



# China Economy Update

## China Economics Network

For comments, suggestions, questions, please contact us:

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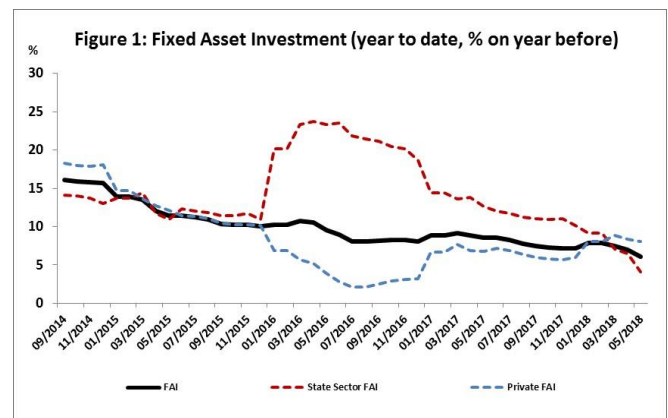
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### SUMMARY

- China's official economic figures came in weaker in May, signaling further cooling as the regulatory crackdown begins to weigh on the real economy;
- Investment and industrial production slowed, and retail sales surprised on the downside;
- Trade, one of the few bright spots in May data, is facing more uncertainties as exports may lose momentum as US-China trade tensions ratchet up. Interest rate hikes from the US Fed pose another challenge to the Chinese authorities in continuing deleveraging and refraining from stimulus.

### Weaker infrastructure investment led to slower overall investment

- Growth of China's fixed asset investment slowed to 6.1 per cent year on year in Jan-May period, the slowest pace since at least February 1996, from 7.0 per cent in Jan-April.
- Government driven infrastructure investment growth (construction of roads, railways and other public facilities) fell sharply to 9.4 per cent in the first five months from 12.4 per cent in Jan-Apr period, down to single digit for the first time since the data began in 2014. The slowdown was caused by the credit tightening and a reduction of central government supports to local infrastructure projects.
- Private investment continued to outpace the state sector, growing 8.1 per cent in Jan-May compared to 4.1 per cent.(Figure 1)
- Manufacturing investment growth, driven by higher industrial prices, picked up to 5.2 per cent in Jan-May, 0.4 percentage faster than Jan-Apr.



### Industrial production cooled slightly

- Official data indicates growth of manufacturing output slowed to 6.6 per cent in May, 0.8 percentage points lower than April.
- Growth of utilities (electricity, heat, gas, water) continued to accelerate, up by 12.2 per cent in May from 8.8 per cent in April. Value added by mining recovered in May, growing 3.0 per cent, from a 0.2 per cent contraction in April.

### Housing market remained resilient, for now

- Official data shows property investment, the fastest growing part of investment, grew 10.2

per cent in Jan-May, only 0.1 percentage points lower than Jan-Apr.

- Growth of area of new starts, land purchase and commercial housing sales improved in May, up 10.8 per cent, 2.1 per cent, and 2.9 per cent, respectively.

### Retail sales disappointing

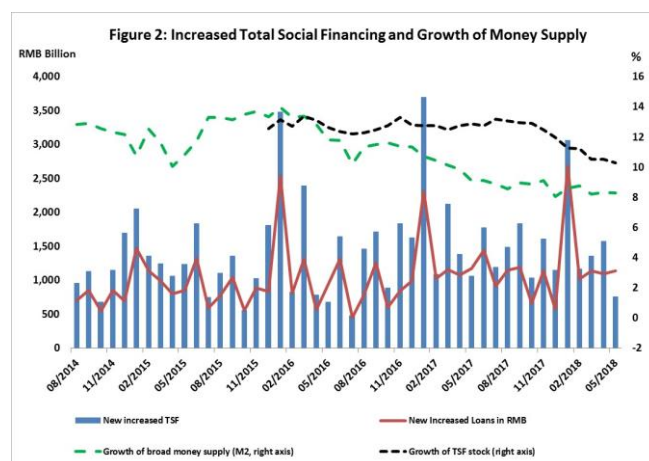
- Growth in retail sales slowed significantly to 8.5 per cent year on year in May from 9.4 per cent in April, a record low in 15 years.
- Retail sales fell broadly, in rural and urban, goods and catering. In particular, sales in auto and cosmetics dropped sharply
- The continued weakening in retail sales since mid-2016 may also reflect the fact that the heating housing sales have squeezed other consumer spending.

### Export growth steady, imports faster

- Official data shows China's export grew steadily by 12.6 per cent (in USD terms) in May, only a shade lower than 12.9 per cent in April, easing worries of the policy makers amid tough negotiations with the US.
- Imports rose 26.0 per cent in May, 5.5 percentage points higher than April, the fastest pace since Jan this year, driven by purchases of computer chips and commodities.

### Credit growth slumped and corporate financing harder

- Total social financing, a broad measure of bank lending and credit by non-bank financial institutions, grew 10.3 per cent year on year in May after 10.5 per cent in April, the slowest since 2005 (though still faster than nominal GDP growth).
- Bank loan growth eased to 12.6 per cent in May from 12.7 per cent in April and non-bank credit collapsed, reflecting continued financial deleveraging which forces banks to reduce exposure to shadow finance. (Figure 2)



### Marginal policy easing down the road to keep the economy humming at internal and external pressures

- China's central bank chose not to follow the Federal Reserve in raising interest rates as the economic growth lost momentum, adding fresh caution on the growth prospect as trade tensions with the U.S. turn into a protracted economic confrontation.
- The PBoC Governor Yi Gang unusually spoke out to soothe the market, pledging to use monetary policy "comprehensively" after the U.S. tariff imposing news triggered a massive stock market plunge in China on the 19 Jun.
- Following the release of May data, on 20 Jun the State Council (China's cabinet) urged immediate financial assistance to business and called for better policy coordination to boost market confidence. Days later, the PBoC announced to cut bank's reserve ratio by 0.5 percentage points, the third time in the year, injecting over USD100 billion liquidity into the market.
- The latest reserve rate cut is due to take effect on 5 July, a day before the U.S. to impose 20 per cent tariff to roughly USD50 billion worth of Chinese goods.