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Foreign & Commonwealth Office

China Economy Update

China Economics Network

For comments, suggestions, questions, please contact us:

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SUMMARY

- **The latest official data shows China's economy remained weak in August;**
- **Industrial production and retail sales growth rebounded slightly from July level, but investment was still sluggish and consumer inflation accelerated;**
- **China-US trade tensions continued to escalate and is unlikely to be settled soon.**

Industrial production rebounded slightly from July level

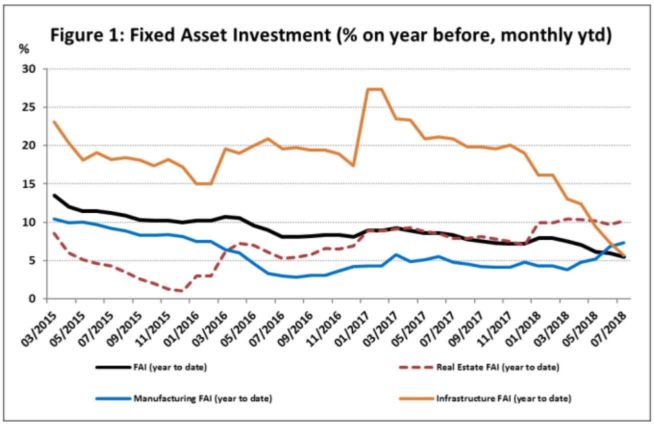
1. Official data shows growth of the total value-added of large industrial enterprises was 6.1 per cent year on year, 0.1 per cent higher than that in July.
2. Manufacturing production grew 6.1 per cent year on year in August, 0.1 percentage points slower than the previous month, and 0.8 points lower than the same period last year.
3. Growth of auto production fell 4.4 per cent year on year, the lowest since March.

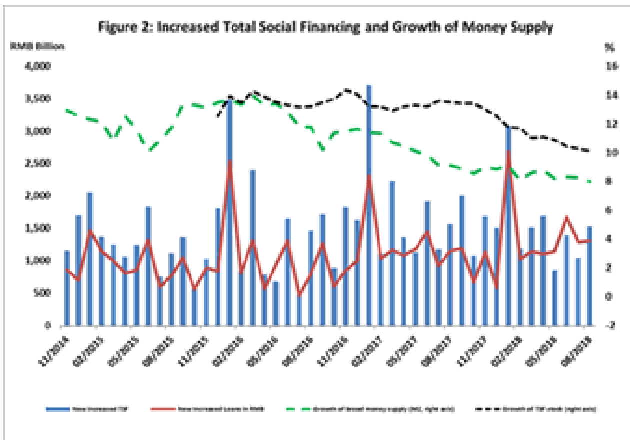
Retail sales growth recovered slightly; CPI was the second highest in 2018

4. Official data showed the growth of retail sales of consumer goods increased to 9.0 per cent in August from 8.8 per cent in July.
5. Auto sales continued to fall. Growth of passenger vehicles dropped by 7.4 per cent, decreasing continuously for 3 months.
6. The Consumer Price Index has increased for 4 consecutive months, and rose to 2.3 per cent in August, the second highest monthly rate this year. Poor weather may be the driver for increased vegetable and fruit prices.

Investment growth remained sluggish

7. Growth of fixed asset investment slowed to another low record of 5.3 per cent year on year in Jan-Aug period, 0.2 points lower than the previous month. (Figure 1)
8. Government driven infrastructure investment growth slowed to a new low of 4.2 per cent in the first eight months, down from 5.7 per cent of the Jan-Jul period, reflecting difficulties in local government financing conditions.





9. Investment in real estate dropped to 10.1 per cent year on year in Jan-Aug period, 0.1 percentage lower than the Jan-July period. Investment in manufacturing expanded to 7.5 per cent from 7.3 per cent in July.

10. Growth of private sector (62.6 per cent of total FAI) investment fell back to 8.7 per cent, 0.1 percentage points lower than Jan-Jul period.

Trade weakened slightly

11. Official data shows China's exports grew by 9.8 per cent (in USD terms) in August, down from 12.2 per cent in July. Exports to the US were up 2 percentage points compared with July, likely due to front-loading of exports.

12. Imports grew 20 per cent in August (in US dollar terms), compared with 27.3 per cent in July.

Credit growth slowed further

13. In August, official data suggested China's total social financing, a broad measure of bank lending and credit by non-bank financial institutions, grew 10.1 per cent,and money supply (M2) grew 8.2 per cent year on year, down 0.3 points compared to last month and 0.4 points lower than the same period in 2017.

Double whammy of downward domestic conditions and trade disputes with the US

14. On 19th September, Premier Li Keqiang addressed at the World Economic Forum in Tianjin. He noted that China's GDP grew by 6.8 per cent in H1, which has been stable between 6.7 per cent to 6.9 per cent for 12 quarters. He also mentioned China will cultivate new growth drivers to become an innovation–driven country. He said Beijing would continue to work on structural reforms, including streamlining SoEs, tackling overcapacity, and allowing greater market access to the private sector and foreign companies.

15. On 13th September, China set out a deadline for state owned enterprise (SoE) deleveraging: the average debt of SoEs should be reduced by 2 percentage points by the end of 2020, in order to rein in debt level "to a reasonable level as soon as possible."

16. Trump administration announced on 18th September that it would impose a 10 per cent tariff on $200 billion of Chinese goods, adding that it could soon move up to 25 per cent if progress was not made over the two countries' disagreements. China hit back the following day by announcing new trade tariffs on $60 billion of US goods.