

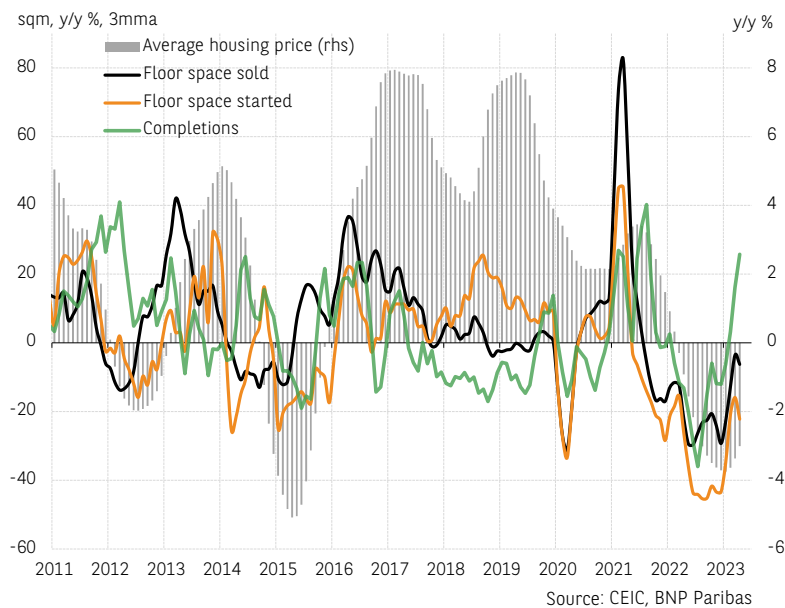
CHART OF THE WEEK

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31 May 2023

CHINA: REAL ESTATE CRISIS CONTINUES

Christine Peltier



There were slight signs of recovery in real estate and construction activity following the lifting of health restrictions in December 2022 and thanks to support measures taken by the authorities. However, hopes for sustainable improvement in the property sector soon fell.

Over the first four months of 2023, home completions (measured by area) increased year-on-year after more than a year of decline. Moreover, the average price of housing in the country's 70 main cities has begun to stabilise (at a level 4% below its level of S1 2021). In fact, the authorities' support measures have focused on property developers in a position to finalise their ongoing projects, in order to deliver pre-paid housing in an attempt to restore household confidence in the residential housing market. Bank loans to property developers have recovered slightly in recent months (growing by +5.9% year-on-year in Q1 2023, compared to +1.1% in Q1 2022).

The authorities' support plan has also aimed to boost housing mortgage lending, in particular through cuts in mortgage rates and down-payment requirements. However, Chinese households, which have remained very cautious, have preferred to deleverage. In Q1 2023, total housing mortgage loans outstanding contracted slightly year-on-year (for the first time after more than a decade of growth). Property sales and housing starts fell slightly less sharply (year-on-year) than in the previous six months, but the trend reversed again in April 2023. Moreover, real estate investment continued to contract (by more than 5% in g.a.) in the first four months of 2023.

In the short term, the continued low confidence of potential home buyers, the ongoing financial difficulties of many property developers and the slow pace of their debt restructuring should continue to constrain activity in the real estate and construction sectors.

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