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What Is China's Growth Potential After Covid?

Gene Ma, Head of China Research, IIF

Tuesday, 07 March 2023



A Word From Today's Chairman

Mike Wardle
CEO & Head of Indices
Z/Yen Group





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Today's Agenda



- 10:00 – 10:05 Chairman's Introduction
- 10:05 – 10:25 Keynote Presentation – Gene Ma
- 10:25 – 10:45 Question & Answer



Today's Speaker

Gene Ma
Head of China Research
IIF



Covid

- Zero-Covid was abandoned on December 9.
- 1 billion people got infected in just 1 month.
- Fatality is likely to reach 1-3 million. If true, the fatality rate of 0.1%-0.3%. close to HK (0.4%) but lower than UK (0.9%), US (1%).
- No new variant found.
- A month ago, Korea reported 70% positive rate among passengers arriving from China. It was zero on Feb 7.
- HK-mainland travel completely normalized on Feb 6.
- International flight is still only 10% of the pre-Covid level.



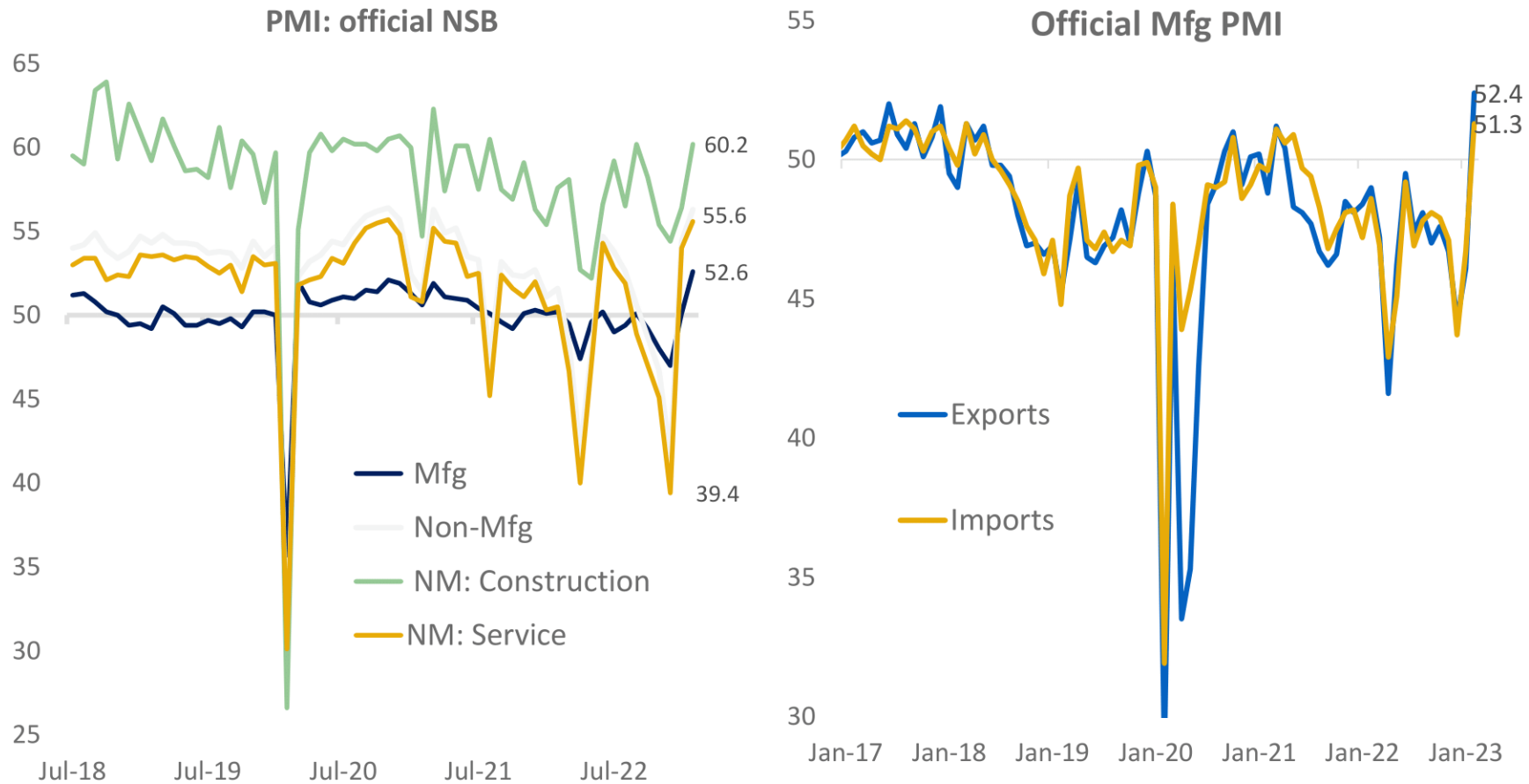
Outlook

- GDP at 5%-5.5% in 2023. (3% last year.)
- HH consumption rebounds to almost 10%, from -0.2% last year, driven by higher income growth (3% → 5%), higher consumption propensity (67% → 70%), and large deposits (¥120 bln).
- Housing will stabilize as developers are given lifelines. Yet expect no strong rebound as home buyers are still pessimistic.
- Exports will be a strong headwind, down from 7% last year to likely zero or negative this year.
- FAI will be flat.
 - Mfg FAI 9.1% → 5%;
 - Utility 19.3% → 10%;
 - Infrastructure 9.4% → 5%.
 - Real estate -8.4% → 0%.
- Draconian regulation reversed. Yet no major stimulus.



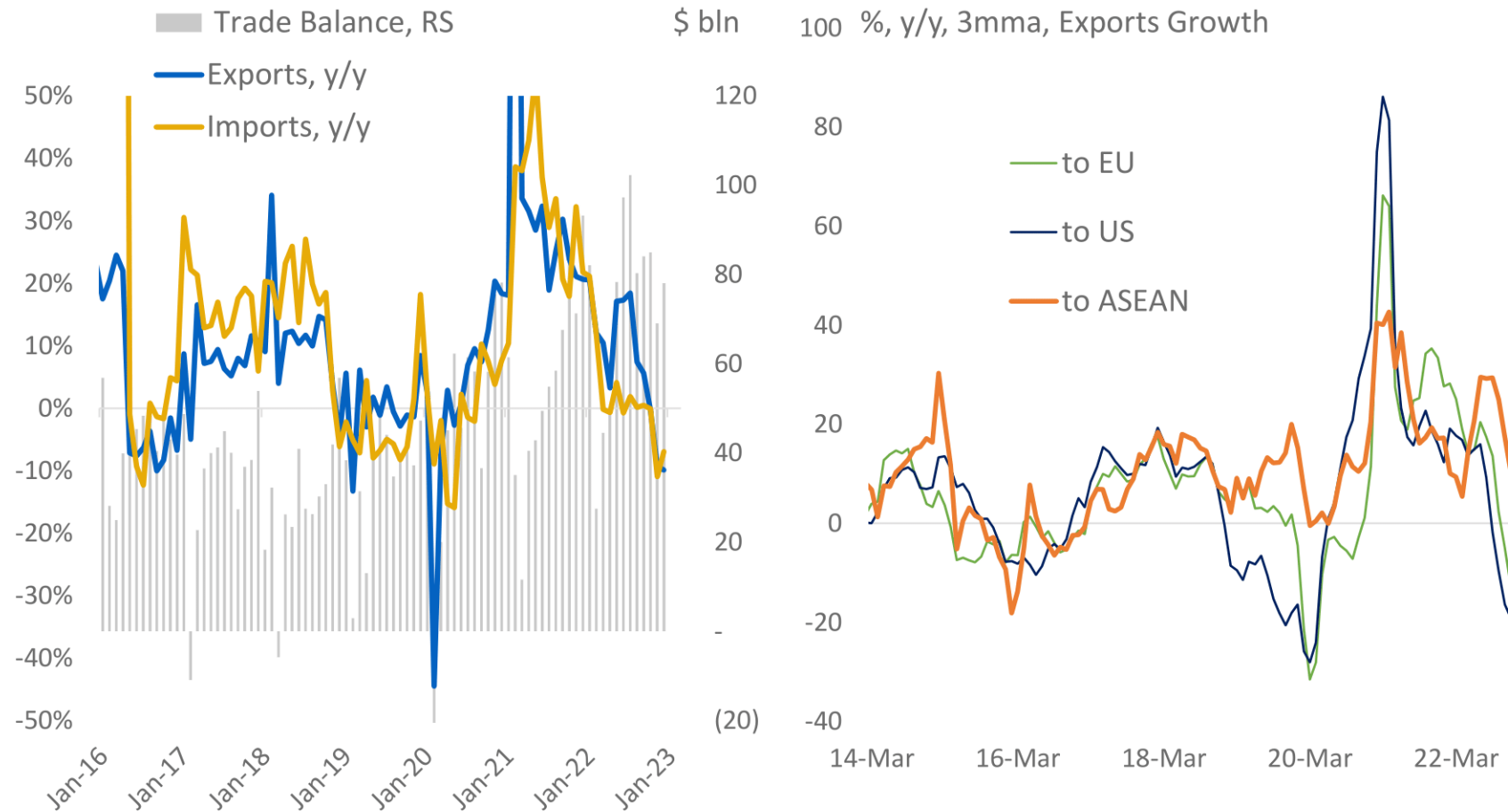
PMI continued to rebound and beat consensus in Feb

The sharp rebounds in export and import orders surprised

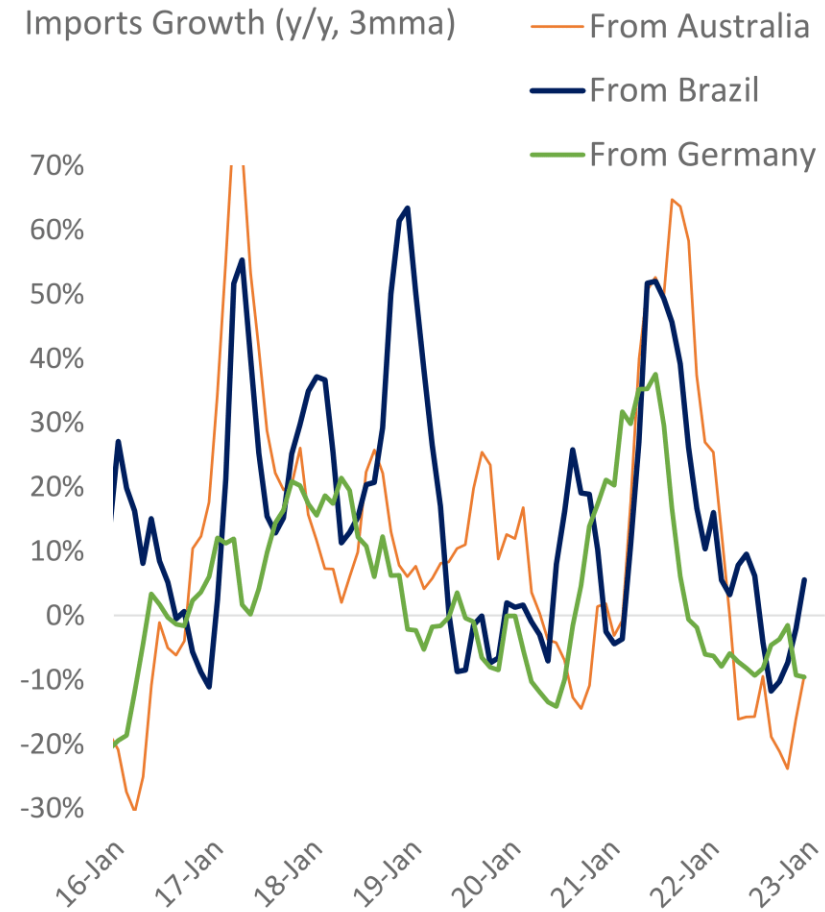
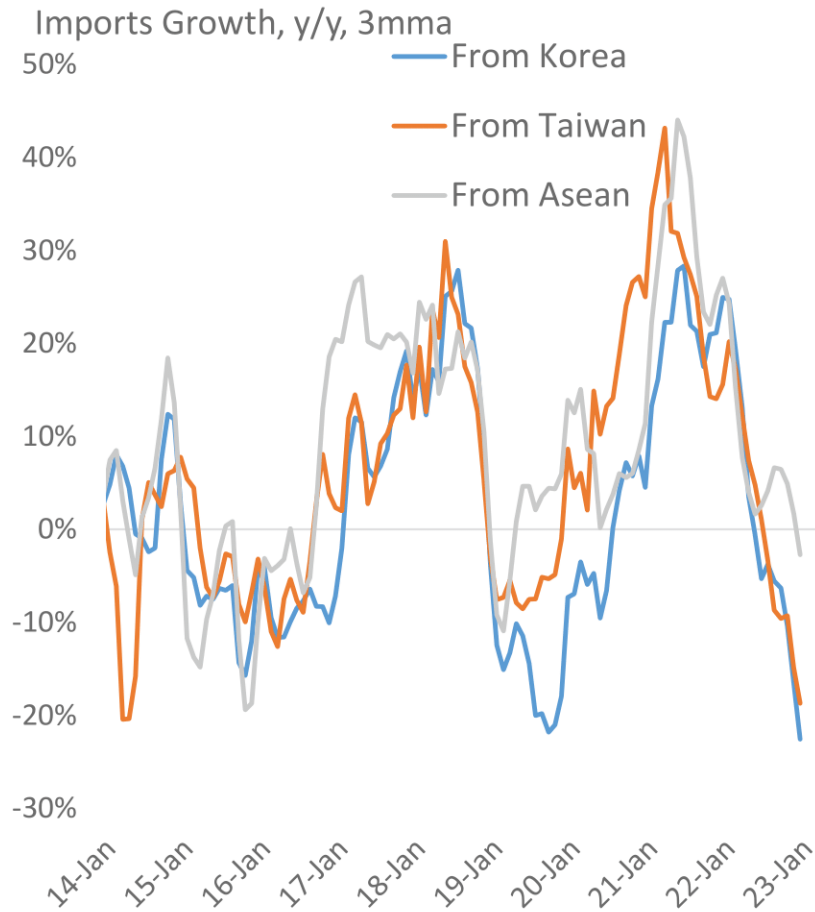


Export growth collapsed from 14% in 1H22 to -10% in Dec.

In 4Q, export to US -19%, to EU -13%, to ASEAN +10%

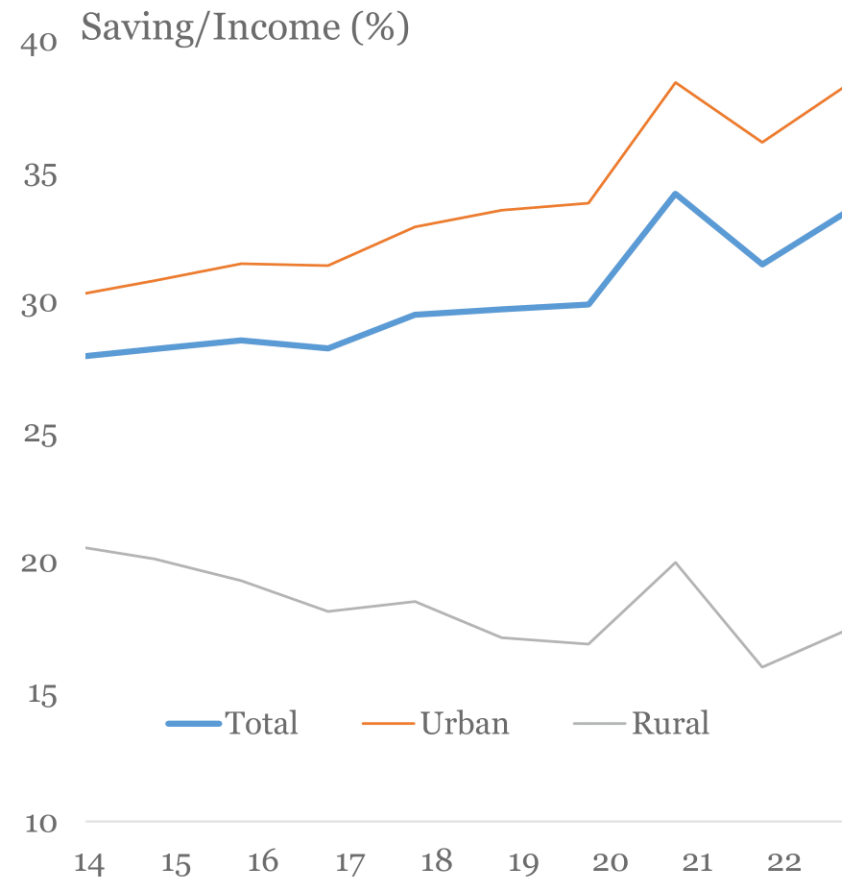
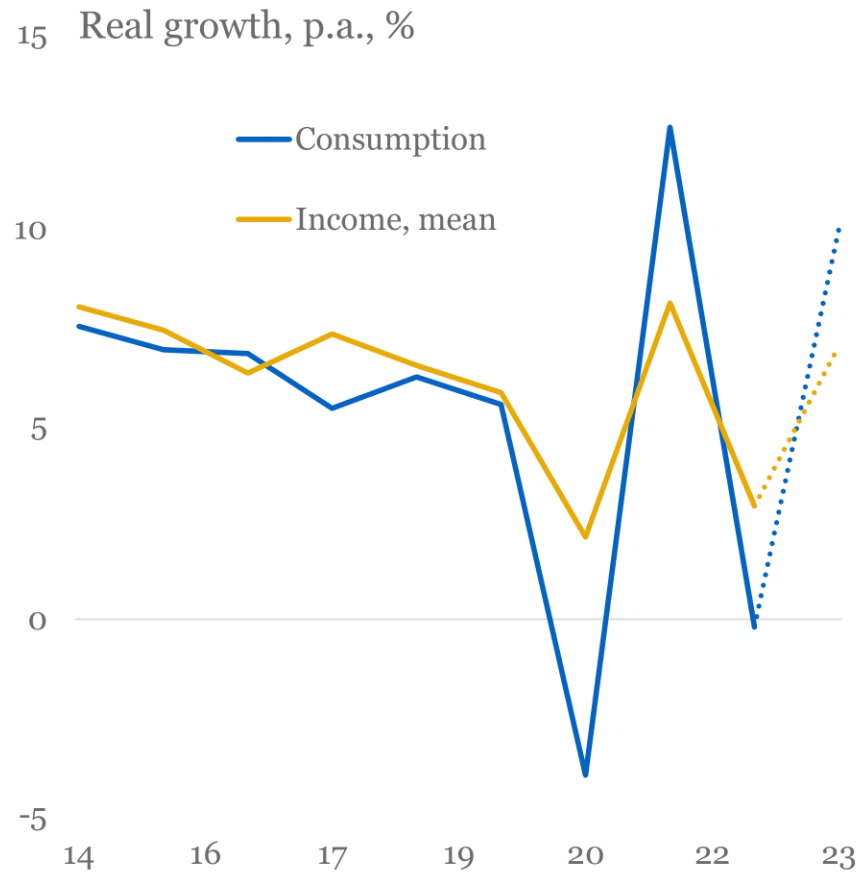


Imports from Korea (-23%) and TW (-19%) collapsed in 4Q Imports from Brazil rebounded in 4Q



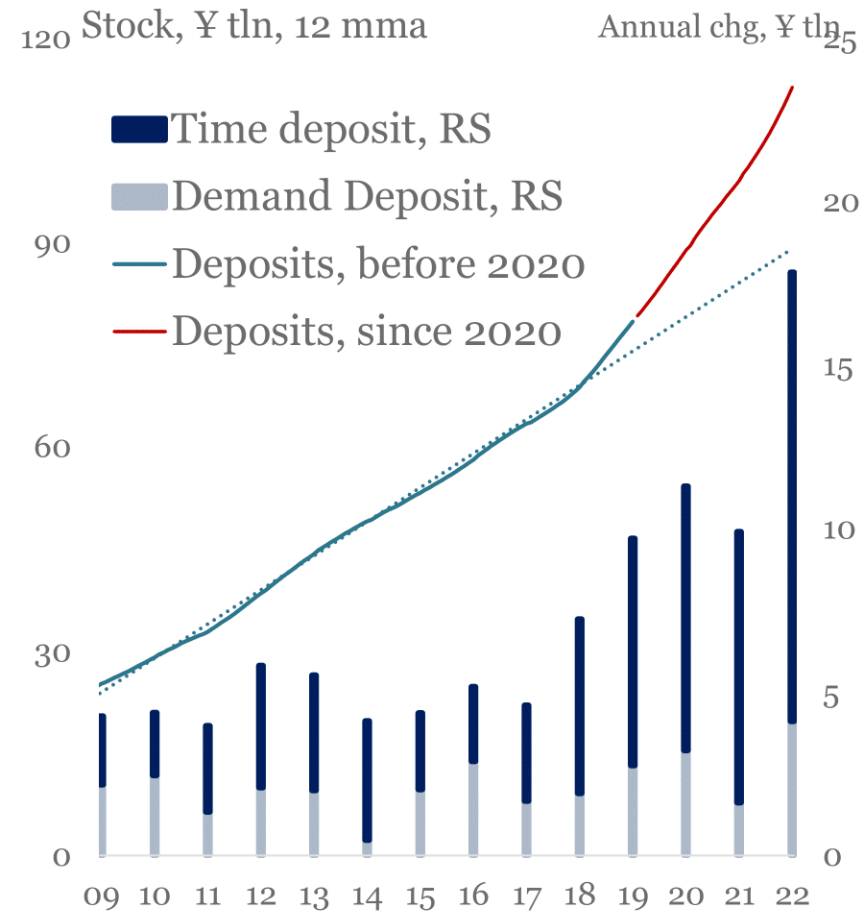
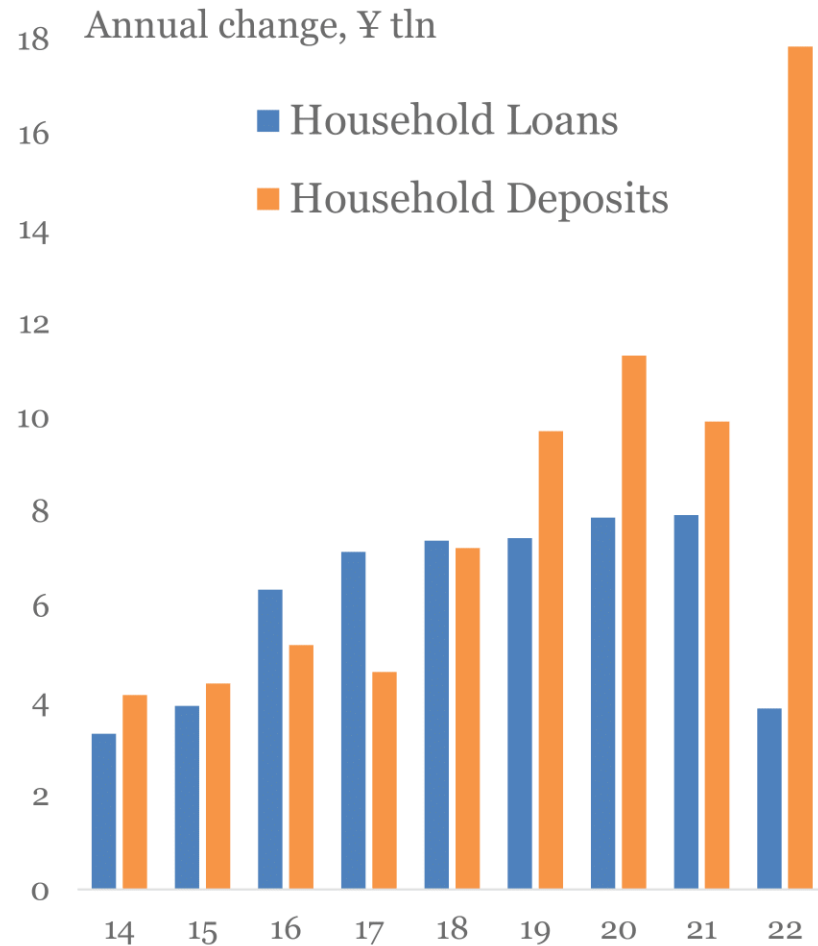
People saved more during Covid years

Expect HH consumption to rebound from -0.2% last year to 10% in 2023

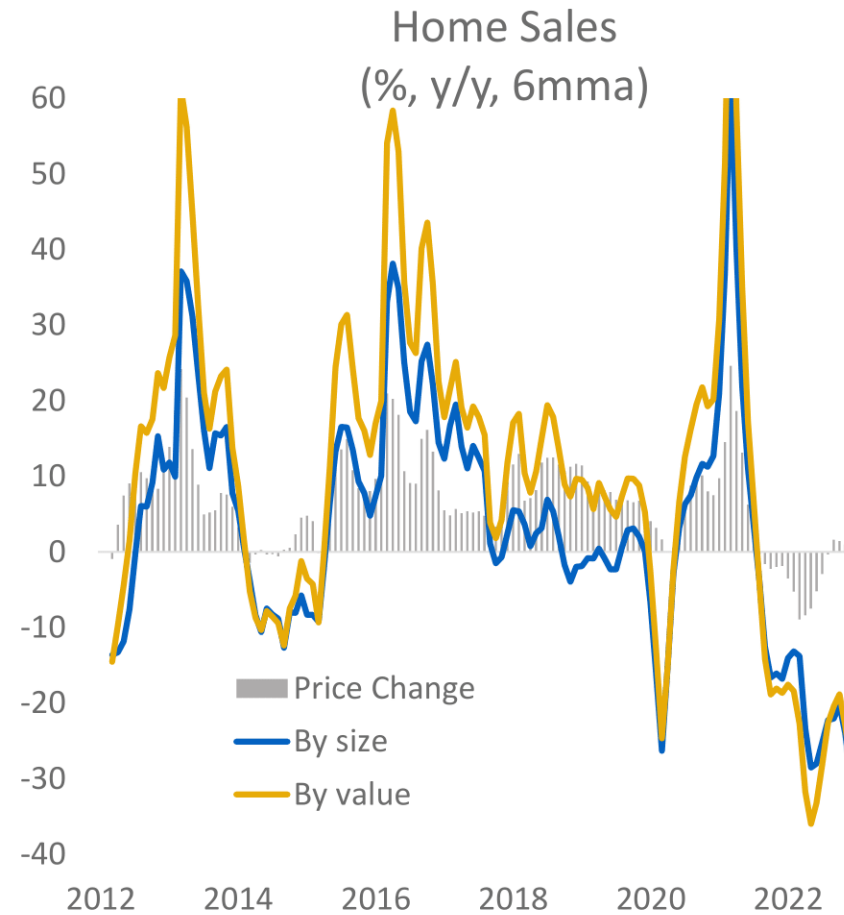
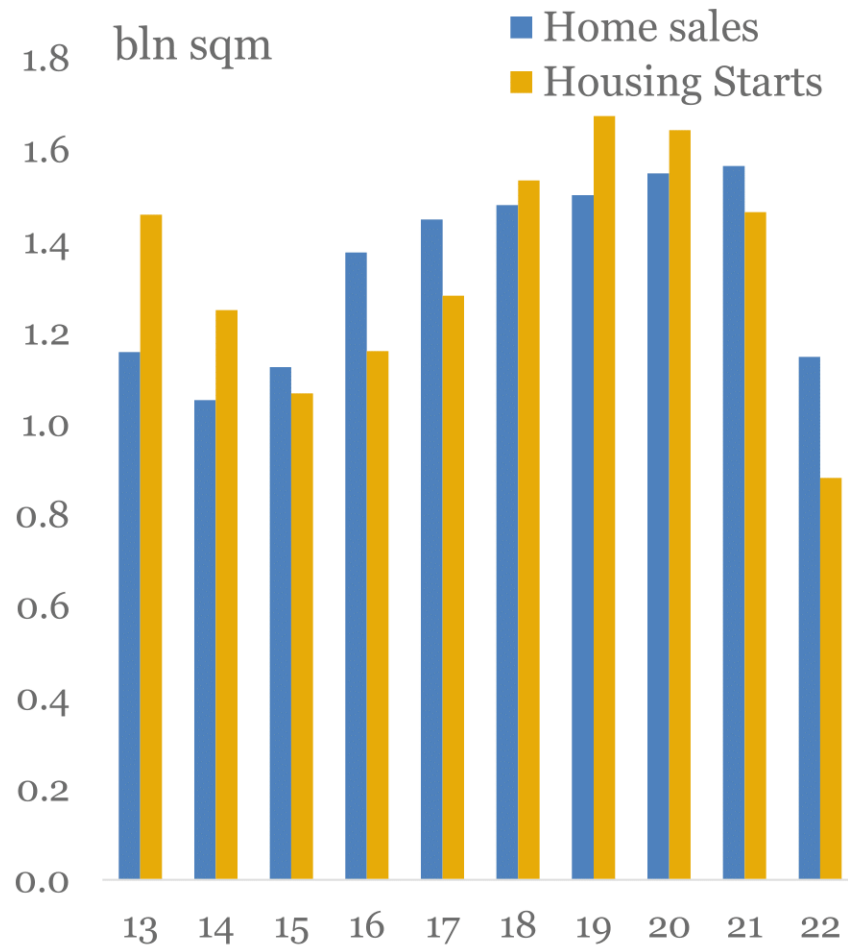


HH deposits surged by ¥18 tln in 2022

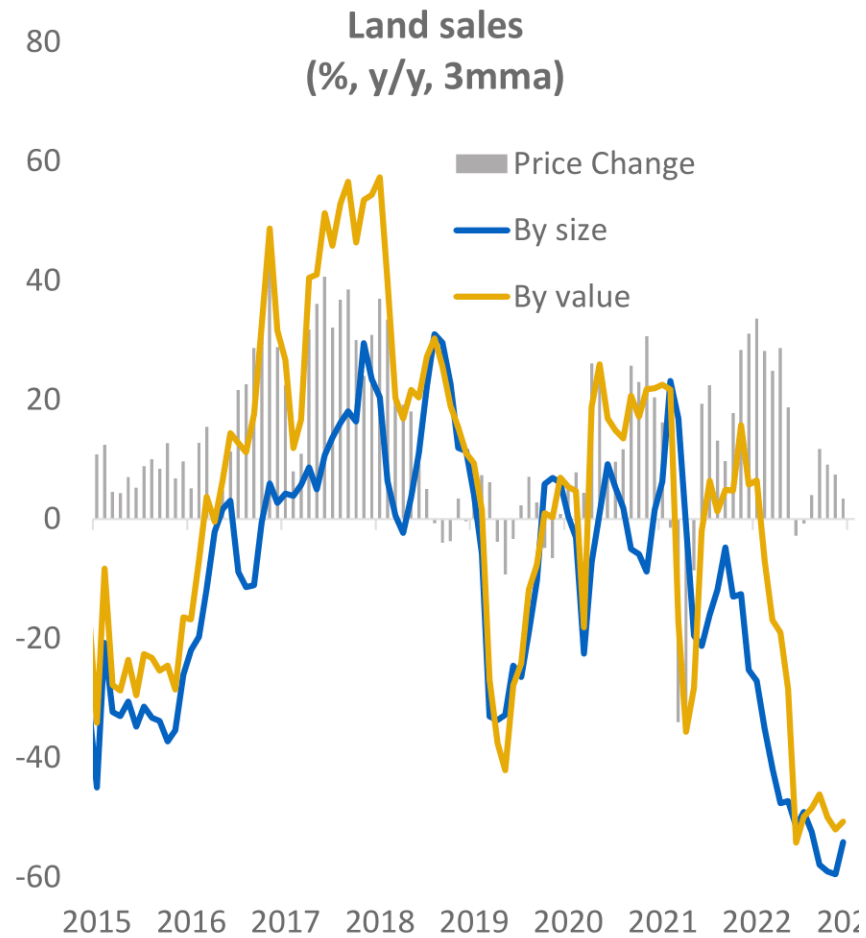
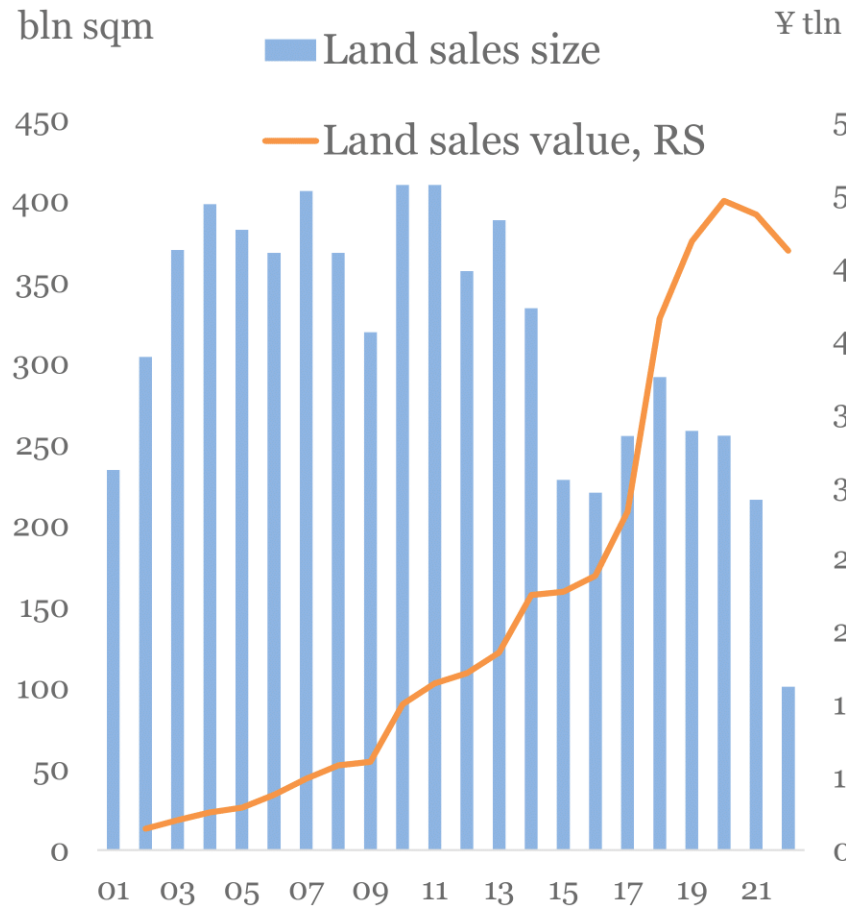
HH deposit stock reached ¥120 tln, 1x of GDP



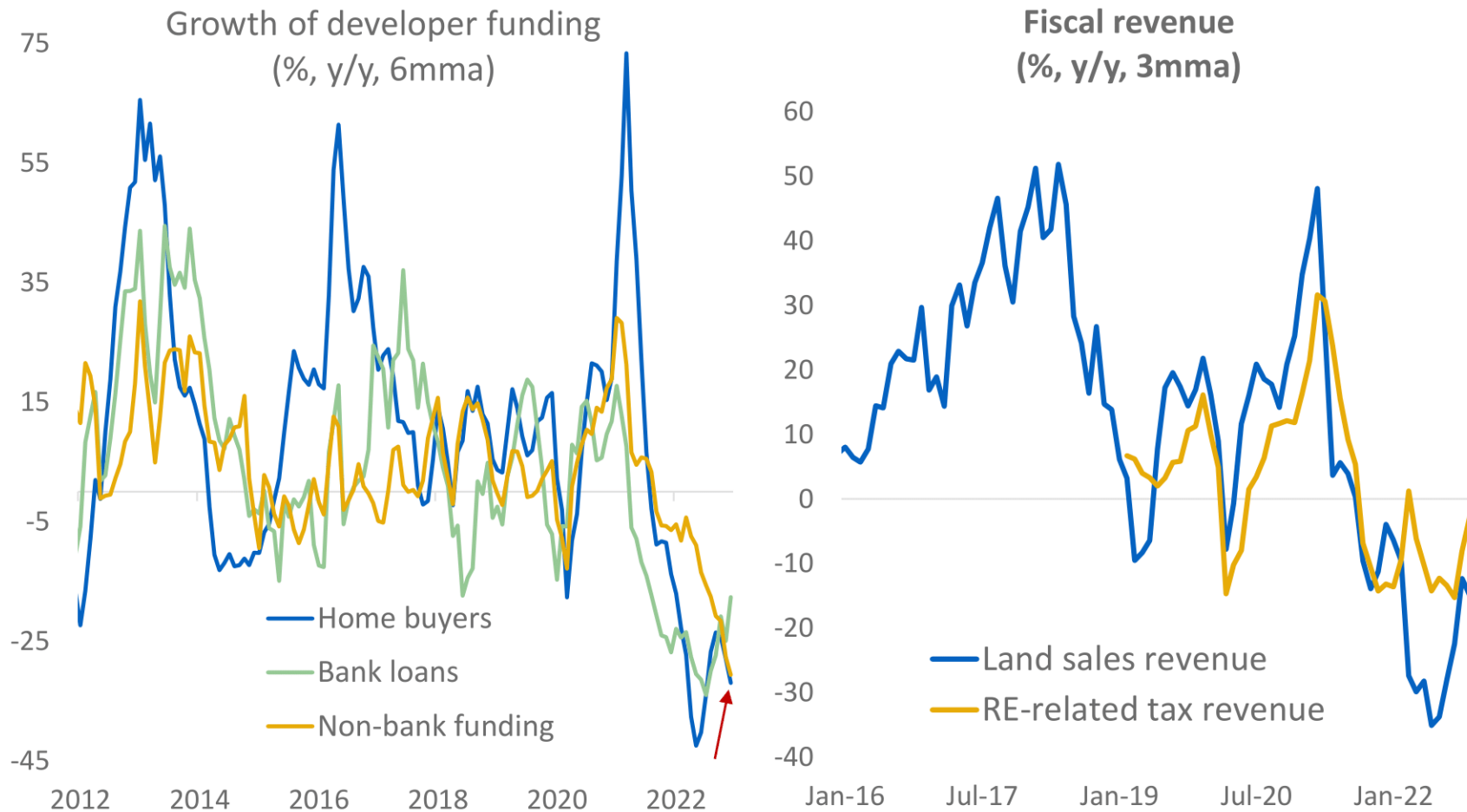
Home sales and housing starts were depressed in Dec Yet home price held up



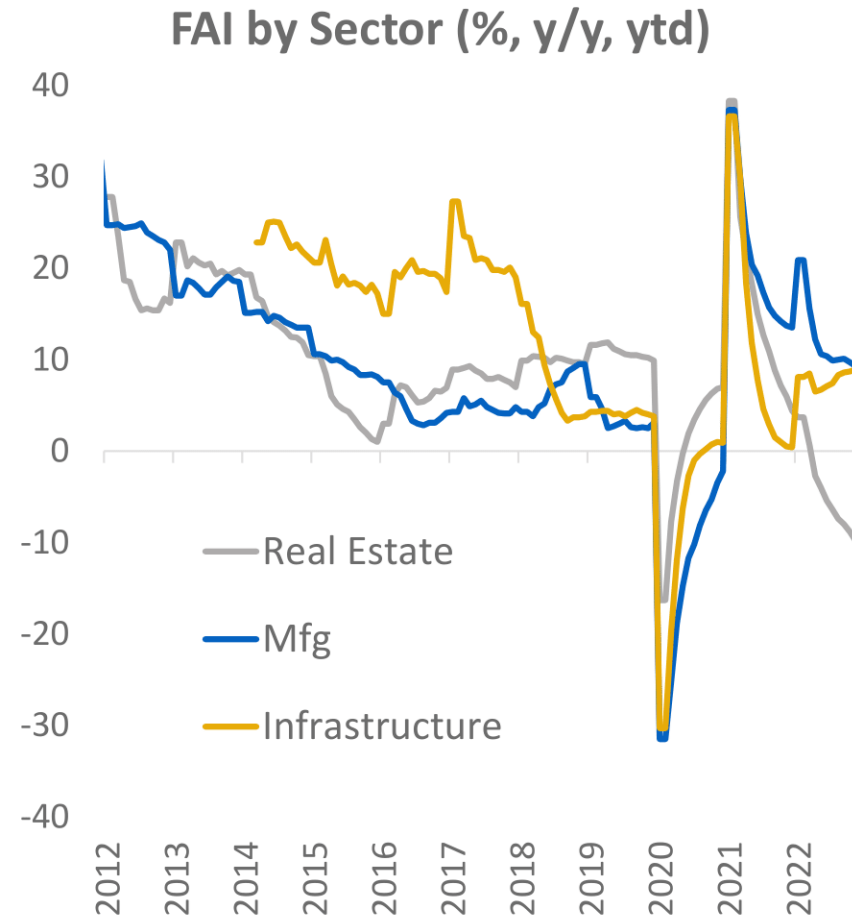
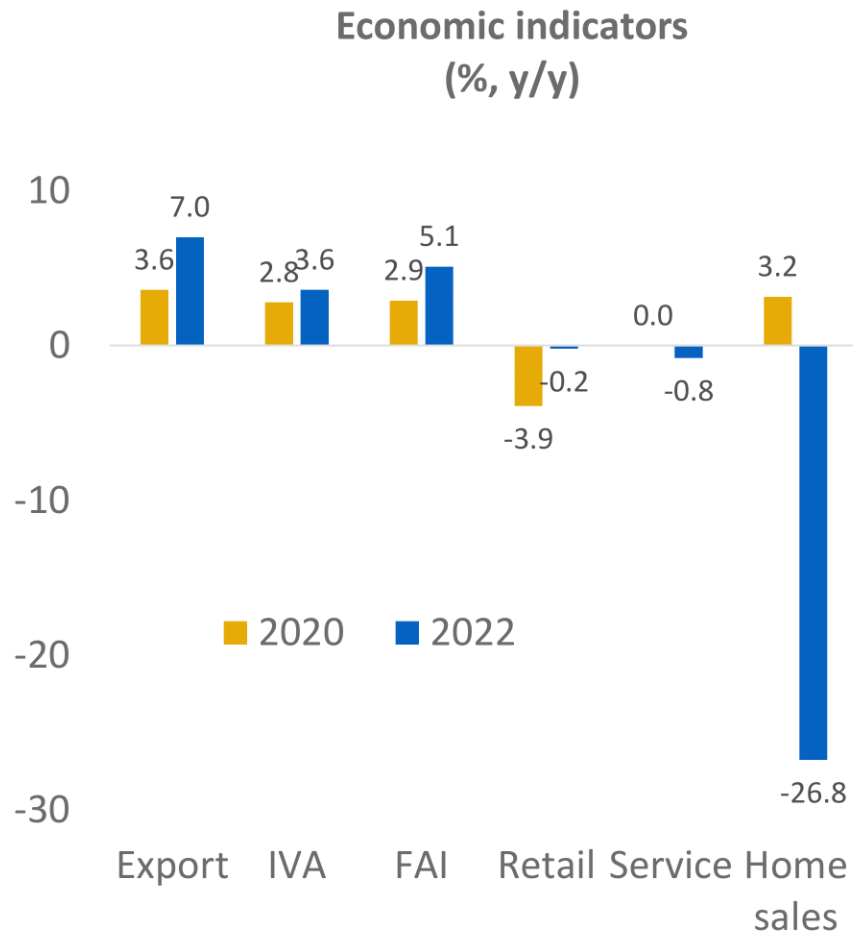
Land sales down 50% in 2022 Yet land price didn't fall much



Developer finance less bad local govt land revenue fell sharply

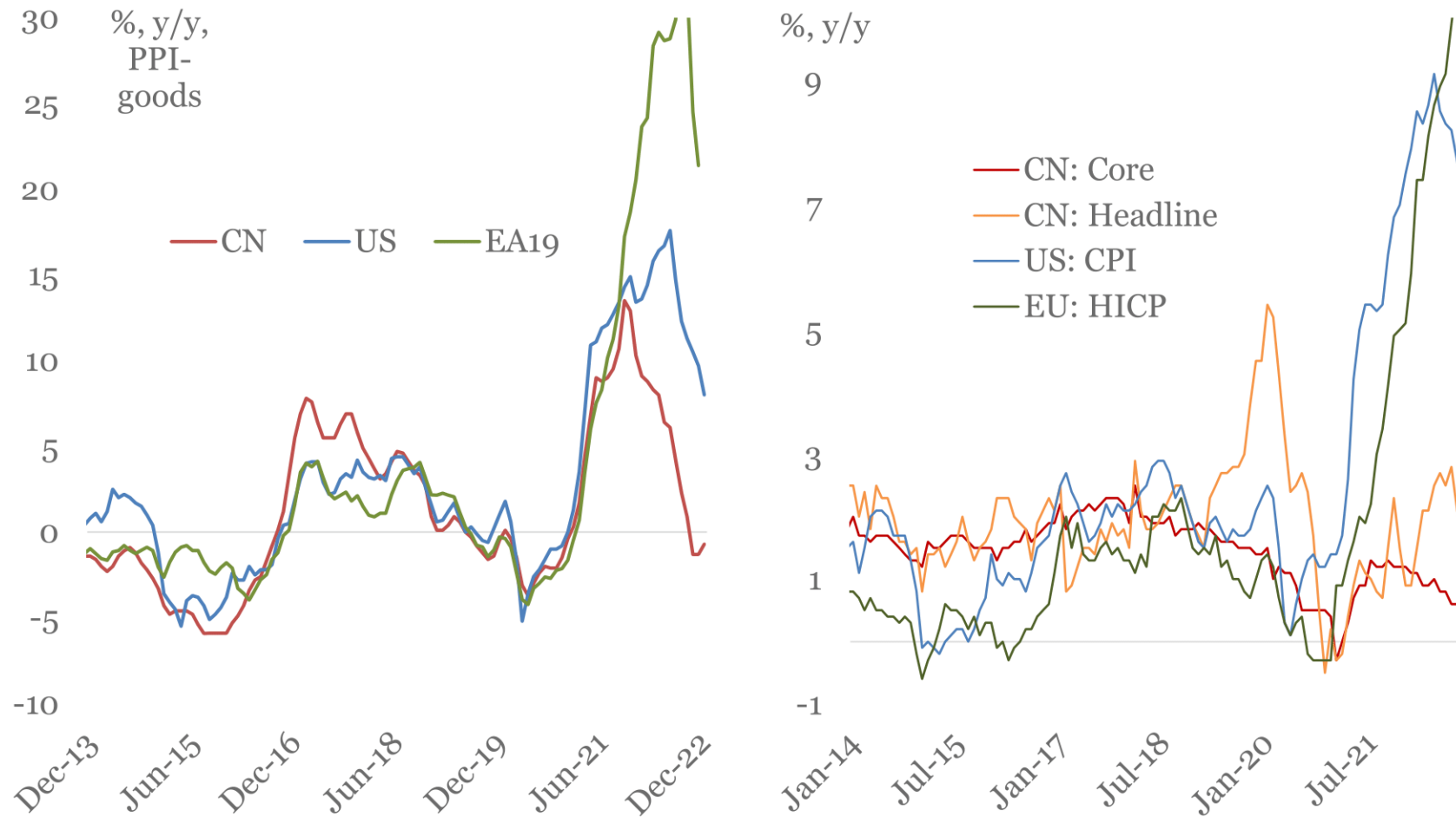


FAI: Real estate plummeted; Infrastructure picking up



PPI: Divergent from US & EU in 2022

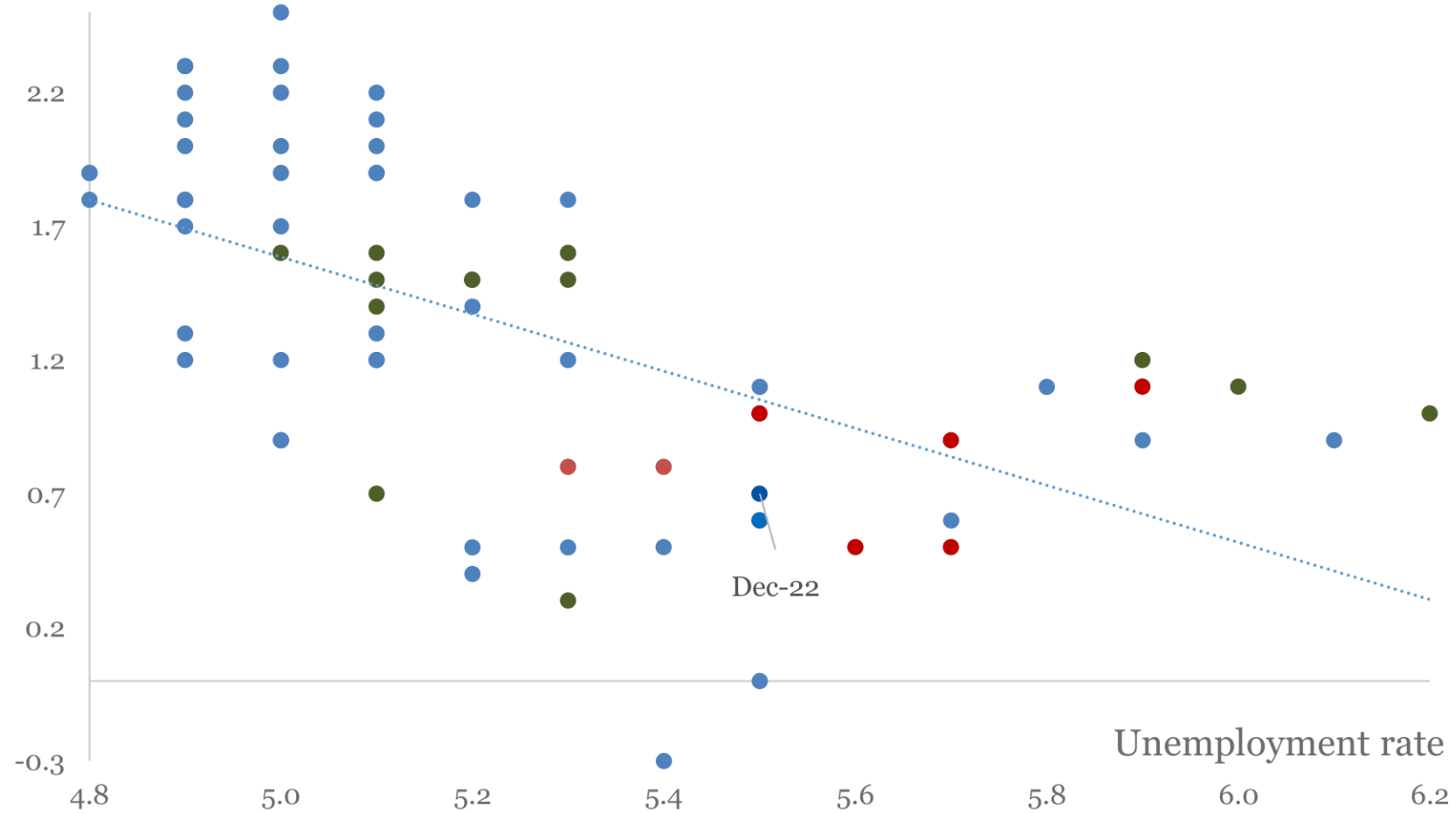
CPI: core subdued, headline picking up



China's growth potential?

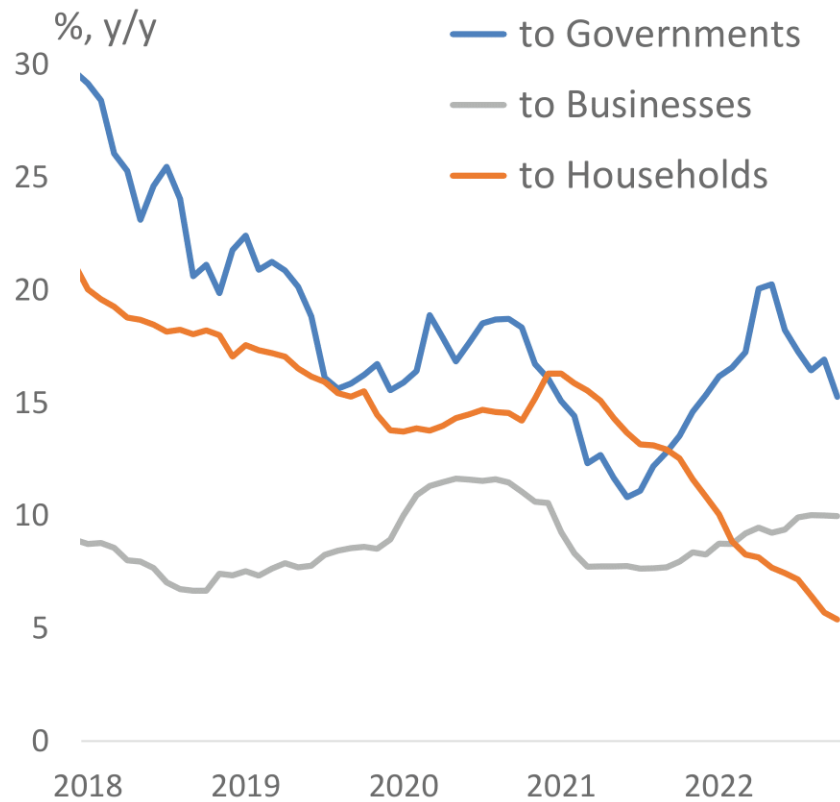
No hyperinflation when unemployment rate is below 5%

Core CPI, %

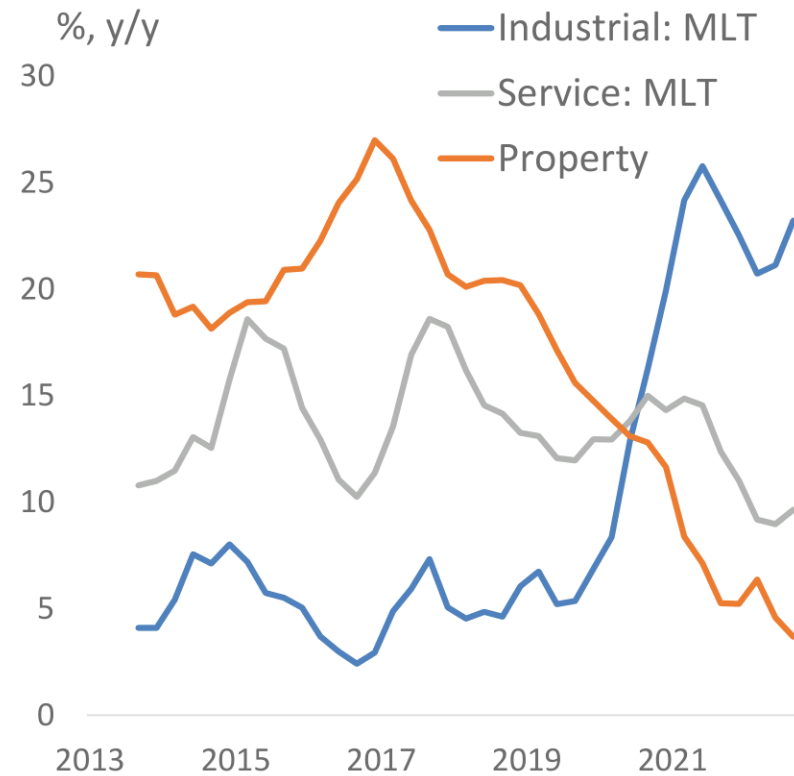


Credits to households plummeted 7.7% y/y by July amid housing rout.
Total credit held up thanks to government bond issuance.

Total credit growth by sector

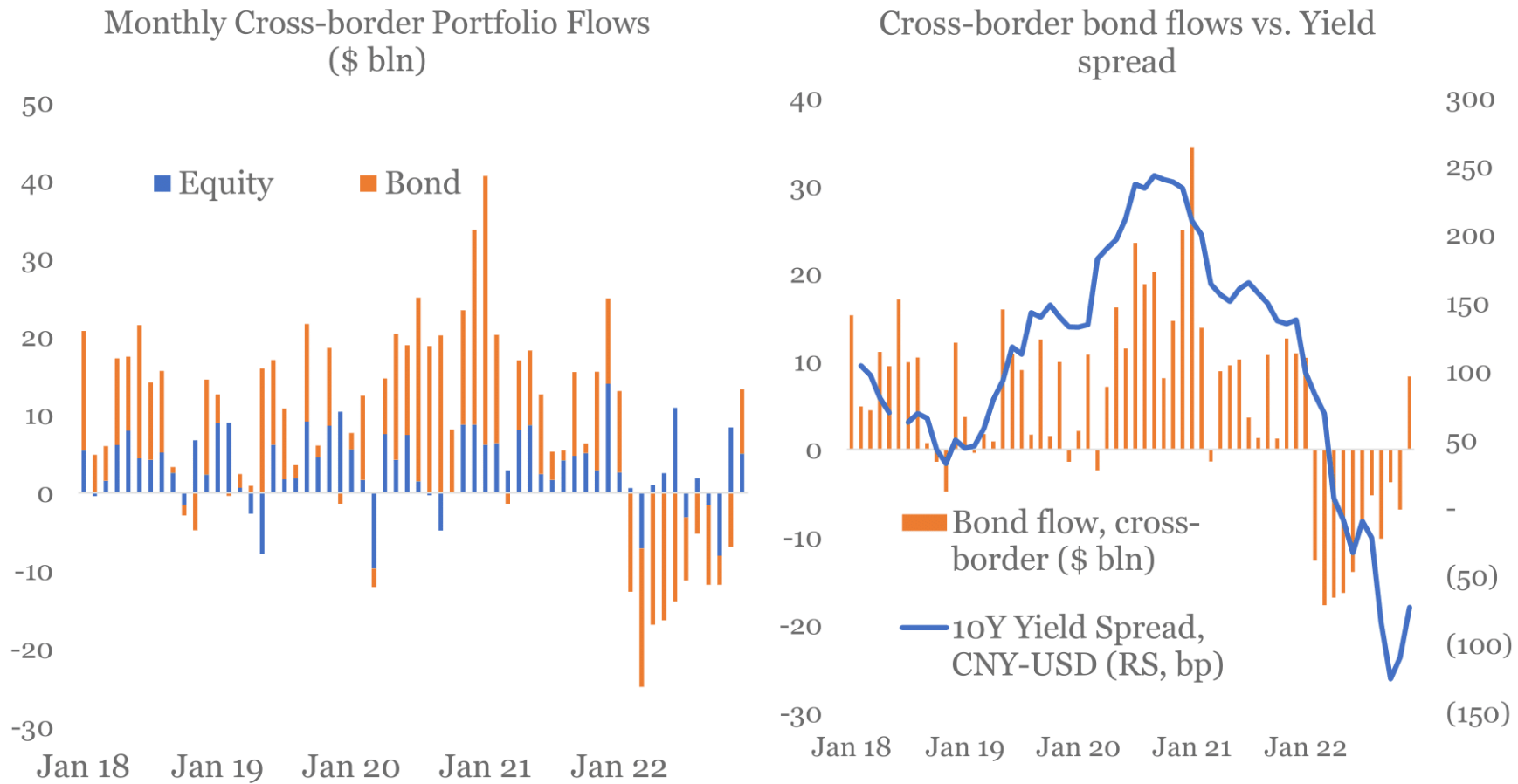


Divergent medium/long-term loans



In 2022, \$93 bln left onshore bond market, yet \$13 bln went in equities

Portfolio flows was triggered by cyclical factors, not geopolitics



Premier LI Keqiang's farewell speech

Achievements

- GDP averaged 5.2% in 5 years and 6.2% in the past 10 years.
- Urban jobs 12 millions a year.
- FXR stable at \$3 tln.
- 100 million people out of poverty.
- R&D spending up from 2.1% to 2.6% of GDP.
- Investments in tech and equipment growing 10.6% and 7.9% annually.
- Urbanization rate up 5 pts to 65.2%.
- High speed rail mileage up from 25K km to 45K km, highway mileage increased 30% to 177K km; power capacity up 40%; all villages are covered with broadband.
- Energy intensity (energy/GDP) down 8.1%; CO2 down 14.1%; PM2.5 down 27%; Heavily polluted days down 50%.
- CPI averaged 2.1% per year; Education up from 13.5 to 14 years; Social security coverage reached 1 billion; shanty-town renovation for 42 million homes.

Main targets for 2023

- GDP growth target at around 5%.
- CPI target at around 3%.
- Deficit at 3% of GDP.
- Aims to create around 12 million urban jobs, and unemployment rate around 5.5%.
- Grain output over 650 million tons.



Premier: LI Keqiang → LI Qiang

- Acquainted with Xi in 1980s.
- Xi's chief of staff for 3 years when Xi was in Zhejiang.
- MBA from HK Polytech Univ.
- Later Party chief of Shanghai and Jiangsu.
- Supportive of Alibaba and Jack Ma.
- Brought Tesla to Shanghai. Met Elon Musk at least four times.
- Light touch on covid at the beginning, and then enforced harsh lockdown in Shanghai once got the order from Beijing.



VP for econ/finance: LIU He → HE Lifeng

- Econ Ph.D. from Xiamen University.
- Worked under Xi in Fujian province in 1980s-1990s.
- Currently NDRC chairman.
- Made into the 24 people Politburo at 20th Party Congress.
- Has limited international experience.
- A much more forceful person than his predecessor.



PBoC: YI Gang → ZHU Lixin

It seems Governor YI eventually lost the race to Mr. ZHU Lixin.

- Currently Chairman of Citic Group (which controls Citic Bank (IIF member) and Citic Securities).
- Age 54. Young.
- Suspected that Vice premier HE Lifeng will be the Party boss at PBoC. So the new governor will be under the thumb of the economic Czar. Central bank independence further eroded.



CBIRC Chairman: GUO Shuqing → YI Huiman

- Currently CSRC chairman.
- The only financial policymaker made into the 200+ people Central Committee.
- At CSRC, suspended Ant IPO, launched STAR Board (China's Nasdaq), handed out record fines over inside trading.
- Started career at ICBC. ICBC CEO (2013-16) and Chairman (2016-19).
- Tim met with him in 2018.
- A perfect candidate to run CBIRC. Can be active in policy initiatives.
- Age 58



CSRC Chairman: YI Huiman → WU Qing

- Started career at CSRC (??-2010).
- Head of Shanghai Stock Exchange (2016-18)
- Shanghai vice mayor for econ/finance (2018-23)
- Elected Chairman of the World Federation of Exchanges (2017), and a board member till 2022.
- Exceptionally experienced in financial securities industry.
- Econ Ph.D.
- Age 57





Comments, Questions & Answers



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- Wed, 08 Mar (12:00-12:45) The Transformative Tree - Pongamia Agroforestry Systems
- Mon, 13 Mar (16:00-16:45) Creative Consulting: Moving From 'Persistent Misdirected Efforts' To Truly Transformative Results
- Tue, 14 Mar (09:00-09:45) Financial Centres Of The World 2023: Focus On Mauritius
- Wed, 15 Mar (11:00-11:45) Global Financial Challenges - The Role Of Central Bank Digital Currencies

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