15	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† %	2.70	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†	3,562	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†	17,911	18,400	19,363	20,325	21,288	19,781	18,400	22,250	25,500

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