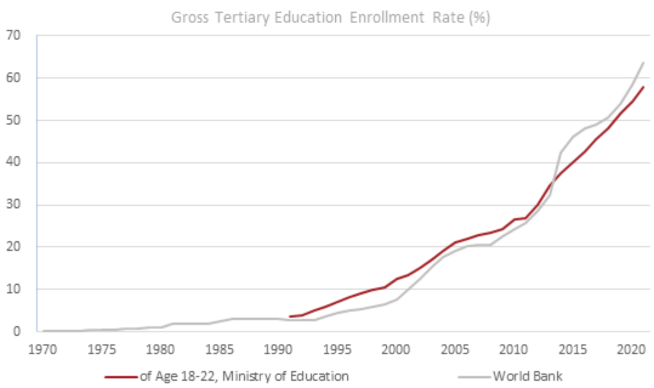
China Bulletin: Market View



Pessimistic sentiment continues to loom over the onshore market, with challenges arising from a sluggish labour market, decelerating housing sector recovery, and slowing export growth. The shift from long-term to short-term concerns is adding to the overall pessimism. However, a closer examination reveals the potential of an expanding service sector to counterbalance the housing sector's drag and create employment opportunities for unemployed educated young workers, instilling a sense of optimism for businesses. While the path to recovery may be more protracted than initially anticipated, gradual progress remains the prevailing scenario.

Taking a deeper dive into the labor market, we confront a formidable structural issue in China. The Tertiary education enrollment rate, published by the Ministry of Education and the World Bank, points to a surge in college graduates seeking skills-based jobs (10 million every year vs 5-6 million a decade ago). Coupled with modest economic growth (~5% vs 9% a decade ago), this poses a significant challenge to unemployment figures. However, the shrinking working-age population is helping to mitigate the overall unemployment rate. Despite this, the restoration of business confidence post-pandemic has been gradual, further prolonging the recovery process. Nonetheless, with favorable policies and a revival in household consumption, the service sector is poised to expand, offering a potential solution to alleviate youth unemployment.

Although there have been discussions about relaxing restrictions on the housing market, a significant shift in policy tone appears unlikely. Policymakers favour a measured approach to maintain the financial health of households, as reduced dependence on the housing sector may undermine the effectiveness of traditional stimulus measures. While we maintain our view that the housing market's downturn will peak around mid-2023, a substantial upturn is not yet within sight.

Amidst heightening geopolitical tensions, the recent contraction in exports is primarily driven by cyclical factors rather than structural forces. China's competitive advantage, including factors such as low inflation, an ample supply of skilled labour, and a stable supply chain, positions its goods favorably in the global market. Targeted protectionism is more likely to reshape the global supply chain rather than significantly undermine China's competitiveness. Therefore, while geopolitical tensions may impact market sentiment in the short term, their long-term implications warrant less concern.

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