ChinaPulse: Jan-Feb numbers show both resilience and vulnerability

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Key Points

- *A mixed set of Jan-Feb macro numbers was released today for China, with an accelerated growth seen in industrial production, retail sales and FAI, and worsened activities in property sector and weak loan demand by both households and corporates. A higher jobless rate was recorded too for Feb.*
- *We see a postponed bottom-up of the property sector. Despite various policy easing measures for the sector in recent months, China's property prices fell by a faster pace in February, after several months' price decline narrowing since last September when government began to step up the stimulus. Major activity indicators, including property investment, sales and floor-space-started, posted even worse negative growths in Jan-Feb, compared with last December.*
- *Silver lining was that details of Jan-Feb data showed that Chinese economy still was reactive to policy stimulus. The high-tech industry was performing relatively better, FAI for equipment purchase was growing at rate of 18.0%yoy, and recent improvement of retail sales growth was partly due to government's trade-in programs.*
- *With the stress in domestic economy, and challenging external environment, more government stimulus is needed to stabilize the economy. Recently announced "Special Action Plan to Boost Consumption" offering a comprehensive package of policies for boosting consumer spending and tackling a set of underlying issues, including low wages, real estate crisis, childcare, AI funding and stock and household wealth, is likely to help. Having said it, balancing the potential magnitude pf the stimulus, size of tariffs and delayed bottom-out of the property sector, we revised China 2025 GDP growth marginally up to 4.6% from 4.5%.*
- *For USD/CNY, we see a more moderate upside for the pair, due to the recent un-expected weakening of the US dollar, the downward revision on the growth outlook for the US economy, as well as the stepped-up China policy stimulus. We revise the pair lower to 7.25 by Q1, 7.40 by Q2, 7.40 by Q3, 7.35 by Q4.*

MUFG PERIOD-END FORECASTS

	17th Mar, 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025
USD/CNY	7.2337	7.2500	7.4000	7.4000	7.3500
PBOC 7D Reverse Repo, %	1.50	1.50	1.30	1.10	1.10

Source: Bloomberg, MUFG GMR

Chinese economy: Policy matters

Jan-Feb data showed that there was certain resilience in the economy, and the economy was benefitting from government's support the economy. The stronger growths of FAIs especially in state-led and infrastructure reflected government's support, and strong growth pick-up in communication appliance retail sales (e.g., mobile phones) was helped by the expanded consumer goods trade-in program announced on 8th Jan. Also, high-tech product category defied the overall growth slowdown seen in exports and industrial production and posted stronger growth for Jan-Feb period compared to last December.

The stress was evident in Jan-February data too. For example, loan demands of households and corporates were weak in the period, and the further weakening property sector in Jan-February was alarming, with major indicators of the sector posting larger negative growths and the pace of home price decline getting worse in February.

Look forward, with external environment getting more challenging due to tariffs and downward revision of US tariffs and etc., more government measures are needed to help revitalize the sentiment, stabilize the property sector, and the overall economy.

Recent data showed that Chinese economy still reacts to the policy stimulus, what matters is the size of stimulus and the aspects of them. Last Sunday, China announced the 30-joint plan, offering a comprehensive package of policies for boosting consumer spending and tackles a set of underlying issues, covering low wages, real estate crisis, childcare, AI funding and stock and household wealth.

Today, the officials from NDRC, MoF, PBoC, Ministry of Commerce, Ministry of Human Resources and Social Security as well as State Administration for Market Regulation jointly attended a press conference to introduce the measures to boost consumption, as outlined in the plan released on Sunday by General Office of the Communist Party of China Central Committee and the General Office of the State Council.

The key takeaway from the plan and the press conference is that the government aims to encourage consumption by 1) increasing spending power by raising earnings and reducing financial burdens; 2) generating effective demand through high-quality supply; 3) improving the consumption environment to strengthen consumer willingness to spend. To do that, the government rolled out 30-measures organized into 8 categories, such as increasing the income of urban and rural residents, expanding consumption capacity (e.g., subsidies for childcare, education and other social services), enhancing services consumption quality, big-ticket consumption upgrading, consumption quality upgrade (e.g., AI-related product upgrades), consumption environment improvement, among others. Also the PBoC is looking at creating a new structural monetary policy tool to increase support for key consumption areas with low-cost capital. It also encourages financial institutions to come up with an asset securitization business with consumer loans and car loans as underlying assets to boost the support for these loans, among other measures.

Details of Jan-Feb period/ Feb data:

- **IP growth beat consensus expectation in Jan-Feb, with an accelerated high-tech manufacturing IP growth**

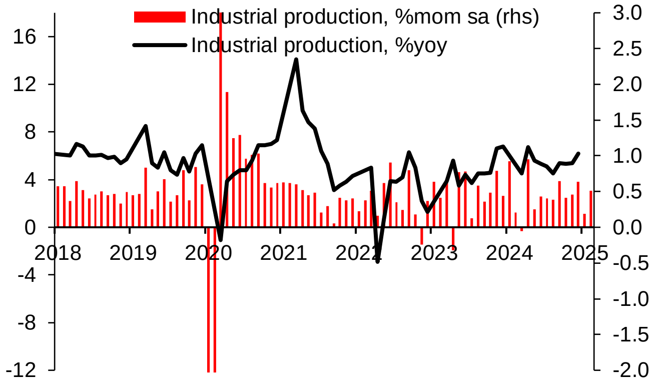
IP expanded by 0.51%mom in February, up from January's 0.19%, and helped delivering a 5.9%yoy for Jan-Feb FAI (consensus: +5.3%yoy). Compared to last December's 6.2%yoy), the 5.9%yoy IP growth was still a deceleration.

In Jan-Feb, IP growth acceleration (compared with last December) was seen in state owned & holding enterprises (+0.6ppts), share-holding enterprises (+0.1ppts), private enterprises (+1.0ppts), while IP growth foreign enterprises decelerated by 2.4ppts.

Industry wise, manufacturing overall IP growth decelerated by -0.5ppts to 6.9%yoy in Jan-Feb, while the high-tech manufacturing accelerated by 1.2ppts to 9.1%yoy. The deepest deceleration seen in automobile (-5.7ppts to 12%yoy) and strongest acceleration in rail, ship, aircraft, spacecraft and other transport equipment (+10.2ppts to 20.8%yoy). Furthermore, service production posted a 5.6%yoy growth for Jan-Feb period, slower than 6.5%yoy in last December.

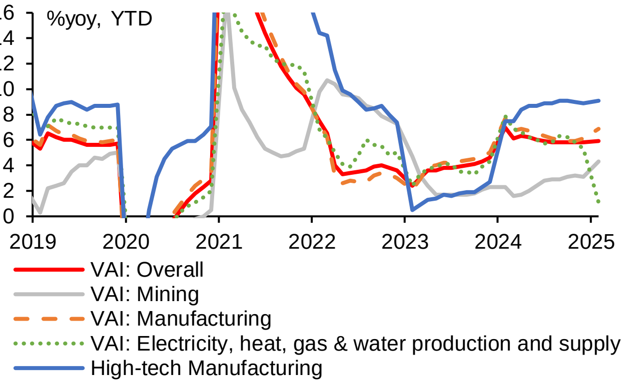
Looking ahead, tariffs and weaker external demand could means headwinds. A timely revival of consumption demand could help to offset the loss in external demand.

IP SEQUENTIAL GROWTH IN FEBRUARY WAS DECENT DESPITE HEADWINDS FROM TARIFF



Source: CEIC, Bloomberg, MUFG GMR

HI-TECH MANUFACTURING IP GROWTH HAS BEEN IMPRESSIVE SINCE 2024



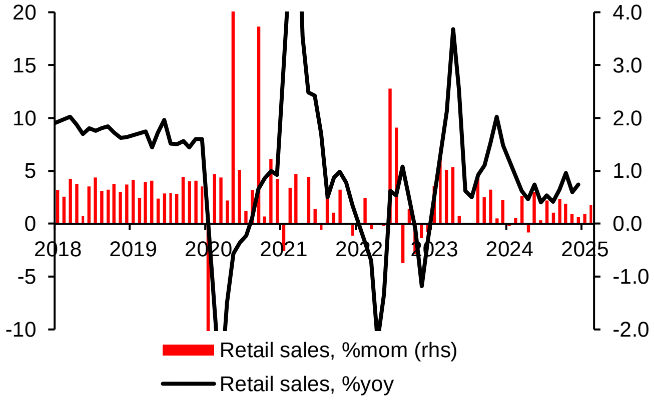
Source: CEIC, Bloomberg, MUFG GMR

- **The sequential pick up in retail sales is a good news, indicating the effectiveness of government's consumption support policies**

Retail sales in Jan-Feb grew 4.0%yoy, beating the market estimate of 3.8%yoy. Sequentially, retail sales expanded by 0.35%mom in February, a faster momentum than the average of 0.17%mom in prior three months.

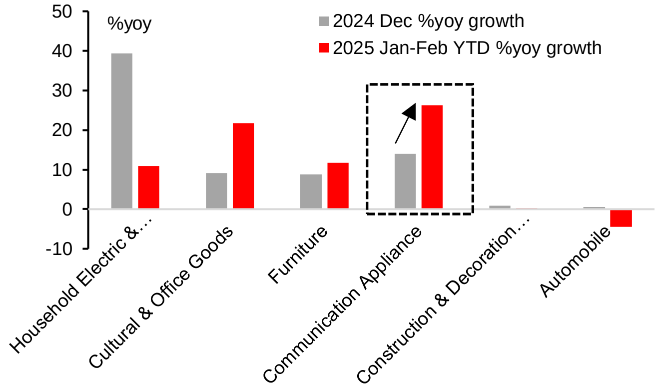
Household electric & video appliance sales grew 10.9%yoy in jan-Feb, thought down from last December's 39.3%yoy, still a good print. Notably, a strong growth pick-up in communication appliance (e.g., mobile phones) by 12.2ppts to 26.2%yoy for Jan-Feb, attributed to the expanded consumer goods trade-in program announced on 8th Jan, which includes digital product purchases. The double size of consumer goods trade-in program in 2025 (to RMB 300bn, from RMB 150bn last year), as announced in March NPC, would further support retail sales.

RETAIL SALES SEQUENTIAL GROWTH PICKED UP IN FEBRUARY AFTER RECENT SLUGGISH GROWTH



Source: CEIC, Bloomberg, MUFG GMR

COMMUNICATION APPLIANCE GROWTH SURGED THANKS TO EXPANDED GOODS TRADE-IN PROGRAM



Source: CEIC, Bloomberg, MUFG GMR

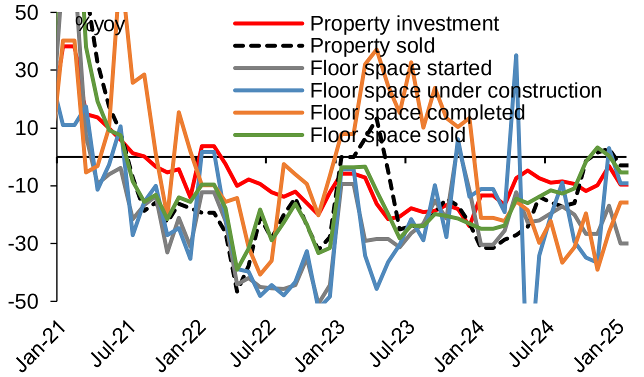
- **Continued price declines postpone the bottoming-out of property sector**

Despite various policy easing measures for the sector in recent months, China's property prices fell by a faster pace in February, with a -0.14%mom new home prices recorded for 70 cities (vs. -0.07%mom in January), after several months' price decline narrowing since last September, when government began to step up the stimulus.

This larger property price decline was mostly dragged by Tier-2 cities (-0.05%mom) and Tier-3 cities (-0.25%mom), while Tier-1 cities posted a slight positive price gain (+0.13%mom). For secondary home prices in 70 cities, the price decline was more severe (-0.34%mom), matching January's decline.

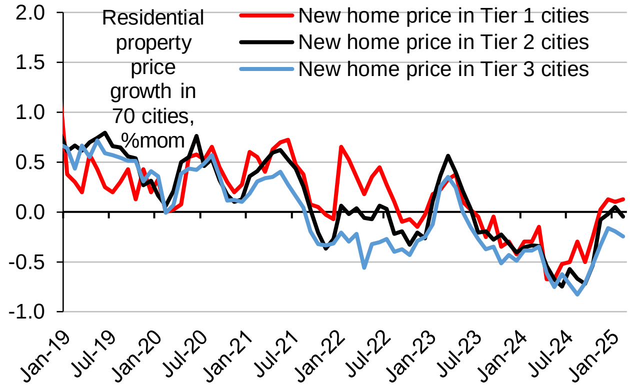
In Jan-Feb, all indicators posted negative growths, including property investment (-9.8%yoy), property sold (-2.6%yoy), floor space started (-29.6%yoy), floor space under construction (-9.1%yoy), floor space completed (-15.6%yoy) and floor space sold (-5.1%yoy).

BROAD-BASED GROWTH SLOWDOWN ACROSS MOST MAJOR INDICATORS, NOTABLY HOUSING SALES GROWTH TURNING NEGATIVE AGAIN



Source: CEIC, Bloomberg, MUFG GMR

WHILE NEW HOME PRICES IN TIER 1 CITIES POSTED SMALL GAINS LATELY, THE PRICES IN TIER 2 AND 3 CITIES DECLINED AGAIN IN FEBRUARY



Source: CEIC, Bloomberg, MUFG GMR

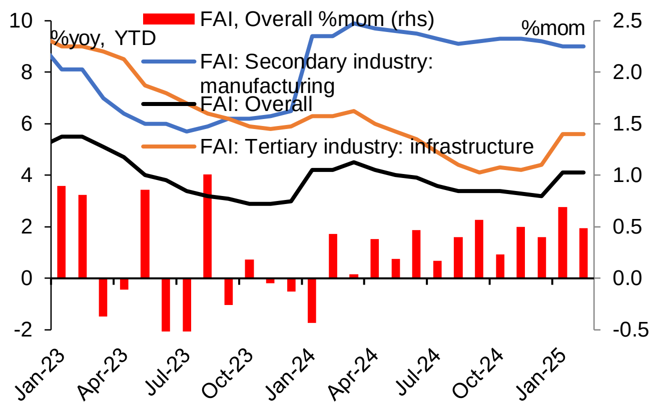
- **FAI posted a strong sequential growth in both January and February, driven by state-led and infrastructure investment**

FAI expanded by a solid 0.49%mom in February, though a slightly slower pace than 0.69%mom in January. Combining Jan-Feb growth together, FAI had expanded slightly more than the quarterly change in last Q3 or Q4. Also, FAI delivered a faster-than-expected 4.1%yoy (consensus: +3.2%yoy) in Jan-Feb. While state-owned enterprises FAI grew by 7.0%yoy in Jan-Feb, private FAI saw no expansion.

Industry-wise, we saw primary industry posted an unusually strong YTD FAI growth of 12.2%yoy, and that growth of secondary industry remained strong at 11.4%yoy. Within secondary industry, we saw a decent 9.0%yoy YTD growth for manufacturing sector, and that a significant growth acceleration was seen in automobile manufacturing, where the growth accelerated from last whole year's 7.5%yoy to 27.0%yoy. Meanwhile, the tertiary industry posted a small FAI YTD growth of 0.7%yoy and within which infrastructure investment picked up from last whole year's 4.4%yoy to 5.6%yoy in February. The improvement was again supported by the investment in water conservancy, environment & utility management which grew at 8.5%yoy in February, faster than last whole year's 4.2%yoy.

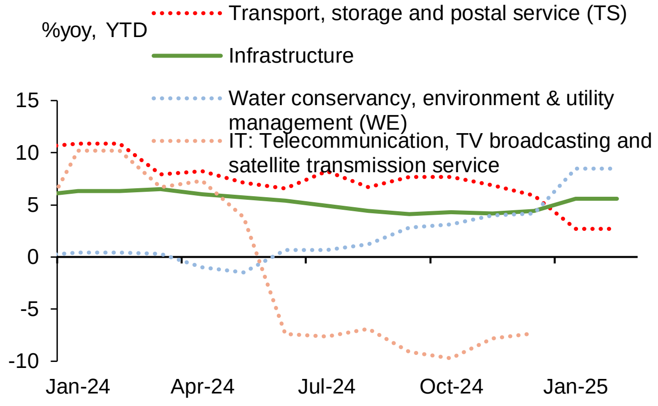
We also observed the impact of government policy support in Jan-Feb period in YTD **FAI for equipment purchase**, where it posted a 18.0%yoy growth, faster than last whole year's 15.7%yoy growth. Looking ahead, we expect investment to be the key growth driver for China. Investment growths in national key strategic projects (e.g., infrastructure) and technology would remain solid, benefiting from the continued large-scale equipment upgrade programme.

FAI POSTED STRONG SEQUENTIAL GROWTH IN JANUARY AND FEBRUARY



Source: CEIC, Bloomberg, MUFG GMR

INFRASTRUCTURE GROWTH SUPPORTED BY UTILITY-RELATED INVESTMENT GROWTH



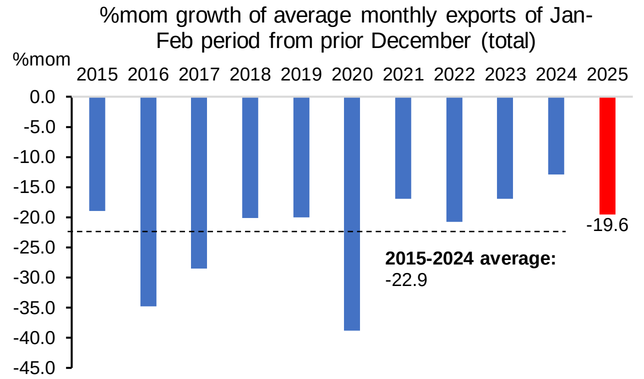
Source: CEIC, Bloomberg, MUFG GMR

- **Both seasonality and tariff weighted on Jan-Feb exports growth**

China's Jan-Feb exports growth slowed to 2.3%yoy, from last December (10.7%yoy) and Q4 (10.0%yoy), and lower than market expectation of a 5.9%yoy. The low single digit percentage exports growth did reflect some seasonal Chinese New-Year impact. This average exports in this Jan-Feb was 19.6% lower than last December, largely in-line with the average 23% decline over past 10 years. Nevertheless, the dissipating front-run of tariffs helped for the decline of China exports growth too, as the 10% US tariff hike on China's goods went effective on Feb 4.

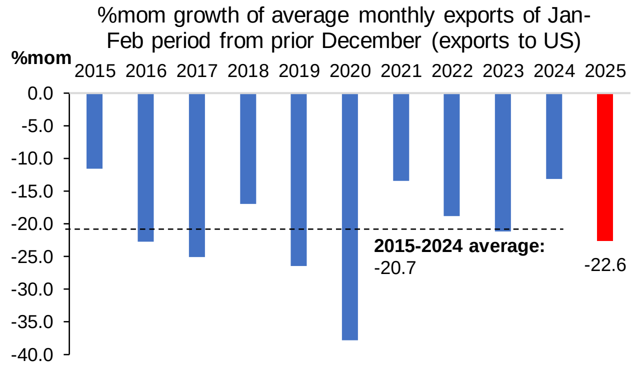
By countries, we observed a broad-based sharp slowdown in exports growth to various country and regions. In terms of contribution to the overall exports growth, contributions from exports to the US declined by 1.9ppts in Jan-Feb period, that to the EU declined by 1.1ppts and that to the ASEAN dropped by 2.2ppts. By products, mechanical & electrical products grew by 4.2%yoy in Jan-Feb, while exports of labor-intensive products contracted by 9.7%yoy.Hi-tech products posted a stronger growth of 5.4%yoy for Jan-Feb, up from December's 4.3%yoy. For imports, it declined by 8.4%yoy for Jan-Feb period, a reversal of a positive 1.0%yoy growth seen in last December.

JAN-FEB EXPORTS GROWTH WEAKNESS COULD BE EXPLAINED BY SEASONALITY TO SOME EXTENT



Source: CEIC, MUFG GMR.

GROWTH WEAKNESS OF EXPORTS TO US COULD BE EXPLAINED BY SEASONALITY AS WELL



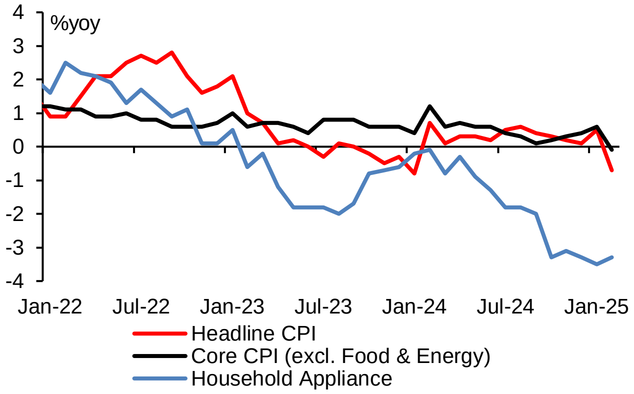
Source: CEIC, MUFG GMR

- **While the -0.7%yoy CPI inflation was largely caused by the Chinese New-Year effect, the support of upward inflation remains weak.**

February's headline CPI inflation was -0.7%yoy, worse than the consensus expectation of -0.4%yoy. Chinese NBS (link) stated that the adjusted China CPI inflation in February shall be 0.1%yoy, after removing the seasonal Chinese New-Year and delayed impact of last year's price changes. For month-over-month, headline and core CPIs, both declined by 0.2%mom in February.

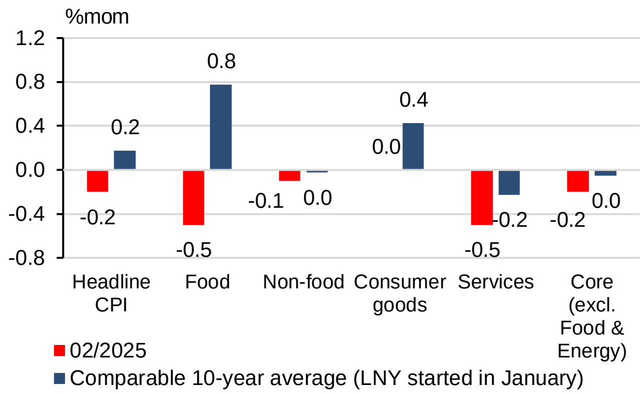
PPI inflation was -2.2%yoy in February, slightly worse than the -2.1%yoy consensus. PPI declined by o.1%mom in February, in comparison of January's 0.2%mom. No sequential change in February PPI consumer goods price.

HOUSEHOLD APPLIANCE HAS BEEN EXPERIENCING STEEP DEFLATION



Source: CEIC, MUFG GMR

BROAD-BASED CONSUMER PRICE DECLINE IN FEBRUARY BEYOND SEASONALITY EXPLANATION



Source: CEIC, MUFG GMR

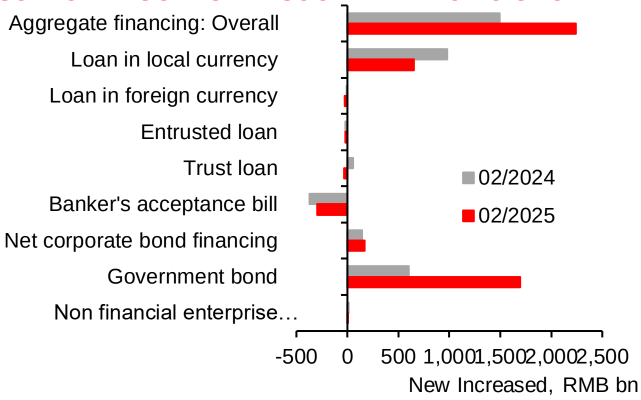
- **Weak credit demand was seen in both households and corporates in February, government efforts in establishing a positive outlook and confidence are needed**

The new-increased aggregate financing was RMB 2,238bn in February, mainly due to the strong government bond net new issuance of RMB 1,694bn. The growth of aggregate social financing stock improved by 0.2ppts to 8.2%yoy in February.

The bank loan stock growth continued to grind lower in February (since May 2023), from January's 7.5%yoy to 7.3%yoy. The new-increased bank loan declined to RMB 1,010bn from RMB 1,450bn a year ago, due to both weak household and corporate demands. For household, we saw a net-decreased RMB 389bn bank loan in February, which suggests more debt repayment than the new loan demand. For corporates, we saw a net-increased RMB 1,040bn, RMB 530bn lower than previous year. This decline was caused by a significant RMB750bn decline in the new-increased corporates' medium & long term loans. That said, we think the weaker corporate demand for loan could be partly masked by the ongoing debt-swap program, as we have seen in last December's data. Another worrying sign is the widening of the gap between M2 and M1 growth since January. While M2 growth was flat at 7.0%yoy in February as prior month, M1 growth slowed again to 0.1%yoy in February from 0.4%yoy prior month.

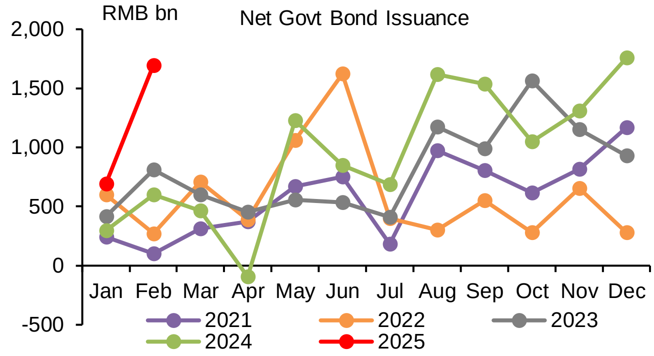
Overall, it is clear that the fiscal support would continue to play the role in driving aggregate social financing growth in near term, with weak sentiment still seen on private sectors. With the government's pledge to implement policies as soon as possible (as stated in March NPC), we should likely see front-loading of bond issuance as well as an accelerated M2 growth when the government quickly converts the bond proceeds into fiscal spending and provides targeted support for the economy.

GOVERNMENT BOND ISSUANCE CONTINUED TO SUPPORT AGGREGATE SOCIAL FINANCING GROWTH



Source: CEIC, Bloomberg, MUFG GMR

THE AMOUNT OF GOVERNMENT BOND ISSUANCE THUS FAR THIS YEAR SIGNIFICANTLY HIGHER THAN PREVIOUS YEARS



Source: CEIC, Bloomberg, MUFG GMR

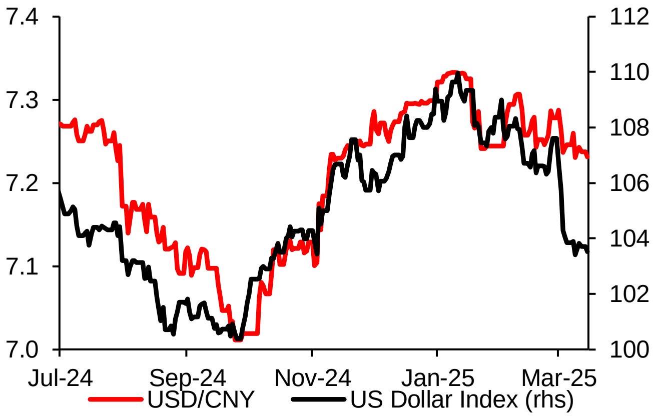
USD/CNY: a more moderate upside risk in near-term

In March thus far, USD/CNY movement has been largely stable thanks to the weakening US dollar. Month-to-date, CNY appreciated against US dollar by 0.7% whereas DXY index was down by 3.8%. Not only that CNY appreciation was mild, other Asian currencies behaved similarly, with the most gain seen in THB (+1.6%). The fact that CNY and other Asian currencies only strengthened moderately reflected lingering concerns on Asian economies, due to concerns on tariffs and domestic demand.

For USD/CNY, we still see upside risk in near term arises from the market potentially shifting their focus to tariff announcement on 2nd April and potential PBoC's rate cut ahead (PBOC mentioned to find a timing for policy easing). However, we are seeing a more moderate upside for the pair, largely due to recent softness in US dollar and the downward revision on the market outlook for the US economy.

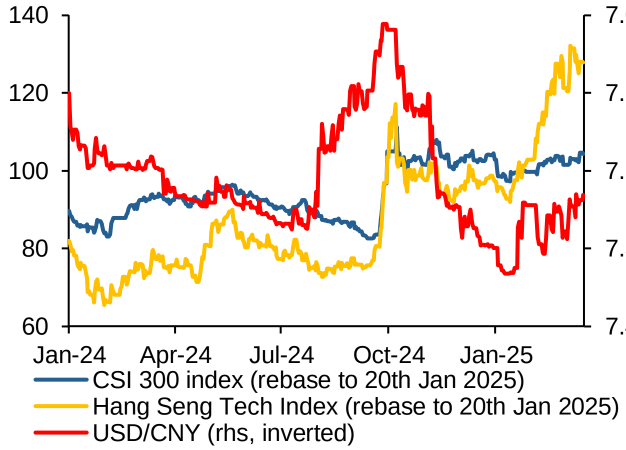
We expect USD/CNY to reach 7.25 by Q1, 7.40 by Q2, 7.40 by Q3, 7.35 by Q4.

CNY HAS NOT BENEFITTED MUCH FROM WEAKER US DOLLAR LATELY, LIKE OTHER ASIAN CURRENCIES



Source: CEIC, Bloomberg, MUFG GMR

LIMITED POSITIVE SPILLOVER OF CHINA TECH RALLY TO CSI 300 AND CNY



Source: CEIC, Bloomberg, MUFG GMR

SUMMARY OF CHINA ECONOMIC DATA

	Feb-25	Jan-25	Dec-24	Nov-24	Oct-24	Sep-24	Aug-24
GDP							
Value, RMB bn			37,373			34,176	
%yoy (real)			5.4			4.6	
%qoq (real), sa			1.6			1.3	
%yoy (nominal)			4.6			4.1	
Contribution to GDP growth							
Final Consumption Expenditure			1.6			1.4	
Gross Capital Formation			1.3			1.2	
Net Export of Goods and Service			2.5			2.1	
Surveyed unemployment rate, %	5.4	5.2	5.1	5.0	5.0	5.1	5.3
Industrial Production							
%yoy ytd	5.9		5.8	5.8	5.8	5.8	5.8
%yoy	5.9		6.2	5.4	5.3	5.4	4.5
%mom	0.51	0.19	0.64	0.46	0.41	0.65	0.39
Retail sales							
%yoy ytd	4		3.5	3.5	3.5	3.3	3.4
%yoy	4		3.7	3	4.8	3.2	2.1
%mom	0.35	0.19	0.13	0.18	0.38	0.46	0.21
Fixed asset investment, %yoy ytd							
Total	4.1	4.1	3.2	3.3	3.4	3.4	3.4
Domestic Enterprise	4	4	2.9	3.1	3.2	3.3	3.3
Manufacturing	9	9	9.2	9.3	9.3	9.2	9.1
Tertiary Industry: Real Estate			-10.8	-10.6	-10.3	-9.9	-9.8
Infrastructure	5.6	5.6	4.4	4.2	4.3	4.1	4.4
%mom	0.49	0.69	0.40	0.50	0.23	0.57	0.40
Real Estate, %yoy ytd							
Investment	-9.8	-9.8	-10.6	-10.4	-10.3	-10.1	-10.2
Building Sold(value)	-2.9	-2.9	-17.0	-19.2	-20.9	-22.7	-23.6
Floor Space Sold(area)	-5.5	-5.5	-12.8	-14.3	-15.8	-17.1	-18.0
Floor Space Started (area)	-29.9	-29.9	-22.5	-23.0	-22.7	-22.3	-22.6
Floor Space under Construction(area)	-9.1	-9.1	-12.5	-12.7	-12.4	-12.2	-12.0
Residential property Price, %yoy ytd avg	3.1	3.1	-4.1	-4.8	-5.3	-6.0	-5.8
Trade							
Export(USD), %yoy			10.7	6.7	12.7	2.4	8.7
Import(USD), %yoy			1	-3.9	-2.3	0.3	0.5
Trade Balance, USD bn			104.8	97.4	95.7	81.7	91.0
PMI							
Composite	51.1	50.1	52.2	50.8	50.8	50.4	50.1
Manufacturing	50.2	49.1	50.1	50.3	50.1	49.8	49.1
Non-manufacturing	50.4	50.2	52.2	50	50.2	50.0	50.3
Inflation							
CPI, %yoy	-0.7	0.5	0.1	0.2	0.3	0.4	0.6
Core CPI, %yoy	-0.1	0.6	0.4	0.3	0.2	0.1	0.3
CPI, %mom	-0.2	0.7	0	-0.6	-0.3	0	0.4
PPI, %yoy	-2.2	-2.3	-2.3	-2.5	-2.9	-2.8	-1.8
PPI, %mom	-0.1	-0.2	-0.1	0.1	-0.1	-0.6	-0.7
Money							
M2, %yoy	7	7	7.3	7.1	7.5	6.8	6.3
Aggregate Financing, %yoy	8.2	8.0	8.0	7.8	7.8	8.0	8.1
Loan, %yoy	7.3	7.5	7.6	7.7	8	8.1	8.5
Rates							
7D Reverse Repo, %	1.5	1.5	1.5	1.5	1.5	1.5	1.7
Loan Prime Rate: 1 year, %	3.1	3.1	3.1	3.1	3.1	3.4	3.4
Treasury Bond Yield: 10 year, %	1.7	1.6	1.7	2.0	2.2	2.2	2.2
FX							
USD/CNY, monthly avg.	7.17	7.18	7.19	7.17	7.11	7.08	7.13
CFETS RMB Index	99.9	100.7	101.5	100.1	99.8	98.4	98.0

*Source: CEIC, MUFG GMR. * : Property investment YTD.*

CERTIFICATION

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