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## China Economics

# Consumption to lead the way in recovery

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# Expecting a strong rebound driven by consumption

## Summary of key macro data and forecasts

		2019	2020	2021	2022	2023F	2024F
<b>GDP by expenditure</b>							
Real GDP Growth	% yoy	6.0	2.2	8.4	3.0	5.5	5.3
Final Consumption Expenditure	% yoy	6.3	-0.3	9.0	1.8	7.7	5.1
Gross Capital Formation	% yoy	3.9	4.2	3.9	3.5	4.9	5.8
<i>Contribution to GDP Growth</i>							
Net Exports	pp	0.7	0.6	1.9	0.5	-0.7	0.0
<b>Major activity indicators</b>							
Industrial Production	% yoy	5.7	2.8	9.6	3.6	6.0	5.1
Fixed Asset Investment	% yoy	5.4	2.9	4.9	5.1	4.3	5.2
Retail Sales	% yoy	8.0	-3.9	12.5	-0.2	9.5	7.5
Exports of Goods	% yoy	0.5	3.6	29.6	7.0	-4.0	5.8
Imports of Goods	% yoy	-2.7	-0.6	30.0	1.1	5.1	5.6
Trade Balance	US\$ bn	421	524	670	878	604	644
Current Account	% GDP	0.7	1.7	1.8	2.3	0.7	0.3
<b>Key price and policy indicators</b>							
CPI	% yoy	2.9	2.5	0.9	2.0	2.3	2.7
PPI	% yoy	-0.3	-1.8	8.1	4.2	-0.1	3.0
1y Loan Prime Rate	%, year-end	4.15	3.85	3.80	3.65	3.65	3.65
USD/CNY	year-end	6.96	6.53	6.36	6.90	6.70	6.40



## Headwinds from external demand may become stiffer in 2H23

	2015-19 Avg	2020	2021	2022	2023	2024
					F'cst	F'cst
<b>Global</b>	<b>3.5</b>	<b>-3.0</b>	<b>6.3</b>	<b>3.4</b>	<b>2.6</b>	<b>2.7</b>
US	2.4	-2.8	5.9	2.1	1.0	-0.1
Europe	2.0	-6.3	5.3	3.5	0.5	0.8
<b>Asia</b>	<b>5.3</b>	<b>-1.4</b>	<b>6.4</b>	<b>3.8</b>	<b>4.7</b>	<b>4.5</b>
Australia	2.4	-2.4	4.2	3.6	1.8	1.4
China	6.7	2.2	8.4	3.0	5.5	5.3
Hong Kong	1.9	-6.5	6.3	-3.5	4.0	3.5
India	6.6	-7.0	8.3	6.8	6.3	5.0
Indonesia	5.0	-2.1	3.7	5.3	5.0	5.3
Japan	0.9	-4.3	2.2	1.1	1.0	1.2
Korea	2.8	-0.7	4.1	2.6	1.9	2.2
Malaysia	4.9	-5.5	3.1	8.7	4.3	4.7
Philippines	6.6	-9.5	5.9	7.6	4.5	5.3
Singapore	3.2	-3.9	8.9	3.6	1.9	2.3
Taiwan	2.6	3.4	6.5	2.4	2.0	2.4
Thailand	3.4	-6.3	1.5	2.7	3.3	3.6
Vietnam	7.0	2.9	2.6	8.0	5.6	6.7



# We expect smooth decision-making and strong execution from the new Politburo Standing Committee

- Party General Secretary, CMC Chairman, President
- Born in 1953

Xi Jinping



- Premier of the State Council
- Used to work with President Xi in Zhejiang in 2000s
- Born in 1959

Li Qiang




- Chairman of the NPC
- Born in 1957

Zhao Leji



- Chairman of the CPPCC
- Born in 1955

Wang Huning



- Executive Secretary of the Secretariat, Director of the General Office
- Used to work with President Xi in Fujian and Zhejiang
- Born in 1955

Cai Qi




- Executive Vice Premier of the State Council
- Started to work with President Xi in Shanghai in 2007
- Born in 1962

Ding Xuexiang



- Head of the CCDI
- Used to work in Shaanxi, where Xi's family was from
- Born in 1956

Li Xi





## NPC set a conservative growth target at “about 5%”

	<b>GDP target</b>	<b>CPI</b>	<b>budget deficit</b>	<b>LGSB quota</b>	<b>New employment</b>	<b>Unemployment</b>
	(%)	(%)	(as % of GDP)	(RMB tn)	(mn)	(%)
2023 target	about 5.0	3.0	3.0	3.8	>12	about 5.5
2022 actual	3.0	2.0	2.8	4.04	12.06	5.6
2022 target	about 5.5	3.0	2.8	3.65	>11	<5.5

### Both headline and consolidated fiscal deficits suggest proactive fiscal policy in 2023

(% of GDP)	2019	2020	2021	2022	2023F
Headline fiscal balance	-2.8	-3.7	-3.0	-2.8	-3.0
On-balance sheet deficit (cash basis)					
General public fiscal account	-4.9	-6.2	-3.8	-4.7	-4.5
National government-managed fund account	-0.7	-2.4	-1.4	-2.7	-3.1
State-administered SOE fund account	0.2	0.2	0.2	0.2	0.1
Social security fund account	0.9	-0.2	0.6	0.8	0.9
Consolidated fiscal balance	-4.6	-8.6	-4.3	-6.4	-6.5

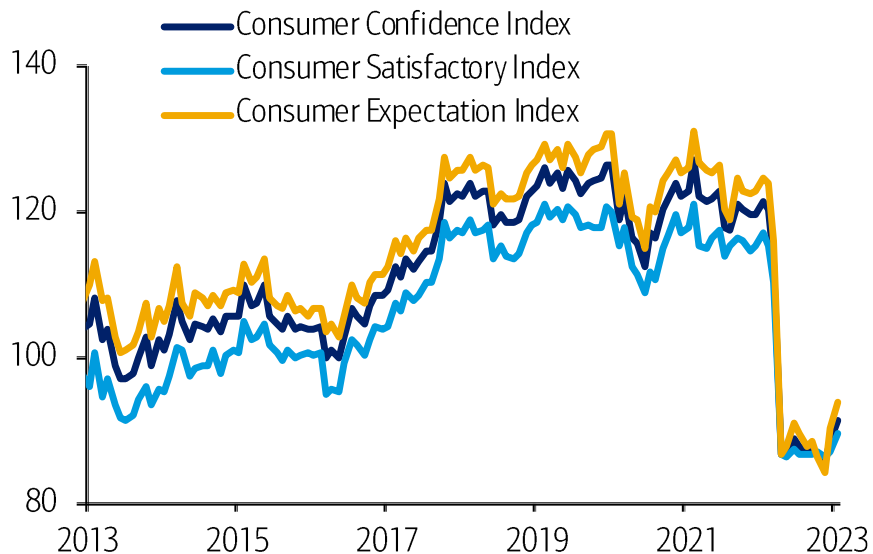
Note: 2023F is based on government budget

Source: BofA Global Research estimates, Ministry of Finance (MOF), CEIC, Wind

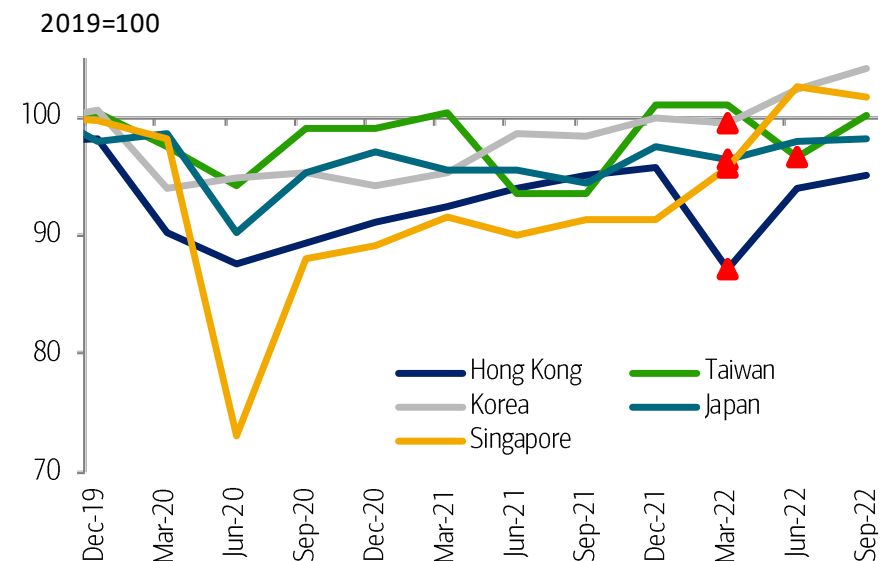
# Consumption-driven growth rebound (1): Consumer confidence rebounded after reopening



## Reopening led to a pick-up in consumer confidence in Jan



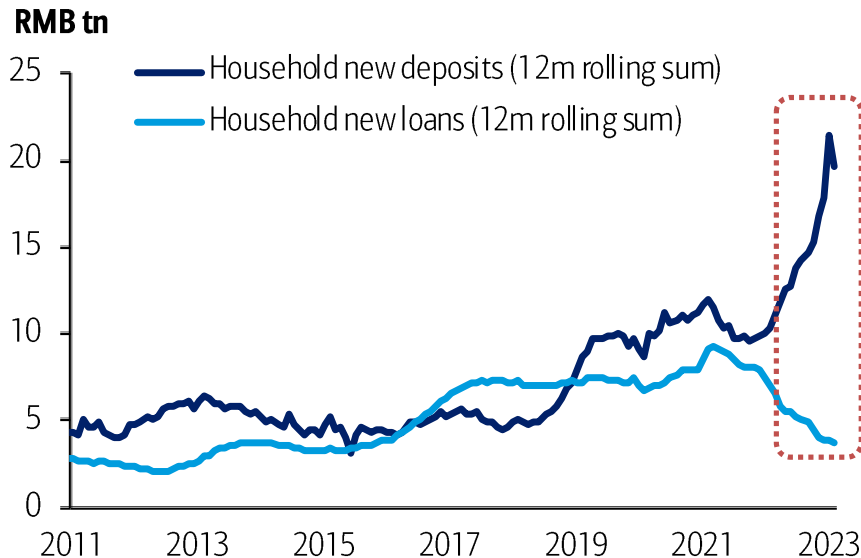
## Other Asian economies saw consumption bounce back in the subsequent quarter of initial shocks



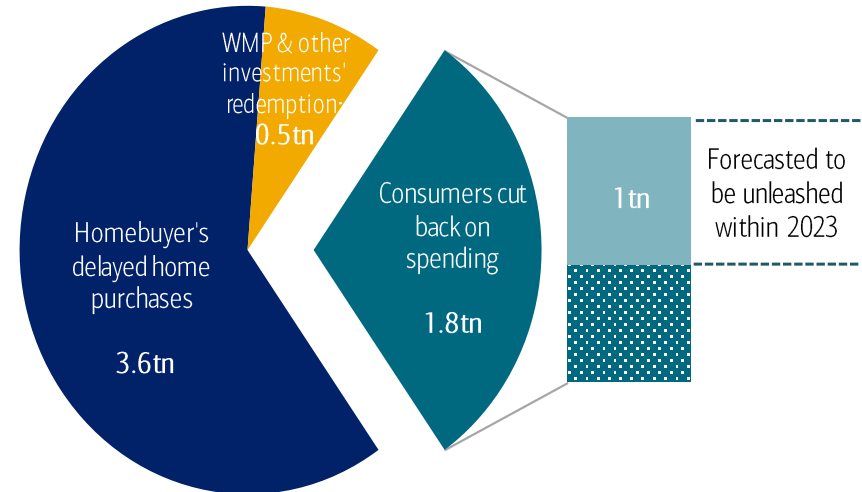
# Consumption-driven growth rebound (2): Elevated excess savings to support the release of pent-up demand



## Household excess savings will help boost consumption



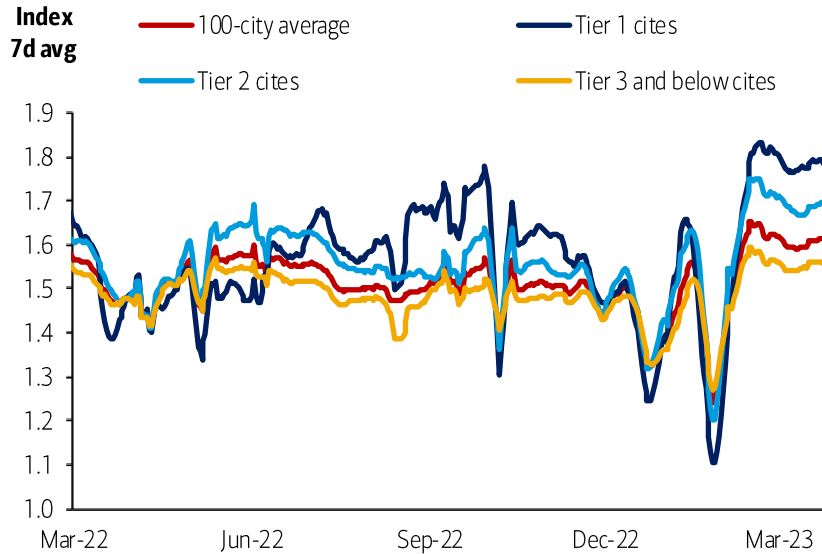
## Households built up RMB5.9tn of excess savings in 2022



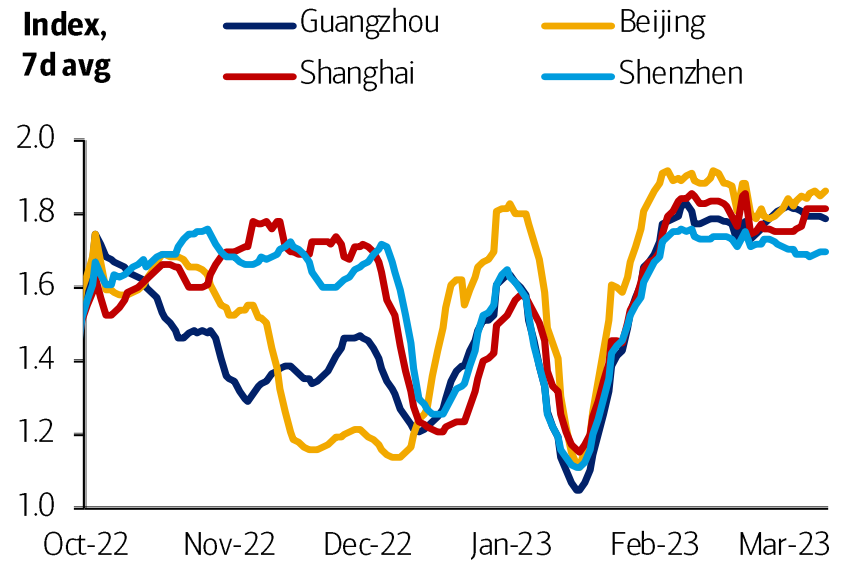
# Consumption-driven growth rebound (3): Mobility back to normal in most cities



**Intra-city traffic well above par in recent weeks...**



**... especially in Tier-1 cities**

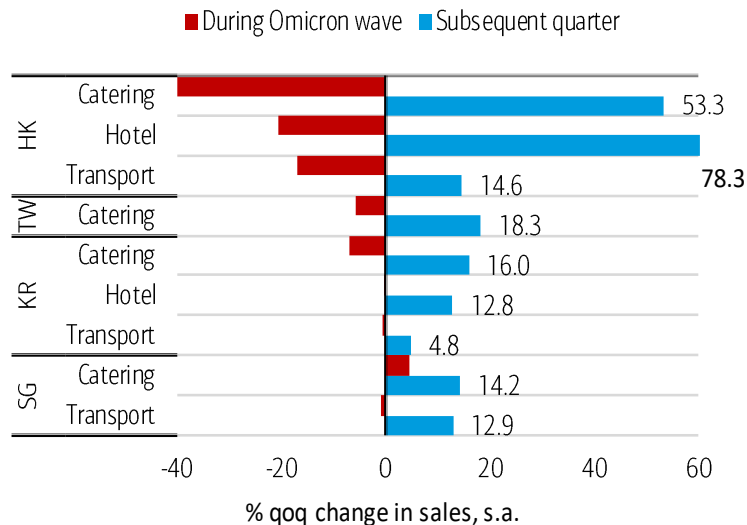




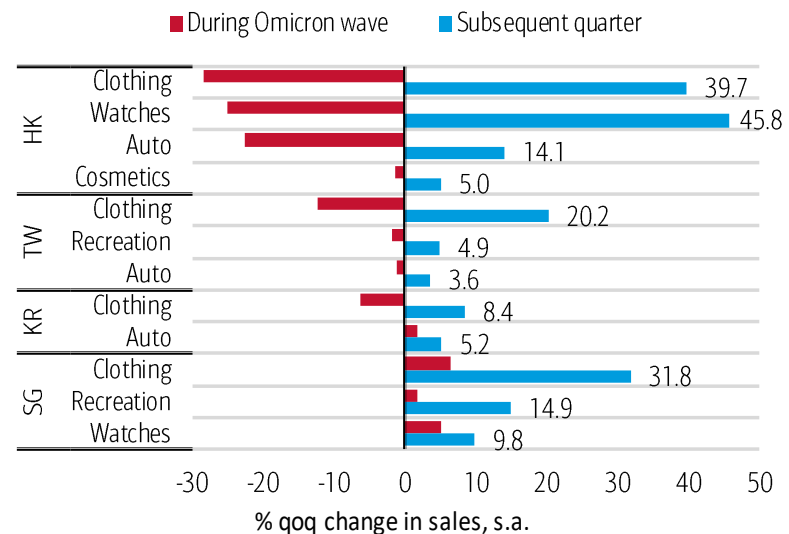


## Consumption-driven growth rebound (4): Other Asian economies saw consumption pick-up in discretionary goods and services

### Close-contact services saw greatest rebound post-reopening in 2022



### Several discretionary consumer items outperformed in reopening episode



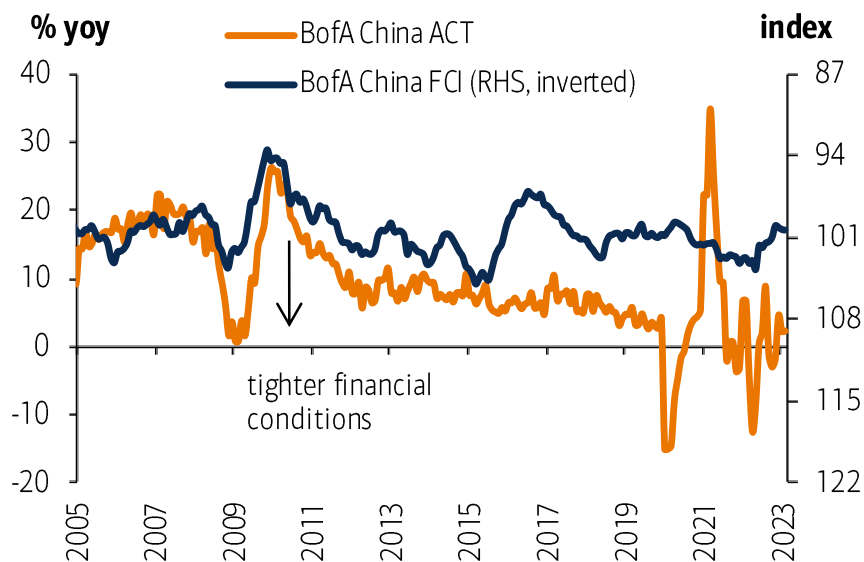
Note: All in value terms except Korea in volume terms. Omicron shock refers to Q1 2022 for all except Taiwan (Q2 2022), reopening recovery refers to subsequent quarter

Source: BofA Global Research, Wind, CEIC Haver Analytics.

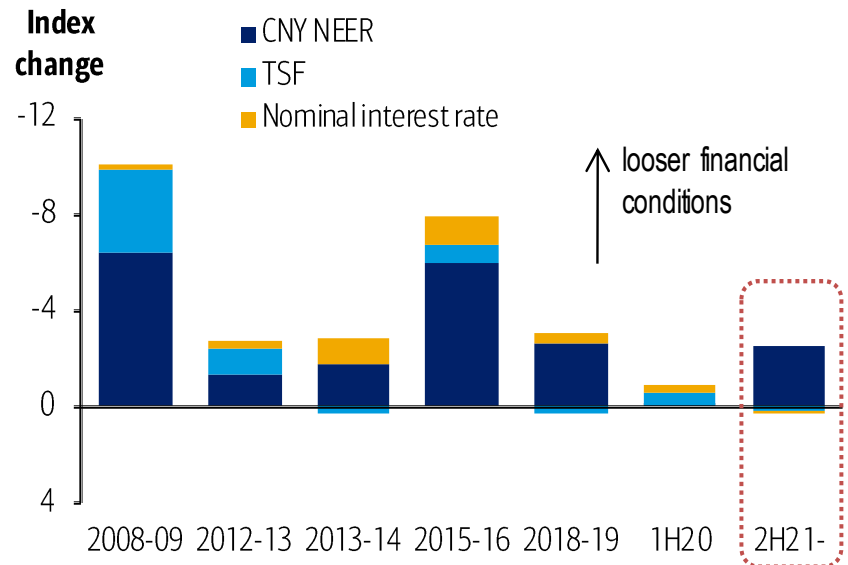
# Investment demand on the mend (1): Financial conditions easing was late and modest



## Early stage of a growth recovery



## Financial conditions eased on CNY depreciation

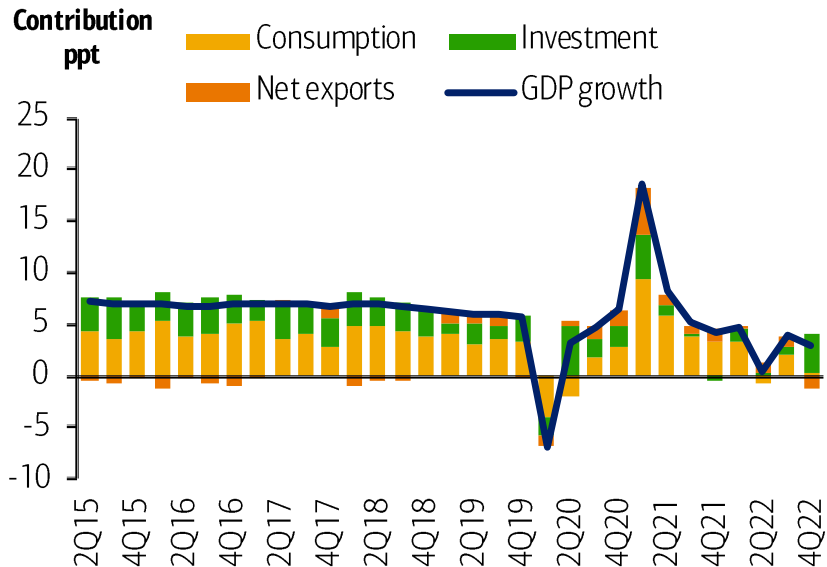


Disclaimer: The indicators identified as BofA China ACT and BofA China FCI above are intended to be indicative metrics only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. These indicators were not created to act as benchmarks.

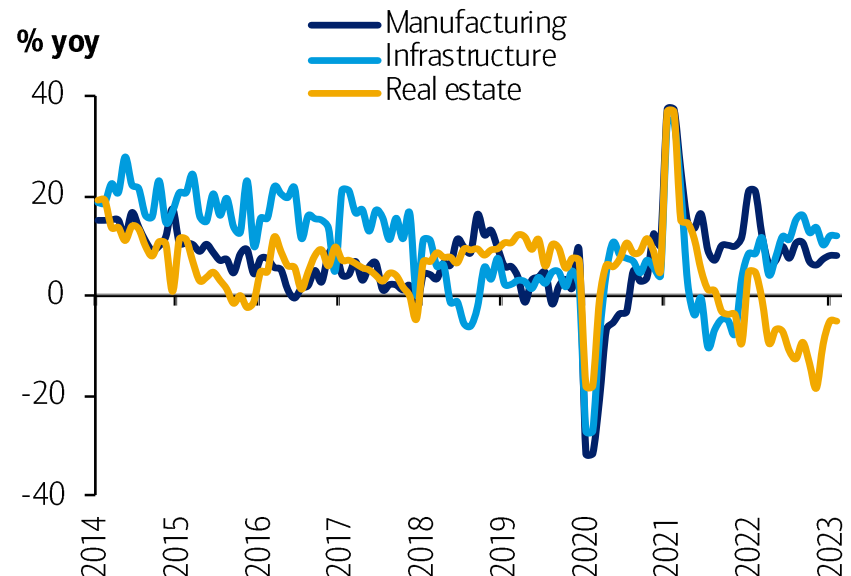


## Investment demand on the mend (2): Infrastructure investment growth held up relatively well

**4Q22 growth edged down to 2.9% yoy**



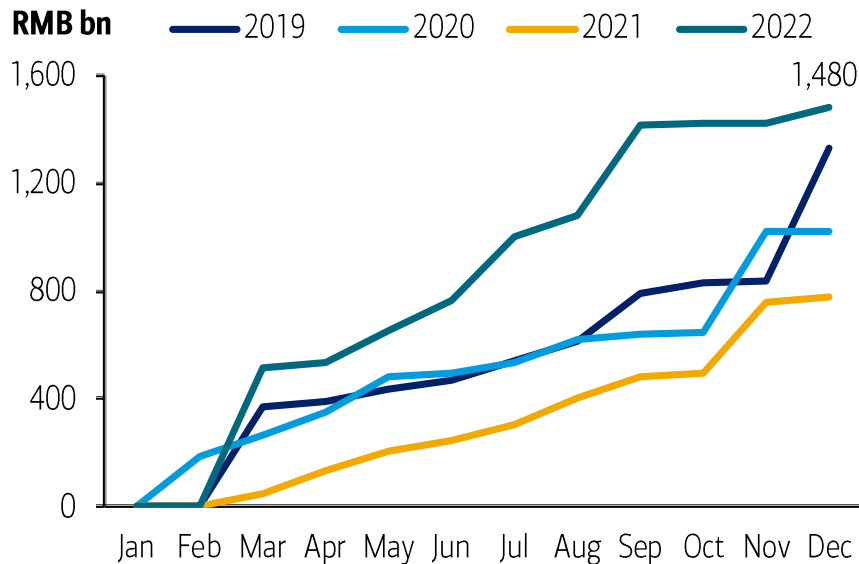
**FAI growth dragged by property, despite infra stimulus**



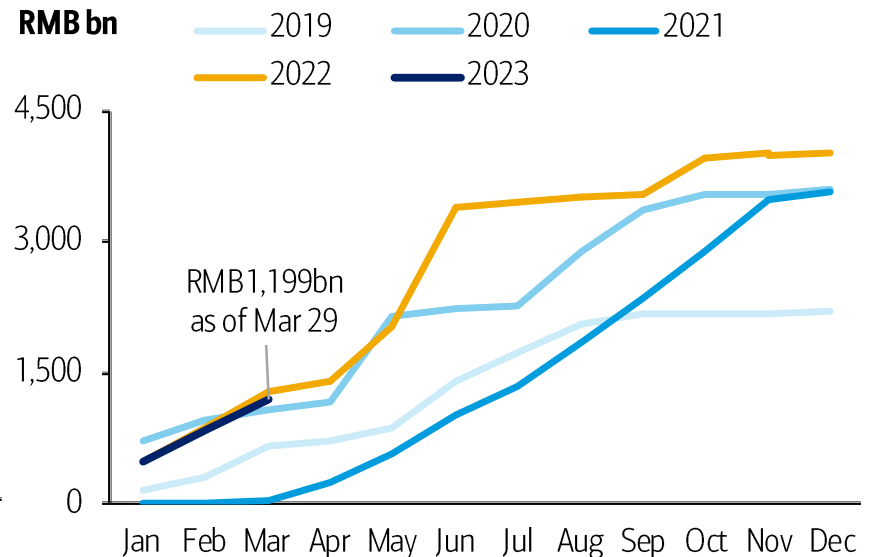
# Investment demand on the mend (3): ... partly helped by strong funding boost



**The NDRC approved a larger amount of major projects in 2022**



**LGSB issuance quota was set at RMB3.8tn this year, slightly above 3.65tn last year**

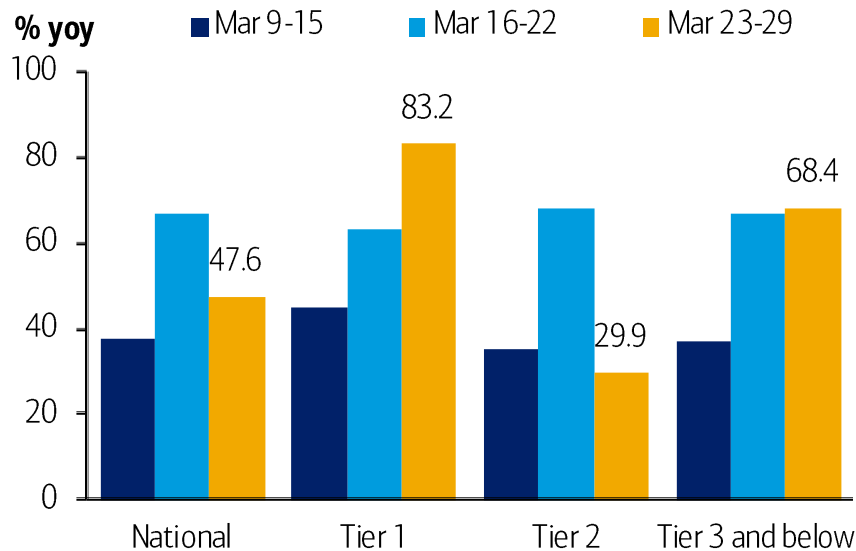


Note: NDRC -- National Development and Reform Commission, LGSB -- local government special-purpose bond  
Source: BofA Global Research, NDRC, NBS, CEIC

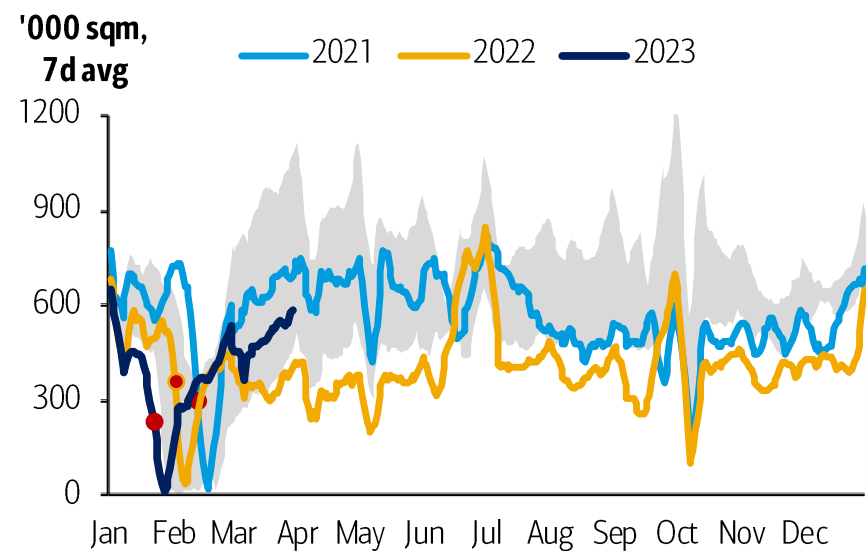
# Property market turmoil (1): Home sales start to see some green shoots



**Signs of improvement in home sales across cities of all tiers (41 cities)**



**Sequential improvement seen recently (30 major cities)**



Note: Red dots indicate Lunar New Year (LNY) in each year. The shaded area represents the range seen in 2016-2020.

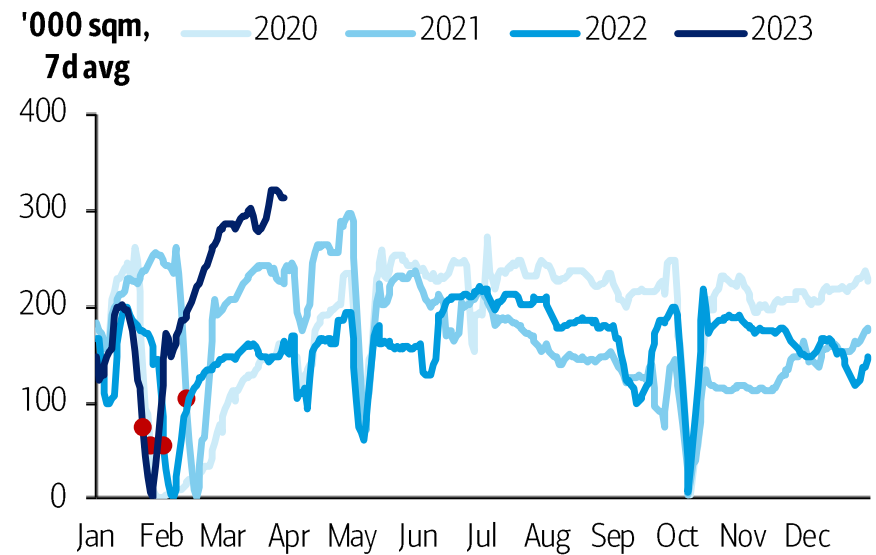
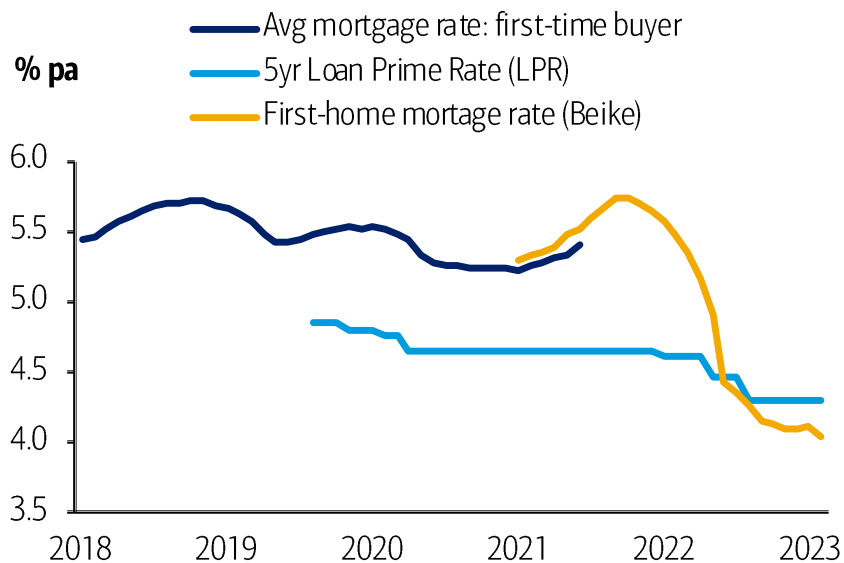
Source: BofA Global Research, Wind, CEIC

## Property market turmoil (2): Secondary housing sales rebounded on the back of demand-side policy support



**Mortgage rates decline amid other demand-side stimulus**

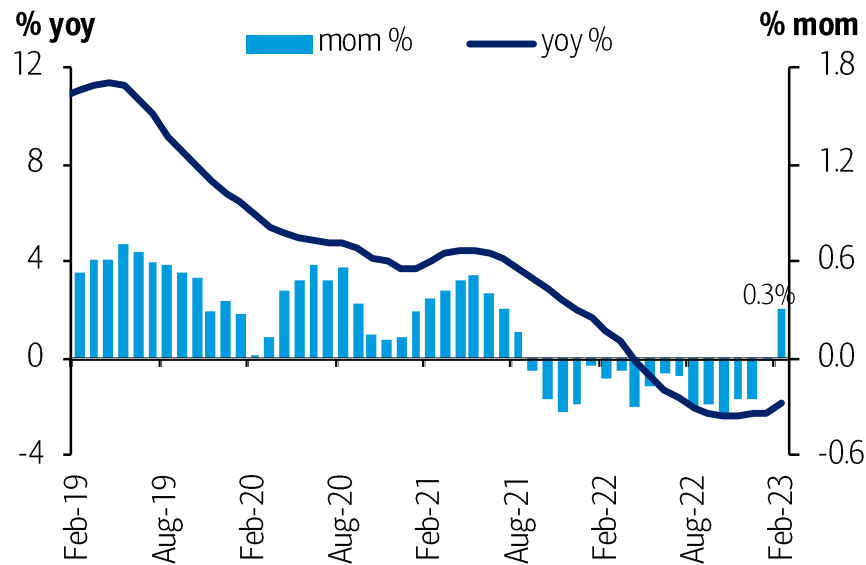
**Secondary housing transactions surged in recent weeks**



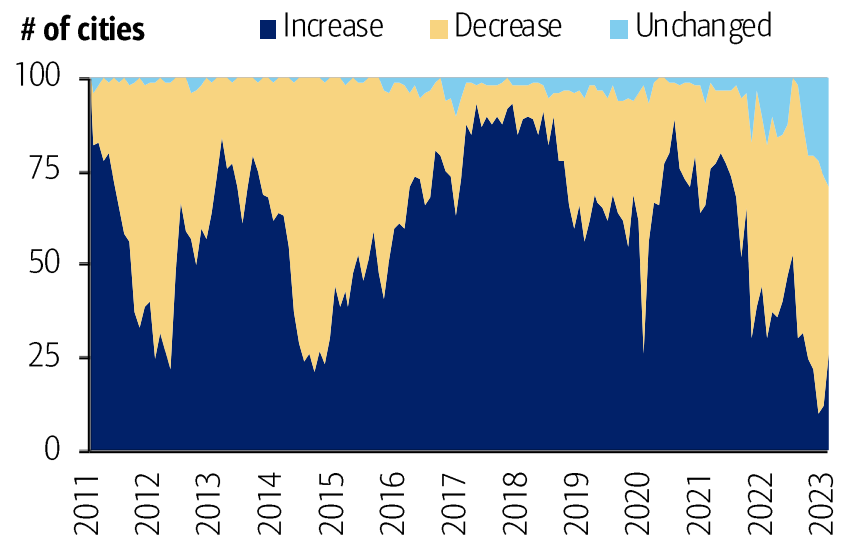


## Property market turmoil (3): Housing price stabilization is key

**70-city new home prices rose mom in Feb, the first time in 18 months**



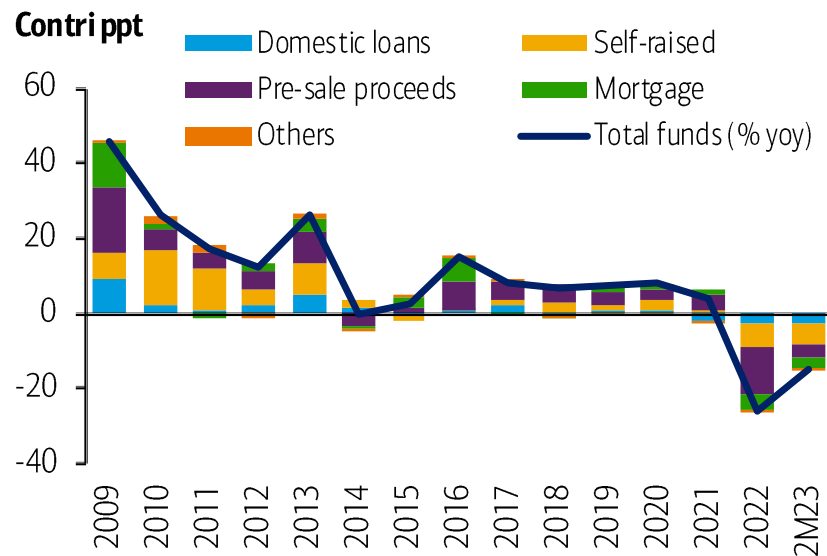
**Fewer cities saw home prices drop in Jan-Feb**



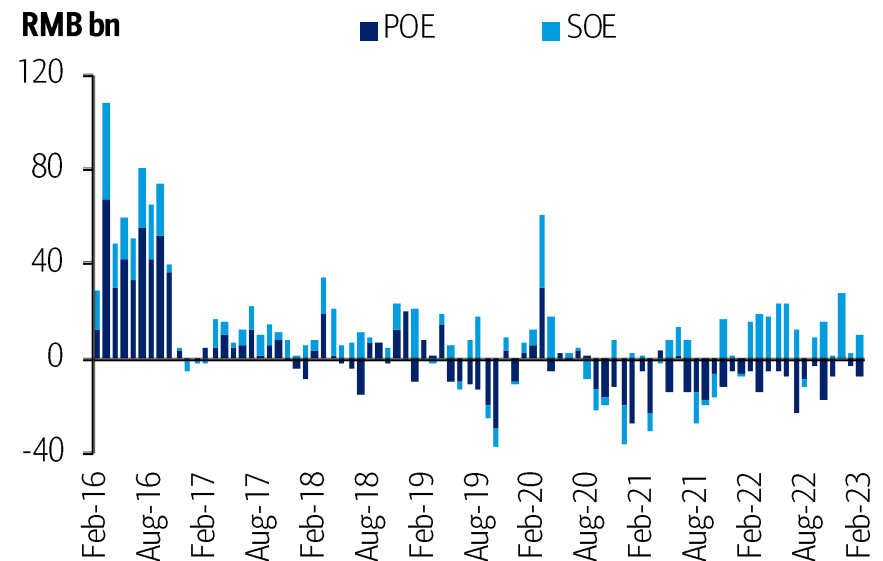
# Property market turmoil (4): Developers' liquidity crunch improved on the margin



Available funds for developers remained in contraction



Many private developers still faced funding challenges

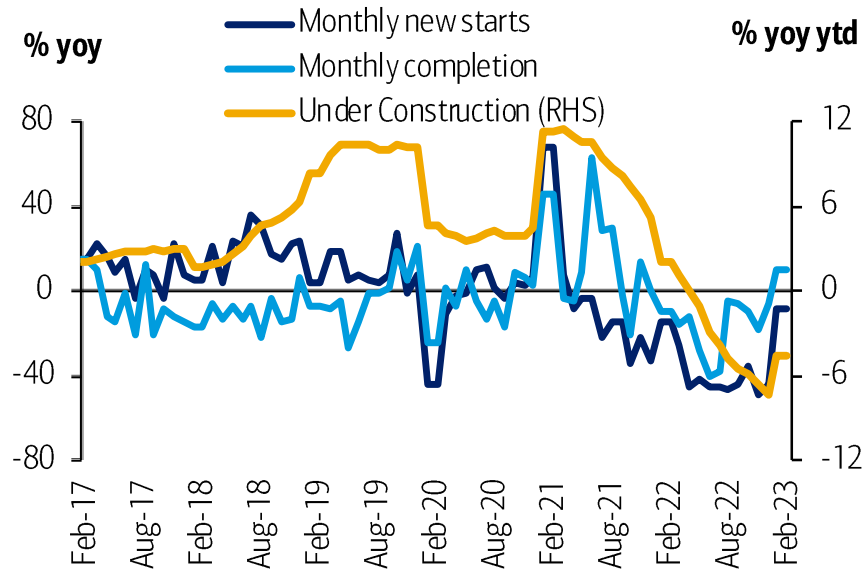




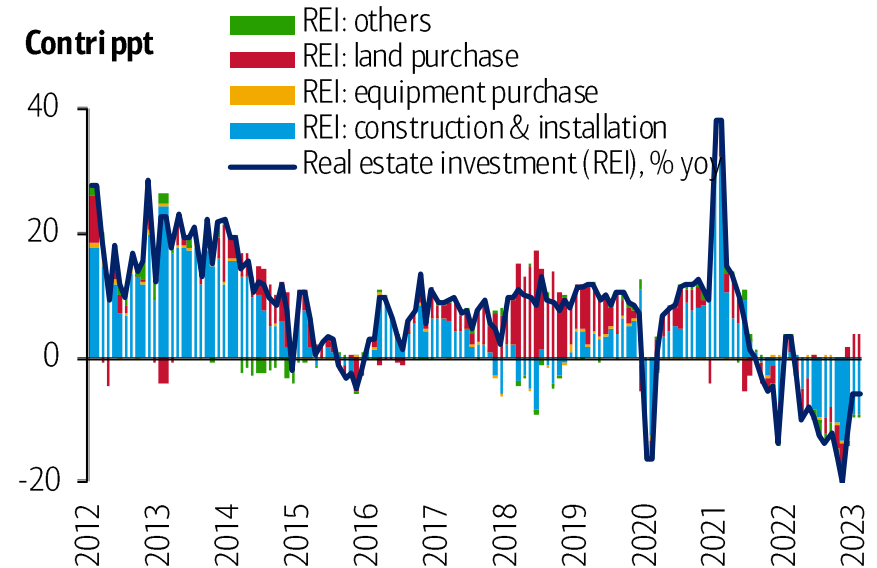
# Property market turmoil (5): Property investment likely to bear smaller drag on growth in 2023 than 2022



## New starts likely to see smaller contraction in 2023



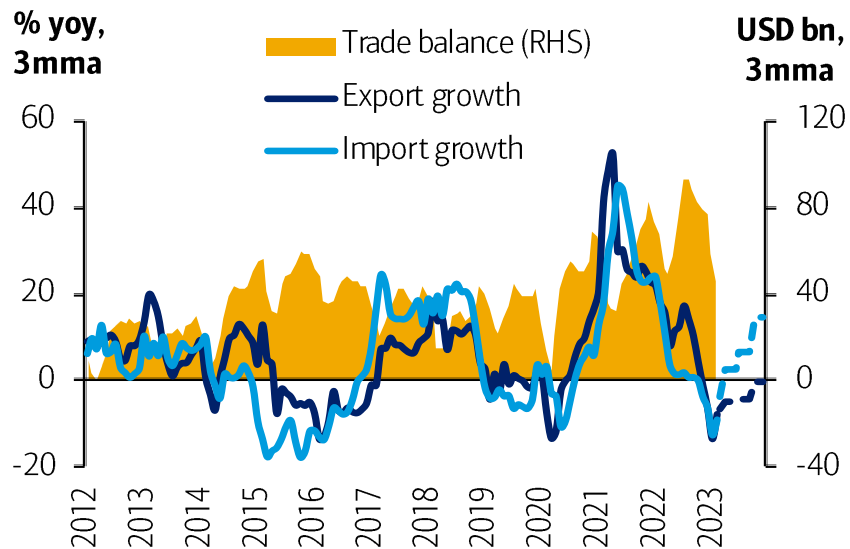
## Slow construction & installation to drag investment in 2023



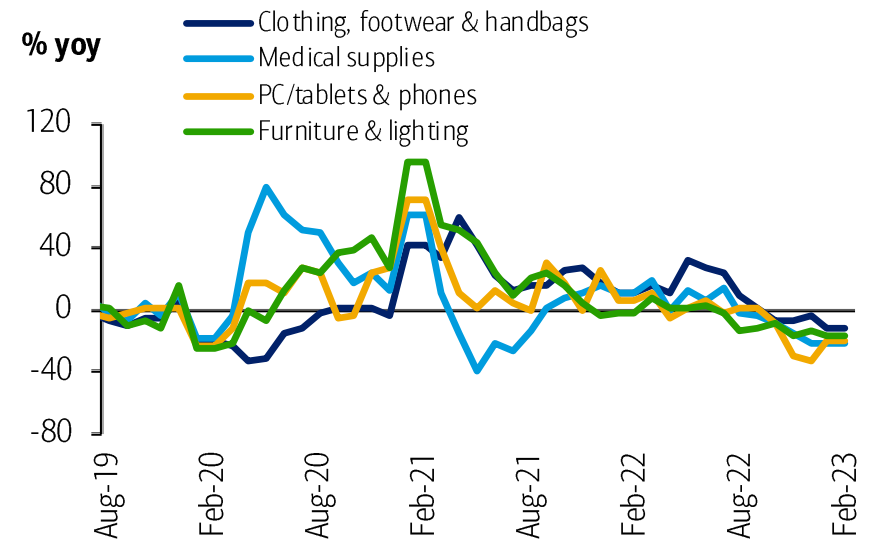


# Export growth to decelerate as external demand slows

## Export growth may slow further in coming months



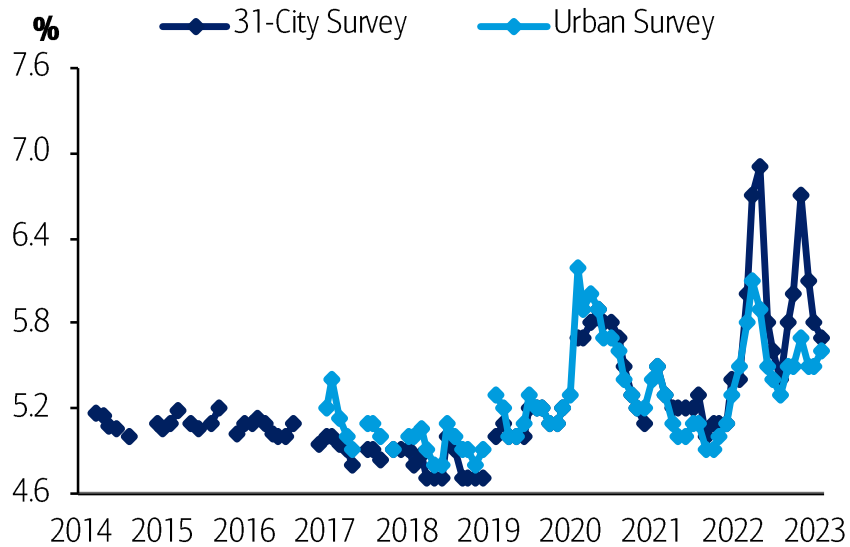
## External demand for many consumer goods slowed



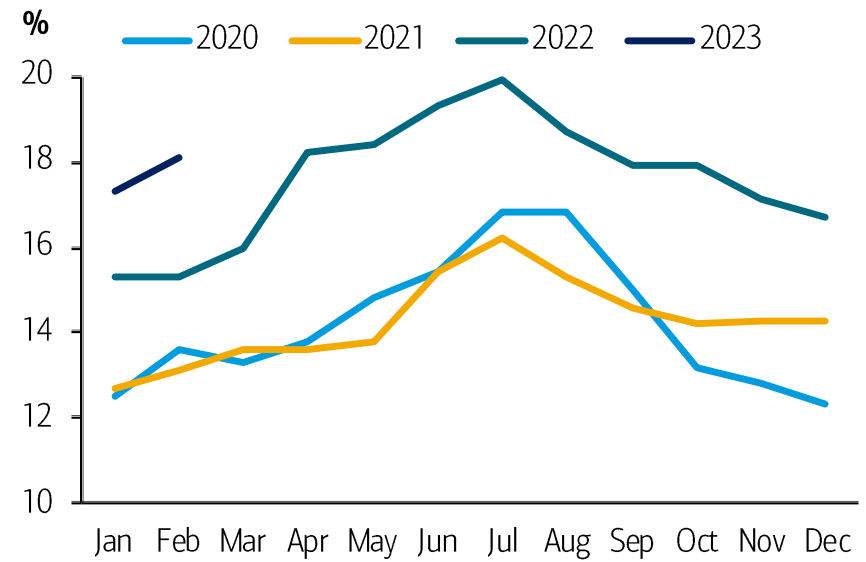


# Labor market remains challenging

## Surveyed urban unemployment rate edged up in Feb



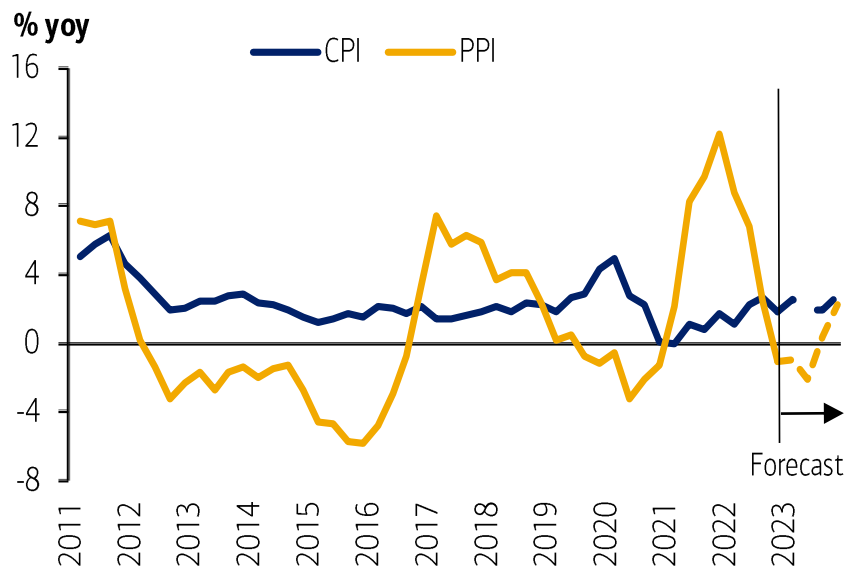
## Youth unemployment rate (age 16-24) still elevated



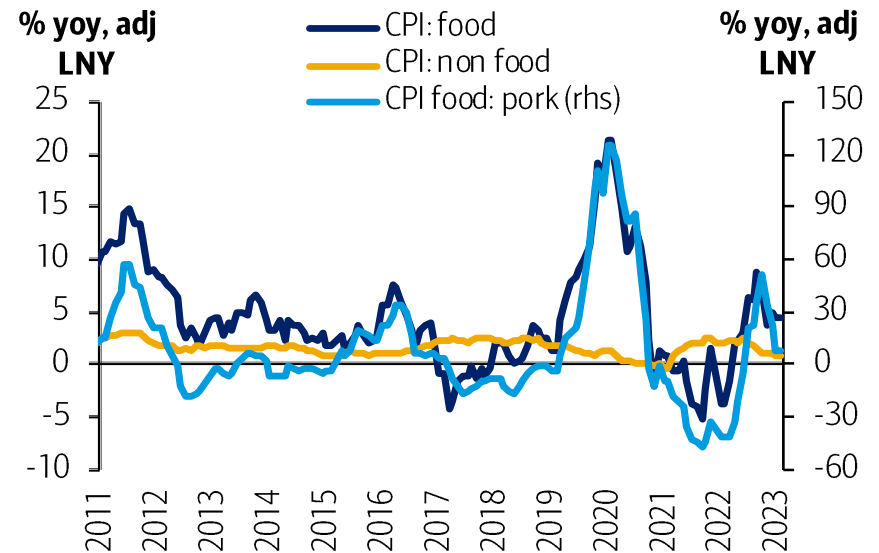


# Inflation remains subdued but risks are skewed toward the upside

## We expect inflationary pressure to stay subdued



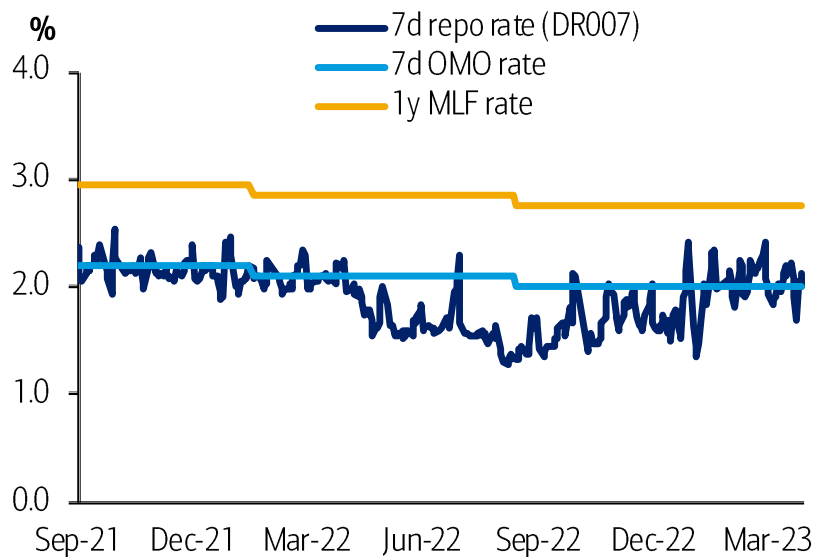
## Non-food CPI inflation stayed muted





## We expect CNY to strengthen in mid-2023

### Money market rates (DR007) stayed close to policy rate



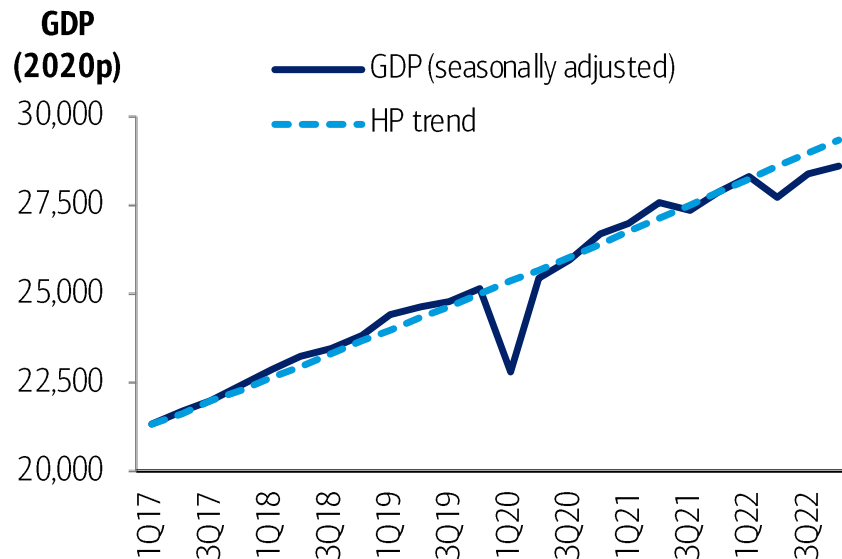
### We expect CNY to strengthen slightly in mid-2023



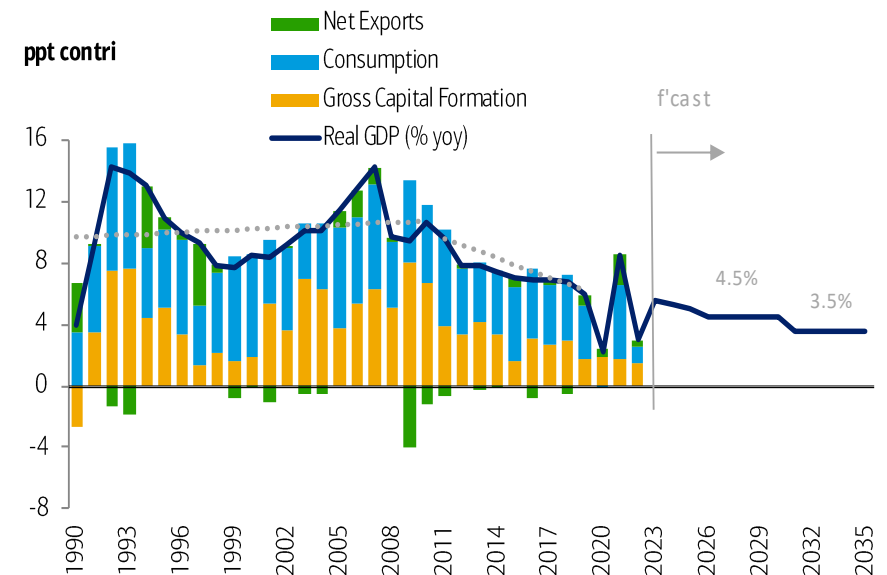


# Long-term potential growth (1): Multiple headwinds beyond the near-term cyclical rebound

**A sizable output gap vs. trend as of 4Q22 (2.5% of GDP)**



**We expect potential GDP growth to moderate further**



## Long-term potential growth (2): Our three scenarios

### <1> Base case: inevitable but gradual slowdown

	GDP growth, %	Contribution to GDP growth, ppt			
		TFP	Capital stock	Raw labor	Human capital
1981-1990	9.3	1.0	4.4	1.6	2.4
1991-2000	10.5	3.9	4.5	0.8	1.2
2001-2010	10.6	3.9	5.0	0.6	1.1
2011-2019	7.3	2.5	4.2	-0.1	0.8
2020-2022	4.5	1.2	2.9	-0.2	0.8
2023-2025F	5.0	2.2	2.7	-0.5	0.7
2026-2030F	4.5	1.7	2.2	0.0	0.6
2031-2035F	3.5	1.1	1.8	-0.1	0.6

### <2> Bull case: upside possible from reform dividend

### <3> Bear case: stalled reforms without major fallout in global environment

	GDP growth, %			TFP growth, ppt		
	Bull case	Base case	Bear case	Bull case	Base case	Bear case
2023-2025F	5.5	<b>5.0</b>	4.0	2.5	<b>2.2</b>	1.5
2026-2030F	5.0	<b>4.5</b>	3.6	2.0	<b>1.7</b>	1.2
2031-2035F	4.5	<b>3.5</b>	2.8	1.6	<b>1.1</b>	0.8

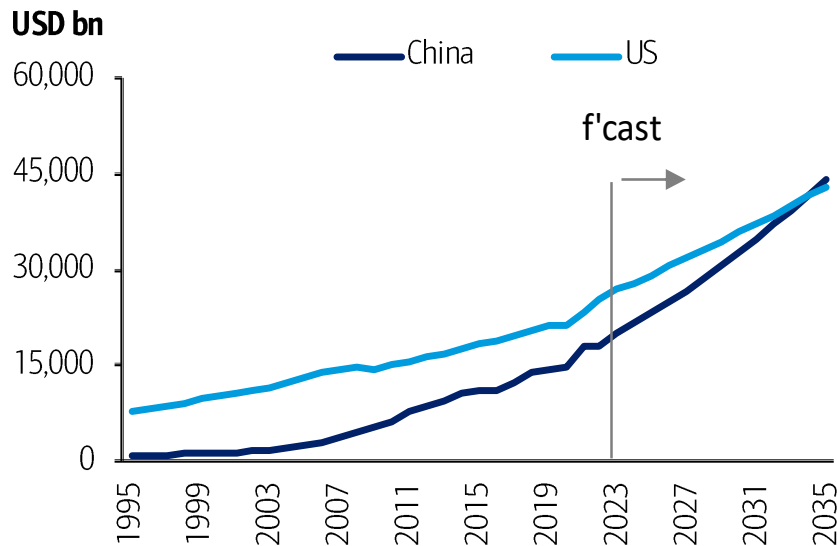
Note: All forecasts are potential growth estimates

Source: BofA Global Research estimates, NBS, CEIC, The World Bank Group

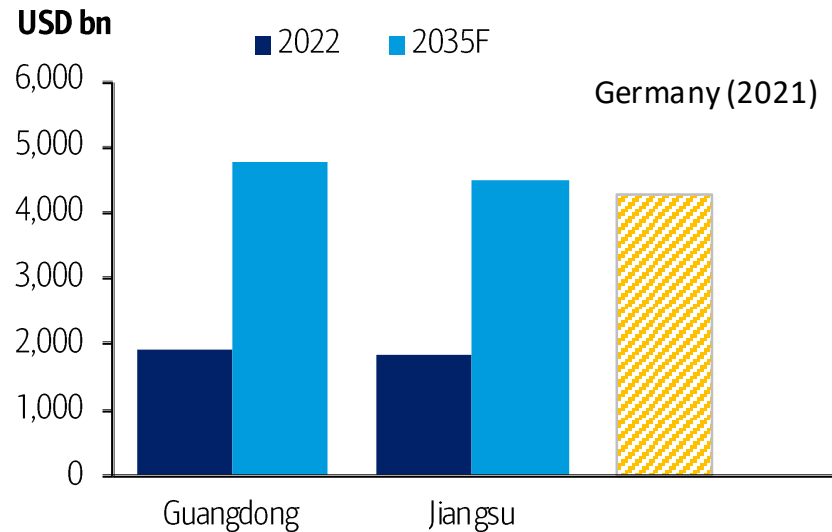


## Long-term potential growth (3): What will China look like in 2035?

**Our baseline scenario implies China could overtake the US to become the world's largest economy by 2035...**



**... Guangdong and Jiangsu will grow to a size larger than Germany's economy today**



Note: We use BofA estimates for US GDP growth in 2023-24, and the Congressional Budget Office (CBO) projection beyond 2024. We project slightly higher growth rates of these provincial economies vs. the national aggregate, based on historical data.

Source: BofA Global Research estimates, CEIC

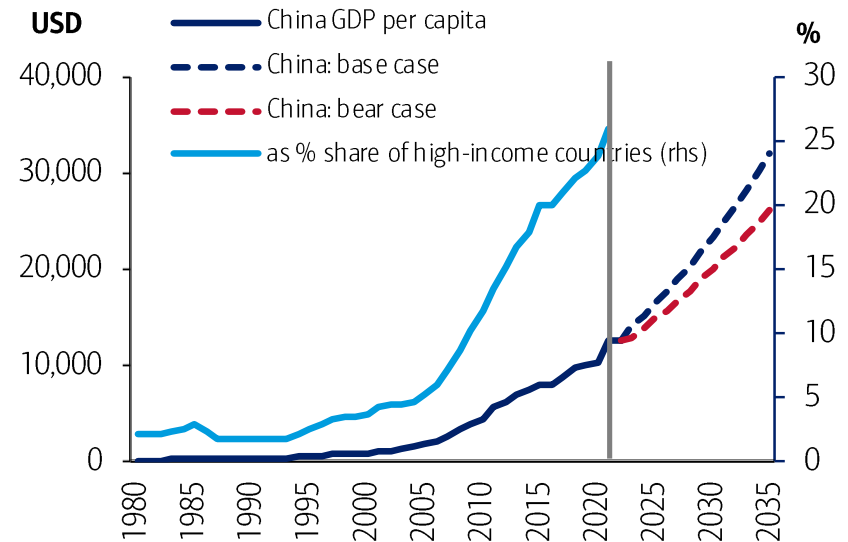
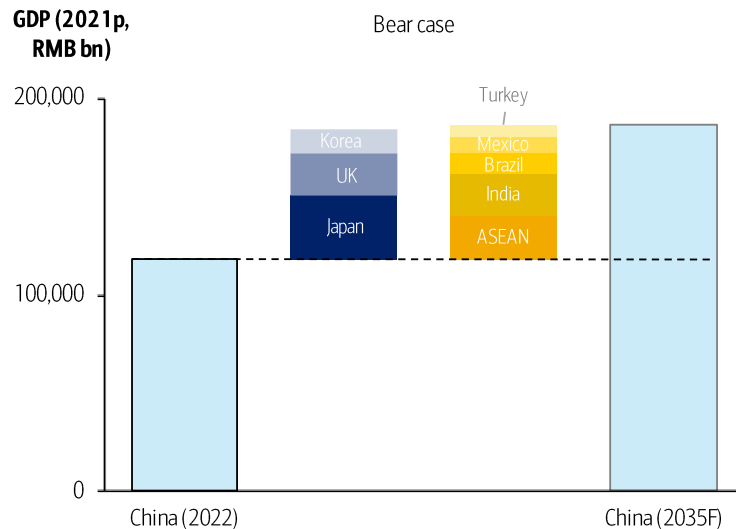




## Long-term potential growth (4): Where would the bear case lead us?

**By 2035, China's economy could expand by a size equal to the current GDP of multiple countries combined...**

**Income convergence will continue in the coming decade**





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