A long and painful transition

- **China continues to struggle with a housing crisis that shows no signs of turning three years into the crisis. We expect it to weigh on the economy again this year. However, the overall economy continues to muddle through with the help of stimulus and industrial policy.**

- **In 2024 we look for growth to moderate from 5.2% to 4.5% but the decline is mostly due to less favorable base effects compared to 2023. Monetary and fiscal easing is expected to continue. The government growth target for 2024 is expected to be 5%.**

- **Exports should perform better this year and we also look for more decent growth in manufacturing investments as well as infrastructure supported by a strong focus on green investments. Consumption growth, however, is set to slow and together with the housing crisis provides the main downside risk to the outlook.**

- **In 2025 we look for growth to stay soft around 4.5%. China is in the middle of a long painful transition from a growth model highly dependent on housing to a new model where China aims at growth drivers to be high-tech investments, upgrade of manufacturing, green investments and consumer demand.**

- **Intense US-China geopolitical rivalry is here to stay despite the recent improved dialogue. We expect EU to at least double tariffs on Chinese EVs from 10% to 20-25% this year.**

Important disclosures and certifications are contained from page 3 of this report.

	2023	Forecast 2024	2025
GDP Growth	5.2%	4.5% (4.5%)	4.5% (4.5%)
Inflation	0.2%	0.7% (1.0%)	1.5% (1.5%)
Unemployment	5.2%	5.2% (5.2%)	5.2% (5.2%)
Policy Rate*	2.50%	2.30% (2.50%)	2.50% (3.00%)

Paranthesis are the old projections (From December 2023)
**End of period (1-year Medium Lending Facility)*
Source: Danske Bank, Macrobond Financial

Housing crisis continues while exports are set for mild recovery
China faces another year of muddling through amid a continued housing crisis where demand will need the support from more policy stimulus. We expect policy makers to deliver this and see more reductions in rates and the reserve requirement ratio as well as more fiscal stimulus. Home sales and house prices have continued lower over the past quarter. Policy makers have stepped up housing stimulus lately and we expect them to take further measures to stabilize home sales and continue until they see signs of stabilization and moderate recovery. We look for this to happen in the second half of the year but admittedly it has taken longer than expected already, and the forecast is highly uncertain.

Towards a new housing model
To support construction activity and drive a shift in the housing model, the government has rolled out the so-called '3 major projects' covering 1) renovation of 'urban villages', 2) more social and affordable housing and 3) infrastructure for emergency facilities during natural disasters. We have seen stabilization in housing starts already and we expect this to

China faces another year of muddling through amid a continued housing crisis where demand will again need the support from more policy stimulus

Allan von Mehren, Chief Analyst at Danske Bank

continue in 2024. Policy makers aim for a housing model based on more pillars where commercial housing is supplemented more with social housing that provide affordable homes for young people. The latter is needed to support the birth rate as high housing costs is one of several obstacles for people to get married and have children.

Private consumption recovered in 2023, albeit not as strongly as hoped for. Consumer confidence remains low and we see downside risks to private spending in 2024. Manufacturing and infrastructure investments remained robust in 2023 supported by fiscal stimulus and industrial policy support to especially the green sectors. We look for this to continue in 2024. Export growth is set to gradually improve as the global manufacturing cycle turns higher.

China has witnessed deflation in overall consumer prices but mostly driven by a big decline in food prices and not broad based deflation. However, core inflation is low at 0.4% and clearly a symptom of soft demand as well as fierce competition and price wars in some sectors.

China in a painful transition that will take time

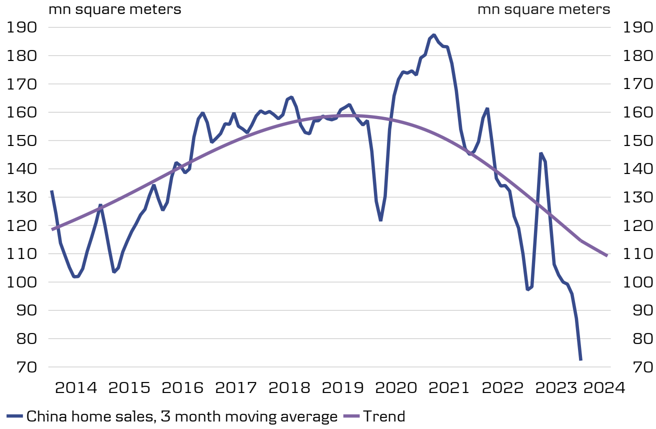
China is in a painful structural transition to reduce reliance on housing as a demand driver and aim for an economy where the growth drivers are instead high-tech investments, upgrade of manufacturing, green investments and private consumption. The transition is difficult and is set to continue to weigh on growth in the next couple of years with household confidence staying low. In the long term, China could come out stronger but the path there is to be long and bumpy with especially difficulty in turning on the consumer engine. Welfare reforms and market reforms, among other things, will be needed.

The long term growth potential also faces headwinds from a falling working age population, Western tech sanctions and lower foreign investments. But we still see China's trend growth in the coming 3-4 years around 4½%. A still low GDP per capita (less than 20% of US level), as well as a strong focus on education, innovation, AI, robots and other tech investments, will underpin the long term growth potential. A retirement reform over the coming years should mitigate some of the demographic headwind. China today has a very low retirement age (55 for women, 60 for men) leaving an untapped potential.

EU-China trade tensions in focus this year

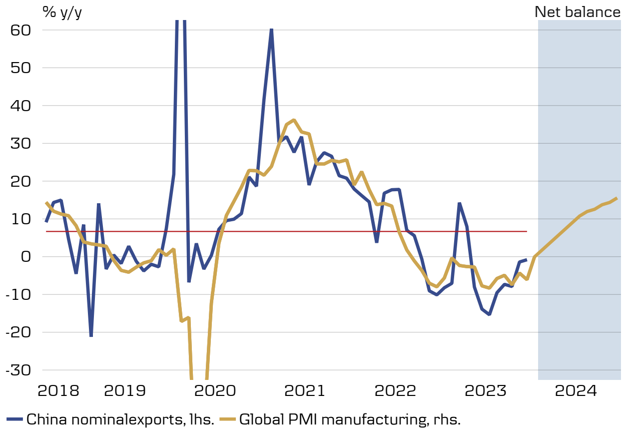
With the EU likely to raise tariffs on Chinese electrical vehicles (EVs) later this year, we are likely to see trade tensions flare up. However, we don't expect a big trade war, see Research Global – Buckle up for EU-China trade tensions, 8 February 2024.

No end in sight in China's housing crisis



Remark: Trend- and seasonally adjusted
Source: Statistics Sweden

Chinese export headwind should ease in 2024



Remark: Seasonally adjusted
Source: Creditsafe, Swedish Agency for Growth Policy Analysis

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US-China tensions have calmed down following the Xi-Biden meeting in November and we are cautiously optimistic relations are on a calmer footing this year. However, the long term rivalry is here to stay and relations could deteriorate again if Donald Trump returns to the White House in 2025.

Allan von Mehren
China
alvo@danskebank.com

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Global Danske Research

Global Head of Research
Heidi Schauman
heidi.schauman@danskebank.com

Macro

Head of
Las Olsen
Denmark
laso@danskebank.com

Allan von Mehren
China macro and CNY
alvo@danskebank.com

Antti Ilvonen
US macro, AUD and NZD
ilvo@danskebank.com

Bjørn Tangaa Sillemann
Denmark, Japan
bjsi@danskebank.com

Frank Jullum
Norway
fju@danskebank.com

Louise Aggerstrøm Hansen
Denmark
(maternity leave)
louhan@danskebank.com

Minna Kuusisto
Emerging Markets
mkuus@danskebank.com

Pasi Kuoppamäki
Finland
paku@danskebank.com

Rune Thyge Johansen
Euro Area
rujo@danskebank.com

Sweden

Head of
Filip Andersson
Fixed income strategy
(paternity leave)
fian@danskebank.com

Michael Grahn
Sweden
mika@danskebank.com

Gustav Sundén
Sweden macro
gusu@danskebank.com

Jesper Fjärstedt
SEK, PLN, HUF and CZK
jesppe@danskebank.com

Stefan Mellin
SEK strategy
mell@danskebank.com

Joel Rossier
Fixed income strategy
joero@danskebank.com

Fixed Income Research

Head of
Jan Weber Østergaard
DKK and EUR fixed income
jast@danskebank.com

Frederik Romedahl Poulsen
Global rates
frpo@danskebank.com

Jens Peter Sørensen
Nordic and EUR fixed income
jenssr@danskebank.com

Jonas Hensch
DKK fixed income
jhens@danskebank.com

Piet P.H. Christiansen
ECB and EUR fixed income
phai@danskebank.com

FX and Corporate Research

Head of
Kristoffer Kjær Lomholt
NOK
klom@danskebank.com

Mohamad Al-Saraf
EUR, USD, JPY, and Institutional FX
moals@danskebank.com

Jens Nærvig Pedersen
DKK, commodities, USD liquidity, Institutional FX
jenpe@danskebank.com

Kirstine Grønborg Kundby-Nielsen
GBP, CHF and Corporate FX
kigrn@danskebank.com

Credit Research

Head of
Jakob Magnussen
Utilities
jakja@danskebank.com

Benedicte Tolaas
Norwegian HY
beto@danskebank.com

Brian Børsting
Industrials
brbr@danskebank.com

Christian Svanfeldt
Real Estate and Industrials
chrsv@danskebank.com

Linnea Sehlberg
Industrials
sehl@danskebank.com

Louis Landeman
Sustainability/ESG
llan@danskebank.com

Mads Rosendal
TMT and Industrials
madros@danskebank.com

Mark Thybo Naur
Financials and Strategy
(paternity leave)
mnau@danskebank.com

Marko Radman
Credit Portfolios
mradm@danskebank.com

Olli Eloranta
Industrials and Real Estate
oelo@danskebank.com

Rasmus Justesen
Credit Portfolios
rjus@danskebank.com

Sverre Holbek
Financials
holb@danskebank.com

Marcus Gustavsson
Real Estate
marcg@danskebank.com

Mille Opdahl Müller
Industrials
mifj@danskebank.com