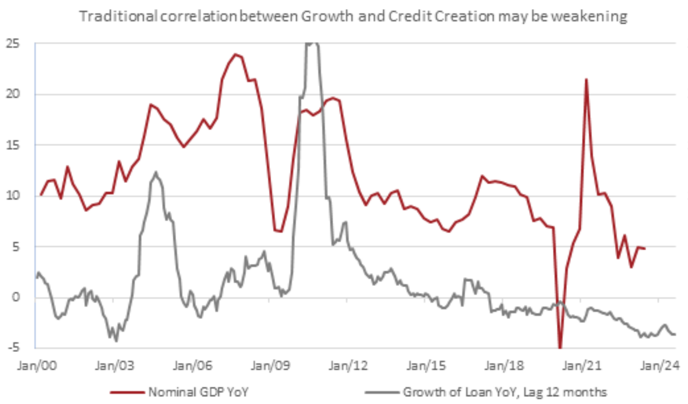
China Bulletin: Market View



During the week-long National Day holiday, which traditionally marks a peak travel season, various indicators are pointing toward a mild rebound in tourist traffic and spending, approaching pre-pandemic levels. The post-pandemic recovery, while gradual and delicate, exhibits a distinct feature: despite historically low interest in home purchases, consumer spending on travel and discretionary items continues to steadily rise. Despite enduring a housing investment decline exceeding 20% over ten quarters, equivalent to around 2.5% of annual nominal GDP, there are encouraging signs for households. The household loan-to-deposit ratio has dropped below 60%, down from its peak of 70% in 2021, and mortgage interest rates have been adjusted lower under central bank guidance. This suggests that the growth trajectory is likely to remain on its current path of consolidation.

Despite the lessening severity of the housing downturn and the healthy financial positions of households and corporations, consumer sentiment could improve further if stronger measures are introduced to facilitate the completion of unfinished housing units. The pre-sale of unfinished units to homebuyers, a source of funding for property developers, has left homebuyers vulnerable when developers encounter liquidity challenges – as seen in recent years. Even with policy initiatives that require local governments to help expedite delivery of completed housing units, the process remains sluggish and continues to weigh on sentiment. An IMF report indicates that the gross cost of completing all troubled pre-sold housing projects across China amounts to approximately 5% of GDP, potentially making it a more effective fiscal policy tool than traditional spending on infrastructure investments.

Latest economic data show that China is still free of inflationary pressure, enabling the PBoC to implement further measures to bolster the ongoing economic recovery. While producer prices may remain subdued amid the housing contraction, there's a possibility they could edge above 0%. Consumer prices are expected to rise with increasing confidence but are likely to remain below the central bank's 3% target. Muted inflationary pressure enables monetary policy to prioritise growth targets. It's important to note that the transmission of accommodative monetary policy is increasingly occurring through the credit channel, including reductions in interest rates on existing loans. Without a housing boom, credit creation is expected to remain moderate even during a robust recovery, leading to reduced accuracy in using credit indicators to forecast economic growth.

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