
China's Third Plenum – deepening reform

- ◆ China's Q2 GDP rose by 4.7% y-o-y, losing some steam on the back of softer consumption growth
- ◆ Industrial production stayed buoyant, but investment was mixed, with property investment remaining a key drag
- ◆ Meanwhile, China wrapped up its Third Plenum, aiming to deepen reforms and advance China's modernisation

China data review (Q2 and June 2024)¹

- **China's Q2 GDP** rose by 4.7% y-o-y, down from 5.3% in Q1, as consumption indicators showed further signs of pullback, echoing recent data points of softer domestic demand from trade and inflation data. The softer domestic demand picture will likely put some renewed urgency on stabilising growth.
- **Consumption** was a key laggard as **retail sales** growth slowed further to 2.0% y-o-y in June. Despite some strength in headline figures from the recent holiday data, per capita trip spending remains below pre-pandemic levels highlighting the ongoing concerns around weaker consumer confidence. Retail sales value may have also partly been impacted by price cuts amid the recent "618" shopping festival and ongoing competition pressure.
- **Industrial production** stayed buoyant on the back of the higher exports, rising by 5.3% y-o-y in June. However, there remains uncertainty on the durability of global demand amid ongoing tensions and tight monetary conditions elsewhere. That said, production may have been supported by domestic demand from equipment trade-in programs while manufacturing investment remains robust.
- **Investment** continued to see a mixed picture as **fixed asset investment** year-to-date growth slowed a touch to 3.9%. Further policy support through equipment trade-in programs as well as a pickup in special government bond issuance likely helped to keep manufacturing and infrastructure investment elevated, with both rising above 9% y-o-y in June.
- **Headline CPI** growth slowed to 0.2% y-o-y in June, primarily due to a drag from fresh produce prices. **Core CPI** was unchanged from the prior month at 0.6% y-o-y, though fell 0.2% m-o-m driven by softer consumer demand including from some services activities. Meanwhile, the drag in **producer prices** continued to moderate in y-o-y terms, falling by 0.8%, primarily helped by a low base.
- **Imports** fell by 2.3% y-o-y in June, driven by softer domestic demand while **exports** continued to gather some momentum rising by 8.6% y-o-y, given a lower base and ongoing exports to emerging market economies.

¹ Source: Wind, HSBC

China's Third Plenum – deepening reform

Leaders of the Chinese Communist Party convened for the Third Plenum from 15-18 July. The communiqué provided the high-level overview of the reform plans for the coming years and reiterated its goals to reach a “high-level socialist market economy by 2035”.

Deepening reform

Key themes in the communiqué included a reiteration of support for high-quality development and innovation, increased regional integration, and management of risks such as from local government debt and the property sector. Further fiscal reforms, enhanced macro-policy coordination and continued opening up were also noted; specifics are detailed below. The release pledges to complete reform tasks proposed in the Decision by 2029.

1. Fuelling new productive forces

Given China's ambition for higher quality growth, a large emphasis was placed **on innovation and cultivating science and technology**. This means more resources may be allocated to promote R&D, further support for education and efforts to integrate new technologies and digitalisation into existing industries. **Green development** was also highlighted to help meet carbon reduction goals, which may fuel more green-related investment.

Innovation and green development are key goals

2. Fiscal reforms and debt management

Fiscal and taxation reforms are set to be unveiled to better align revenues and expenditures, especially as local governments tend to spend disproportionately more than their share of fiscal revenues. Relatedly, **resolving the local government debt risk** remains a priority, and ongoing fiscal reforms should help to facilitate expansion of productivity enhancing projects such as in infrastructure build outs or social services provisions.

Resolving local government debt risk is a priority

3. Resolving risk for the real estate sector

Following the recent slew of easing measures in mid-May, the property sector saw some respite in June, but the path towards stabilisation remains uneven. As the property market remains under pressure, the mention of ‘managing risk in the property sector’ likely means **more support may come through** as we move towards a new housing development model. Indeed, we think the government has the space to provide more policy support to help stabilise the sector.

More support likely for the property sector

4. Improving people's livelihoods

Policies to expand social safety nets and grow the middle-income class are also in focus with calls to “improve the income distribution system, employment, social security system, and medical system”. This would allow China to **move more towards consumption-led growth** as improved income levels and wider social safety nets can help to reduce precautionary savings and unlock consumption. Meanwhile, further land reform should also help to improve urban-rural regional integration and narrow the income gap between rural and urban households.

Moving towards consumption-led growth

5. Opening up and capital market reforms

Continued opening up and capital market reform will likely complement domestic demand growth. This could entail further easing of market access, **encouragement of foreign investment into mainland China**, and development of mainland China's capital markets. In terms of global relations, mainland China reiterated the development of the Belt and Road Initiative, encouragement of investment flows and integration with Hong Kong and Macau. Also, engagement with ASEAN or the Middle East can provide further avenues for growth.

Encouraging more foreign investment

Key upcoming China economic data

Date	Indicator	Prior
31 Jul	NBS Manufacturing PMI	49.5
1 Aug	Caixin Manufacturing PMI Final	51.8
5 Aug	Caixin Services PMI	51.2
7 Aug	Exports y-o-y	8.6%
7 Aug	Imports y-o-y	-2.3%
9 Aug	Producer Price Index (PPI) y-o-y	-0.8%
9 Aug	Consumer Price Index (CPI) y-o-y	0.2%
15 Aug	Retail Sales y-o-y	2.0%
20 Aug	Loan Prime Rate 1Y	3.35%
20 Aug	Loan Prime Rate 5Y	3.85%

Source: Refinitiv Eikon

Performance of key A-share indexes*

	Previous Close	Year-to- Date	Last 1yr
Shanghai Composite	2,982	0.25%	-6.77%
Shenzhen Composite	1,610	-12.39%	-20.96%
CSI 300	3,539	3.14%	-8.10%

* Past performance is not an indication of future returns

Source: Refinitiv Eikon. As of 21 July 2024, market close

Disclosure appendix

Additional disclosures

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