



China Economy Update

China Economics Network

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SUMMARY

- Official data shows China’s economy continues to slow;
- Investment picked up slightly as infrastructure spending and lending rebounded, but growth of retail sales and industrial production fell sharply, suggesting impact of recent stimulus measures is limited;
- On the back of the weak data, the government promised to focus on growth, de-emphasizing structural reforms and deleveraging – as the impact of US-China trade war intensifies. Further policy announcements should follow the ongoing Central Economic Work Conference.

Industrial output weakened

1. Official data showed industrial value-added growth slowed from 5.9 per cent year on year in October to 5.4 per cent in November, the weakest monthly expansion since the output fell steeply in November 2008. The fall in November was mostly due to a contraction in car manufacturing. (Figure 1)



2. The production of vehicles continued to fall, down 16.7 per cent year on year in November,

due to weaker demand since temporary tax incentives for new car purchase expired at the beginning of 2018. Growth of production in manufacturing and mining also slowed to 5.6 per cent and 2.3 per cent in November from 6.1 per cent and 3.8 per cent in October, respectively.

Retail sales slowed further

3. Growth of consumption, a key contributor to China’s GDP growth, is slowing. Official data shows growth of retail sales slowed from 8.5 per cent in October to 8.1 per cent in November, the slowest pace since 2003.
4. The slowdown was mainly driven by sluggish auto sales, which contracted 10 per cent in November from a year earlier (passenger vehicles sales dropped 18 per cent). 2018 could see the first annual contraction of China’s car industry since 1990.
5. The record sales (over 200bn yuan in a day at one of China’s leading online platforms - Tmall) from the Singles’ Day shopping festival on 11th

November, the Chinese equivalent of Black Friday in the US, failed to offset the decline in car sales.

Export and import growth fell sharply

6. China's import and export growth slowed significantly in November, growing 3.0 per cent and 5.4 per cent in US dollar terms, compared to 20.8 per cent and 15.5 per cent in October, respectively.
7. Official data showed China's trade with major trading partners, including the US, EU, Japan and South Korea slowed considerably in November as domestic and external demand weakened and front-loading shipments to the US declined.

Investment growth remained resilient

8. Growth of fixed asset investment continued to edge up in November, rising 5.9 per cent year on year in the first 11 months this year, compared to 5.7 per cent in Jan-Oct.
9. The mild pickup was mostly driven by manufacturing investment, which grew 9.5 per cent in Jan-Nov period. Government-led infrastructure investment grew 3.7 per cent, unchanged from the last period. Investment in real estate grew 9.7 per cent in the first 11 months, in line with the Jan-Oct period.

Credit growth continued to slow

10. Official data shows growth in the outstanding stock of Total Social Financing moderated to a new record low of 9.9 per cent year on year in November from 10.2 per cent in October as off-balance sheet financing continued to shrink. Growth of money supply (M2) remained at 8 per cent, the record low registered in October.
11. Bank lending rose 10 per cent in October from a year ago, largely driven by household credit card loans and consumer loans during the Singles' Day shopping festival on 11th Nov, which might be unsustainable.

Targeted stimulus - the new buzz word

12. On 13 Dec, one day before the announcement of the weaker November stats, a Politburo meeting on the economy stressed the importance of stabilizing growth and was muted on housing market tightening. Policymakers also pledged to continue to fight the 'three battles' (against financial risk, poverty, and pollution) and work towards 'optimal policy combinations for maximum overall effects'.
13. Days later, PBoC introduced a new tool (*Targeted* Medium-term Lending Facility) to cut one year lending rate for small private companies by 0.15 percentage points in advance of the US Fed's announcement of the fourth interest hike this year. Meanwhile, the central bank again increased the relending quota to encourage bank lending to small businesses - RMB 300 billion in total since June.
14. On 19 Dec, NDRC approved urban rail transit construction plans for Shanghai and Hangzhou, the fourth approval to *targeted* local infrastructure projects in certain sectors (transport, oil & gas, telecommunication) the ministry issued in a month.
15. Heze, a fourth-tier city in Shandong province, became the first to loosen housing sales restrictions in a bid to boost growth in its property market. Guangzhou, a first tier city in Guangdong province, announced the following day it would loosen controls on housing sales. Major state-owned commercial banks in Shenzhen, another first-tier city in Guangdong province, lowered mortgage interest rates. These moves have been interpreted by some analysts as implementation of a *targeted* (varied by city) housing market policy.
16. The Central Economic Work Conference, an annual top level government meeting on economic policies for the following year, is happening this week. The government is expected to roll out detailed near-term policy decisions.