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# China Economy Update


**China Economics Network**

*For comments, suggestions, questions, please contact us:*

**Nicole Liu**
Senior Economic Advisor
British Embassy Beijing
nicole.liu@fco.gov.uk

**Sam Mackay**
First Secretary (Economics)
British Embassy Beijing
sam.mackay@fco.gov.uk



## SUMMARY

- **The latest October official data on China's economy was mixed, showing early signs of stimulus effects but indicating a deepening economic slowdown;**
- **Industrial production and investment recovered slightly, but consumption and real estate data were weaker as credit growth continued to slow;**
- **Policy makers emphasise the increased downward pressure to growth caused by domestic policy and external changes, and acknowledge a lack of policy coordination.**

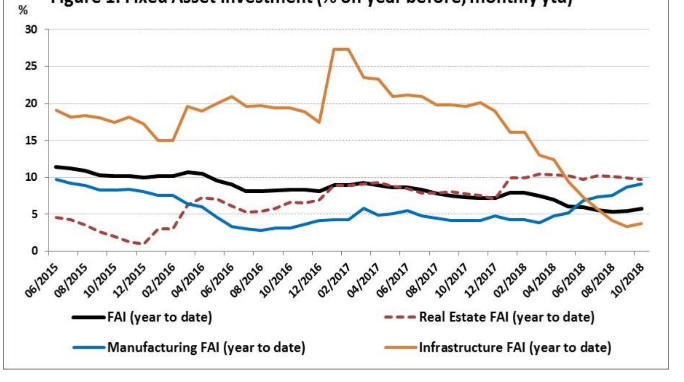

### Industrial output broadly stable

1. Official data showed industrial value-added grew 5.9 per cent year on year in October, after slowing to a two-year low of 5.8 per cent in September.
2. The pick-up was mainly driven by an acceleration in manufacturing production and mining, which grew 6.1 per cent year on year and 3.8 per cent in October, respectively.
3. Growth of auto production continued to fall for the fourth consecutive month, down 9.2 per cent year on year in October.

### Investment growth recovered a notch

4. Growth of fixed asset investment picked up in October as the decline in infrastructure investment (including spending in construction of roads, railways and some other public facilities) moderated after the government loosened its control over local government borrowing. Total investment grew 5.7 per cent year on year in Jan-Oct period, 0.3 percentage points higher than the first nine months. (Figure 1)

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




5. Infrastructure investment growth picked up to 3.7 per cent in Jan-Oct period from 3.3 per cent in Jan-Sept (the slowest since data available in 2014). Growth of manufacturing investment rebounded to 9.1 per cent in the first ten months, the fastest growth since August 2015.
6. Official data showed growth of real estate investment slowed to 9.7 per cent in Jan-Oct period from 9.9 per cent in Jan-Sept. New property starts and property sales volume also both softened, pointing to a cooling of the market as the government continued the tightening measures.

## Consumption growth weakened

7. Official data suggested nominal growth in retail sales of consumer goods slowed to 8.6 per cent year on year in October from 9.2 per cent in September, registering an unprecedented seventh consecutive month of single digit growth over a decade.

8. Auto sales, more than a tenth of total retail sales, continued to contract, falling 6.4 per cent year on year in October. Sales in tobacco and beverages, telecommunication equipment, and catering also slowed, indicating softening household demand.

## Trade remained robust

9. According to the latest official data, China's imports and exports continued to soar in October, up by 21.4 per cent and 15.6 per cent (in USD terms), respectively.

10. Front-loading by exporters boosted China's October trade data as Washington warned of further tariff hikes by the year end. China's exports to the US grew 13.2 per cent year on year in October, giving a monthly surplus against the US of $31.8bn.

## Monthly credit growth slumped due to seasonal and policy factors

11. In October, official data suggested China's Total Social Financing (TSF), a broad measure of various forms of credit (loans, bonds, trust investment), fell to 728.8 billion yuan, the lowest monthly level in over two years, from 2.2 trillion yuan in September. The outstanding stock of TSF grew 10.2 per cent in October over a year ago, the slowest since the series began in 2015. M2, a measure of the money supply, grew 8 per cent year on year, also a record low.

12. New bank loan growth remained stable at 13.1 per cent in October, compared to 13.2 per cent in September, indicating the crackdown on shadow banking is effective. (Figure 2)

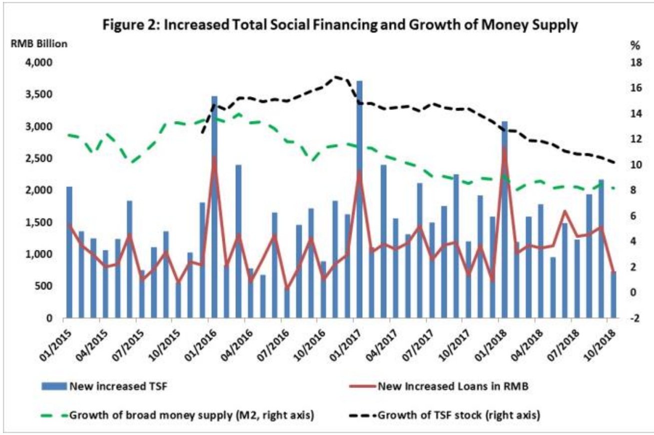


Figure 2: Increased Total Social Financing and Growth of Money Supply

13. Credit data in October is often seasonally affected as financial institutions tend to front-load lending at the end of 3rd quarter and the week-long National Day holiday in October means less working days. Also, credit to Special Local Government Bonds sharply declined in October as most of the annual quota had been taken in August and September. But the weak credit data in October came after the recent liquidity boosting measures by the PBoC, suggesting that the effectiveness of China's monetary policy is diminishing.

## Cross-roads, crossing polices, confidence is the key

14. The quarterly Politburo meeting on the economy on 31 October emphasized downward pressures from home and abroad, promised more measures to help struggling private companies, and called for efforts to boost market confidence.

15. A week later, Governor YI Gang of PBoC admitted that "a certain degree of credit crunch has intensified private companies' financing problem as a result of combined effects from some thoughtless policies, lack of coordination, inappropriate implementation, as well as tightened financial regulation". The Governor promised to seek opinions from private companies and financial institutions in future policy formulating, adopt a trial and pilot approach in implementation, and put in a grace-period for longer term policies to allow companies to adjust to new polices.