



## RLA Weekly Report – Friday, 13 September 2024

No. 106

### “China's Economic Struggles: Weak Demand, Faltering Property Market, and Slowing Growth Projections Through 2028”

#### Chinese Economic Outlook

China's economy has suffered from weak domestic demand in the wake of the pandemic, with a collapse in the property market undermining household confidence. The low demand and excess production in some sectors have spurred fierce competition that has in turn hit prices, undercutting corporate profits. Government crackdowns on various sectors have further damaged investor sentiment.

The deflationary pressure is reflected in the economy's nominal GDP, which grew 4.0% Y-o-Y in the second quarter of 2024, compared with 4.7% for real GDP growth.

If deflation takes hold, businesses may scale back investments, reduce costs, wages, and hiring as declining prices eat into their profits. This, in turn, would affect salaried workers, leading to decreased overall consumption.

Investment banks have lowered their growth projections for China, citing concerns that Beijing may fall short of its official target of around 5% as confidence in the world's second-largest economy diminishes.

China's growth targets under the 14th Five-Year Plan are more moderate compared to previous plans. This signals a shift from high-speed growth to more sustainable, quality-driven development. The government has refrained from setting an explicit GDP growth target for the entire period, focusing instead on qualitative goals like innovation and green development. The emphasis on high-quality growth suggests China will prioritize long-term sustainability over short-term growth spikes, with GDP growth likely to moderate to around 3.5-4.5% annually, compared to higher rates estimated in the past.

We project the Chinese GDP at 4.9% in 2024, and then fall to 4.4% and 3.9% by 2025 and 2026 respectively. By 2028, the GDP is expected to fall further to 3.4%, driven by a bleak overall economic outlook.

In August, China's producer prices declined as fears rise that deflationary pressures are becoming entrenched in the world's second-largest economy.

Industrial producer prices dropped by 1.8% YoY, the sharpest fall in four months, driven by sectors such as steel and agriculture. This contrasts with a 0.8% drop in July and surpasses expectations of 1.4%. Meanwhile, China's consumer price index increased by 0.6%.

During August, the fall in producer prices was the biggest since April 2024, when they dropped 2.5% YoY. Producer prices in China fell to 106.30 points in August, down from 107.10 points in July 2024. Between 2016 and 2024, producer prices in China averaged 107.04 points, with a peak of 114.30 points in May 2022 and a low of 96.60 points in February 2016.

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The August rise in CPI was the biggest since February 2024, when prices jumped 0.7%. China's CPI rose to 103.60 points in August, up from 103.20 points in July 2024. From 2021 to 2024, the CPI in China averaged 102.49 points, with a peak of 104.20 points in February 2024 and a low of 100.20 points in June 2021.

According to our forecasts, China's CPI is expected to reach 103.81 points by the end of this quarter. In the longer term, the CPI is projected to trend around 104.35 points in 2025 and 105.91 points in 2026.

Urbanization remains a key driver of China's economic transformation, boosting growth by expanding industries, increasing productivity, and developing infrastructure. In 2023, China's urbanization rate reached 66.2%, exceeding the target set in the 14th Five-Year Plan (2021-2025). However, the pace of urbanization has slowed compared to earlier decades, with an average annual growth of 0.76% between 2021 and 2023.

Real estate in China accounts for 25% share of GDP. China has around 15-18% of spare capacity in real estate which needs to be sold before any new massive construction activity commences. The extent of China's urbanization will also affect the construction activity. As stated above, China has already urbanized 66% of its landmass and it is projected to reach 70-75% by 2030. It looks that by this time a saturation point for the construction sector will have been reached.

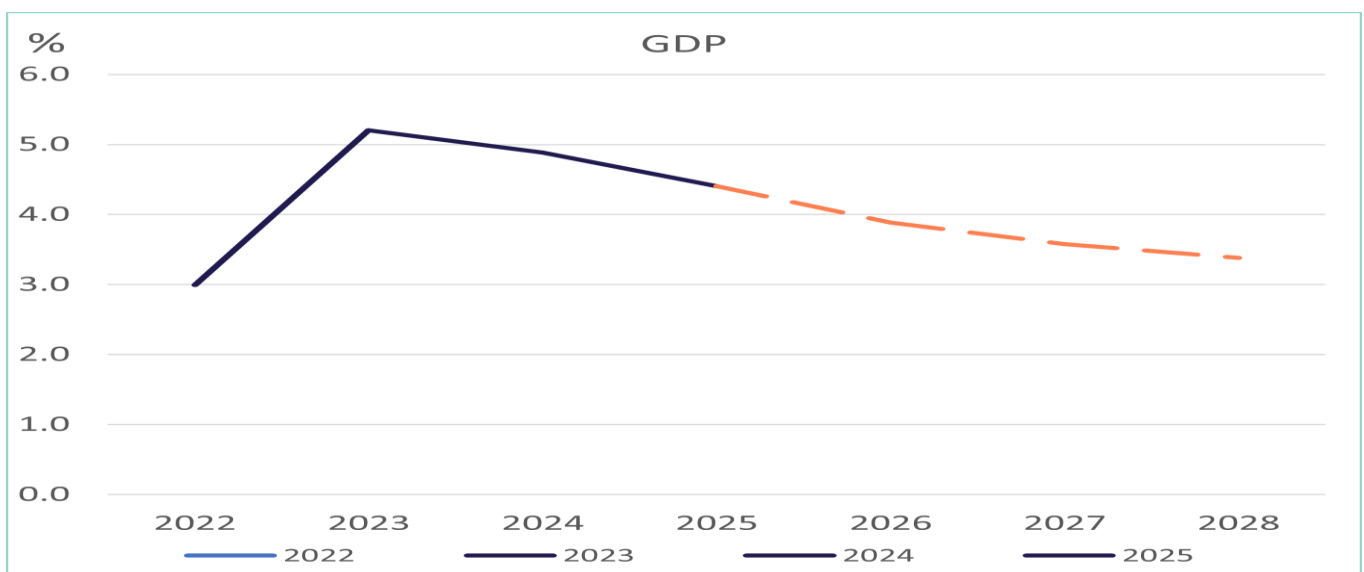
China's pursuit of self-sufficiency has become a key component of its economic strategy, focusing on reducing reliance on imports, particularly in critical sectors like technology, energy, and food production.

The country is heavily investing in domestic industries to bolster its capabilities in semiconductors, renewable energy, and advanced manufacturing, aiming to create a more resilient economy.

However, China's economic outlook is facing several challenges. Sluggish growth in the real estate sector, which historically contributed significantly to GDP, along with subdued domestic demand, has raised concerns about the sustainability of future growth. The government's measures to stimulate consumption and encourage investment, particularly in high-tech industries and green energy, are expected to play a pivotal role in maintaining economic momentum.

We believe with a subdued economic forecast for the coming couple of years, the locally produced goods will increasingly be exported worldwide. After 2028, as the economic conditions improve, more of the produce could be seen being domestically consumed.

## GDP Outlook to 2028





### SHORT TERM OUTLOOK – OIL TANKER MARKET

A monthly report covering the next four months and including trends in oil supply, demand and trade, tanker demand and supply, spot, and time charter rates for MRs up to VLCCs, comparisons with FFAs plus the latest news on developments impacting the oil and tanker sectors.

### MEDIUM TERM OUTLOOK – OIL TANKER MARKET

Concise analyses of topical issues, consistent market data series and views on future trends in tanker charter rates. The report covers Oil Prices; Economic Developments; Oil Demand and Supply; Trade; Tanker Demand, Supply and Rates. Sent to clients around January, April, July and October each year

### SHORT TERM OUTLOOK – VLGC MARKET

A monthly report looking four months ahead at likely trends in the VLGC Spot Market with the latest on key LPG carrier trades, benchmark LPG prices, arbitrage developments, a comparison with FFAs and recent news

### MEDIUM TERM OUTLOOK – LPG CARRIER MARKET

A quarterly series of regular reviews, analyses and forecasts of the LPG Carrier Market. The report covers Economic Developments; LPG production, consumption and pricing; LPG, chemical gases and ammonia trade, LPG Carrier Demand, Supply and Rates for Fully Ref, Semi-Ref and Pressurised Ships. Reports sent to clients around January, April, July and October each year.

### CHEMICAL CARRIER WORLD SERVICE

An annual consultancy service currently providing Clients with an Annual Fundamentals Report, a Forecast Update, two quarterly Market Monitors, Monthly Commodity Trade Bulletins for key countries, an annual presentation on the market outlook and access to RLA's consultant's and analysts to discuss issues arising from these reports.



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