

Greater China — Week in Review

8 April 2024

Highlights: short term solutions to fill the gap

During the Qingming holiday, total number of domestic tourists rose by 11.5% compared to the same period in 2019 to 119 million. Domestic tourists demonstrated robust spending during their travels, collectively contributing 539.5 billion yuan to the tourism sector. This expenditure represents a notable 12.7% increase compared to the pre-pandemic levels observed in 2019.

China's Per capita spending in the Qingming long weekend finally surpassed the pre-Covid levels. This encouraging trend indicates a notable improvement in consumer confidence.

China continued to bolster its gold reserves in March, marking the 17th consecutive month of accumulation. The nation's gold reserves expanded to 72.74 million ounces, a marginal increase from the previous month's holdings of 72.58 million ounces.

Elsewhere, China's central bank has issued a new notice aimed at boosting financial support for car purchases. Under the new guidelines, the maximum loan-to-value ratio for loans intended for family use of vehicles will be raised to 100%, up from the previous range of 80-85% set in 2017. This significant increase in loan accessibility may potentially enable zero down payments, further stimulating demand for vehicles, particularly in the trade-in segment.

The Chinese government is choosing to push for equipment upgrade and trade-ins of consumer goods given the softening property market. By stimulating consumption in bulk items like home appliances and automobiles, this initiative enhances the likelihood of China reaching its growth target without relying heavily on the property market.

The equipment upgrade and trade-in of consumer goods are not a panacea for solving China's structural problems. However, they serve as short-term solutions that can buy China more time to rebalance its economy. Historical evidence supports the effectiveness of these measures, as seen in the previous round of trade-in programs for household appliances.

For instance, the pilot project that began in June 2009 and expanded nationwide in April 2011 resulted in a direct consumption surge of 342 billion yuan, thanks to a cumulative subsidy of 30 billion yuan allocated by the central government based on the data from Commerce Ministry. This demonstrates an encouraging multiplier effect. Based on that multiply effect, it shows that for every 100 billion yuan subsidy, China's consumption of home appliances may expand by 800-900 billion yuan. This accounts for more than 1.5% of total retail sales and may help offset the decline in property-related transactions.

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Keung Ching (Cindy)
Greater China economist
cindykeung@ocbc.com

Sentiment in Hong Kong's housing market has showed signs of improvement since all the demand-side management measures had been scrapped in late February. The total number of residential property transactions jumped to 3,971 in March, the highest since May 2023. During the month, new home sales rose to 11-year high. In view of the turnaround in sentiment and piling up of unsold units, developers also paced up the launch of primary projects with competitive pricing, hence adding weight on the secondary market.

Hong Kong's total retail sales in February rose by 1.9% YoY in value terms, surprising market to the downside, probably due to more outbound travels during the New Year holidays. In the first two months, the retail sales increased by 1.4% YoY in value terms. Changes in consumption patterns of residents and visitors continued to pose challenges for local retailers, and we expect to see slower growth in overall retail sales in periods ahead.

Hong Kong's PMI rebounded to 50.9 in March, up from that of 49.7 in February, buoyed by the increase in new orders sub-index. Meanwhile, all of the five major components of PMI showed signs of improvement. Within the total, new order sub-index rose for the first time since early this year.

Macau's gross gaming revenue grew 53.1% YoY and 5.5% MoM to MOP19.50bn in March, refreshing the post-Covid high. Comparing with the same period in 2019, the gross gaming revenue in March was down by 24.5%. For the first quarter as a whole, gross gaming revenue rose by 5.9% over the previous quarter to reach MOP57.33 billion. Generally speaking, the gaming sector in Macau continued to hold up well in recent weeks. Based on the current trajectory, we expect to see around 20% year-on-year growth in gross gaming revenue in this year.

Key events	
Facts	OCBC Opinions
<ul style="list-style-type: none"> China's central bank has issued a new notice aimed at boosting financial support for car purchases. 	<ul style="list-style-type: none"> Under the new guidelines, the maximum loan-to-value ratio for loans intended for family use of vehicles will be raised to 100%, up from the previous range of 80-85% set in 2017. This significant increase in loan accessibility may potentially enable zero down payments, further stimulating demand for vehicles, particularly in the trade-in segment. Moreover, the central bank is actively encouraging financial institutions to explore the possibility of waiving prepayment penalties associated with the trade-in of existing vehicles. This move is intended to facilitate smoother transitions for consumers looking to upgrade their vehicles. The Chinese government is choosing to push for equipment upgrade and trade-ins of consumer goods given the softening property market. By stimulating consumption in bulk items like home appliances and automobiles, this initiative enhances the likelihood of China reaching its growth target without relying heavily on the property market. The equipment upgrade and trade-in of consumer goods are not a panacea for solving China's structural problems. However, in my opinion, they serve as short-term solutions that can buy China more time to rebalance its economy. Historical evidence supports the effectiveness of these measures, as seen in the previous round of trade-in programs for household appliances. For instance, the pilot project that began in June 2009 and expanded nationwide in April 2011 resulted in a direct consumption surge of 342 billion yuan, thanks to a cumulative subsidy of 30 billion yuan allocated by the central government based on the data from Commerce Ministry. This demonstrates an encouraging multiplier effect. Based on that multiply effect, it shows that for every 100 billion yuan subsidy, China's consumption of home appliances may expand by 800-900 billion yuan. This accounts for more than 1.5% of total retail sales and may help offset the decline in property-related transactions. Regarding equipment upgrades, the director of the National Development and Reform Commission (NDRC) stated during the two sessions that investments in key sectors in China are estimated to reach around 4.9 trillion yuan. This implies an investment of approximately 6 trillion yuan annually in equipment. The latest document also sets a quantified target to increase investments in sectors such as industry, agriculture, construction, transportation, education, cultural tourism, and healthcare by 25% by 2027, suggesting an additional investment of over 300 billion yuan in equipment each year, which could help boost the GDP as well though the exact impact on GDP may not be clear at the current stage.
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Key Economic News	
Facts	OCBC Opinions
<ul style="list-style-type: none"> During the Qingming holiday, total number of domestic tourist rose by 11.5% compared to the same period in 2019 to 119 million trips. 	<ul style="list-style-type: none"> Domestic tourists demonstrated robust spending during their travels, collectively contributing 539.5 billion yuan to the tourism sector. This expenditure represents a notable 12.7% increase compared to the pre-pandemic levels observed in 2019. Per capita spending surpassed pre-Covid levels. This encouraging trend indicates a notable improvement in consumer confidence.
<ul style="list-style-type: none"> Hong Kong's total retail sales in February rose by 1.9% YoY in value terms, surprising market to the downside, probably due to more outbound travels during the New Year holidays. In the first two months, the retail sales increased by 1.4% YoY in value terms. 	<ul style="list-style-type: none"> On sequential terms, total value and volume of retail sales both dropped by 7.6% in February, probably due to more outbound travels during the month. Breakdown by component, sales value of "consumer durable" (-25.1% YoY) recorded the sharpest decline in February, while that of "supermarkets" (+14.1% YoY) rose by the most. Changes in consumption patterns of residents and visitors continued to pose challenges for local retailers, and we expect to see slower growth in overall retail sales in periods ahead.
<ul style="list-style-type: none"> Hong Kong's PMI rebounded to 50.9 in March, up from that of 49.7 in February, buoyed by the increase in new orders sub-index. Meanwhile, all of the five major components of PMI showed signs of improvement. Within the total, new order sub-index rose for the first time since early this year. 	<ul style="list-style-type: none"> External demand weakened in March on softened external demand and reduced tourist demand. Firms' margins pressure eased, as output price inflation rose while inflationary pressures from input costs alleviated. In the meantime, private sector firms raised their employment and inventory levels at accelerated rates. However, sentiment remained weak with little confidence on the sustained rebound in output.
<ul style="list-style-type: none"> Macau's gross gaming revenue grew 53.1% YoY and 5.5% MoM to MOP19.50bn in March, refreshing the post-Covid high. Comparing with the same period in 2019, the gross gaming revenue in March was down by 24.5%. 	<ul style="list-style-type: none"> For the first quarter as a whole, gross gaming revenue rose by 5.9% over the previous quarter to reach MOP57.33 billion. Generally speaking, the gaming sector in Macau continued to hold up well in recent weeks. Based on the current trajectory, we expect to see around 20% year-on-year growth in gross gaming revenue in this year. Separately, Macau saw a daily average of just above 100,000 visitor arrivals for the four-day Easter period, according to official data, noting that the Easter season is not a holiday on the Chinese mainland.

Macro Research

Selena Ling
Head of Strategy &
Research
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau
cindykeung@ocbc.com

Herbert Wong
Hong Kong & Macau
herberhtwong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
ahmad.enver@ocbc.com

Jonathan Ng
ASEAN Economist
JonathanNg4@ocbc.com

Ong Shu Yi
ESG
ShuyiOng1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Rates Strategist
FrancesCheung@ocbc.com

Christopher Wong
FX Strategist
christopherwong@ocbc.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com

Chin Meng Tee
Credit Research Analyst
MengTeeChin@ocbc.com

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