

## China Watch

# Growth momentum softened in 4Q; 2023 GDP at 5.2% exceeded target

## Sequential deceleration didn't jeopardize 23' growth target

Both China's 4Q and 2023 real GDP growth came in at 5.2% yoy, largely in line with the market consensus and our expectation. In sequential terms, growth momentum softened (1.0% qoq, vs. a revised reading of 1.5% in 3Q). However, such deceleration didn't change the fact that the official growth target of "around 5%" was achieved.

By sector breakdown, in 2023, the growth of primary, industry (industrial and construction) and tertiary industry (services) came in at 4.1%, 4.7% and 5.8% yoy, respectively.

## December IP growth accelerated; retail sales softened

In December, both IP growth and FAI growth picked up and came in better than the market expectation, while retail sales growth moderated and trailed the consensus. The services sector gross output index grew by 8.5% (vs. 9.3% in Nov).

IP growth picked up to 6.8% yoy in Dec, as mining (4.7%) and manufacturing (7.1%) both accelerated from Nov, while that of utility (7.3%) softened. By industry, IP growth of auto (20%), electronic machinery & equipment (10.1%), computer (9.6%) remained resilient. IP growth of chemical material (11%) and non-ferrous metal (12.9%) also held up. In 4Q, the industrial utilization rate inched up to 75.9% from 75.6% in 3Q.

FAI growth improved to 4% yoy in Dec from 2.9% in Nov. In ytd terms, FAI growth inched up to 3% (from 2.9% previously). By sector breakdown, manufacturing FAI growth picked up to 8.2% yoy (from 7.1%), and infrastructure FAI growth also rebounded notably to 10.7% (vs. 5.4% in Nov), likely due the utilization of the special purposed treasury bond issued last Nov-Dec. Property investment still remained in deep contraction.

Nominal retail sales growth moderated to 7.4% yoy in Dec from 10.1% previously, below expectation. By breakdown, the sales growth of goods increased by 4.8% yoy, a moderation from the 8% in Nov, while catering sales saw a whopping 30% yoy gain in Dec (vs. 25.8% in Nov) against the low year-ago base. Within consumer goods categories, jewelry led the gain, increasing by 29.4% yoy, followed by clothing (+26% yoy). On the flip side, office supplies contracted by 9% yoy while construction materials were down 7.5% yoy. Auto sales growth moderated to only 4% from 14.7% in Nov.

## More coordinated fiscal and monetary support underway

Despite reaching the annual growth target of 2023, the set of Dec and 4Q activity data suggested that there are still weak links in the economy. Combined with earlier data release on PMI and inflation, we believe Chinese policy makers are fully aware of growth headwinds, and will step up their effort in policy easing going forward. In Dec, PBoC has injected liquidity of RMB350bn via PSL to support investment projects. According to the Bloomberg, they are also considering issuing RMB1tn of special treasury bond to boost the investment demand in 2024, and to target on specified areas including food, energy, supply chain security as well as new urbanization. We expect more coordination between fiscal and monetary policies in the coming months.

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Table 1: Summary of Dec/4Q23 data

Dec/4Q data	Actual	BofA		
		Global	BBG	Prev.
		Research		
GDP (2023)	5.2	5.3	5.2	3.0
GDP (4Q)	5.2	5.2	5.3	4.9 <sup>#</sup>
GDP, qoq (4Q)	1.0		1.1	1.5 <sup>#</sup>
IP	6.8	6.8	6.6	6.6
FAI, ytd	3.0	2.9	2.9	2.9
FAI*	4.0	3.2		2.9
Retail sales	7.4	8.0	8.0	10.1
CPI inflation	-0.3	-0.4	-0.4	-0.5
PPI inflation	-2.7	-2.6	-2.6	-3.0
M2	9.7	10.0	10.1	10.0
New loans, RMB bn	1,170	1,500	1,350	1,089
New TSF, RMB bn	1,940	2,340	2,162	2,455
Outstanding loans	10.6	10.7		10.8
Outstanding TSF	9.5	9.7		9.4
Exports	2.3	1.5	1.5	0.5
Imports	0.2	-3.9	-0.5	-0.6
Trade balance, \$bn	75.3	82.2	75.0	68.4
PMI manufacturing	49	49.5	49.6	49.4

**Note:** Unit is percent year-on-year, unless stated otherwise. \*Monthly FAI is BofA Global Research calculation. <sup>#</sup>3Q23 data.

**Source:** Bloomberg, NBS, BofA Global Research estimates.

### Abbreviations

IP: industrial production  
FAI: fixed asset investment  
MLT: medium-to-long term  
A/C: air-conditioning

## Unemployment rate edged up in Dec

Labor market conditions deteriorated slightly in Dec with the surveyed urban unemployment rate inching up to 5.1% in Dec after flat-lining at 5.0% for the prior three months. For the major 31 cities, the unemployment rate stayed flat at 5.0%.

Also coming into focus was the youth employment rate, which has been revised in definition to include only non-student population between 16-24 years old. The revised reading came in at 14.9% in Dec, with no historical series provided. Meanwhile the unemployment rate for 25-29 years old (excl. students) came in at 6.1% in Dec. According to the NBS, these two series combined would offer a more comprehensive picture of labor market conditions for new graduates.

In addition, the services sector gross output index rose by 8.5% yoy in Dec (vs 9.3% in Nov). The accommodation & dining (+34.8%), transport and IT (+13.8%) sectors held up well against a low year-ago base.

## Personal income and outlays increased in 2023

Nominal personal disposable income per capita came in at RMB39,218 in 2023, which represents a 6.3% yoy increase. Adjusting for inflation, disposable income grew by 6.1% yoy. Rural residents saw a relative bigger increase in income, up 7.7% on a nominal basis, compared with 5.1% for urban residents.

On the spending side, nominal personal spending per capita came in at RMB26,796, increasing by 9.2% yoy. Within compositions, services spending accounted for around 45% of total expenditure, a two percentage points increase related to the prior year.

## New home sales contracted further sequentially

For property sector, major indicators continued to stay weak in Dec. By using the calculated growth pace after adjusting the year-ago bases, new home sales contracted further by 16.1% yoy by volume terms (vs. -12.9% in Nov) and by -20.2% yoy in value terms (vs. -11% previously). Total floor space waiting for sales also edged up to 331.19mn sqm (from 318.13mn sqm in Nov).

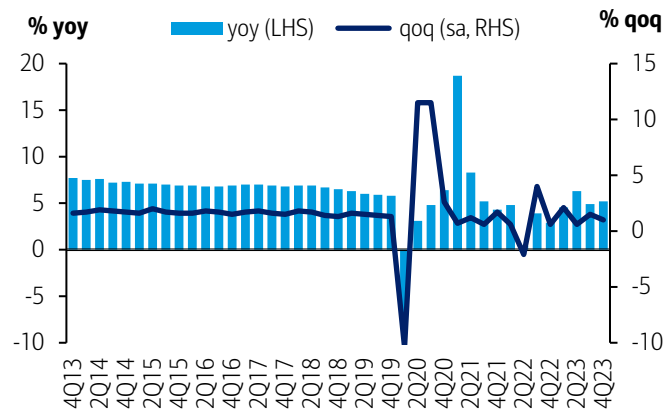
In line with weak home sales, home prices also continued the downward trajectory in Dec. On a mom basis, aggregate new home prices dropped for the seventh consecutive month, down by 0.45%. Prices declined in all major cities besides Beijing and Shanghai.

Residential property investment also continued to stay in double-digit contraction in Dec (-13.8% yoy, vs. -11.3% in Nov). New home starts reversed back into the negative territory, down 13.3% yoy compared with the +6.2% gain in the prior month. That said, the total floor space completed continued to report double-digit growth of 14.8% in Dec (vs. 14.4% in Nov). The area under construction declined by 7.8% yoy ytd in Dec (vs. -7.7% previously).

The funding condition of property developers saw little improvement in Dec. The total fund available for developers contracted by 13.6% yoy (vs. -14.1% in Nov), with pre-sale proceeds (-11.9%) and mortgages (-9.1%) both slightly weaker than the previous month. The contraction in domestic loans (-9.9%) and self-raised funds (-19.1%) was still notable.

**Exhibit 1: China real GDP growth**

GDP growth came in at 5.2% yoy in 4Q, vs. 4.9% in 3Q23, against a lower base

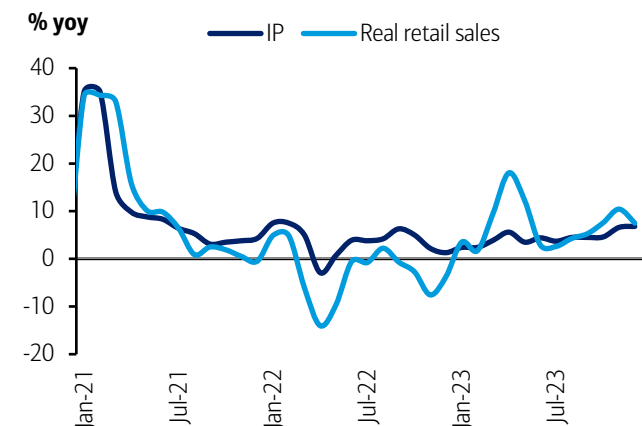


Source: BofA Global Research, CEIC, NBS

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**Exhibit 3: IP and real retail sales growth**

Estimated real retail sales moderated while IP growth improved

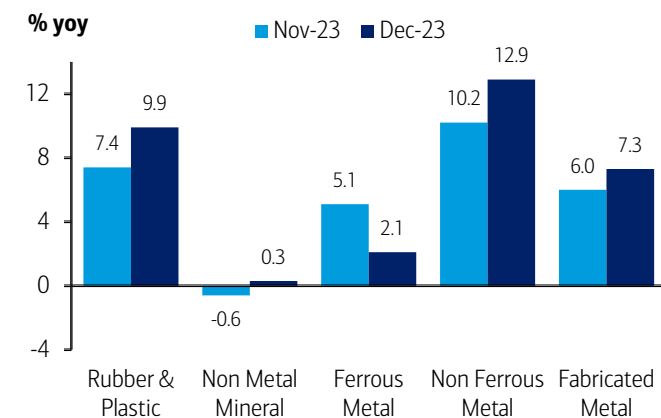


Source: BofA Global Research, CEIC, NBS

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**Exhibit 5: IP of key industries**

IP growth of nonferrous metal and rubber & plastic remained robust in Dec

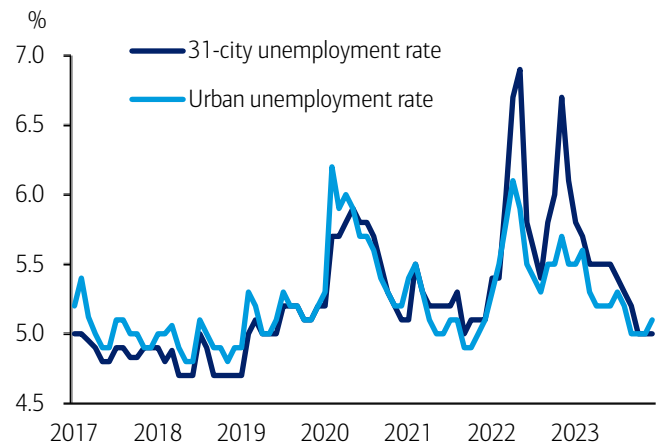


Source: BofA Global Research, CEIC, NBS

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**Exhibit 2: China's 31-city surveyed unemployment rate**

Urban unemployment rate ticked up in Dec

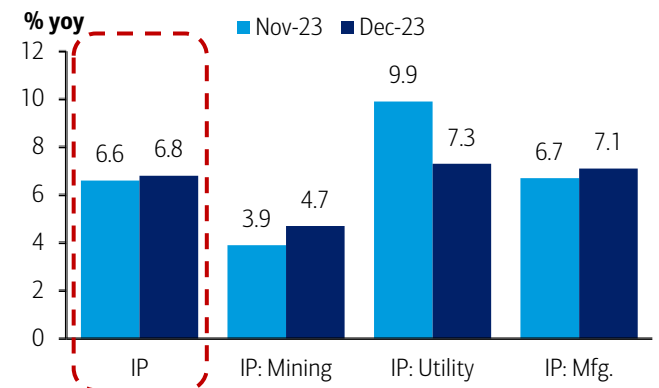


Source: BofA Global Research, CEIC, NBS

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**Exhibit 4: IP by sectors**

IP growth of utility slowed while that of mining and manufacturing improved

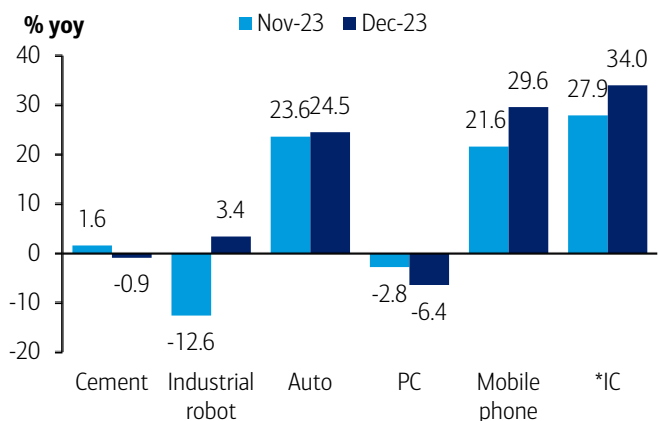


Source: BofA Global Research, CEIC, NBS

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**Exhibit 6: IP of key products**

IP growth of auto, mobile and IC remained strong in Dec; while IP growth of PCs remained in contraction

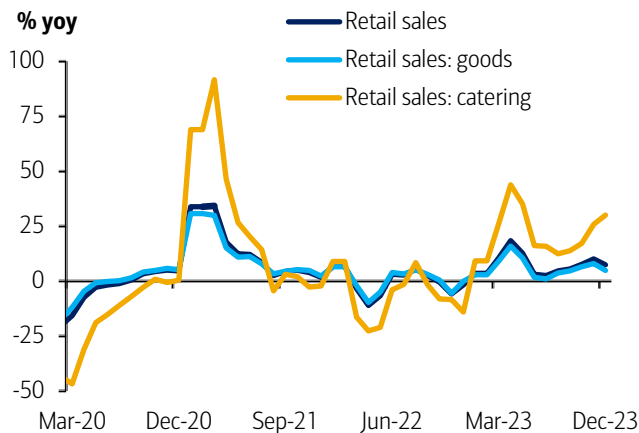


Source: BofA Global Research, CEIC, NBS. Note: \*IC stands for integrated circuits

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**Exhibit 7: Retail sales by category**

Retail sales of catering rose further while retail sales of goods softened

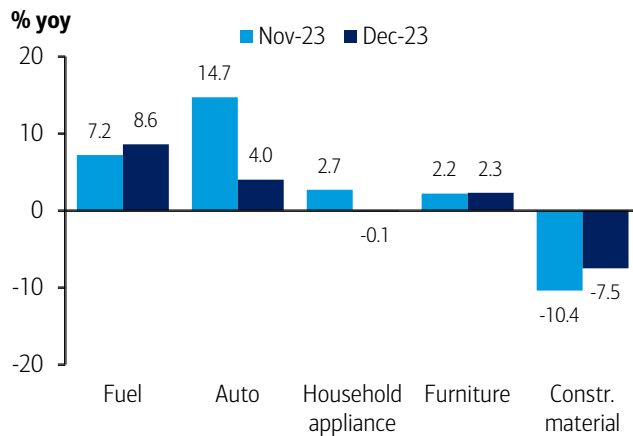


Source: BofA Global Research, CEIC, NBS

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**Exhibit 9: Detailed breakdown of retail sales (2)**

Sales growth of auto moderated notably, while that of fuel edged up

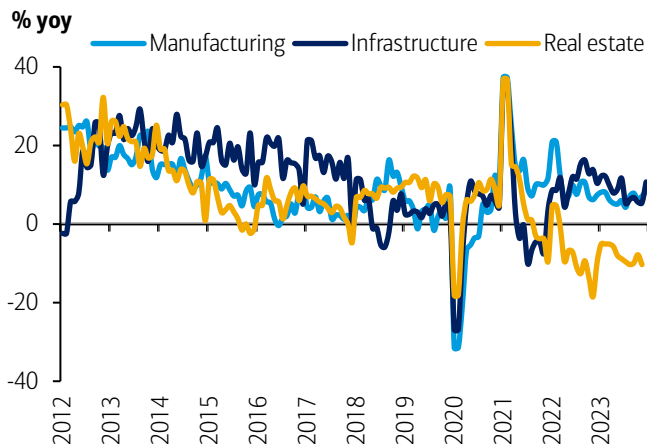


Source: BofA Global Research, CEIC, NBS

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**Exhibit 11: FAI by sectors**

Growth of both manufacturing and infrastructure FAI improved sequentially in Dec

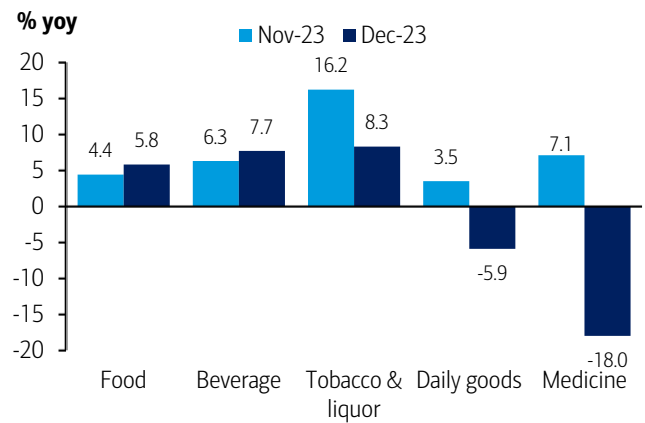


Source: BofA Global Research, CEIC, NBS

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**Exhibit 8: Detailed breakdown of retail sales (1)**

Sales growth of medicine declined in Dec mostly due to the base effect

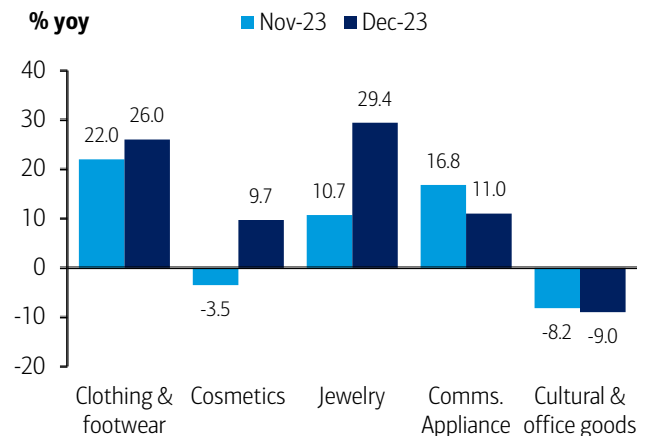


Source: BofA Global Research, CEIC, NBS

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**Exhibit 10: Detailed breakdown of retail sales (3)**

Clothing, jewelry sales picked up in Dec; Cosmetic sales rebounded

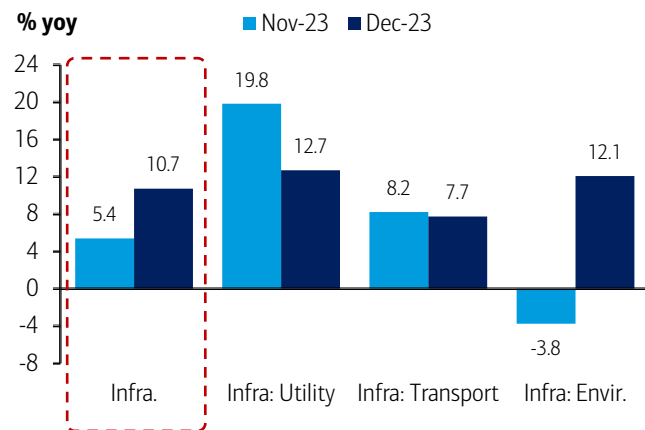


Source: BofA Global Research, CEIC, NBS

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**Exhibit 12: Infrastructure FAI breakdown**

Growth of infrastructure FAI rose by 10.7% yoy, driven by water &amp; environmental sector

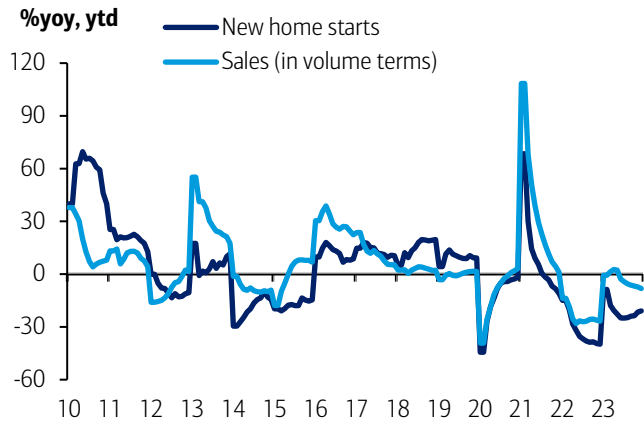


Source: BofA Global Research, CEIC, NBS

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**Exhibit 13: New home starts vs. new home sales**

Both property sales and new starts stayed in contraction

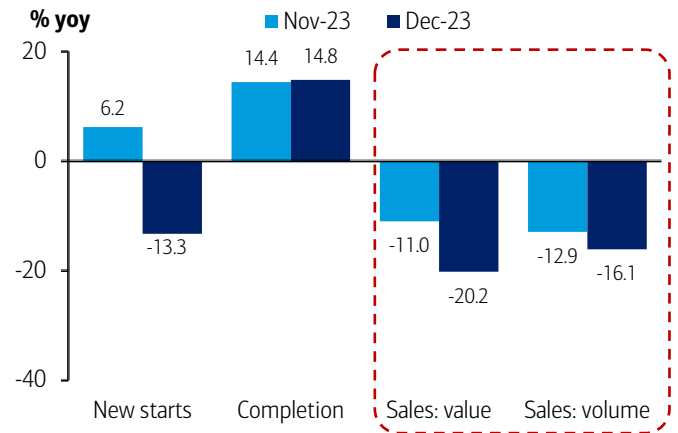


Source: BofA Global Research, CEIC, NBS

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**Exhibit 14: Property sector: new starts, completion, and sales**

Home completion growth held up while property sales plummeted in Dec

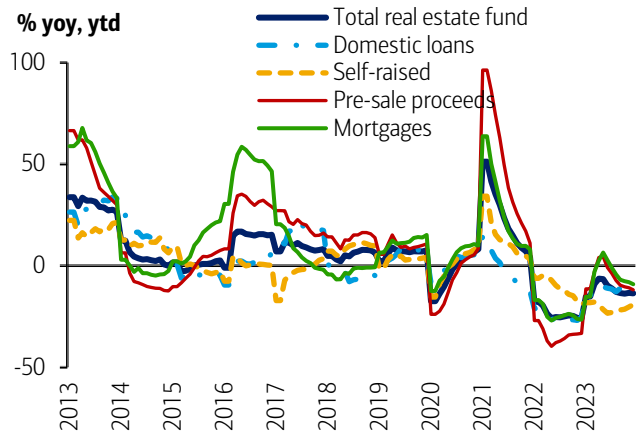


Source: BofA Global Research, CEIC, NBS

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**Exhibit 15: Source of real estate funding**

Funding condition for developers remained tight in Dec



Source: BofA Global Research, CEIC, NBS

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