

China: Post-Plenum outlook continues to be challenging

Marketing communication

Tuuli Koivu

The Party Plenum continued to emphasize Xi's thoughts and the implementation of structural reforms is highly uncertain. The market reaction was negative and growth continues to rely on exports and fixed investments as consumers remain pessimistic.

China's Communist Party held an important third plenum in mid-July. In this short note, we summarise the main outcomes from the meeting and go through the most recent economic data for the country.

1. China's path towards more centralised control and a strong role for Xi continues

The communication around the Party Plenum highlighted China's success to achieve earlier targets and the aim to deepen so-called reforms during Xi Jinping's era. The published documents did not recognise the scale of the challenges that China's economy is currently facing and there was not at all criticism around the chosen political course. Based on the language, it is natural to come to the conclusion that President Xi does not see that his policies would be guilty of China's economic challenges in any way and as a result, the centralisation of the control to the Party's and Xi's hands will continue and emphasis on Xi's favourite topics such as national security, self-reliance, high-tech sectors and high-quality growth will be strong.

2. No concrete plans for the much-needed structural reforms

In the so-called decision document, the CCP listed 300 measures covering basically all important areas of the economy to boost development by a set deadline 2029 but there is not at all concreteness on how to achieve the listed targets. For example, regarding the much-needed reform in the budgetary system where the extremely difficult financial situation at local level must improve, the document announces at a very general level "*We will establish a fiscal relationship between the central and local governments that features well-defined powers and responsibilities and the appropriate allocation of resources, with an optimum balance between regions.*" But the text does not provide any concrete measures how to advance these targets.

Furthermore, there is no acknowledgement of fiscal costs of any of the reforms. It is easy to promise that for example the level of social security is improved and high-quality education system will be built if there are no concrete targets for these promises or estimated costs. However, a lack of estimated costs and order of prioritisation naturally raises a lot of questions about implementation of the reforms. Thus, even if the steps concrete steps can be announced at a later stage, at the moment a level of confidence that any meaningful reforms would happen quickly is very low.

3. Strong emphasis on national security will continue

In the decision document, there is a whole new chapter on national security. Thus, the theme continues to be high on the agenda and it will target more and more segments of the Chinese economy and society. Thus, even if the strong emphasis on security has implied less room to operate for the private sector and lower economic growth rates, the priorities are likely to remain unchanged which will imply that the growth outlook continues to be weakened by the politics also in the coming years.

4. Contradictory messages for the private sector

One of the characteristics about Xi's policies has been the prioritisation of state-owned companies over the private sector. In the decision document, there are many nice words about private companies. However, at the same time, the document emphasises the role of state-owned companies which implies that the messages are contradictory. A part of the measures that were announced to boost private-sector development were the same that were published already a year ago in a long list of reforms.

5. The Plenum failed to improve the economic outlook

When summing up the failure of the party meeting to come up with concrete structural reforms and the continuously strong emphasis on the party control, national security and self-sufficiency, it is not a surprise that the market reaction to the plenum has been negative. Furthermore, the more recent politburo meeting, which took place at the end of July and was a first opportunity for the leaders to take concrete steps towards the announced targets, did not come up with any new policies. As a result, the main equity indices have continued on a downward trend and the most recent PMI indicators have been weak.

The start for the third quarter has been weak also from the perspective of the real economy as data for July has continued to surprise to the downside. As was the case in the first half of the year (see our analysis on China's Q2 GDP data [here](#)), China's growth relies very much on exports and fixed asset investments in manufacturing and infrastructure while household consumption, which should take a larger role in the Chinese economy to fix some of the imbalances, is hurt by low household confidence. In July, retail trade of goods increased by only 2.7% y/y and consumption of catering services only 3.0% y/y. At the same time, exports continued to recover from last year's decline and growth in fixed asset investments especially in manufacturing was strong.

The downward trend in the housing sector data also continued in July. Price indices in the sector are still declining and the fixed asset investments declined by 10.2% y/y in January-July. The starts of new housing construction hit a new record low in July and are now down by a dramatic 65% from the pre-pandemic levels. The number of sold new apartments has stabilised recently which could be partly due to the May stimulus

package. However, the overall outlook for the sector continues to be weak and the end-July politburo meeting did not come up with any new stimulus measures.

Without a boost in consumer confidence or new stimulus measures it is hard to see that China's economic growth would accelerate significantly in the coming quarters. While the official GDP will probably grow by almost 5% in 2024 and meet the growth target thanks to strong exports and fixed asset investments, there is a large part of the economy where growth momentum is significantly weaker. Together with very low inflationary pressures (consumer price inflation 0.5% in July) this implies that monetary policy will be gradually loosened and given the negative interest spread against the western world, the CNY is likely to remain close to its current weak levels.

Reaction to the Party Plenum has been negative in the equity market

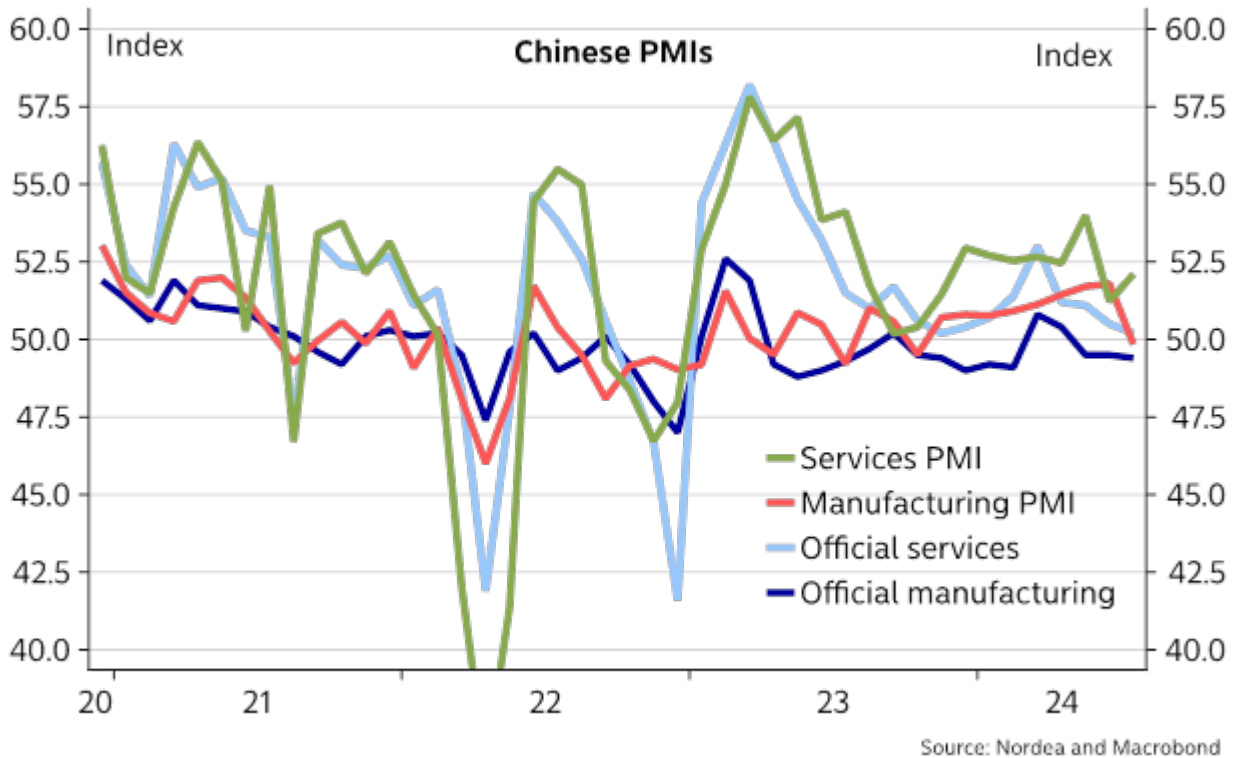
Shanghai and Shenzhen A-indices



Source: Macrobond and Nordea

Nordea

PMI numbers were weak in July



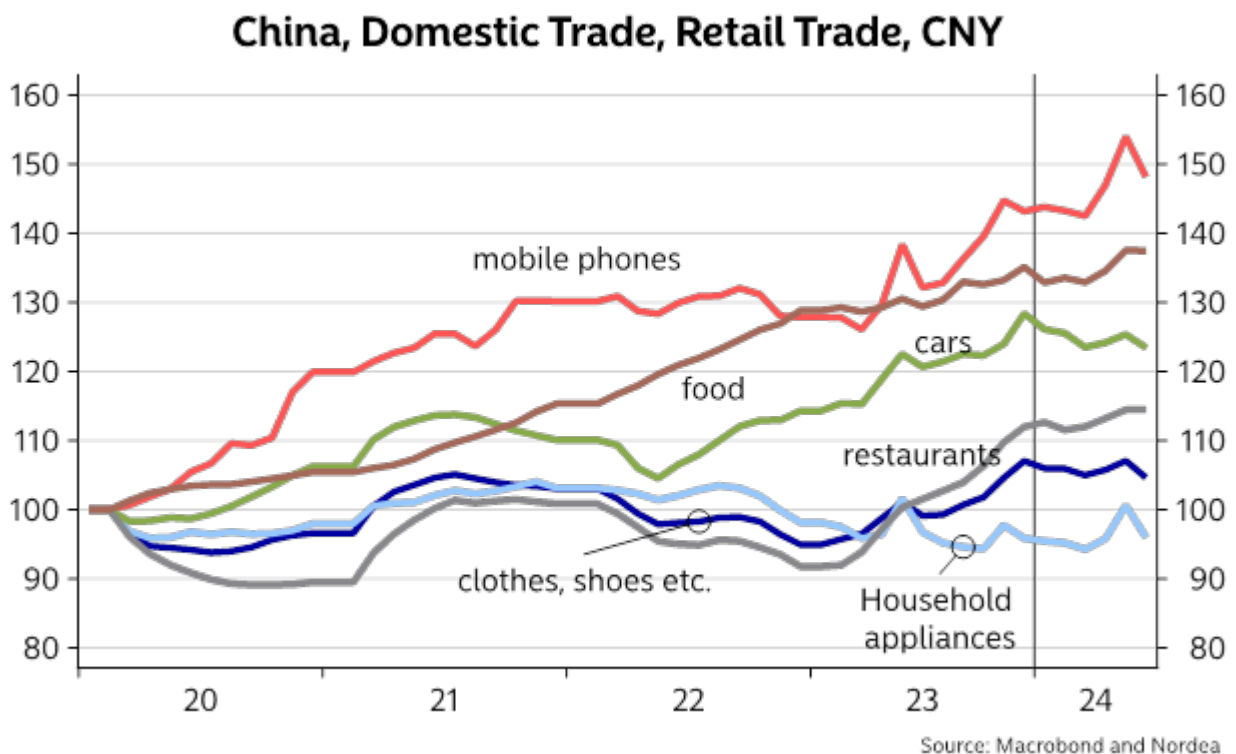
Nordea

Growth momentum slowed down in July

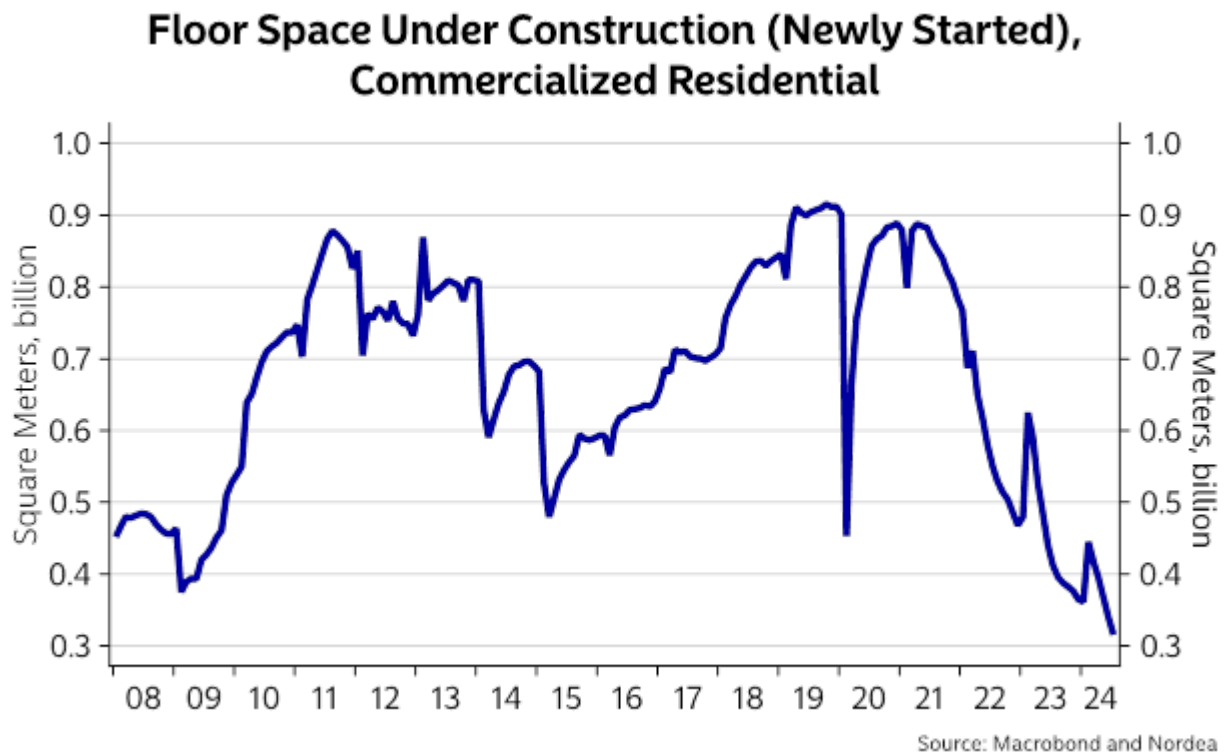


Nordea

There are no signs of a robust recovery in consumption



The new starts in housing construction hit a record-low level in July



DISCLAIMER

Nordea Markets is the commercial name for Nordea's international capital markets operation.

The information provided herein is intended for background information only and for the sole use of the intended recipient. The views and other information provided herein are the current views of Nordea Markets as of the date of this document and are subject to change without notice. This notice is not an exhaustive description of the described product or the risks related to it, and it should not be relied on as such, nor is it a substitute for the judgement of the recipient.

The information provided herein is not intended to constitute and does not constitute investment advice nor is the information intended as an offer or solicitation for the purchase or sale of any financial instrument. The information contained herein has no regard to the specific investment objectives, the financial situation or particular needs of any particular recipient. Relevant and specific professional advice should always be obtained before making any investment or credit decision. It is important to note that past performance is not indicative of future results.

Nordea Markets is not and does not purport to be an adviser as to legal, taxation, accounting or regulatory matters in any jurisdiction.

This document may not be reproduced, distributed or published for any purpose without the prior written consent from Nordea Markets.

In the United States, to the extent that this publication or report includes an analysis of the price or market for any derivative and is not otherwise exempt from the applicable U.S. Commodity Futures Trading Commission (CFTC) regulations, it is approved for distribution in the United States to US persons that are eligible contract participants from a CFTC perspective. Nordea Bank Abp is a provisionally registered swap dealer with the CFTC. Any derivatives transactions with US persons must be effected in accordance with the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Nordea Bank Abp, Satamaradankatu 5, FI-00020 NORDEA, Finland, domicile Helsinki, Business ID 2858394-9

Further information on Nordea available on www.nordea.com