
China in Focus

Economics
China

The path to consumption growth

- ◆ China's policy focus is shifting to supporting consumption more, following announcements from the Third Plenum
- ◆ Services consumption is a particular focus while falling home prices continue to be a major drag on economic growth
- ◆ Growing coordination between urbanisation, industrialisation, and rural revitalisation policies should help consumption

China data review (August 2024)¹

- **Industrial production** growth slowed to 4.5% y-o-y in August as softer domestic demand weighed on production growth, despite robust exports data. Part of the drag stems from property-related weakness as well as policies to deter low-quality production in response to excess capacity in some sectors, such as steel and lithium-ion batteries (Global Times, 19 June; Bloomberg, 24 July). High-tech manufacturing, however, continued to outperform up by 8.6%.
- On the domestic consumption front, **retail sales** growth slowed again, to 2.1% y-o-y in August, with the key drag continuing to stem from purchases of discretionary goods, including autos (-7.3%), cosmetics (-6.1%) and jewellery (-12%). However, household appliance sales saw a 3.4% pick-up amid the consumer goods trade-in program. Services-related retail sales still outperformed sales of goods, although momentum continued to face.
- **Fixed asset investment** softened to 3.4% y-o-y in August as manufacturing (+8.0%) and infrastructure investment (+6.1%) growth were outweighed by the drag from property investment (-10.2%). Property has been a key drag on private investment so far this year, which has fallen to -0.2% y-o-y. Excluding property, private investment is up by 6.3% y-o-y year-to-date.
- Inflation prints in August saw some mixed performances on consumer and producer fronts. **CPI inflation** continued to rise in August, to 0.6% y-o-y, owing to a further pickup in food prices, although **core CPI inflation** was still weighed down by a relatively higher base and edged down to 0.3 % y-o-y. **PPI inflation**, meanwhile, fell to -1.8% y-o-y amid falling commodity prices and lingering pressures in some property-related sectors.
- Trade data provided some relief that the export boost may last longer, helping to offset some of the recent, sluggish domestic demand. **Exports** were up by 8.7% y-o-y in August driven by electronics and transport-related goods, while weakness continued to stem from consumer discretionary products. **Imports**, however, saw a softer increase of 0.5% y-o-y on the back of softer domestic demand weighed down by the property sector.

¹ Source: Wind, HSBC

The path to consumption growth

Support for consumption is an increasing priority

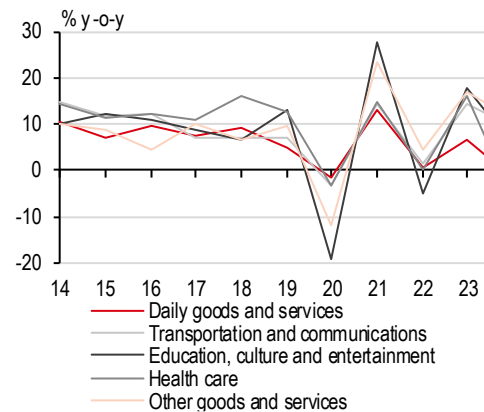
China has often focused on boosting production to stimulate the economy. However, policymakers are now **shifting their approach more towards supporting consumption**, especially as spending has slowed, which they see as essential to meeting growth targets and facilitating the country's economic transition. While there is a focus on goods, like the RMB150bn allocated to consumer goods' trade-ins, July's Politburo Meeting also highlighted services consumption, as did the State Council in August.

Growing services demand

Services consumption has plenty of room for growth

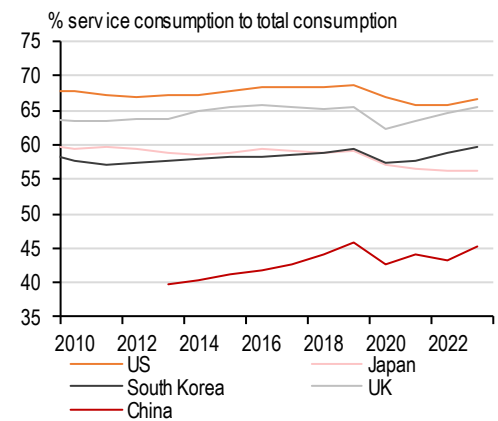
Services consumption hasn't yet reached half of all consumer spending in China, even though it is often the lion's share in advanced economies (Chart 2), **showing there is still plenty of room for growth**. In the post-pandemic period, consumers have shown a clear preference for spending on experiences over buying physical items, mirroring the shift from goods to services seen in other economies. Given China's current development stage as a high middle-income country, consumers naturally have growing demand for services as well.

Chart 1. Services consumption has rebounded since 2023...



Note: Consumption expenditure is used, instead of retail sales, because retail sales only include one type of service consumption – catering. 2024 is H1 data.
Source: Wind, HSBC

Chart 2. ...but still has room to grow



Note: 2024 is H1 data. Source: Wind, HSBC

Supporting services consumption

Policies could include direct subsidies tied to services

July's Politburo meeting reinforced the view that consumption-led growth will help drive the recovery. The Politburo specifically called for growth in domestic demand, driven by income growth, increasing consumption by low- and middle-income groups, and increasing consumption of services in areas like elderly care, childcare, and household-keeping services. This means that more near-term support to push forward consumption is likely, possibly in the form of **direct subsidies to individuals tied to certain types of services**.

What's held consumption back?

Efforts are being made to stabilise the housing market

Stabilising the housing market is critical as it is the primary drag on household asset value and consumer confidence. The good news is the recent shift in the policy stance by the central government: during the Third Plenum's press conference, a senior official acknowledged the housing market's systemic importance to the economy, justifying China's direct bailout, such as **using the central government's balance sheet to acquire distressed housing units.**

Sustained consumption growth hinges on reforms across other areas

Productivity and social welfare also in focus

The Third Plenum included reforms **targeting productivity growth and enhancing social welfare**, which are both capable of boosting domestic consumption. Providing public services based on permanent residence, as well as land reforms that allow migrant workers to profit from their rural properties, could unleash their full spending power. Meanwhile, reforms to reduce internal barriers (e.g. a unified national market) and accelerating opening-up could spur innovation and provide jobs for new graduates.

Key upcoming China economic data

Date	Indicator	Prior
20 Sep	Loan Prime Rate 1Y	3.35%
20 Sep	Loan Prime Rate 5Y	3.85%
30 Sep	NBS Manufacturing PMI	49.1
30 Sep	Caixin Manufacturing PMI Final	50.4
30 Sep	Caixin Services PMI	51.6
13 Oct	Producer Price Index (PPI) y-o-y	-1.8%
13 Oct	Consumer Price Index (CPI) y-o-y	0.6%
14 Oct	Exports y-o-y	8.7%
14 Oct	Imports y-o-y	0.5%
18 Oct	Retail Sales y-o-y	2.1%
18 Oct	GDP, Q3	4.7%

Source: Refinitiv Eikon

Performance of key A-share indexes*

	Current	Year-to-Date	Last 1yr
Shanghai Composite	2,717	-9.10%	-13.42%
Shenzhen Composite	1,492	-19.67%	-23.49%
CSI 300	3,159	-7.92%	-15.45%

Note: *Past performance is not an indication of future returns. As of 13 September 2024 market close.

Source: Refinitiv Eikon

Disclosure appendix

Additional disclosures

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- 2 All market data included in this report are dated as at close 13 September 2024, unless a different date and/or a specific time of day is indicated in the report.
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