



Macro outlook for China and the EU

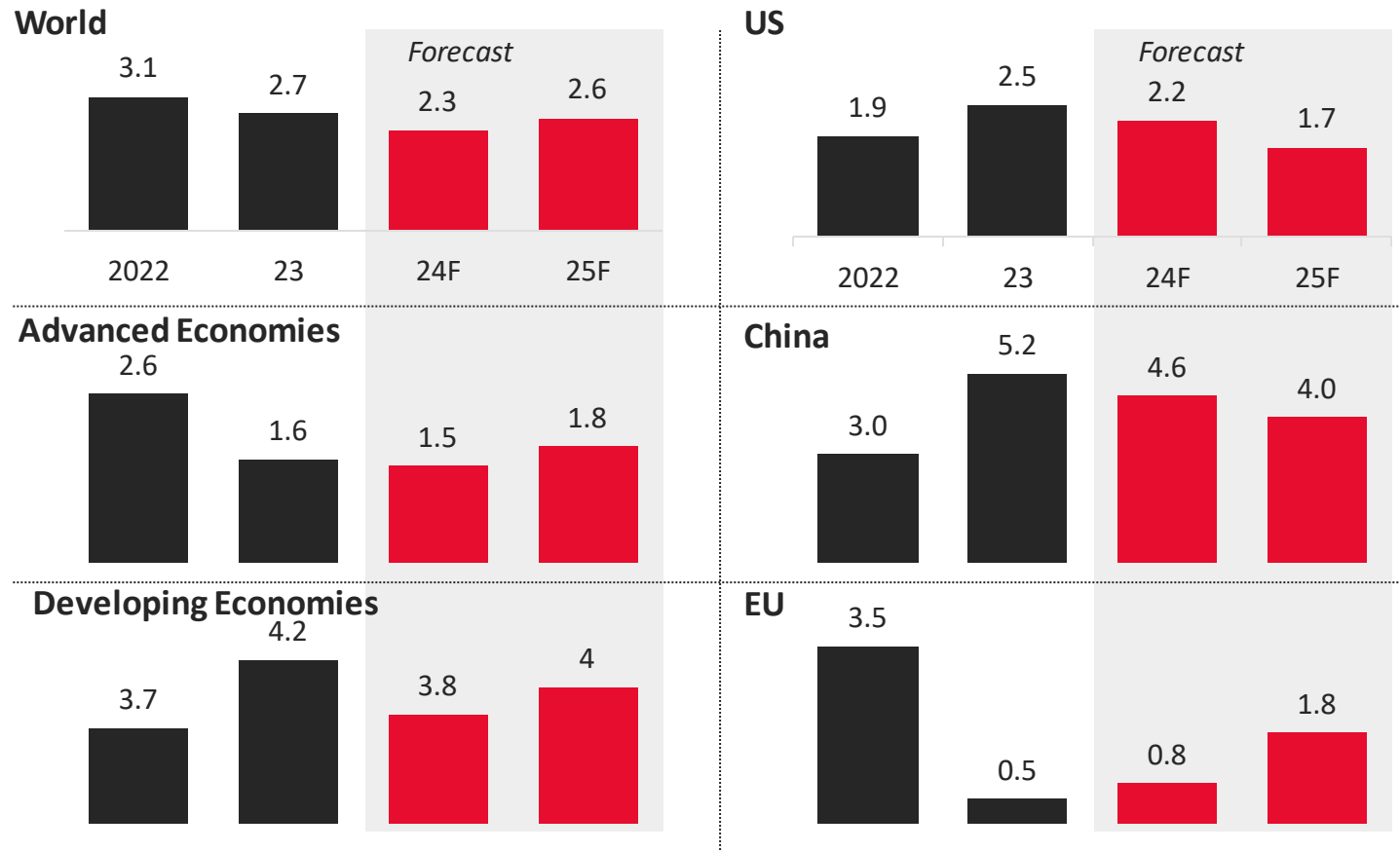
Analysis

April 2024

Global growth slowing after resilient 2023

US resilience put to the test, China slowing, EU on the brink of recession

GLOBAL GROWTH FORECAST: YOY % CHANGE IN REAL GDP

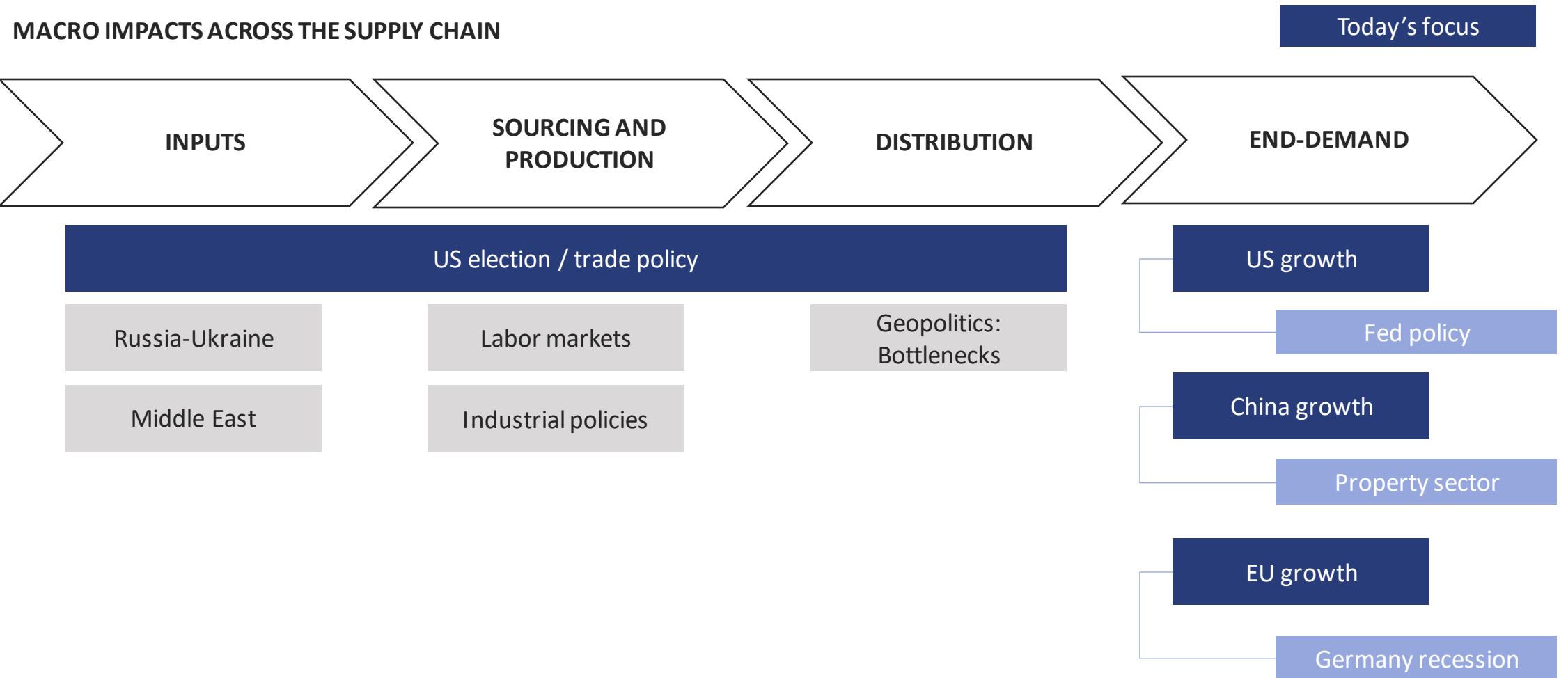


KEY POINTS

- Global economic growth will be below average for several years
- Key markets will feel weaker domestic demand stemming from high inflation and interest rates, and the recent savings drawdown
 - US: Odds of a soft-landing improving, but uncertainty remains
 - China: Growth is bridled by cyclical headwinds and structural risks; 5% target requires more stimulus
 - EU: Fighting off recession, lack of long-term dynamism

The Macro Outlook has implications across supply chains

US election outcomes can touch the entire spectrum



China Outlook Summary

Down but not out

SHORT-TERM

- Short-term growth bump will be short-lived
 - Industrial production, fixed investment and retail sales trending positively
- Fiscal stimulus will boost growth without exacerbating local government debt problems
- Rate cuts support larger fiscal deficit
- But more fiscal stimulus is needed to hit the 5% growth target

MEDIUM- TO LONG-TERM

- Property sector deleveraging will be a drag on growth for the next 3 to 5 years
- Structural headwinds to growth potential
 - Slower urbanization
 - Aging population and shrinking workforce
 - Distortive policies with low RoC

KEY UNCERTAINTIES

- Property sector contagion: full value chain is 25-30% of GDP
- Deflationary risks rising from supply-side policies and soft demand
- Geopolitical tensions: US-China trade war in 2025
- Transition to consumer-led growth without clear policy support
- Search for productivity growth amid technology decoupling

China's growth trajectory appears to be stabilizing

Early data is opaque, but overall points to slower but steadying growth

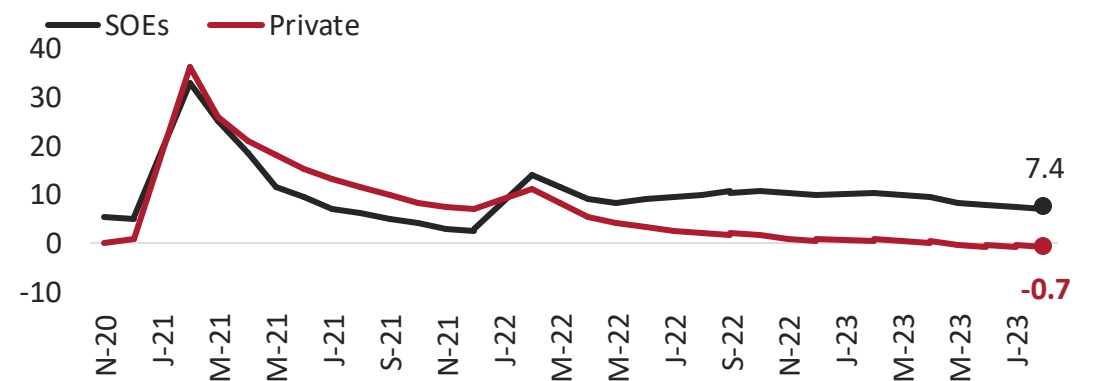
MANUFACTURING TREADING WATER

PMI Manufacturing (<50 = contraction, >50 = expansion)



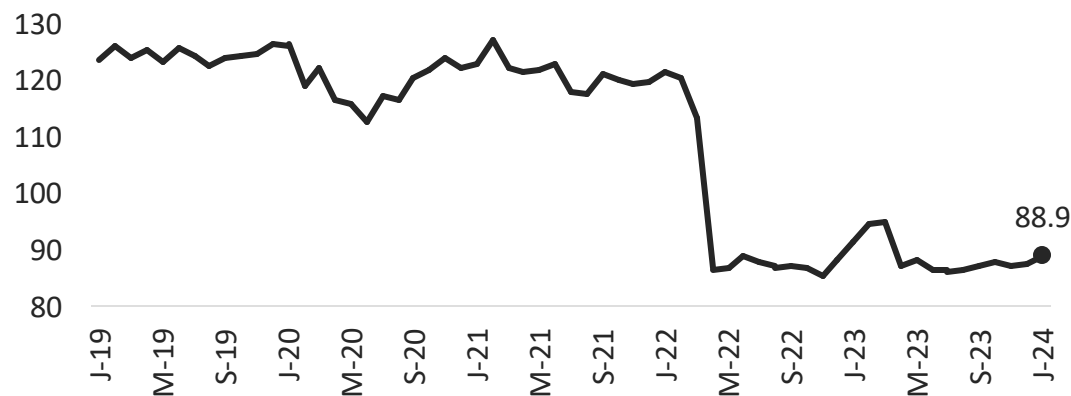
SOEs PROPPING UP CAPEX GROWTH

YTD YoY % Change



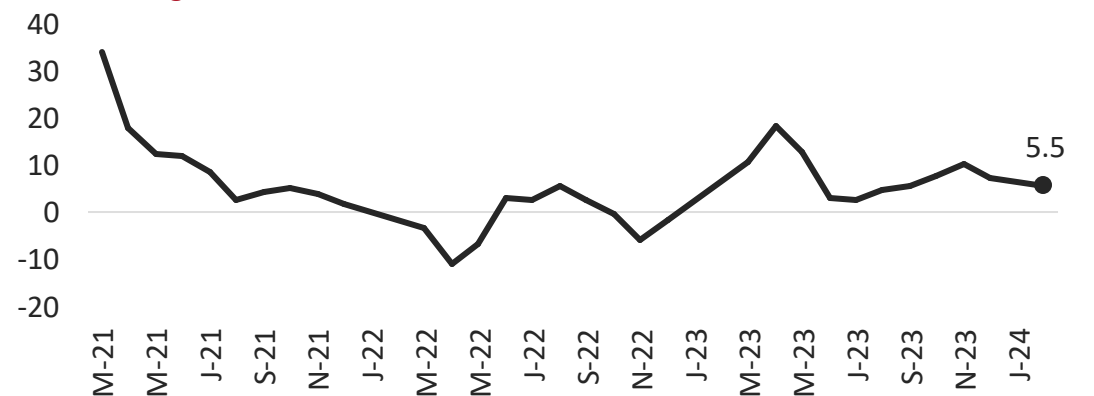
CONFIDENCE LEAVES BY CAVALRY AND COMES BY FOOT

Consumer Confidence Index



RETAIL SALES DECELERATING TO A SUSTAINABLE PATH

YoY % Change



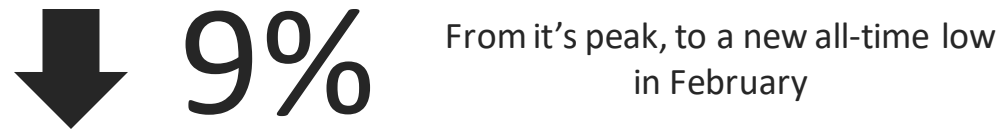
Source: Bloomberg, Onyx

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But heightened property sector risks remain

By most metrics, the property crisis is deepening

NATIONAL REAL ESTATE CLIMATE INDEX HITTING NEW ALL-TIME LOWS



CONTRACTED SALES PLUMMETED TO AN 8-YEAR LOW

Jan-Feb sales for top 100 developers



RESIDENTIAL FLOOR SPACE UNDER CONSTRUCTION DECLINING SHARPLY



HOUSING PRICES ARE IN DECLINE ACROSS THE COUNTRY



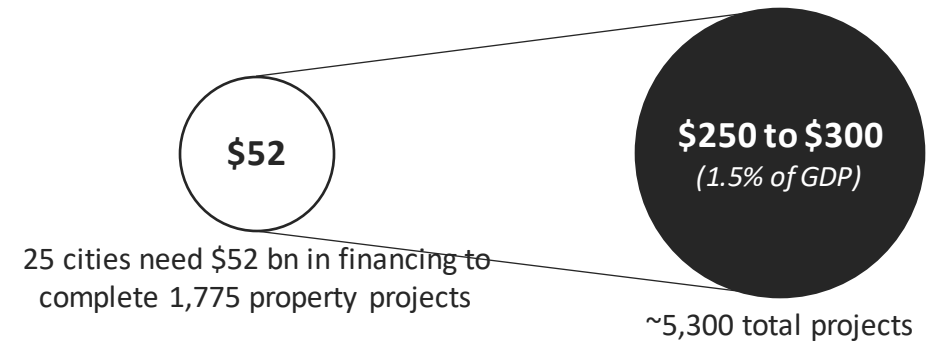
What's the solution?

Large capital injections can buy time for a managed deleveraging cycle

PRICING POLICIES: PUSHING AGAINST A STRING

- Property sector is in a downward spiral of weak sales, falling prices, and developer illiquidity
- Cheaper financing will have only a marginal impact
- Immediate remedy is to backstop developers and restore confidence
- Longer-term: less building and drive urbanization rate higher

WHITE-LISTED PROJECTS REQUIRE CAPITAL JUST TO BE COMPLETED



EXCESS HOUSING WILL TAKE YEARS TO ABSORB

| City Level | Number of Months of New-Home Inventory |
|------------|--|
| Tier 1 | 19 |
| Tier 2 | 23 |
| Low-tier | 34 |

EU Outlook Summary

Struggling to gain a footing

SHORT-TERM

- The effects of the pandemic and war in Ukraine hit Europe harder, longer than the US
- But the cycle looks to be bottoming-out
- Disinflation and rate cuts will help spur a gradual recovery in the second half
- Real wage growth will kick-in, providing a jolt to consumer spending

MEDIUM- TO LONG-TERM

- Structural problems remain, especially in Germany
- High energy costs have eroded competitiveness
- Pro-growth policies lag the US and China
- Climate policies taking a backseat due to funding shortfalls

KEY UNCERTAINTIES

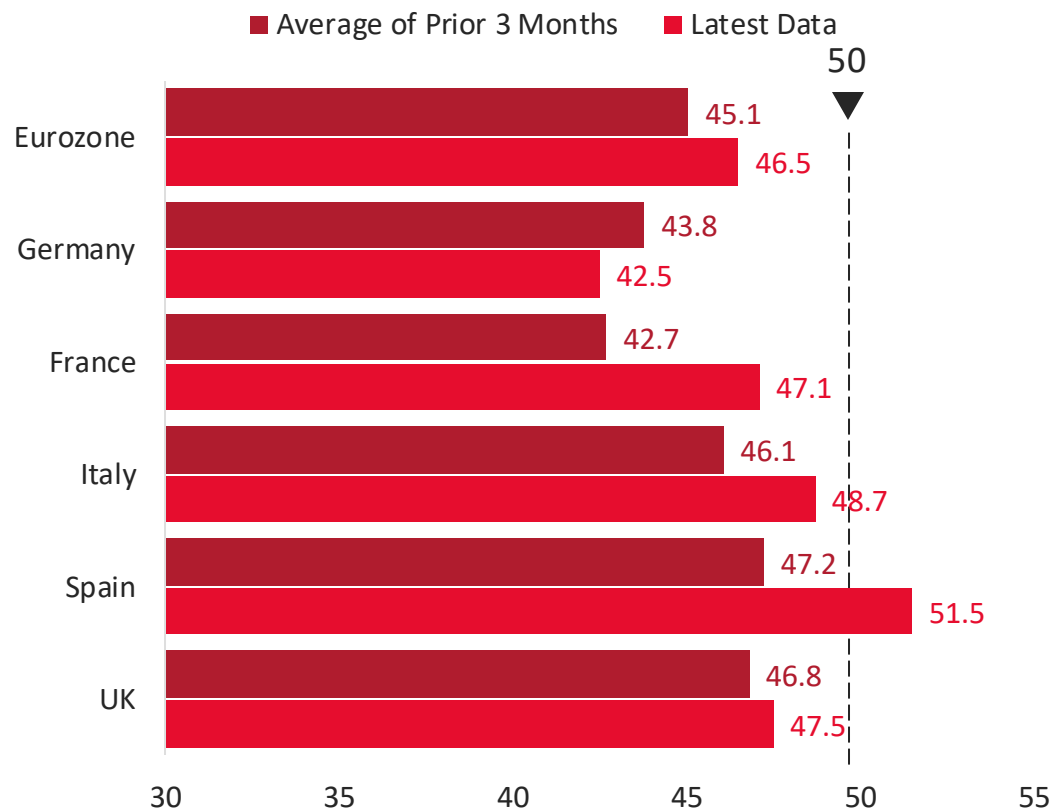
- European elections pose a threat of rising populism
- Geopolitical tensions: US-driven trade war
- “Deindustrialization” amid higher structural cost and shrinking workforce
- Secular stagnation

Europe's economy is weak but will avoid a broad recession

Looking for growth to improve in the second half of the year

MANUFACTURING PMI

>50 EXPANSION, <50 CONTRACTION



WEAK END TO 2023

- GDP growth was flat in Q4
- Industrial production, ex-construction was also flat
- Construction and retail sales contracted
- Services sector output also turned negative

AND A SLOW START TO 2024

- Forward-looking surveys, including PMIs are largely in contractionary territory

REBOUND IN H2 2024

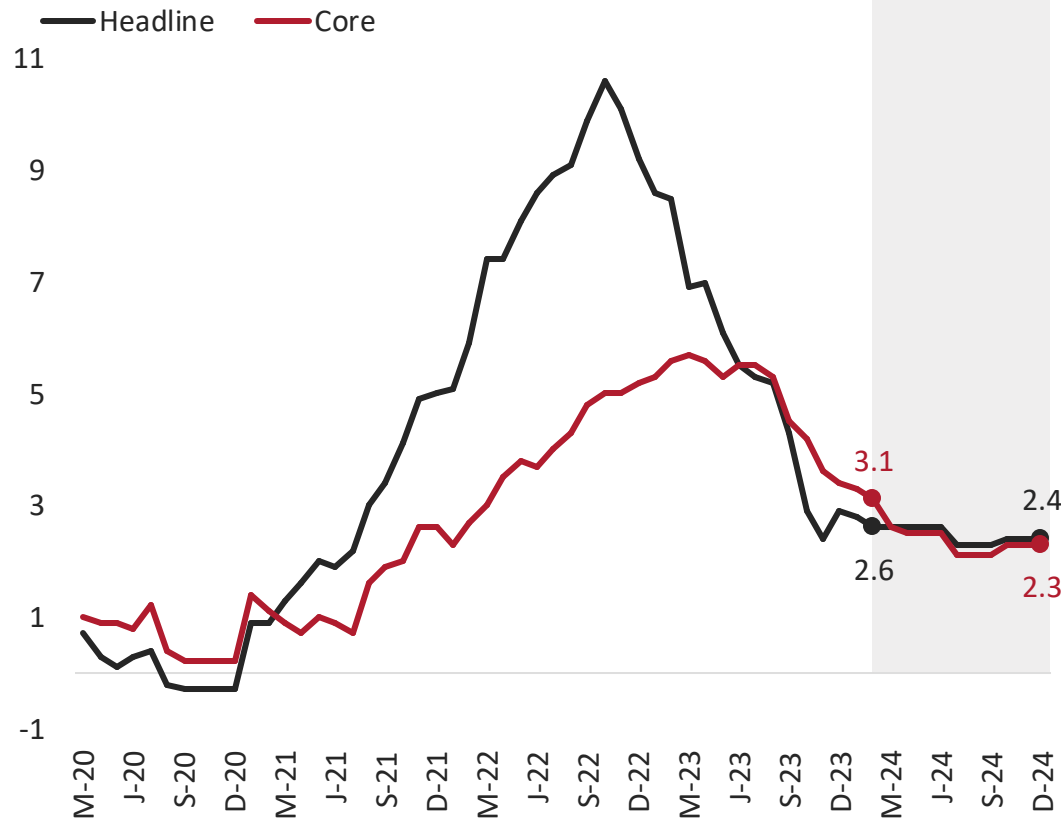
- Tight financial conditions to remain in H1
- But moderating inflation supports real wage growth
- Modest pick-up in consumption as interest rates decline and real disposable income and confidence improve
- Fiscal support will improve incrementally

ECB to cut rates by mid-year, -100bps by end of 2024

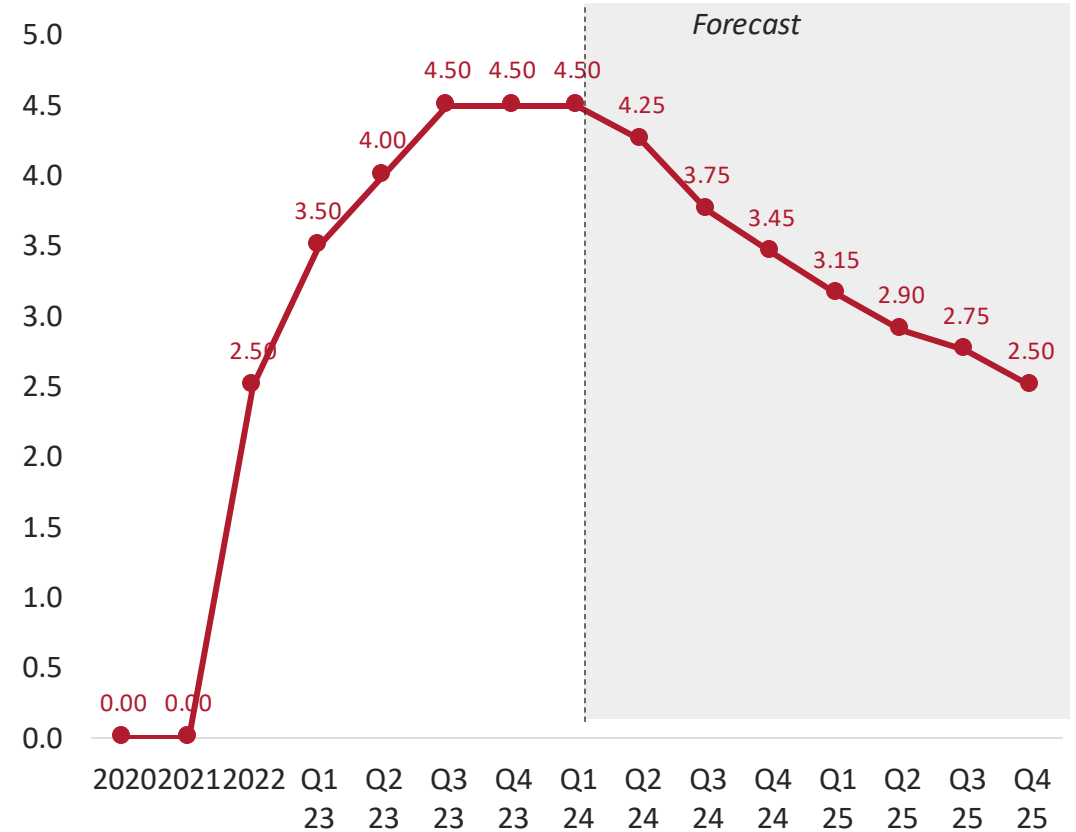
Disinflationary trends to continue

DISINFLATION IS ONGOING

% CPI INFLATION



THE ECB WILL EMBARK ON AN EASING CYCLE SOON



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