China's economy is poised to consolidate stability through progress in 2024

March 2024

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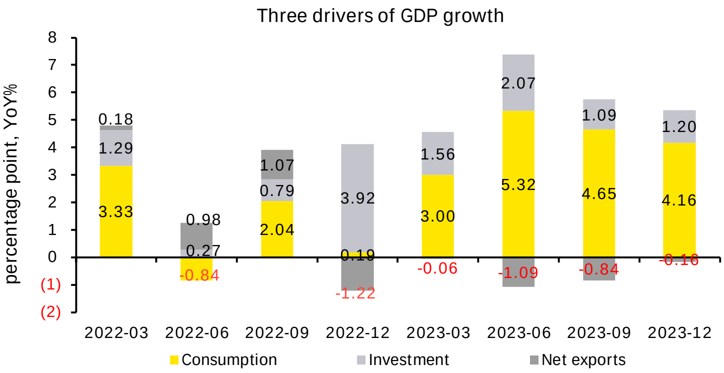
- China’s economy hit the government’s target with a 5.2% increase year-on-year (YoY) in 2023, yet the recovery remained uneven and still needs to be consolidated.
- The recovery of service and high-end manufacturing activities was the main driver for growth, however, the real estate, financial industry and internet platform economy are still under pressure and will likely remain so throughout 2024.
- While China's economy will continue to face both internal and external risks and challenges, the upward recovery trajectory will likely continue this year and further consolidate thanks to strong resilience of the economy and plenty of policy tools and rooms for the policymakers to effectively tackle downward pressure.
- Accelerating the development of a modern industrial system, expanding domestic demand and enhancing economic vitality will be the key tasks. Amid cyclical weakness associated with lower global demand, a proactive fiscal policy will take a leading role, with targeted measures being taken in certain sectors.
- The central bank will continue with a prudent monetary policy to pump out “flexible, moderate, precise and effective” support to economic recovery. Preventing hidden local government debt [1] and diverting more financial support to technological innovation and green development will ensure a smooth transformation from old patterns to new ones in key spheres.

1. People.cn, https://baijiahao.baidu.com/s?id=1791286696807671283&wfr=spider&for=pc

China's economy saw steady recovery in 2023, but headwinds remain in certain sectors

- The Chinese economy has secured steady growth throughout 2023, with total GDP reaching RMB126 trillion (US$17.67 trillion), up 5.2% YoY[2] , successfully meeting the yearly target. Although the long-term fundamentals of the economy have remained unchanged and indicators for consumption, services, and industrial output show key segments of the economy have rebounded, areas such as foreign trade, private investment and property sectors have lagged, casting light on unbalanced recovery, and calling out more efforts to expand the domestic demand in 2024.

Fig 1. The national economy withstood the pressure and continued to develop



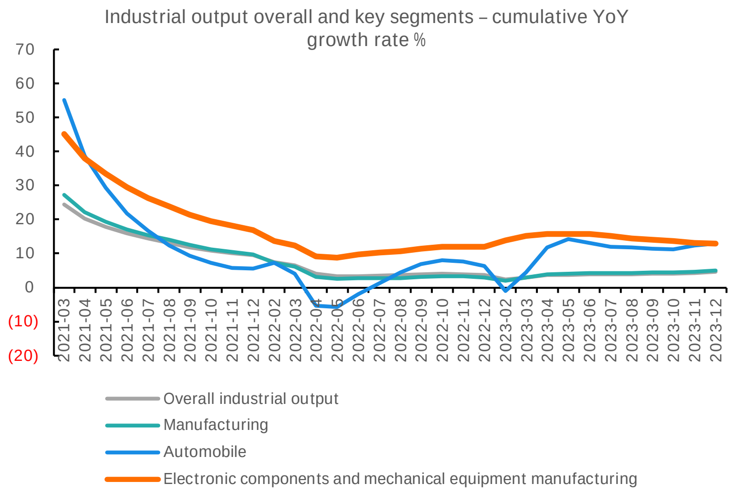
Source: National Bureau of Statistics

- Stable industrial expansion due to improving market demand. China's industrial production growth up 4.6% YoY in 2023, and in December alone, the figure grew 6.8 % YoY from the previous year.

The high-end manufacturing industry continues to drive the recovery, such as the production of solar batteries, new energy vehicles and power generation equipment surged 54%, 30.3%, and 28.5% YoY[3], respectively.

- “Establishing the new before abolishing the old” [4] thus to ensure a smooth transformation from old drivers to new ones will be a key task for 2024. Although the profit growth rate of industrial enterprises has been revived, the inventory cycle is still weak and pressure remains. The endogenous driving force of industrial enterprises needs to be strengthened, with the supply and demand side policies, such as domestic infrastructure, need to be accelerated to ensure the sustainability of stable industrial growth.

Fig 2. Industrial production picked up steadily, with equipment manufacturing growing rapidly

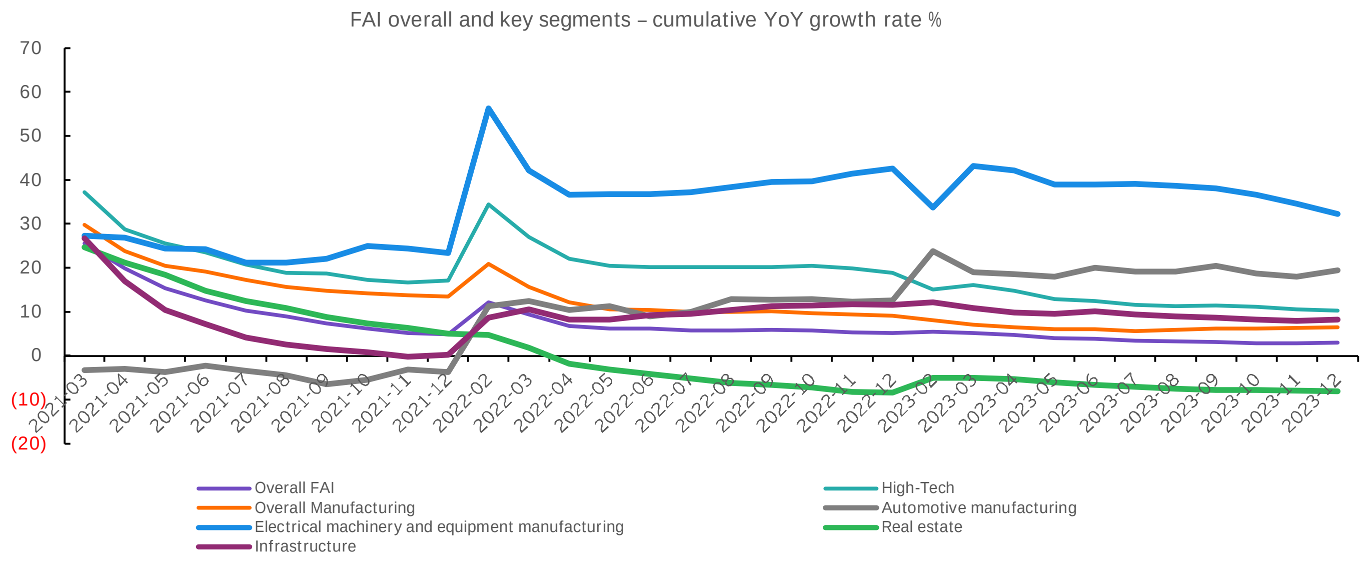


Source: National Bureau of Statistics

2. National Bureau of Statistics, https://www.stats.gov.cn/sj/zxfb/202401/t20240118_1946691.html
3. National Bureau of Statistics, https://www.stats.gov.cn/sj/zxfb/202401/t20240116_1946621.html
4. China Economic Times, https://baijiahao.baidu.com/s?id=1784911815247997700&wfr=spider&for=pc

- While the overall FAI (fixed-asset investment) has been moderating, targeted investment in high-end manufacturing continued to post double-digit growth. In 2023, the electrical machinery and automotive manufacturing investment led the growth with a 32.2% YoY and 19.4% YoY increase. Infrastructure continued with a stable investment of 8.2% YoY[5]. Real estate remained the main drag, with property investment by developers in December fell YoY at the fastest pace since the year 2000.
- The recent series of policies is likely to help property sales growth in the coming months, but at the same time, consolidation pressure in the sector will remain. China's ambition for technological self-reliance is poised to accelerate investments further in high-technology and related products, some of which are in the green economy space (e.g., new energy vehicles, and renewable energy).

Fig 3. The growth rate of FAI was relatively stable, led by expansion in equipment manufacturing and the high-tech industry

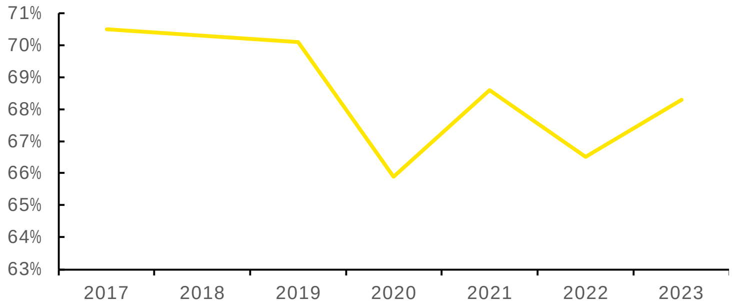


Source: National Bureau of Statistics

5. National Bureau of Statistics, https://www.stats.gov.cn/sj/zxfb/202401/t20240116_1946620.html

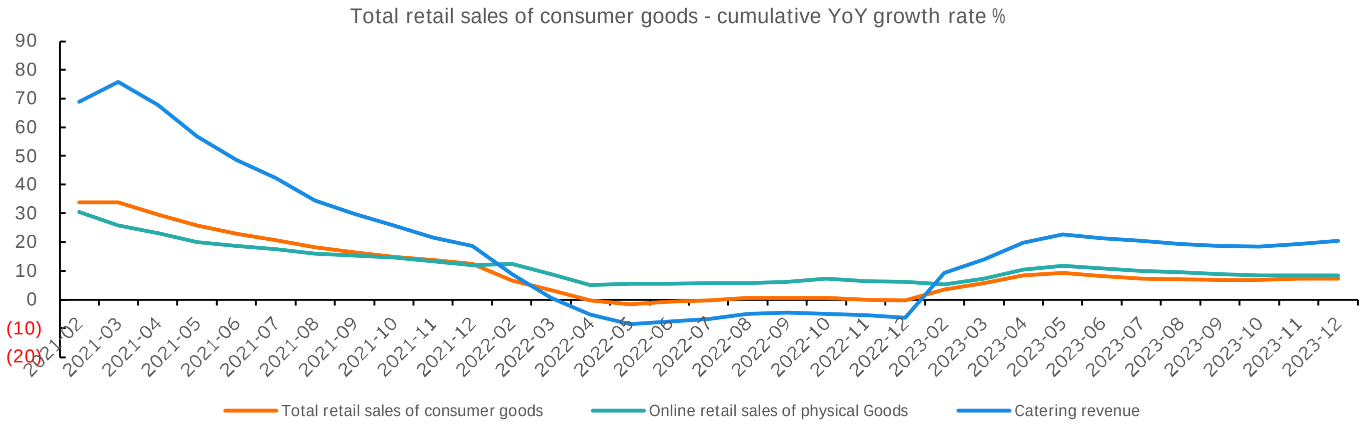
- Consumption is showing positive indications, with a clear pattern shift from primarily goods-oriented spending to a mix of goods and services. The total retail sales climbed 7.2% YoY in 2023, reaching RMB47.15 trillion (US$6.63 trillion)[6]. Although cautious sentiment on purchasing big-tickets items persisted, encouraging developments continue to emerge in new segments such as livestream commerce, cultural tourism and "China-chic" products.
- It's worth noting that Chinese consumers have become more rational and sought balance between quality and value of the products post pandemic. Businesses are challenged to demonstrate a deeper understanding of consumer needs, not only in the material aspect but also in cultural and psychological perspectives too. Providing personalized products and creating a sense of participation have become just as essential as ensuring high product quality for brands to gain consumer confidence and enrich the consumer experience.

Fig 4. Consumer confidence has been restored in 2023, however, more efforts are called out to further unleash consumption potential



Source: National Bureau of Statistics

Fig 5. Promoting service consumption is a key strategy for increasing domestic demand and elevating new consumption patterns



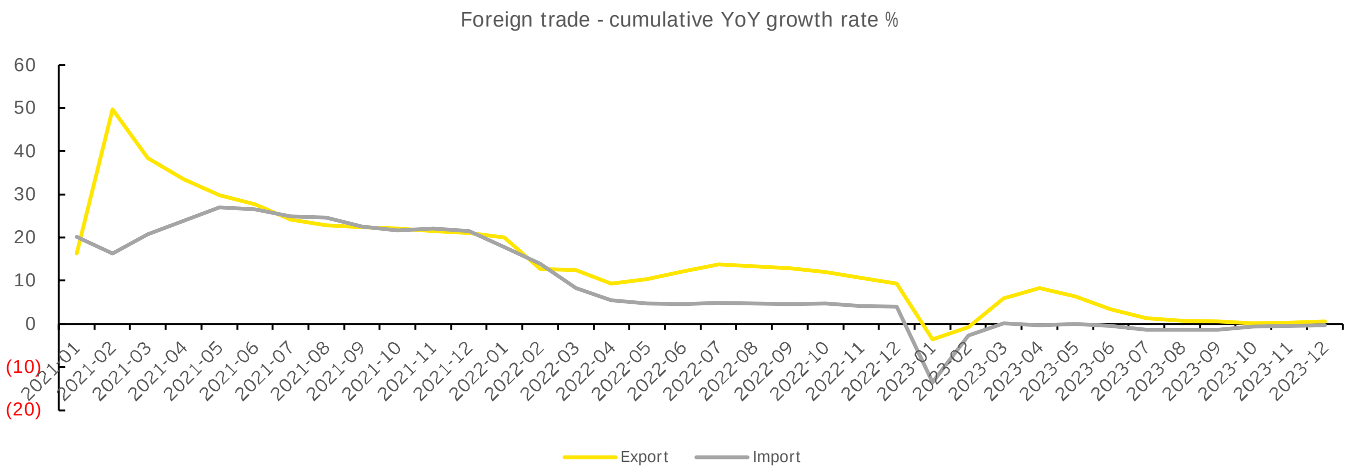
Source: National Bureau of Statistics

6. National Bureau of Statistics, https://www.stats.gov.cn/sj/zxfb/202401/t20240116_1946619.html

- Although the overall 2023 export growth eased compared with that of the previous years, the total export value of China's new tech-intensive green trio, namely solar batteries, lithium-ion batteries and electric vehicles, surged 29.9% YoY to RMB1.06 trillion in 2023[7], with the figure topping the one-trillion-yuan mark for the first time. Import remains weak as the pressure of domestic demand persists. More policy is expected to expand the domestic demand over the short term.
- Meanwhile, the structural change is accelerating in China's foreign trade. Data shows that China continues to import large amounts of commodities and agricultural products but much less of high-tech intermediate goods and high-tech final goods, which indicates value chain upgrading and technology self-sufficiency.

On the external side, the lower-end manufacturing exports from China is significantly declining, such as textile and other lower-end manufacturing products have been gradually relocated to other regions in Southeast Asia, India, etc. While high-end exports, such as new energy vehicles, photovoltaics is ramping up, global industrial chain restructuring and heightening geopolitical tensions will likely continue to weigh on the export and supply chain. Executives will need to better navigate through the changing markets, enhance risk monitoring and utilize scenario planning for both short-term and medium-term investments.

Fig 6. Foreign trade showed resilience in the face of a complex international landscape



Source: National Bureau of Statistics

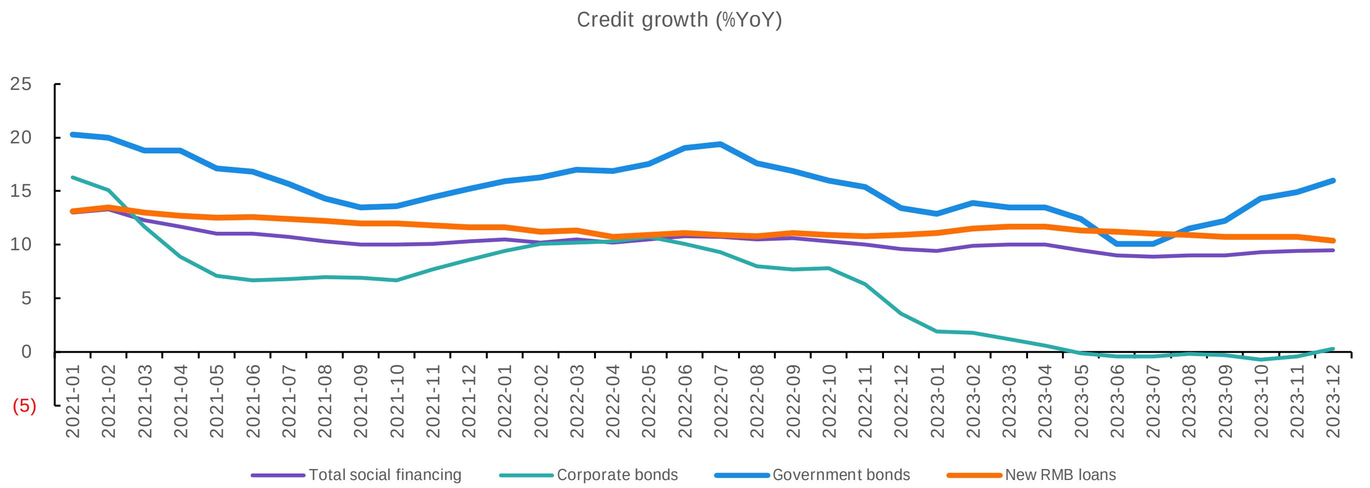
7. General Administration of Customs, https://baijiahao.baidu.com/s?id=1787878960247480862&wfr=spider&for=pc

In 2024, further consolidating the economic recovery will be the main task, while tackling risk and accelerating high-quality development

- Strengthening counter-cyclical and cross-cyclical adjustments of macro policies to promote stability through progress

The Central Economic Work Conference in December 2023 pointed out that to further stabilize the economy, China must still overcome some difficulties and challenges, domestically, including lack of effective demand, overcapacity in some sectors, lackluster social expectations, certain risks and hidden challenges and blockages in domestic circulation[8]. China will stick to a proactive fiscal policy and a prudent monetary policy to strengthen counter-cyclical adjustment and shore up market expectations. Moderately strengthened fiscal spending will be directed at "high-quality" infrastructure, with a focus on urban housing upgrading, social housing construction, and a further loosening in local home-buying restrictions. On the monetary side, though the strength of easing may not exceed the previous year, moderate cuts in the reserve requirement ratio (RRR) and interest rates are expected to elevate consumption confidence and corporates' investment willingness amid subdued inflation environments.

Fig 7. Government bond issuance is likely to remain robust



Source: The People's Bank of China

8. 2023 Central Economic Work Conference, https://www.thepaper.cn/newsDetail_forward_25631233

- Accelerating investment and innovation to improve resilience and sustainable growth

Although significant challenges remain, China is accelerating notable progress in advancing new industrialization, with more investment and favored policy expected in innovative and green segments such as solar cells, new-energy vehicles and industrial control computers and systems. Resources optimization and supervision will continue in high-tech sectors (i.e., AI, advanced semiconductors, and quantum information technologies).

Green transformation is becoming the new form of growth. By the end of 2023, the green debt in both domestic and foreign currencies have reached RMB30.08 trillion (a YoY increase of 36.5%)[10], mainly investing in sectors such as transportation, warehousing, and supply of electricity, heat, gas, and water. Increasing financial support for corporate carbon reduction investment projects is key to achieving the dual carbon goals. This requires a comprehensive green financial system with joint efforts from the central bank, financial regulatory departments and financial institutions. Traditional banking will take a lead, while non-banking institutions will also see unlimited potential.

- Expanding domestic demand and accelerating digitalization to support consumers' evolving preference

China's consumption rebound, following an initially uneven first quarter of 2023, is now evolving into a more sustainable phase. While the consumption infrastructure and environment need to be improved, other internal dynamics are also important, including encompassing broader job creation, enhancing employment prospects for residents, rising income levels. Thanks to new tech such as avatars and artificial intelligence (AI), livestream e-commerce shopping has delivered a remarkable surge in sales, with a 19% YoY growth during last November's Singles Day shopping festival, while sales via traditional e-commerce dropped by 1%[9]. The web and other digital tech evolutions will continue to penetrate the consumer sector and accelerate market demand for advances in mobile technology and digital solutions.

- Stabilizing the real estate sector while managing financial risks

Optimizing financial services has been positioned as a top priority for the next five years, according to the 2023 Central Financial Work Conference. An increase of financial resources will be diverted to technological innovation, advanced manufacturing, green development and small and medium-size enterprise (SMEs). While accelerating financial innovation and development, comprehensively strengthening the capital supervision and risks prevention are also important, particularly in the housing market and local government debt. Improving macro-prudential management of real estate financing and meeting the reasonable financing needs of real estate enterprises of different ownerships without discrimination will be the key. A new government debt management mechanism will be established and more local government financing vehicle (LGFV) debt will likely be restructured and further tightened. At the same time, financial opening-up will be steadily expanded to improve cross-border investment and attract long-term capital development.

9. Starmap, https://www.chinabaogao.com/detail/674886.html
10. The People's Bank of China, https://www.chinaxiaokang.com/caijingpindao/touzilicai/20240212/1488850.html

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