KPMG

China Economic Monitor

Issue: 2024 Q4

November 2024

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Key takeaways

- China's GDP grew 4.8% year-over-year (YoY) in the first three quarters of 2024. GDP grew 4.6% in Q3 2024, 0.1 percentage points lower than that of Q2 2024, in line with market expectations. On a quarter-over-quarter basis, the economy grew by 0.9% in Q3, lower than the average growth rate in the past five years. The slowdown is partly caused by weak modest domestic demand, contracted production, and low industrial capacity utilisation. On the other hand, exports rose by 6.0% YoY in Q3 2024 thanks to continuous improvement in external demand. China's trade with emerging markets has seen fast growth, reflecting strengthened regional collaborations. Meanwhile, the optimisation of the structure of export commodities continues and exports are expected to remain resilient this year.
- Consumption picked up momentum, growing from 2.6% in Q2 to 2.7% in Q3. The government applied ultra-long special treasury bonds to support the Consumer Goods Trade-In Programme in Q3, boosting durable goods consumption. With the reduction of existing mortgage rates and additional allowances to target groups, consumers' willingness to spend is expected to further rebound in Q4 2024.
- The manufacturing investment growth rate dropped slightly to 8.8% in Q3 from 9.3% in Q2 due to the poor profit performance of the industrial sector in Q3. As production capacity is declining and implementation of equipment renewal policies is accelerating, manufacturing investment is expected to stabilise in Q4 2024.
- Growth of infrastructure investment jumped to 11.9% in Q3 2024 from 7.2% in Q2, mainly driven by the significantly accelerated pace of government bond issuance since the July Politburo meeting. Thanks to the issuance of bonds, general fiscal expenditure growth jumped from -4.1% in the Q2 to 3.3% in Q3.
- Real estate investment growth rate declined by 10.1% in Q3 2024. High inventory pressure prompted enterprises to stay cautious on investment despite a slight improvement in sales. The government is expected to stabilise domestic demand and reduce housing inventory in the coming months.
- In response to the current economic headwinds, the government has introduced a set of policy stimuli in fiscal and financial areas~~,~~ to support consumption, investment, real estate, and capital markets since the end of September, aiming to stabilise housing and financial market prices. As policies are gradually taking effect, it is expected that China's economy will meet its' growth target in 2024.

China's economic recovery momentum slowed down in Q3 2024

Growth rate of major economic indicators, YoY, %

	2020-23 Average	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3
GDP	4.8%	4.9%	5.2%	5.3%	4.7%	4.6%
Industrial production	5.0%	4.2%	5.2%	6.0%	5.9%	5.1%
Retail sales	4.1%	4.2%	8.3%	4.7%	2.6%	2.7%
Fixed asset investment	4.4%	1.9%	2.7%	4.5%	3.6%	2.6%
Exports	9.0%	-9.9%	-1.2%	1.1%	5.6%	6.0%
Imports	6.4%	-8.5%	0.9%	1.6%	2.5%	2.4%
Income per capita	4.8%	6.1%	6.7%	6.2%	4.5%	5.0%
Fiscal revenue	4.6%	-0.9%	-1.0%	-2.3%	-3.2%	-0.8%
Fiscal expenditures	3.7%	4.1%	9.2%	2.9%	1.1%	1.9%

Source: Wind, KPMG analysis

Note: growth of GDP, industrial production, and income per capita are in real terms, and others are in nominal terms.

- China's GDP grew 4.8% year-over-year in the first three quarters of 2024. GDP grew 4.6% in Q3, 0.1 percentage points lower than Q2, in line with market expectations.
- Consumption growth remained subdued. Fixed asset investment growth dropped to 2.6% in Q3, with activity in the real estate market remaining weak and infrastructure investment constrained by fiscal funds shortages.
- As China's domestic demand continued to weaken, industrial production growth dropped to 5.1% in Q3 and industrial capacity utilisation rate was at a low level in the same period of history.
- Export growth picked up from 5.6% in Q2 to 6.0% in Q3 due to a lower base and robust external demand.

Government has introduced a set of policy stimuli since September

Key takeaways from recent policy talks

Financial institutions

Monetary policy: Cut RRR by 50bp. Cut policy rate by 20bp

Stock market: Create to purchase stocks, with an initial quota of RMB500bn; Create relending programme for equity buy-back, initial quota of RMB300bn

Property: Lower the minimum down payment ratio for a second home to 15%. Reduce existing mortgage rates by around 50bp

Ministry of Finance

Fiscal policy: The central government has relatively large room for debt expansion and deficit increases.

Local debt resolution: Approved a 5-year, Rmb10trn local govt. debt swap program.

Property: The first official endorsement of using LGSB to buy back housing inventory.

SOE bank recapitalisation: Special Treasury Bonds will be issued to recapitalise big banks to facilitate risk digestion.

Consumption: Additional allowances for students in the near term.

Ministry of Housing and Urban-Rural Development

Property: Cash resettlement for 1mn units under urban village redevelopment. Eligible projects need to generate enough future cash return to cover the cost.

National Development and Reform Commission

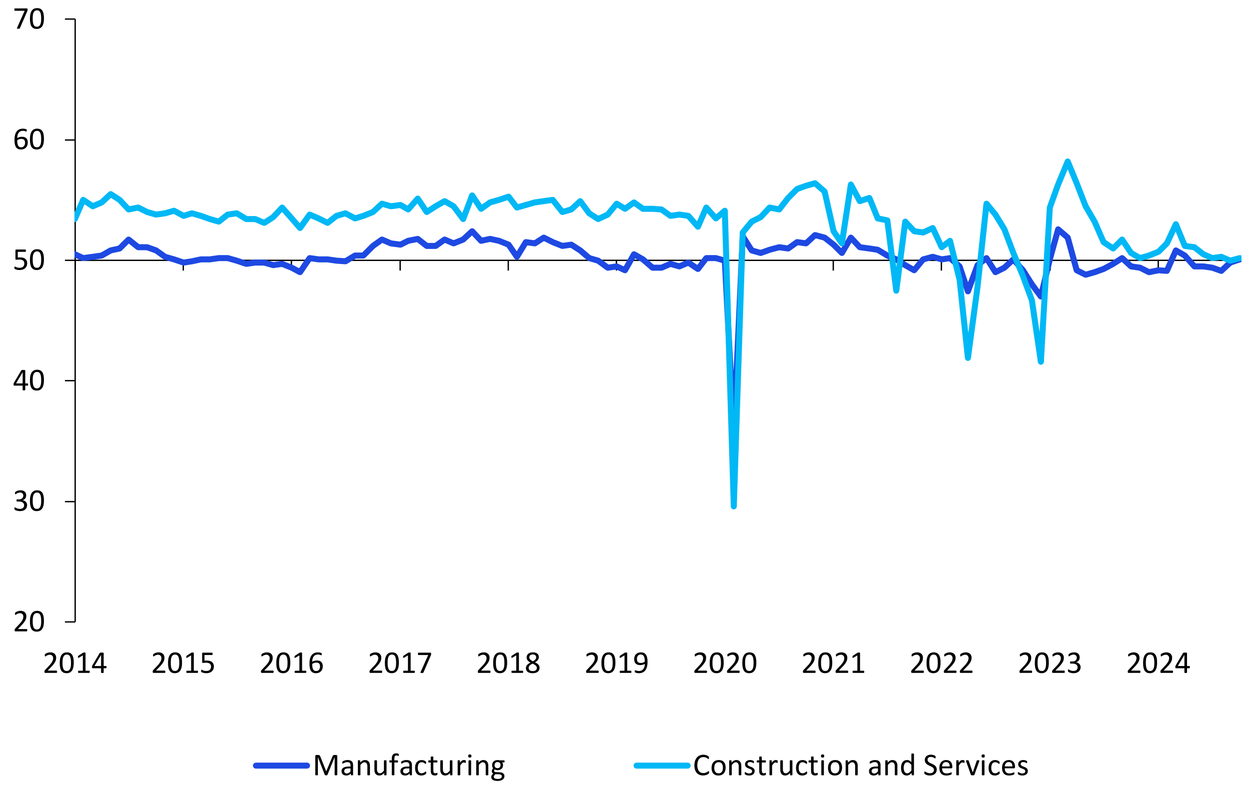
Investment: Pre-approve RMB 200 bn of next year's projects by late-October. Continue to issue ultra long term special treasury bond. Expanding the scope of support for local government special bonds

- In response to economic headwinds, the government has introduced a set of policy stimuli in fiscal and financial areas to support consumption, investment, real estate, and capital markets since the end of September.
- This round of stimuli is aiming to stabilise asset prices, including capital market and property market, and to reduce the debt burden of households and local governments. As the prospects of enterprises and residents are rebounding, the government is expected to issue additional bonds to stimulate domestic demands.
- As policies are gradually taking effect, it is expected that China's economy will meet its' annual growth target.

Source: Government websites, KPMG analysis

Domestic demand and production is rebounding thanks to new policy stimuli

Manufacturing and non-manufacturing PMI

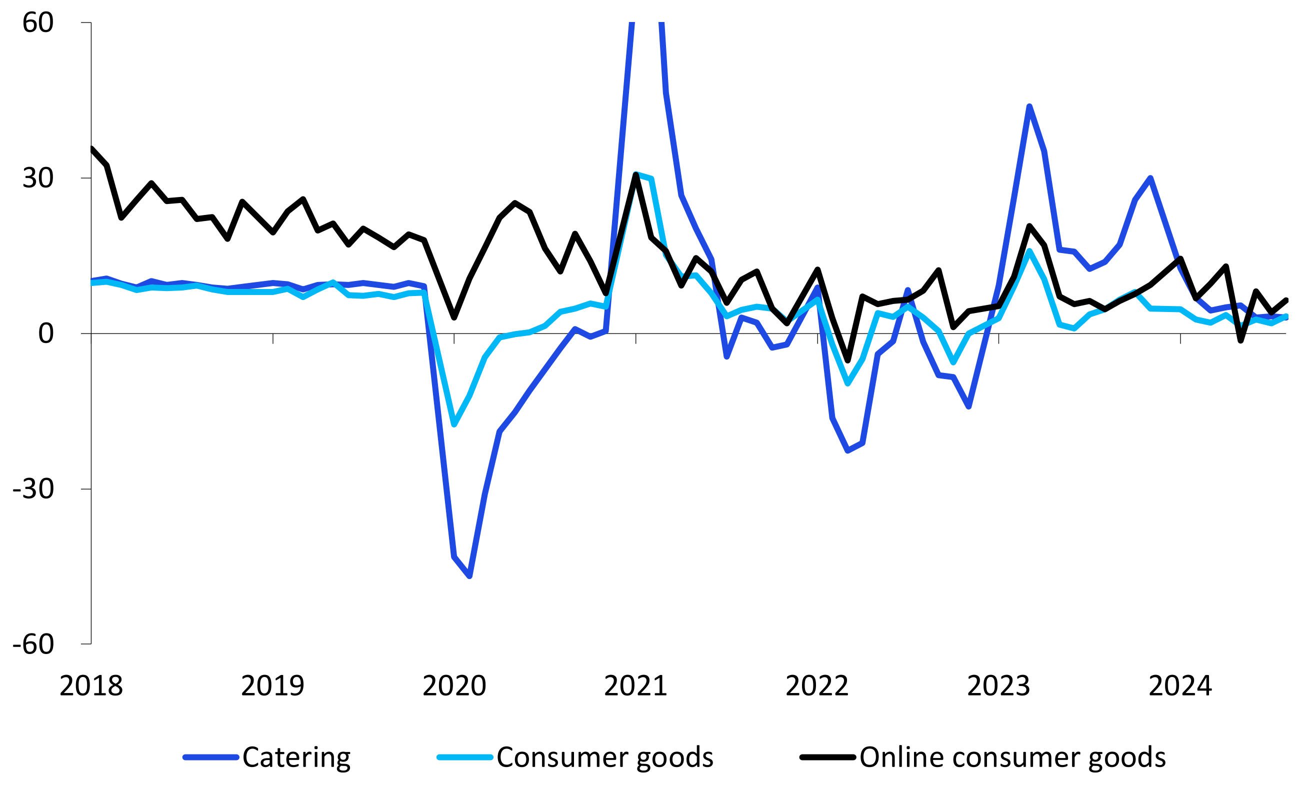


Source: Wind, KPMG analysis

- The manufacturing PMI, a leading indicator of industrial production, returned to the expansionary zone in October 2024 after five months of contraction. The production index rose 0.8 to 52.0% and the new orders index went up to 50.0%, highlighting the new set of policies' success in propping up domestic demand and production at the same time.
- Meanwhile, non-manufacturing PMI saw a slight rebound in October. Driven by the National Day holiday, the services PMI index rose to 50.2%. However, affected by subdued property investments, the Construction PMI dropped 1.1 percentage points to 50.4%.

The gap between service and goods consumption has narrowed

Growth rate of catering sales and goods sales, YoY, %

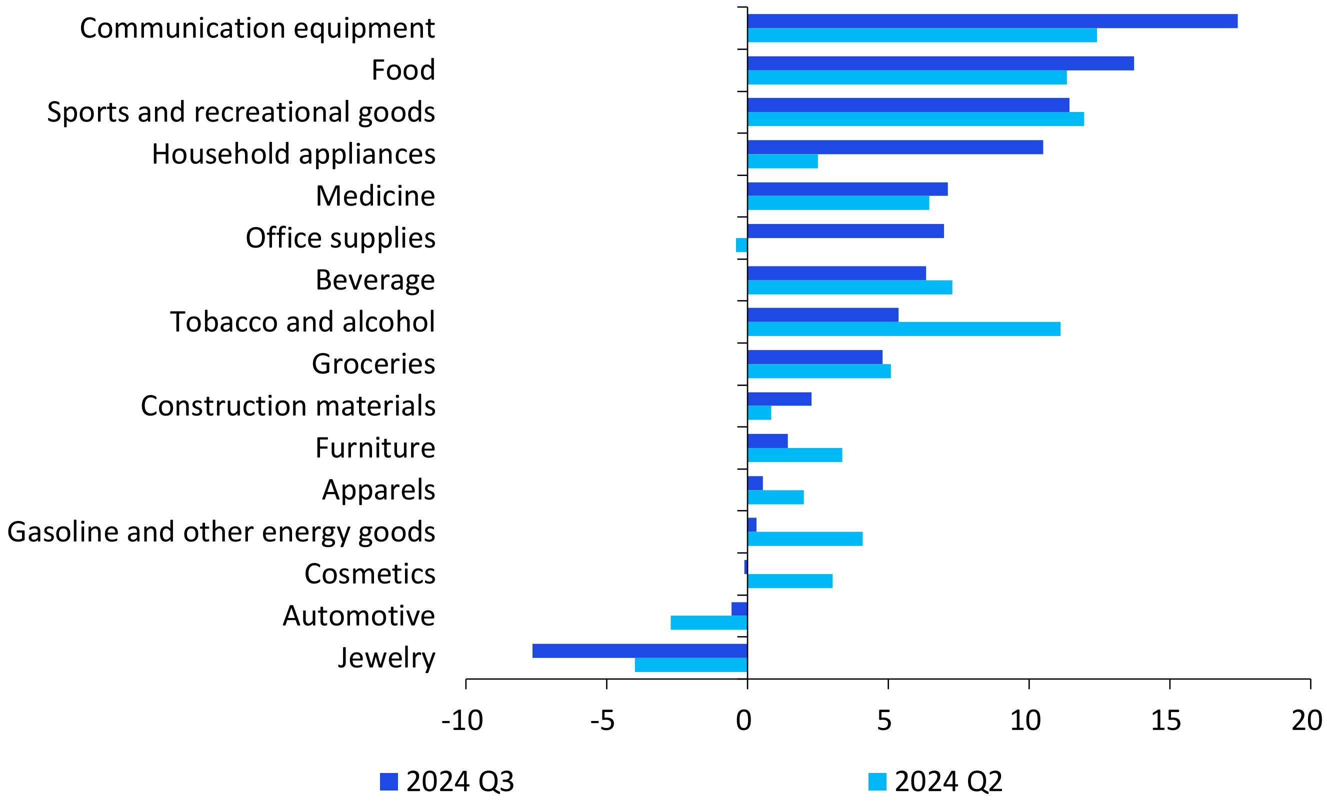


Source: Wind, KPMG analysis

- Last year's high base led to a decline in the YoY growth rate of service consumption. The YoY growth gap between catering sales and goods sales narrowed from 7.9 percentage points at the beginning of the year to 1.4 percentage points in August. In September, goods sales increased by 3.3% YoY, surpassing the catering sales growth rate of 3.1% for the first time since 2023.
- In addition, online consumption continued to thrive as new e-commerce models like livestream sales developed rapidly, driving a 7.9% YoY growth in online goods sales, which accounted for 25.7% of total retail sales.

Consumption trade-in policies are taking effect

Growth rate of goods sales by category, YoY, %

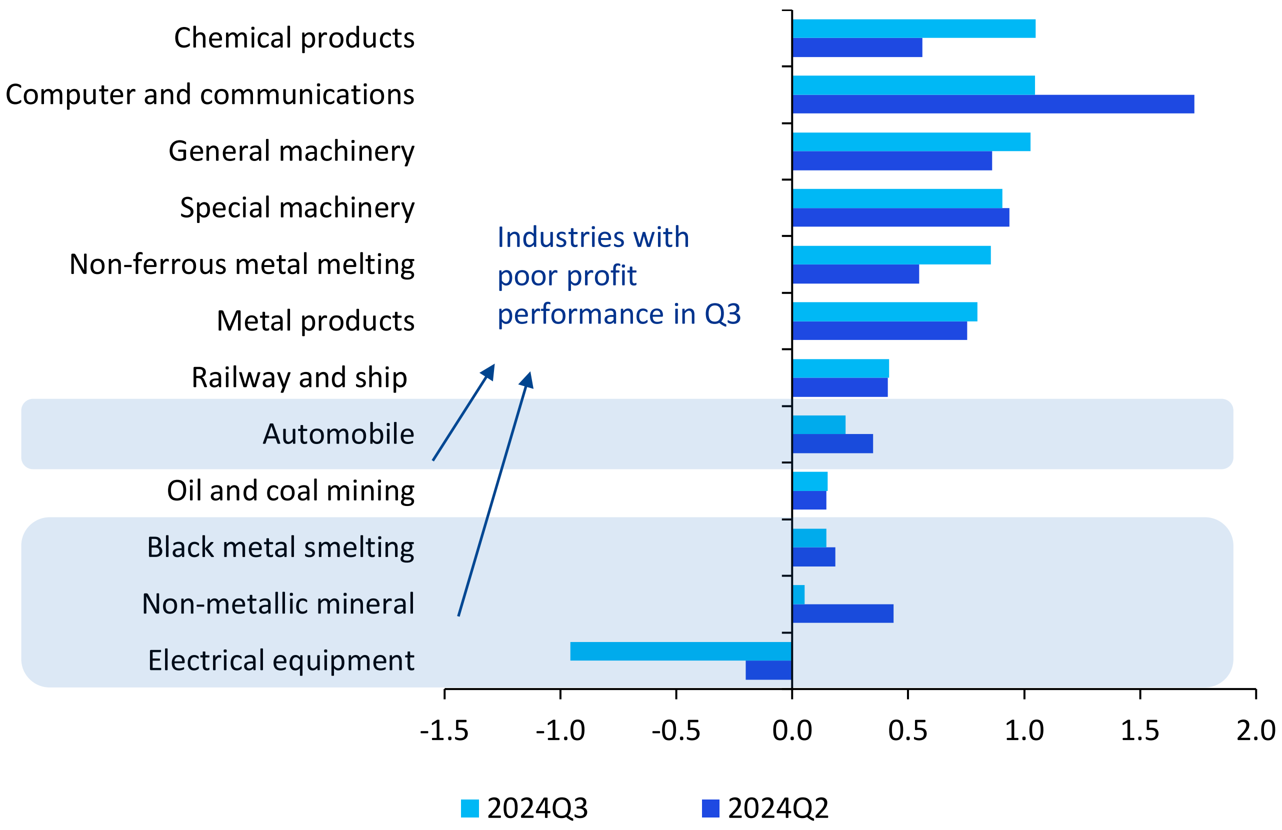


Source: Wind, KPMG analysis. Goods sales data are for above-size retail enterprises

- The overall growth rate of goods sales rose in Q3 2024, with structural highlights emerging. New types of consumption, such as digital, environmentally-friendly, and health-related consumption, have become new trends. The retail sales of communication equipment and sports and recreational goods maintained rapid growth.
- Since the end of July, the government has strengthened its financial support for the implementation of the trade-in policies of consumer goods, promoting the consumption of related products such as household appliances, office supplies, construction materials, and automobiles.

Slowing corporate profit growth dragged down manufacturing investment

Contributions to manufacturing investment growth by sector, %

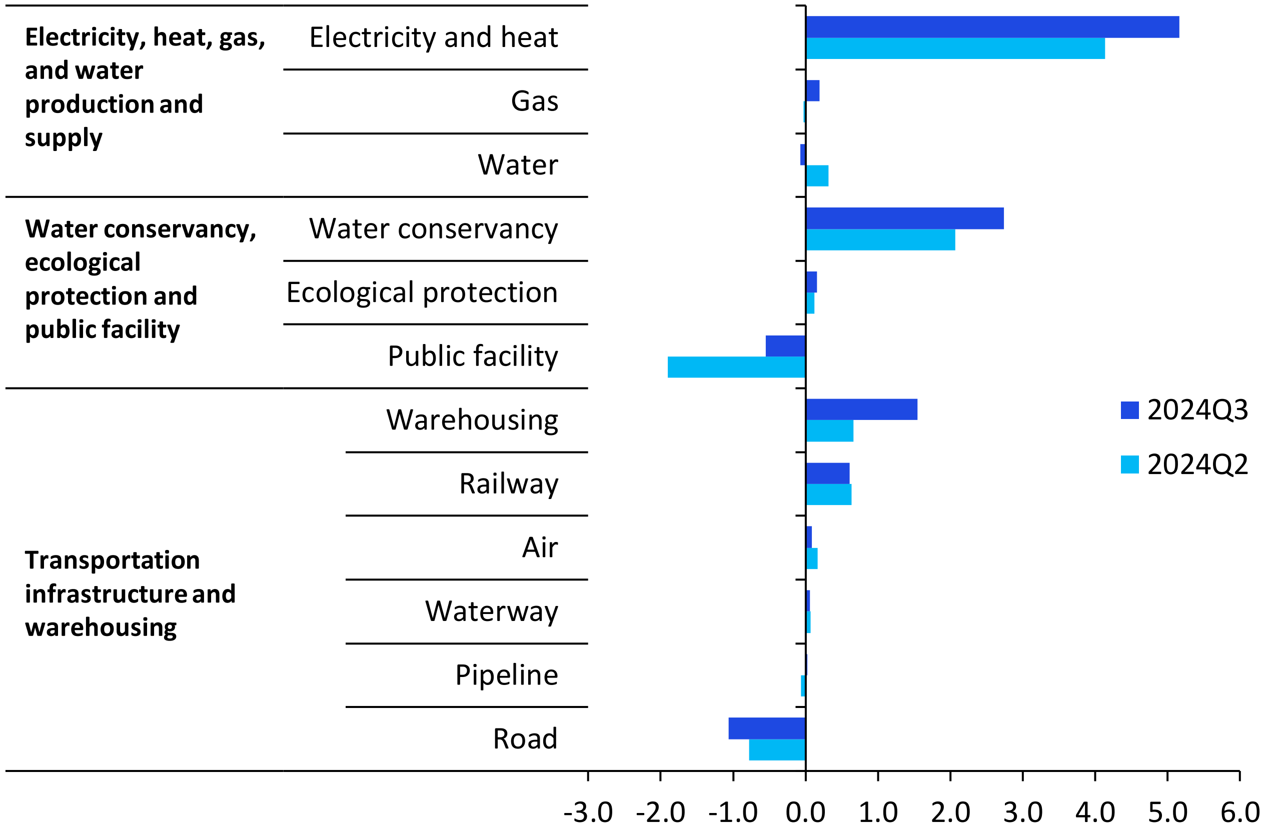


Source: Wind, KPMG analysis

- Manufacturing investment growth rate dropped slightly to 8.8% in Q3 from 9.3% in Q2.
- The decline in manufacturing investment was mainly affected by the poor profits performance of industrial enterprises in Q3. The growth rate of industrial profits dropped to -3.5% in the first three quarters from 3.5% in H1 2024.
- However, driven by the recovery of exports and the accelerated implementation of equipment renewal policies, the manufacturing investment growth rate showed resilience, 6.2 percentage points higher than the overall growth rate of fixed asset investment. Manufacturing investment continued to play a key role in driving GDP growth in Q3 2024.

Both central and local government infrastructure investment sped up in Q3 2024

Contributions to infrastructure investment growth by sector, %

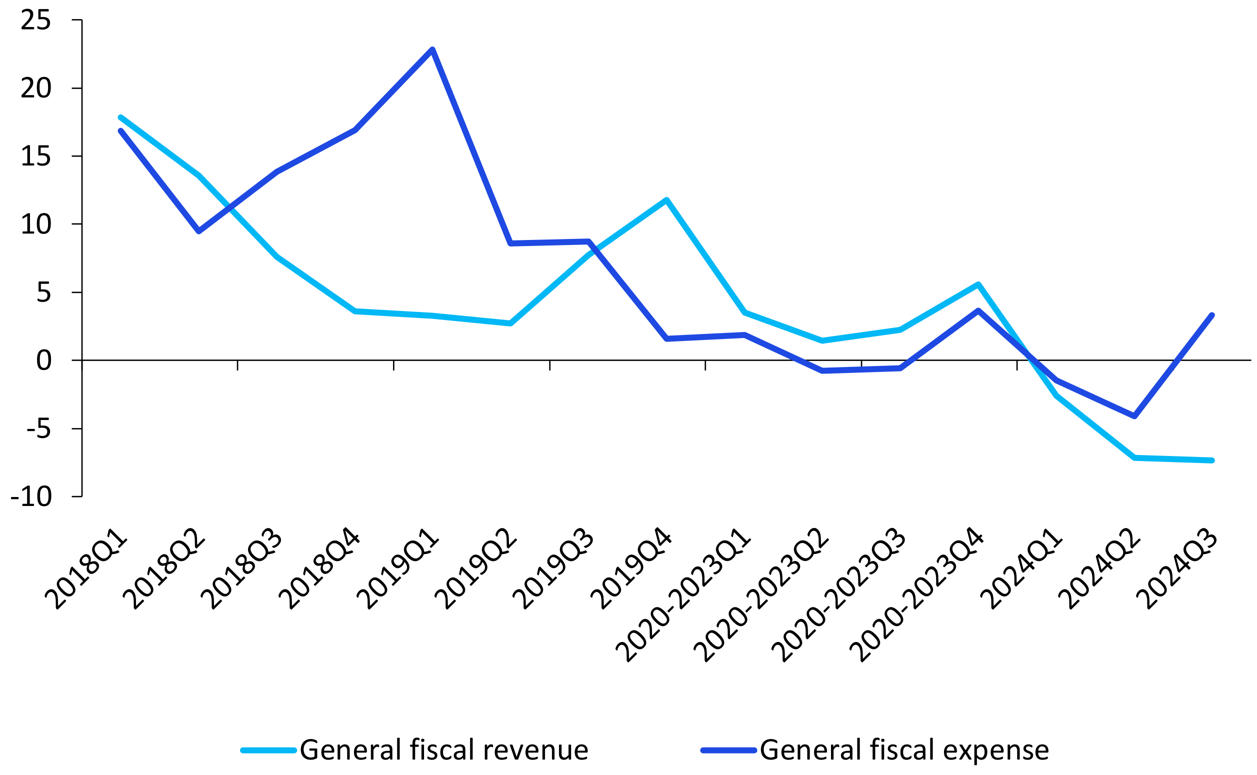


Source: Wind, KPMG analysis

- Infrastructure investment growth jumped to 11.9% in Q3 from 7.2% in Q2. The growth rate of electricity, water conservancy, and warehousing investment increased significantly in Q3.
- Local governments have sped up the issuance of government bonds since the July Politburo meeting, providing sufficient financial support for infrastructure projects. Meanwhile, some electrical projects suspended in Q2 due to extreme weather have restarted in Q3. In addition, a lower base from the same period of last year helps to explain the rebound of infrastructure investment in Q3.

Large-scale government bonds issuance increased fiscal expenditure

Growth rate of general fiscal revenues and expenses, YoY, %

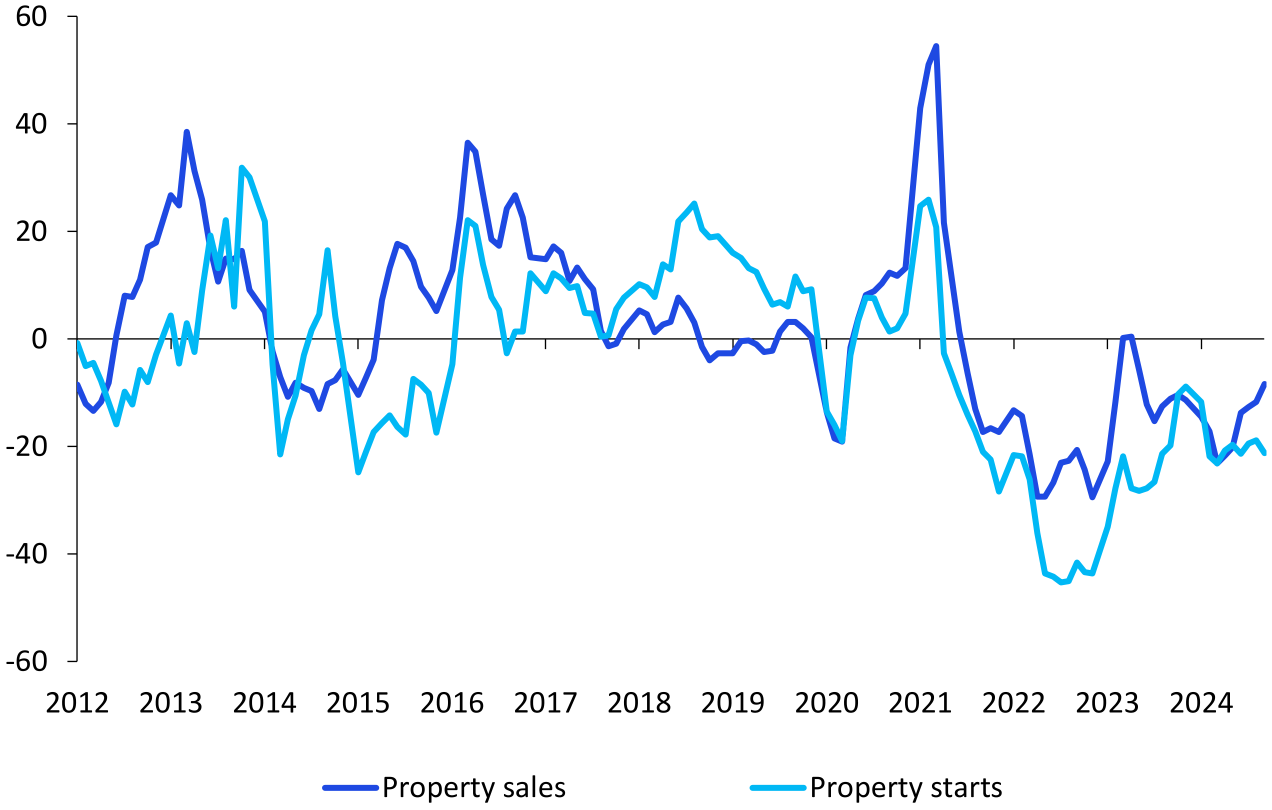


- General fiscal revenue growth decreased to -7.3% YoY in Q3 from -7.2% in Q2. Specifically, tax revenue declined by 6.4% and land sales dropped by 34.2% in Q3.
- With shrinking revenues, the government has concurrently sped up the issuance of bonds. In Q3, the issuance of central and local government bonds reached 4.2 trillion yuan, 1.4 trillion yuan higher than the same period last year.
- Due to the increased bond issuance rate, the growth of general fiscal expenditures surged to 3.3% in Q3 from -4.1% in Q2.

Source: Wind, KPMG analysis
Note: growth rate of 4 quarters during 2020-2024 is calculated in CAGS base.

Real estate investment remained weak

Property starts and new home sales, YoY, three-month moving average, %

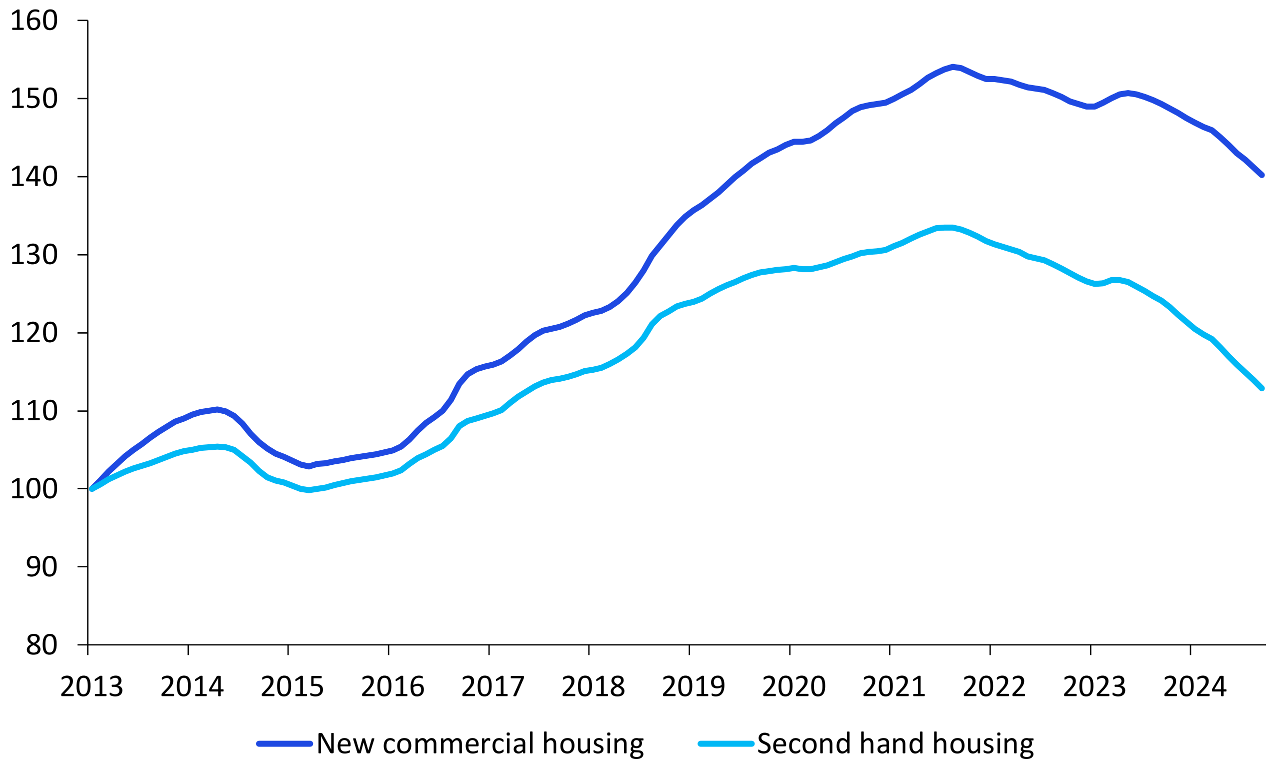


Source: Wind, KPMG analysis

- Driven by a series of policies in May to stimulate property demand, the decrease in property sales further slowed down in Q3, from a 24.3% decline in Q1 to a 11.6% decline in Q3. Furthermore-property investment growth improved slightly, from a 10.5% decline in Q2 to a 10.1% decline in Q3.
- Sales recovered faster than investments in Q3 mostly due to a structural housing sales change. Existing housing units' prices have increased at a higher rate than the prices of houses being constructed. In addition, the modest improvement in sales combined with high inventory pressure prompted enterprises to stay cautious about expanding investment.

Stabilising house prices have become critical to the recovery of domestic demand

Housing price index of new commercial housing and second-hand housing in 70 large and medium-sized cities, 2013=100

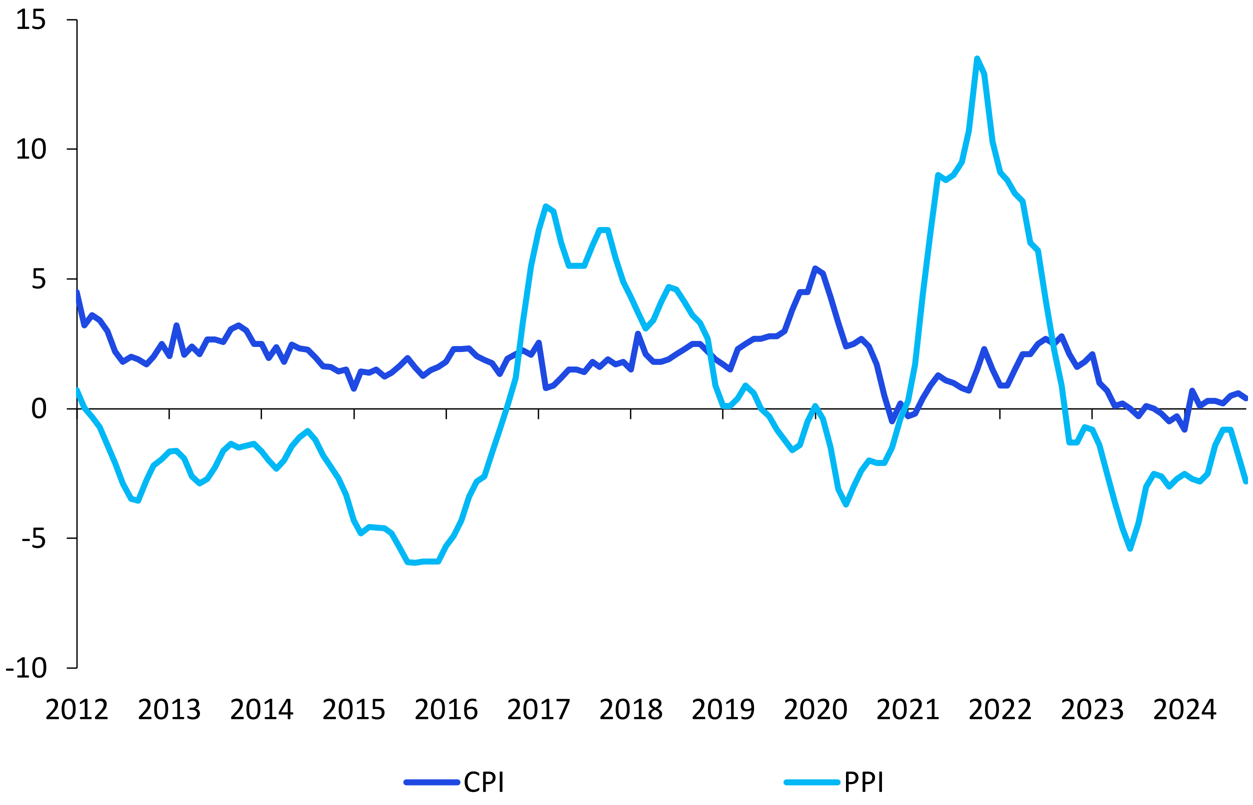


Source: Wind, KPMG analysis

- Policies introduced in May have had a limited effect on housing prices. By the end of September, the price of new houses in 70 cities had dropped by about 9% from the peak in 2021, while the price index of existing houses had dropped by 15.4%, further decreasing since the end of June.
- As housing prices slumps further, households' wealth shrinks, impeding consumption. Stabilising house prices has thus become critical for the recovery of domestic demand.
- In addition to further trying to stimulate households' demand, the government is expected to use LGSB and other fiscal funds to reduce housing inventory in the coming months.

Inflation is expected to bottom out and pick up modestly

China Consumer Price Index (CPI) and Producer Price Index (PPI), YoY, %

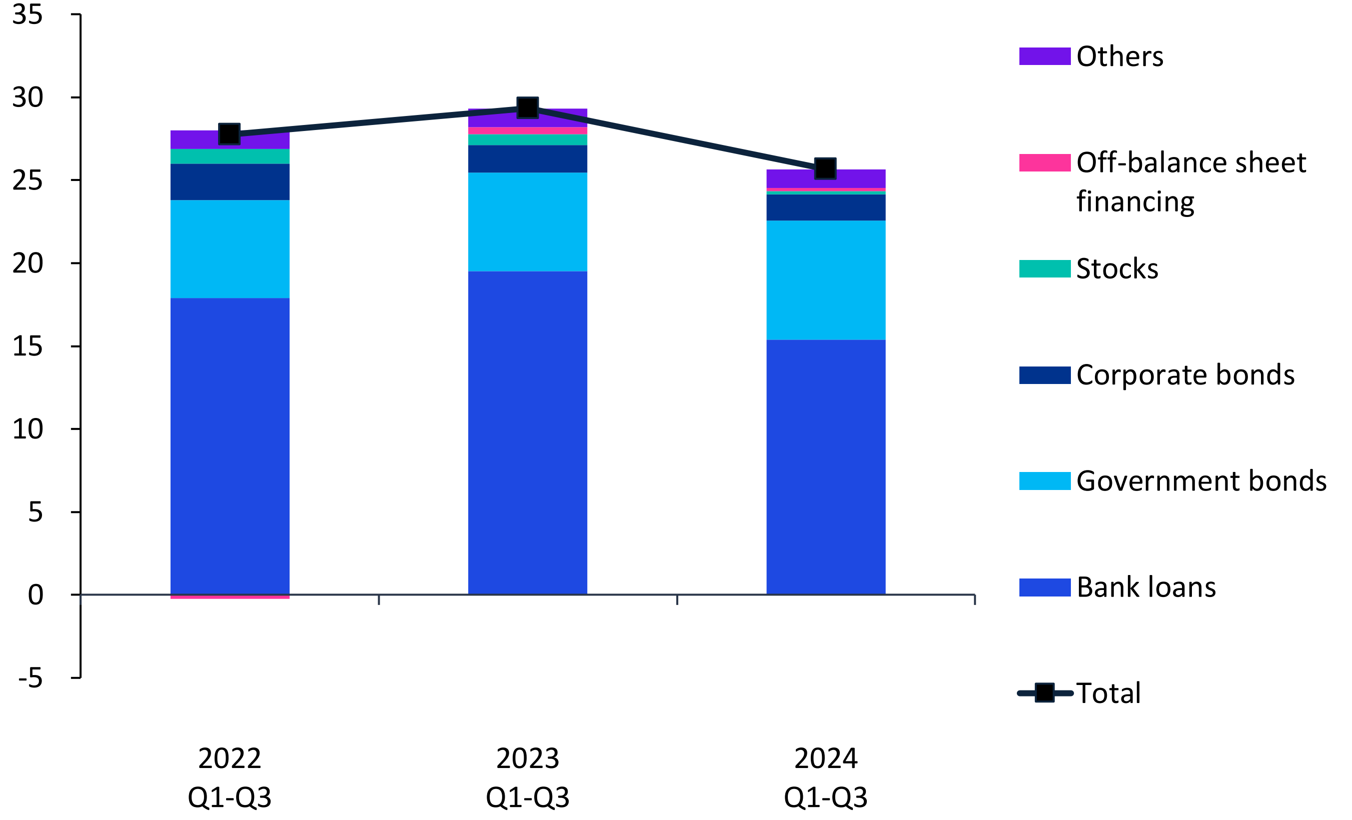


Source: Wind, KPMG analysis

- CPI rose by 0.4% YoY in September 2024, 0.2 percentage points lower than that in August, mainly due to the decline of non-food prices such as gasoline, services, and durable consumer goods.
- PPI dropped sharply from -0.8% in July to -2.8% in September, reaching its lowest level in the year. The prices of construction materials, which are mainly determined by the real estate market, still fell significantly.
- Looking ahead, CPI and PPI are expected to bottom out and pick up modestly in Q4 2024, buoyed by the holiday season and the effects of new policy stimuli.

Government bond issuances continued to support social finance

Growth of total social financing (TSF) by sector, RMB trillion

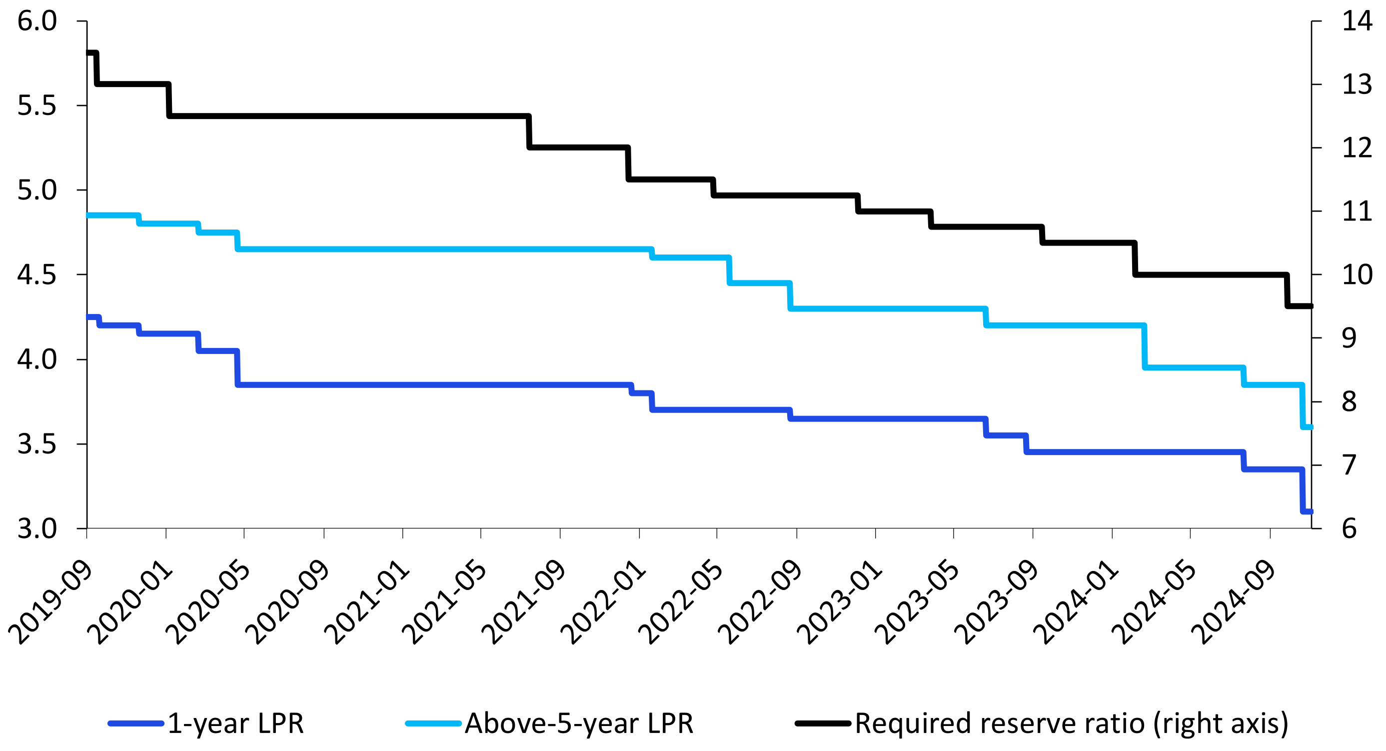


Source: Wind, KPMG analysis

- About RMB 15.4 trillion in new bank loans was issued in the first three quarters of 2024, a YoY decrease of RMB 4.1 trillion. Credit contracted due to low domestic consumption and enterprises to invest timid corporate investment.
- As the government accelerated the issuance of bonds, net government bond financing totaled RMB 3.8 trillion in Q3, a YoY increase of RMB 1.3 trillion, setting a new high for the same period.
- Affected by a slowdown in IPOs, stock financing of non-financial businesses only increased by RMB 170.5 billion in the first three quarters, a YoY decrease of RMB 503.9 billion.

The government's monetary policy remained accommodative

Required reserve ratio (RRR) and Loan Prime Rate (LPR), %

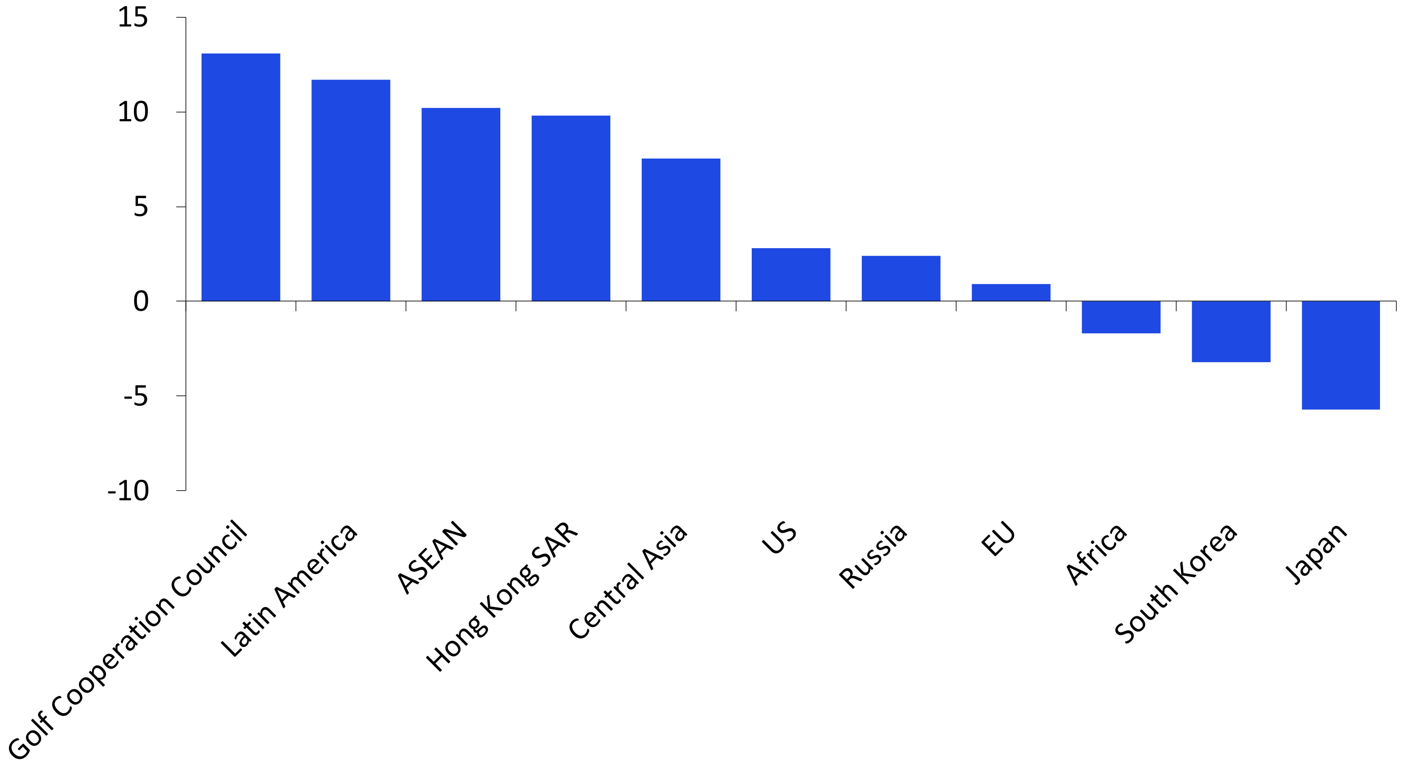


Source: Wind, KPMG analysis

- In September, the central bank cut the RRR by 0.5 percentage points, providing RMB 1 trillion of long-term liquidity to the financial market. The RRR may be further reduced by 0.25-0.5 percentage points by the end of the year to coordinate with the local government debt swap programme. The move is expected to release another RMB 500 billion to 1 trillion of liquidity into the economy.
- By the end of October, the 1-year and 5-year LPR experienced a yearly decline of 0.35 and 0.6 percentage points, respectively, the largest reduction since the LPR reform in 2019. As the US Federal Reserve began to cut interest rates in September and the pressure on the RMB exchange rate has eased, further cuts are expected for policy rates.

Trade with emerging markets supported exports resilience

Growth of China's exports to major trading partners in in the first three quarters of 2024, YoY, %

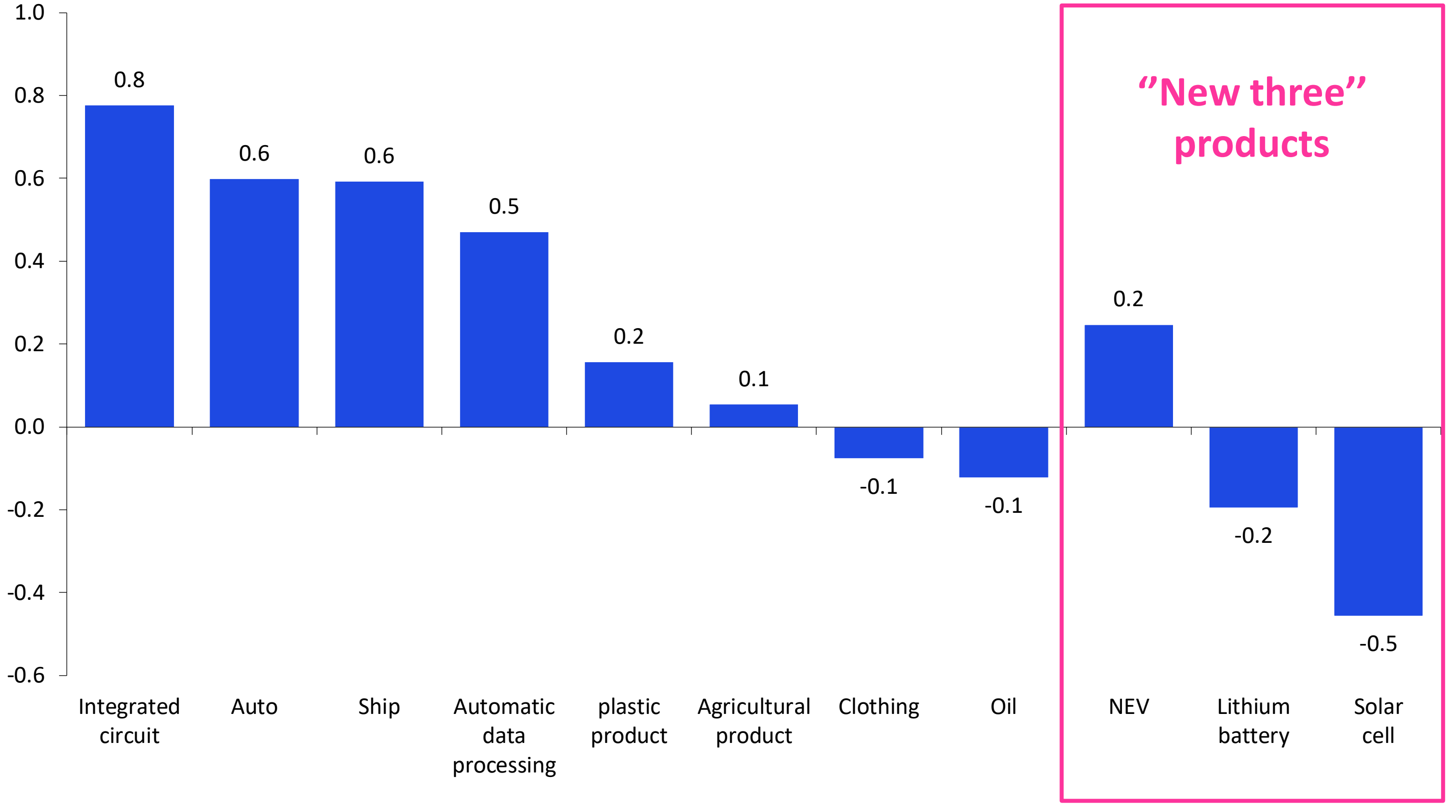


- China's exports to advanced economies continued to rebound in the first three quarters of 2024, with exports to the United States and the European Union increasing by 2.8% and 0.9% YoY respectively. However, China's export share to these regions may face pressure due to intensified trade protectionism in the future.
- China's exports to emerging market economies showed a remarkable performance. The exports to the United Arab Emirates and Saudi Arabia in this year's first three quarters increased by 14.5% and 12.5% YoY, respectively. ASEAN remains a major trading partner with exports to ASEAN economies growing 10.2% YoY.

Source: Wind, KPMG analysis
Note: The Golf Cooperation Council economies include the United Arab Emirates, Saudi Arabia, Oman, Kuwait, Qatar, and Bahrain;
The Central Asia economies include Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan.

High-tech products maintained strong export advantages

Contributions to export growth by category in the first three quarters of 2024, percentage points

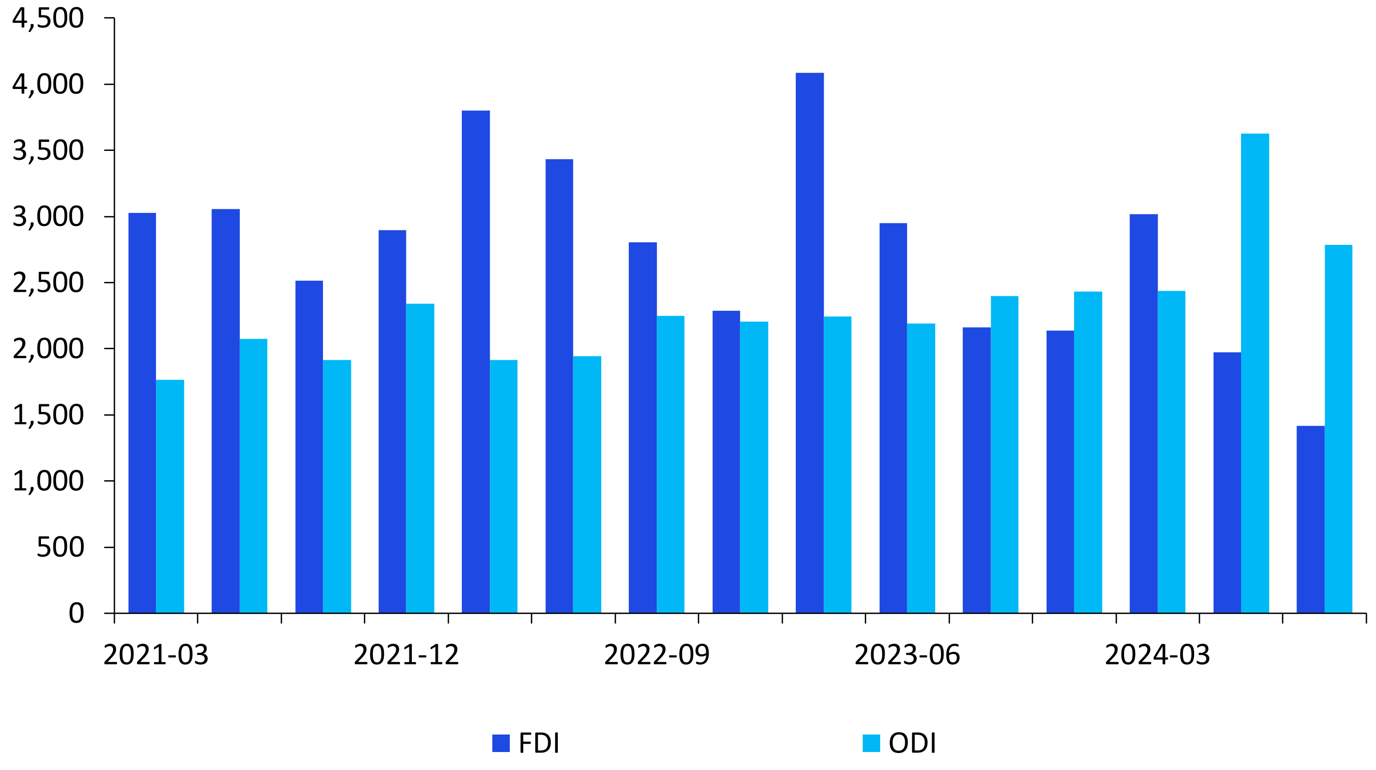


Source: The General Administration of Customs, KPMG analysis

- New energy industry and high-tech products continued to strengthen. Electric vehicles, lithium batteries and solar cells accounted for 4% of exports in the first three quarters, of which electric vehicles contributed 0.2 percentage points to export growth.
- Exports of integrated circuits maintained a high momentum and grew by 19.8% YoY in the first three quarters, driving export growth by 0.8 percentage points. The cumulated export growth rate of high-tech products rose from 3.1% in H1 to 4.2% in Q3.
- In contrast, exports of agricultural products, oil and some labor-intensive products slowed down.

China is transitioning to net capital exports

China's foreign direct investment (FDI) and outbound direct investment (ODI), RMB billion

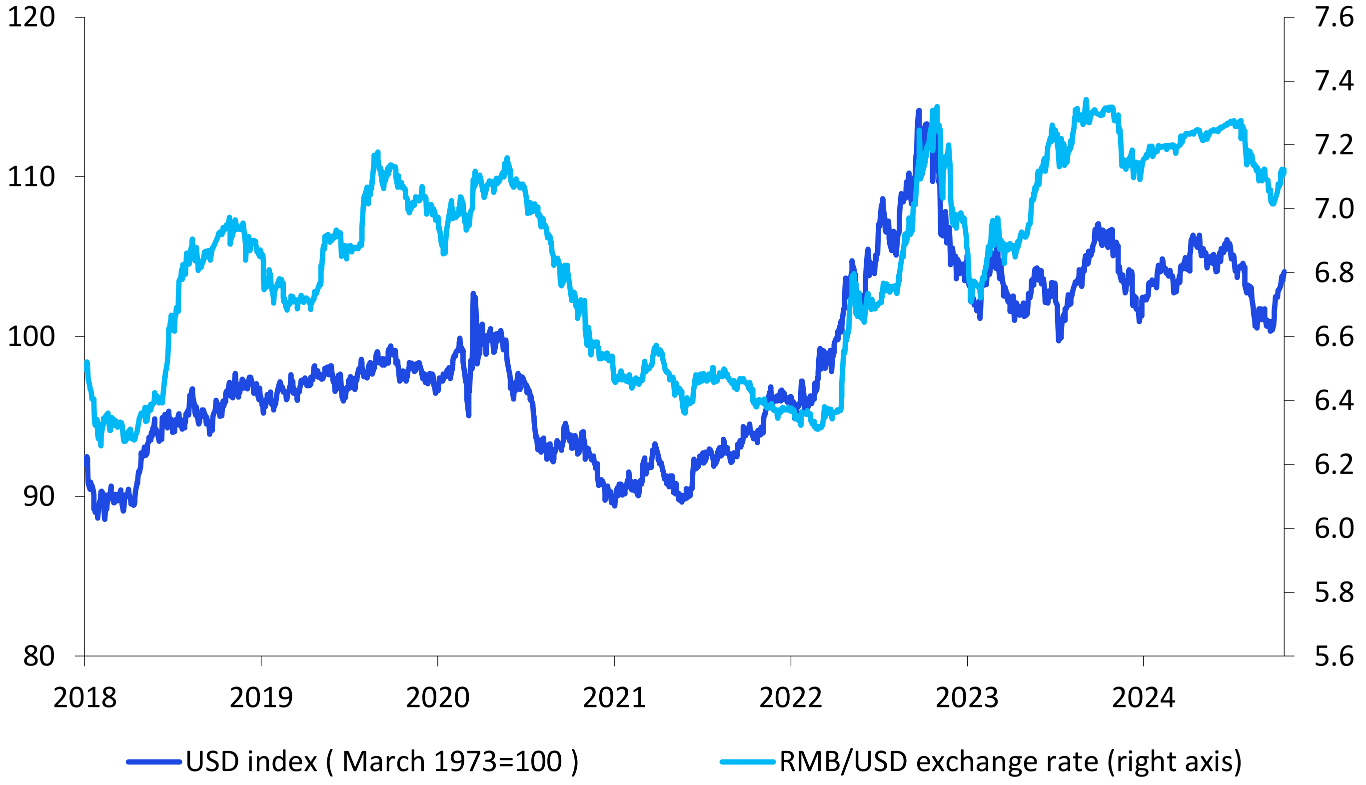


Source: Wind, KPMG analysis

- FDI into China reached RMB 640.6 billion by the end of September 2024, a YoY decline of 30.4%, while newly established foreign-invested enterprises increased by 11.4% YoY, indicating that foreign investors still have confidence in China.
- The composition of FDI continued optimizing, with investment in high-tech manufacturing accounting for 12% of total FDI, 1.5 percentage points higher than the same period last year. FDI in sectors such as medical equipment, instruments, and services continued to grow rapidly.
- ODI from China reached RMB 884.6 billion in the first three quarters of 2024, a YoY increase of 10.6%. China is transitioning from a capital importing country to a capital exporting country.

The RMB exchange rate remained stable

USD index and RMB/USD exchange rate

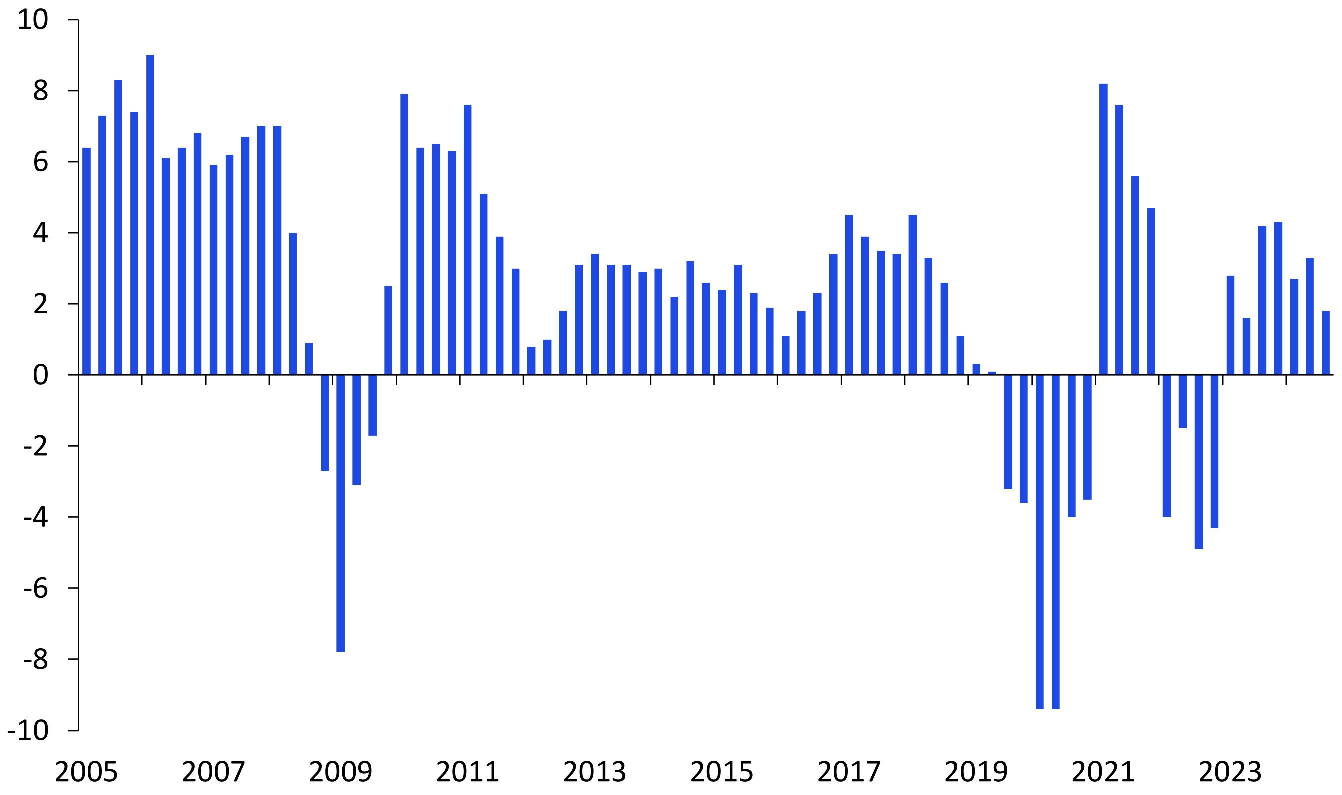


Source: Wind, KPMG analysis

- In September, the US Federal Reserve announced an interest rate cut of 50 basis points, driving the USD index down from 106 to 100 in Q3, leading the RMB to rise by more than 3.4% against the USD.
- The USD index rebounded to 104 in October, mainly affected by the market's lower expectation of the Federal Reserve's interest rate cut due to a rebound in domestic inflation.
- Compared with the beginning of the year, the EUR and JPY depreciated sharply while the CFETS RMB exchange rate index rose by 1.7% at the end of October.
- As China's domestic demand is recovering, the RMB exchange rate is expected to remain stable.

Hong Kong's economic growth slowed down

Hong Kong's real GDP growth rate, YoY, %



Source: Wind, KPMG analysis

- Hong Kong SAR's GDP growth slowed down in Q3 2024, 1.4 percentage points lower from Q2 to 1.8%, mainly due to weak private consumption and slow exports and fixed capital investment growth.
- Looking ahead, with the central banks of major economies cutting interest rates and a set of policy stimuli implemented In Chinese Mainland and Hong Kong SAR, Hong Kong's economy is expected to continue to recover in Q4.
- It is worth noting that the rising trade tensions and global economic uncertainty may have a negative impact on Hong Kong's exports. Chinese Mainland's support is thus crucial for protracted economic growth in Hong Kong.

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