Is property still the foundation of the Chinese economy?

Despite efforts to ‘rebalance’ the Chinese economy, property remains central to its economic momentum.

CHINA NEWLY BUILT HOUSE PRICES
YEAR-ON-YEAR CHANGE

CHINESE DEVELOPERS’ CONTRACTED SALES
(JANUARY 2018–MARCH 2019)

Source: Bloomberg April 4, 2019.
Source: Company filings, Bloomberg calculations March 31, 2019.
Note: Data from nine of China’s largest developers including Evergrande, Vanke, Sunac, COLi, Shimao, Cifi, Gemdale, Greentown, R&F.
Following the global financial crisis it was widely recognized by China’s policymakers that the national economy must be ‘rebalanced’, with domestic consumption needing to account for a larger share of output and overall investment needing to decline. This has been commonly depicted as a rebalancing away from the ‘old economy’ (secondary industries dominated by state-owned enterprises and property) to the ‘new economy’ (service industries and specialist manufacturing).

What has not been discussed quite so frequently is the fact that, whenever policymakers have needed to stimulate the economy, it has tended to be the constituents of the ‘old economy’ which have been ‘juiced up’. Indeed, the acceleration of the Chinese economy between 2009-11 and 2016-17 was almost entirely driven by the ‘old economy’.

More than anything, within that, it is the property sector that drives the big swings in China’s economic growth. Property accounts for some 86% of household wealth, while about 87% of urban households own their own property and 27% own at least one empty investment property. Around 65% of loans are backed by property collateral, and the government funds a majority of its spending through land sales.¹

Combined, the statistics point to the property market as the lynchpin of the Chinese economy. For all the talk of a consumer-led rebalancing, if Chinese monetary stimulus is going to help drive a reacceleration of global growth this year it won’t be via the Chinese consumer, but instead it will be through China’s property market. And we all know what happened the last time a superpower’s property market was allowed to dominate to such an extent...

_Brendan Mulhern, Global Strategist at Newton, a BNY Mellon company_
All investments involve risk, including the possible loss of principal.

Charts are provided for illustrative purposes and are not indicative of the past or future performance of any Dreyfus product.

Definitions:

Gross Domestic Product (GDP) is a broad measurement of a nation’s overall economic activity. Primary Industry – extraction of raw materials – mining, fishing and agriculture. Secondary Industry – production of finished goods, e.g., factories making toys, cars, food, and clothes. Tertiary Industry – provision of intangible goods and services to consumers, e.g., retail, tourism, banking, entertainment and I.T. services. Financial Services Industry – providers of financial services, e.g., banks, investment banks, insurance companies, credit card companies and stock brokerages.

BNY Mellon Investment Management is one of the world’s leading investment management organizations and one of the top U.S. wealth managers, encompassing BNY Mellon’s affiliated investment management firms, wealth management organization and global distribution companies. BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation and may also be used as a generic term to reference the Corporation as a whole or its various subsidiaries generally.

“Newton” and/or the “Newton Investment Management” brand refers to the following group of affiliated companies: Newton Investment Management Limited, Newton Investment Management (North America) Limited (NIMNA Ltd) and Newton Investment Management (North America) LLC (NIMNA LLC). NIMNA LLC personnel are supervised persons of NIMNA Ltd and NIMNA LLC does not provide investment advice, all of which is conducted by NIMNA Ltd. NIMNA LLC and NIMNA Ltd are the only Newton companies to offer services in the U.S.

Views expressed are those of the advisor stated and do not reflect views of other managers or the firm overall. Views are current as of the date of this publication and subject to change. This information contains projections or other forward-looking statements regarding future events, targets or expectations, and is only current as of the date indicated. There is no assurance that such events or expectations will be achieved, and actual results may be significantly different from that shown here. The information is based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons. Forecasts, estimates and certain information contained herein are based upon proprietary research and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. Please consult a legal, tax or investment advisor in order to determine whether an investment product or service is appropriate for a particular situation. No part of this material may be reproduced in any form,