China Economy Update

SUMMARY

- Latest official data on China's economy is mixed, showing signs of moderation;
- Industrial production remained strong and growth of trade rebounded; but investment growth continued to soften and retail sales weakened;
- The government emphasises that the China-US trade dispute hasn't harmed growth. But uncertainties to China's trade prospect and continued domestic deleveraging, which has spread from financial sector to the real economy, both put downward pressure on growth.

Industrial output continued to strengthen

1. Official data shows growth of factory output accelerated from 6 per cent (year on year) in March to 7 per cent in April, the fastest since July 2017.
2. Utilities (electricity, heat, gas, water) continued to support growth of industrial output, up by 8.8 per cent year on year in April. Manufacturing output also rose 7.4 per cent in April, while mining contracted 0.2 per cent in the same period.
3. April data remains subject to some impacts of the Chinese New Year holiday: a late February holiday this year could mean ramped up production in March continued into April which pushed up year-on-year monthly growth.

Exports recovered, imports still robust

4. China’s exports rebounded in April, growing 12.9 per cent in US dollar terms, after a 2.7 per cent contraction in March.
5. Imports remained strong, up by 21.5 per cent in April over the same period last year. Monthly trade balance returned to a surplus of USD28.8 billion in April after a USD5 billion deficit in March.

Investment growth moderated, with cooling infrastructure investment

6. Official data shows China’s fixed asset investment grew 7.0 per cent in the first four months of 2018, 0.2 percentage points slower than last year as a whole and the slowest since 2000.
7. Growth of infrastructure investment decelerated to 12.4 per cent in January to April from 19 per cent in 2017, a significant drag to overall investment growth. (Figure 1)
8. Infrastructure investment cooled as tightening on local government spending in infrastructure and PPP projects continued. This was reflected in a slump in non-private investment, which
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grew 6.5 per cent in the first four months, while private investment rose 8.4 per cent.

9. Manufacturing investment rebounded slightly to 4.8 per cent in January to April from 3.8 per cent in the first quarter of 2018, reflected in strong industrial production figures.

Real estate investment held up, but housing sales dipped

10. Real estate investment grew 10.3 per cent in January to April, only a touch down from 10.4 per cent in the first quarter. Considering growth of both new housing starts and land sales have been decelerating, it’s likely the strong real estate investment growth was supported by lagged land sales in previous months.

11. Growth of housing sales contracted 4.1 per cent year-on-year in April after growth slowed to 3.1 per cent in March from 4.1 per cent in January and February this year.

12. Prospects for China’s property market, a key engine of the economy, are likely to be damped by efforts to curb bubbles with tightening measures, including house purchase and sales restrictions and tighter mortgage polices.

Retail sales continued to soften

13. Growth of retail sales decelerated to 9.4 per cent in April over last year from 10.1 per cent in March, back to the record low in February this year. The slowdown was partly due to a drop in sales of housing related products, such as furniture and home appliances.

Credit growth and money supply stable

14. In April, Total Social Financing (TSF), a gauge for bank lending and credit by non-bank financial institutions, and money supply (M2) grew at the same speed as in March, expanding 10.5 per cent and 8.2 per cent, respectively. (Figure 2)

Bond defaults spiked, suggesting deleveraging progress

15. According to China Central Depository and Clearing Company, in the first four months of 2018, more than 10 Chinese companies, some listed, have defaulted on 15 bonds worth more than 12.8 billion yuan (US$2 billion), up by more than a third over the same period last year, a sign of corporate deleveraging, mainly in the private sector.

16. Official statements have been quiet on the spike in defaults. However, President Xi’s strong message—“gradually de-leveraging at the macro level”—on 2nd April at the first gathering of the Central Committee for Financial and Economic Affairs (CCFEA), the rebranded and strengthened central leading group, reaffirmed the leadership’s determination to fix the debt problem.

17. Vice Premier Liu He said at an official meeting on 15 May on improving systematic financial risk prevention that “doing business means having capital, borrowing money means making repayments, investment means undertaking risk, and doing bad things means paying a price”, a warning to those expecting government bailout.

18. The prolonged trade talks with the US haven’t harmed the economy so far, according to official statements: “China’s economy performed steadily in April, and impacts of trade disputes are yet to be seen in the short term”.