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China Economy Update

China Economics Network

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SUMMARY

- **The latest official data shows China's economy further softened in July with indicators weakening across the board;**
- **Investment, industrial production, and retail sales all weakened, despite easing measures;**
- **China-US trade tensions continued to escalate.**

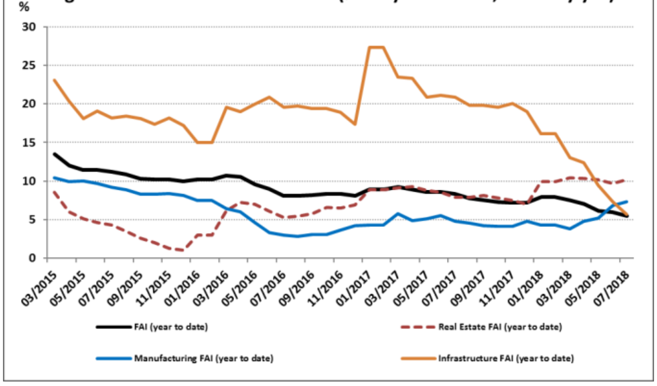
Industrial production remained weak

1. Official data shows China's value-added industrial output rose 6.0 per cent in July from a year earlier, unchanged June, but 0.4 percentage points slower than the same period last year.
2. Among all industrial production, manufacturing production grew 6.2 per cent year on year in July, 0.6 percentage points slower than the previous month. Growth of auto and transportation equipment production fell significantly, reflecting a decrease in demand.

Investment growth continued to slow

3. Growth of fixed asset investment further slowed to 5.5 per cent year on year in Jan-Jul period, the slowest for over two decades. (figure 1)
4. Government driven infrastructure investment growth slowed to 5.7 per cent in the first seven months, compared to 20.9 per cent in the same period last year and down from 7.3 per cent in the first half of 2018, implying a monthly contraction in July. Investment in electricity, gas and water production facilities fell significantly.

Figure 1: Fixed Asset Investment (% on year before, monthly ytd)



5. Investment in real estate and manufacturing recovered slightly, expanding by 10.2 per cent and 7.3 per cent, respectively.
6. Public sector investment continued to decelerate as 'structural deleveraging' continued, growing 5.5 per cent year on year in Jan-Jul period. Growth of private investment (62.6 per cent of total FAI), however, accelerated in the same period, growing 8.8 per cent, compared to 6.9 per cent in Jan-Jul last year.

Retail sales growth slows

7. Official data shows growth of retail sales of consumer goods slowed to 8.8 per cent in July from 9.0 per cent in June.

8. Auto sales (11 per cent of total retail sales) continued to fall, but the rate moderated to 2.0 per cent in July from 7.0 per cent drop in June.

Trade held up

9. Official data shows China's exports grew by 12.2 per cent (in USD terms) in July, up from 11.2 per cent in June. A weaker yuan, falling from April to July, and front-loaded shipments ahead of tariffs hike by the US starting in August may have driven this.

10. Imports rose 27.3 per cent in July (in US dollar terms), compared with 14.1 per cent in June, partly due to rising commodity prices.

Credit growth flat

11. Official data suggested China's total credit growth picked up slightly, up 10.3 per cent in July from 9.8 per cent in June, after the central bank introduced two new items (asset backed securities and loan write offs) to the Total Social Financing indicator. (Figure 2)

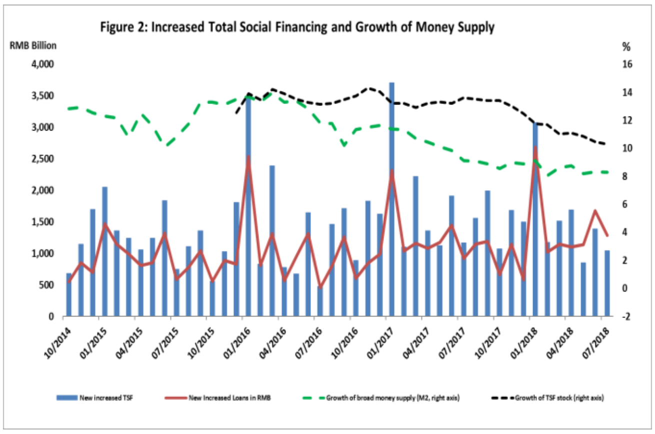


Figure 2: Increased Total Social Financing and Growth of Money Supply

12. Removing these new components shows a slight slowing to 9.7 per cent in July, down from 9.8 per cent in June, the weakest growth for two decades.

13. RMB bank loans, supported by government policies, rose 12.9 per cent in July, up from 12.7 per cent in June. Other forms of credit (mostly shadow banking) grew just 2.8 per cent, 0.9 percentage points lower than in June, as the deleveraging campaign bit.

More efforts needed to stabilize growth

14. On 2 July, Vice Premier Liu He chaired three meetings of the Financial Stability and Development Committee – the most senior economic and financial policy making body in China, consistently arguing that "deleveraging and risk prevention are the top financial development priorities for this year". He also called for more coordinated policies and improved forecasting to prevent risks and mitigate impact of deleveraging on the real economy to keep economic growth on track.

15. Chairman He Lifeng of National Development and Reform Commission (NDRC) was reported saying on 28 August that meeting the headline growth targets is 'relatively' easier than achieving rebalancing goals (increasing household income, boosting consumption, securing financing to the real economy), pointing to long term structural problems and rising external risks.

16. Responding to calls for more fiscal stimulus to boost consumption, China's legislature approved a tax cut on 31 August to increase individual taxable income threshold from RMB3,000 to RMB5,000 per month from this October. Some public commentary has been less enthusiastic about the change.