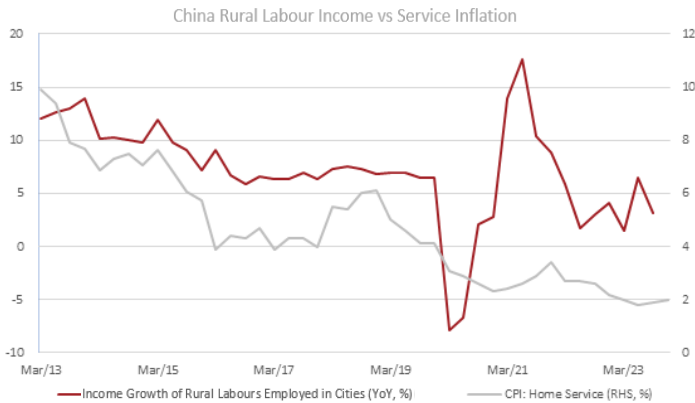


China Bulletin: Market View



China's year-end Central Economic Work Conference is providing a mixed tune and limited solace for the delicate market. Policymakers acknowledge the adverse impact of the ongoing structural transition and pledge to rekindle confidence and reignite growth. However, this support is proving less effective as the economy shifts away from its heavy reliance on housing and infrastructure investments. Scheduled local government debt relief efforts aim to bolster fiscal sustainability, implying an accommodative fiscal policy that may be less active than the deficit numbers suggest. On the monetary front, the adjustment from a "strong" to an "effective" stance, hints at a more neutral approach. In general, greater emphasis is being placed on long-term objectives, aligning with the trend observed over the past two years.

Economic data points towards steady growth in industrial production and a robust household sector, despite the ongoing housing market slump. These factors provide a solid foundation for a soft landing in the housing sector. High-frequency data reveals a marginal reduction in the drag from the housing sector towards the end of 2023, although it remains at approximately

minus 0.5%. Given the gradual improvement in household conditions, supportive housing policies, a healthy financial system, balanced housing supply and demand, and the continuous process of urbanisation, there is a promising chance of witnessing the housing sector registering zero or positive growth in the forthcoming quarters. While the repercussions will linger for years, their impact will be mostly confined to local governments and buyers of unfinished properties.

Consumer prices dipped further into negative territory in November, while producer prices remained subdued. This trend reflects the enduring pressure exerted by the housing sector's adjustment. The sluggishness in consumer prices might challenge the argument that China's households are largely impervious to the housing slump. However, this weakness can be attributed to several technical factors. A significant portion of China's consumer price basket, encompassing essentials like food, healthcare, utilities, transportation, and communications, is regulated and subjected to only marginal increases. Meanwhile, prices of services, though experiencing growth, carry limited weight in the consumer inflation index and are entirely excluded from the producer price index. It is worth noting that service prices closely track the income of rural labourers employed in cities. As the labour force is projected to shrink in the coming years, this structural shift may elevate service inflation levels. Regardless, the financial health of the household sector remains pivotal to China's recovery, and inflation figures serve as a crucial gauge warranting continuous monitoring.

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