



CAPITAL ECONOMICS

INDEPENDENT ANALYSIS, FORECASTS
AND CONSULTANCY

China Chart Pack

Julian Evans-Pritchard, Head of China Economics
(julian.evans-pritchard@capitaleconomics.com)

Zichun Huang, China Economist
Sheana Yue, China Economist
Gabriel Ng, Assistant Economist

31st July 2023

China Chart Pack

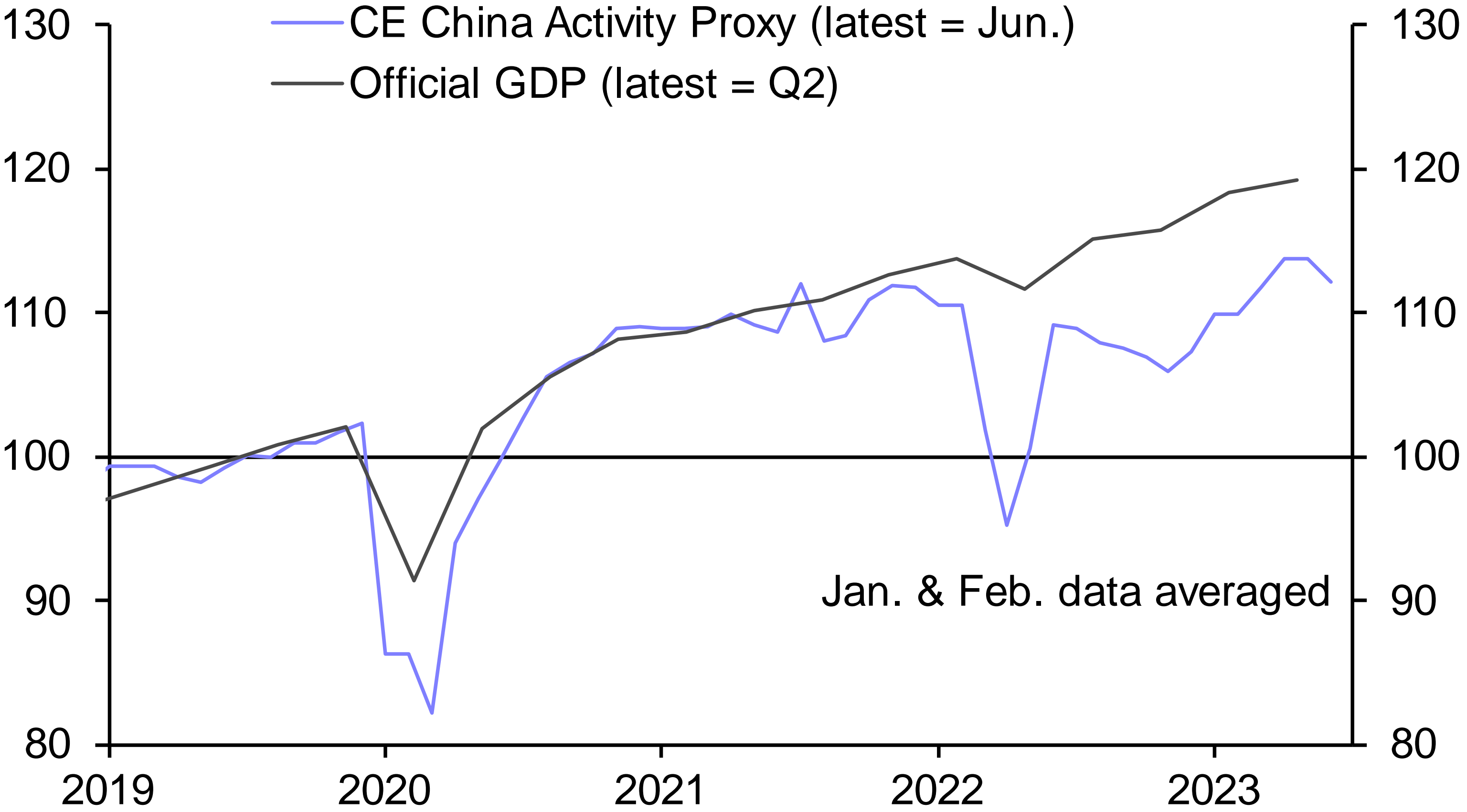
Our View: China's reopening recovery has fizzled out and the economy is now at risk of slipping into a recession. We think policymakers will provide enough stimulus to avoid this and deliver a modest reacceleration in growth over the coming quarters. But most of the slowdown since the start of the pandemic is structural and won't be reversed.

- **Activity**: The recovery went into reverse in June. And early signs point to a further deterioration in July.
- **Labour Market**: After tightening earlier this year, the labour market is softening again.
- **Trade**: Exports look set to drop back further following the unwinding of the pandemic boom in global goods demand.
- **Property**: The housing market slump has deepened, with sales reaching a multi-year low.
- **Inflation**: China is flirting with deflation amid lower food and energy prices, and weakness in domestic and foreign demand.
- **Policy**: Monetary easing is unlikely to be effective. Fiscal loosening could provide greater support.
- **Financial Markets**: Stimulus hopes have lifted equity prices recently and taken pressure off of the renminbi.
- **To see all our analysis on China's economy and details of our forecasts, visit our China [landing page](#).**



The China Activity Proxy, our in-house alternative to official GDP, suggests that the economy contracted in June and has made little headway since mid-2021.

CE China Activity Proxy & Official GDP (2019 = 100, seas. adj.)

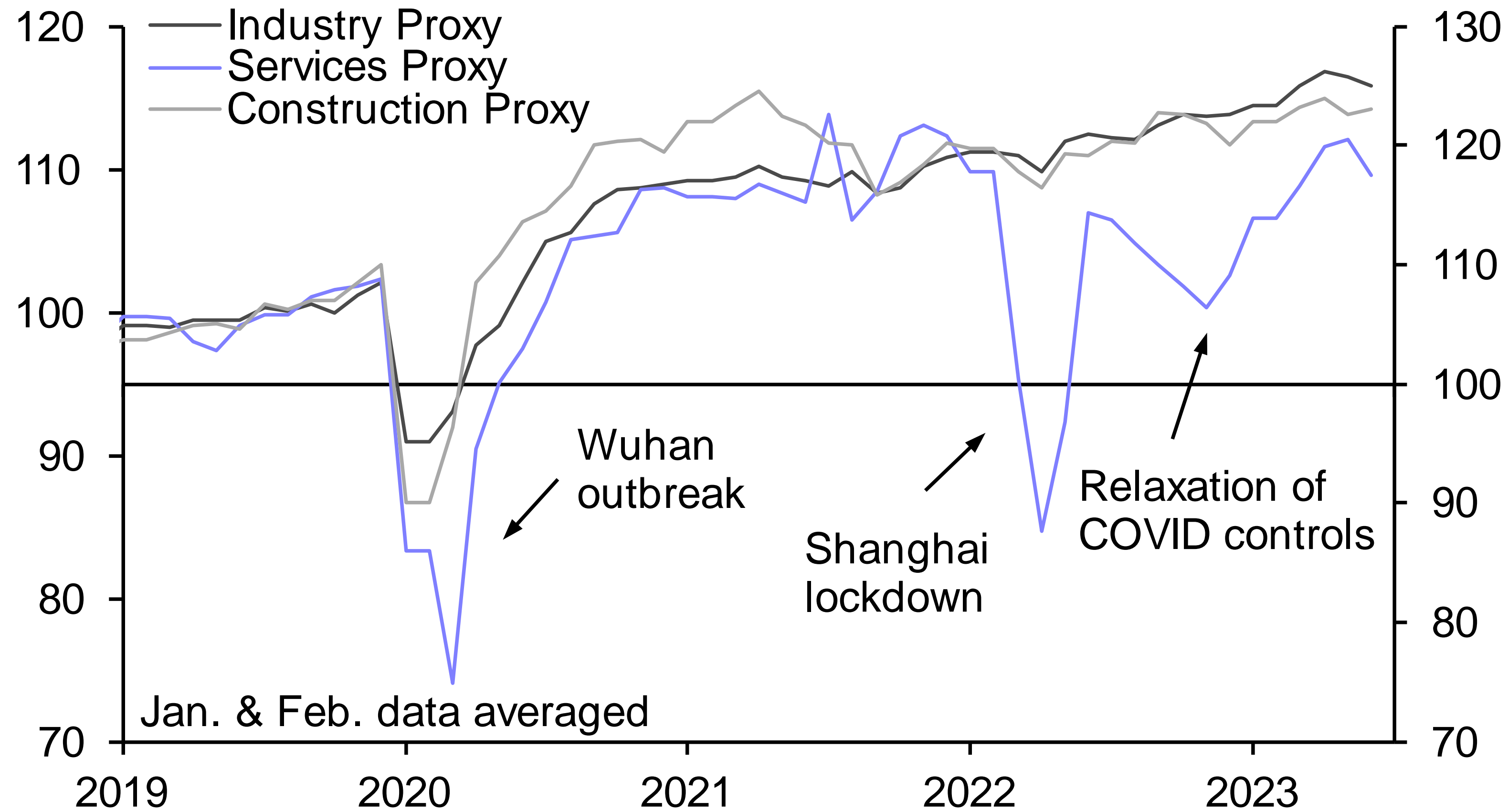


Sources: CEIC, WIND, Capital Economics



The main drag last month was the services sector. Construction remained largely stagnant, and industry softened amid cooling foreign demand.

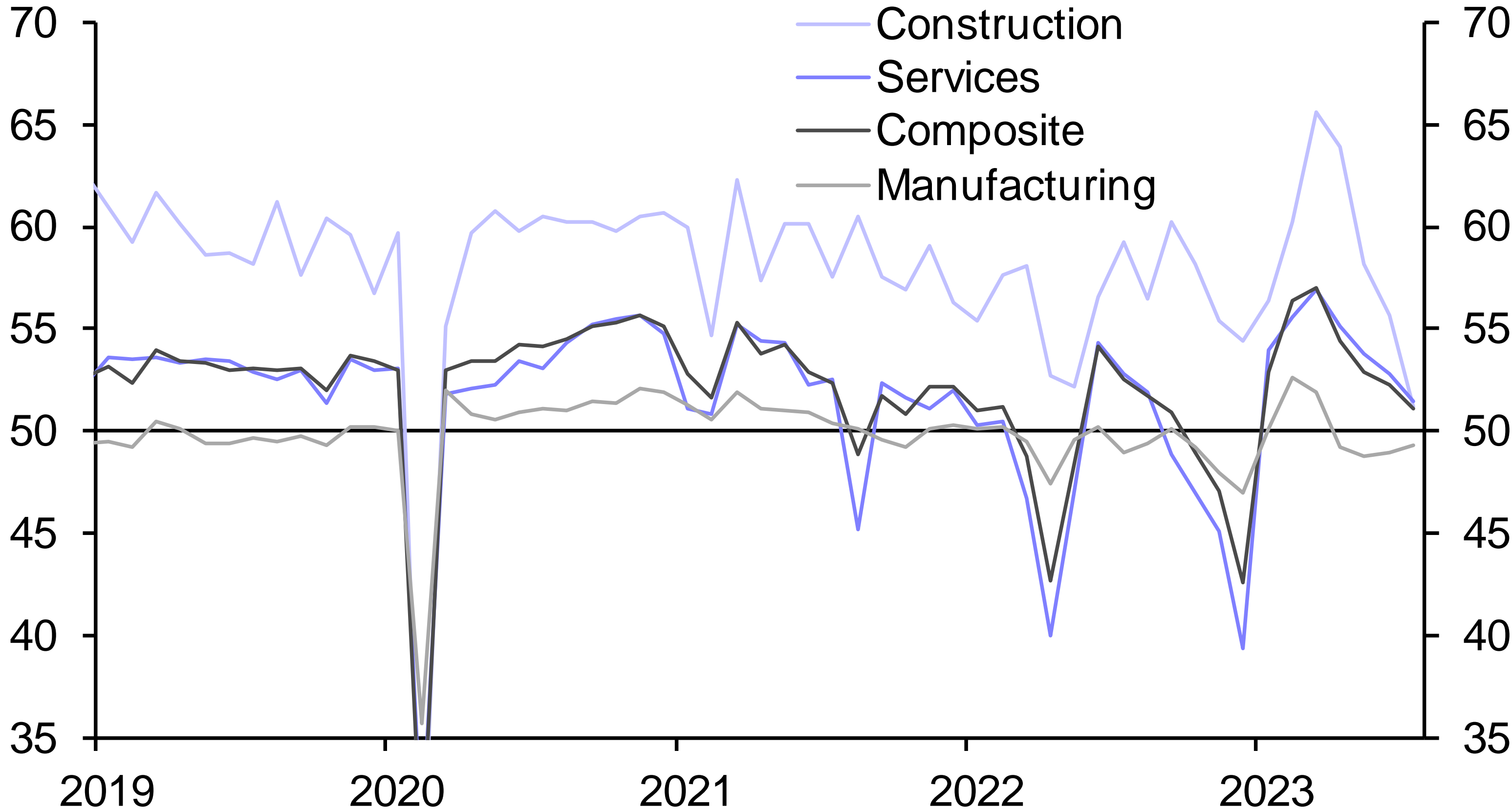
CE China Activity Proxy – Sector Proxies (2019 = 100, seas. adj.)



Sources: CEIC, WIND, Capital Economics

The PMIs suggest the economy continued to lose momentum in July. This was largely driven by a sharp slowdown in the construction and services measures.

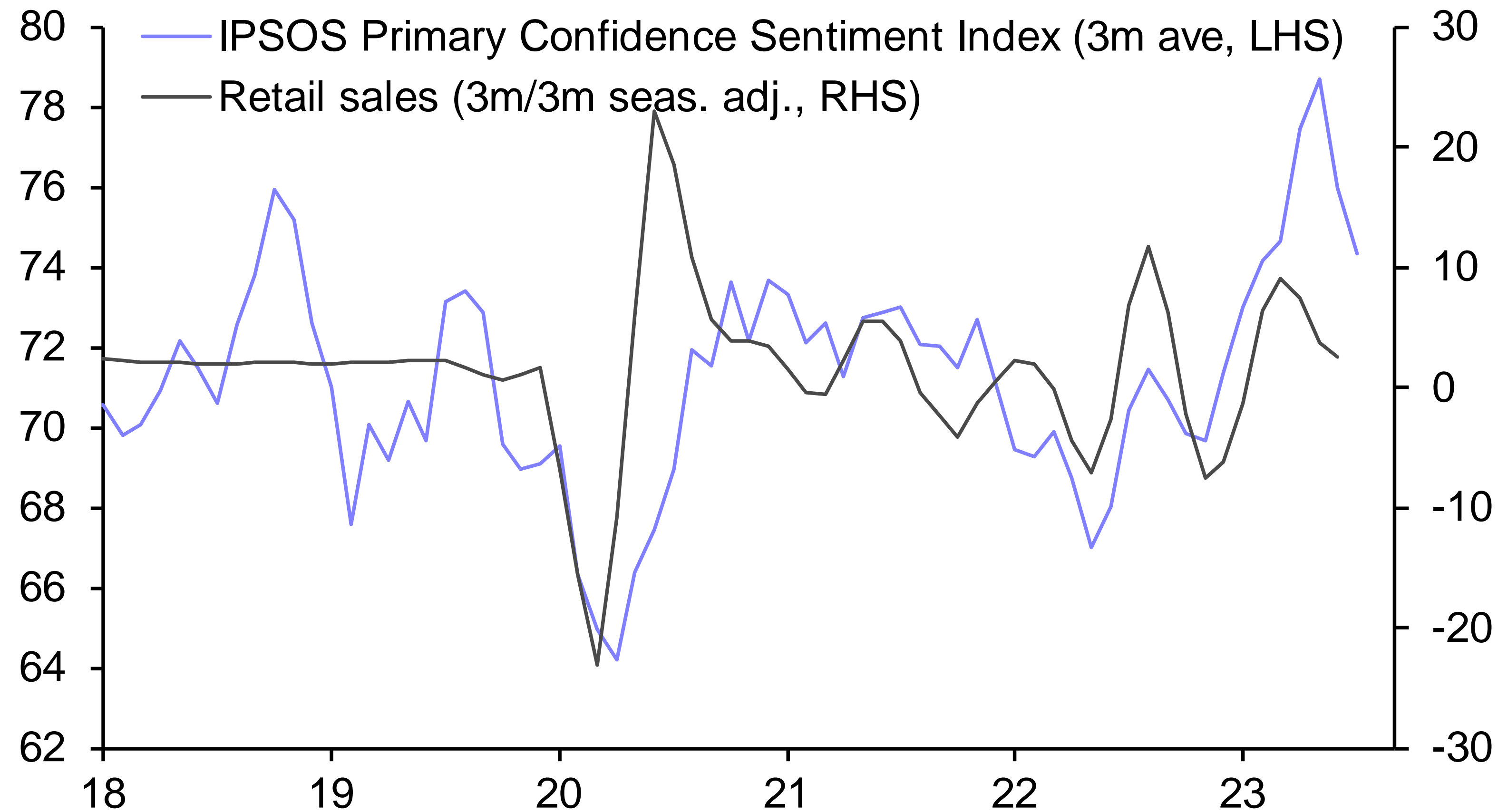
China Official PMIs



Sources: CEIC, WIND, Capital Economics

The boost to consumer confidence from reopening is unwinding and the recovery in retail sales is fizzling out. This risks becoming self-reinforcing.

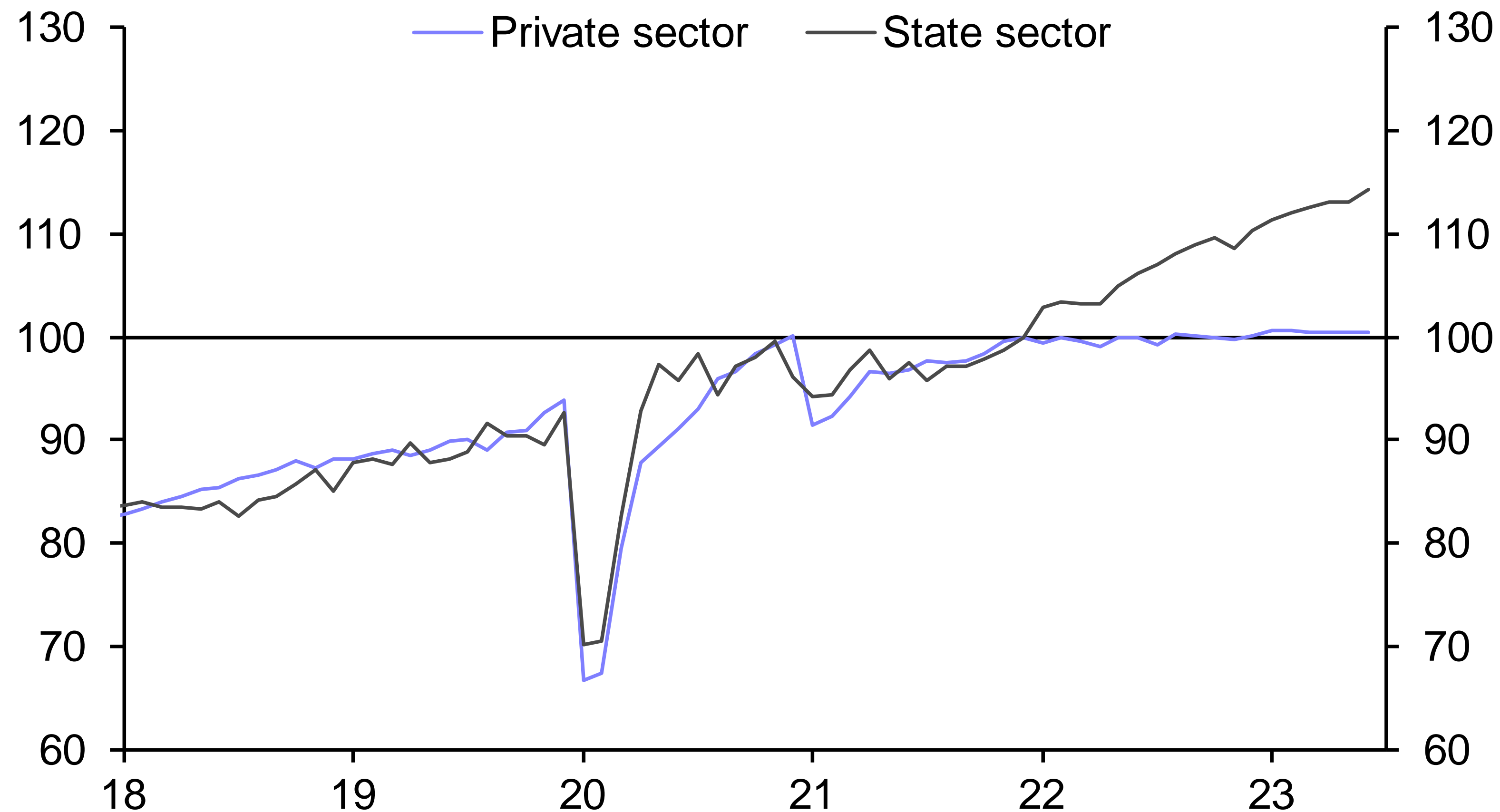
China Consumer Confidence & Retail Sales



Sources: CEIC, Refinitiv, Capital Economics

Investment spending by private firms has remained stagnant since late 2021. Policymakers are now taking steps to try to tackle this problem.

China Fixed Investment (Dec. 2021 = 100, seas. adj.)

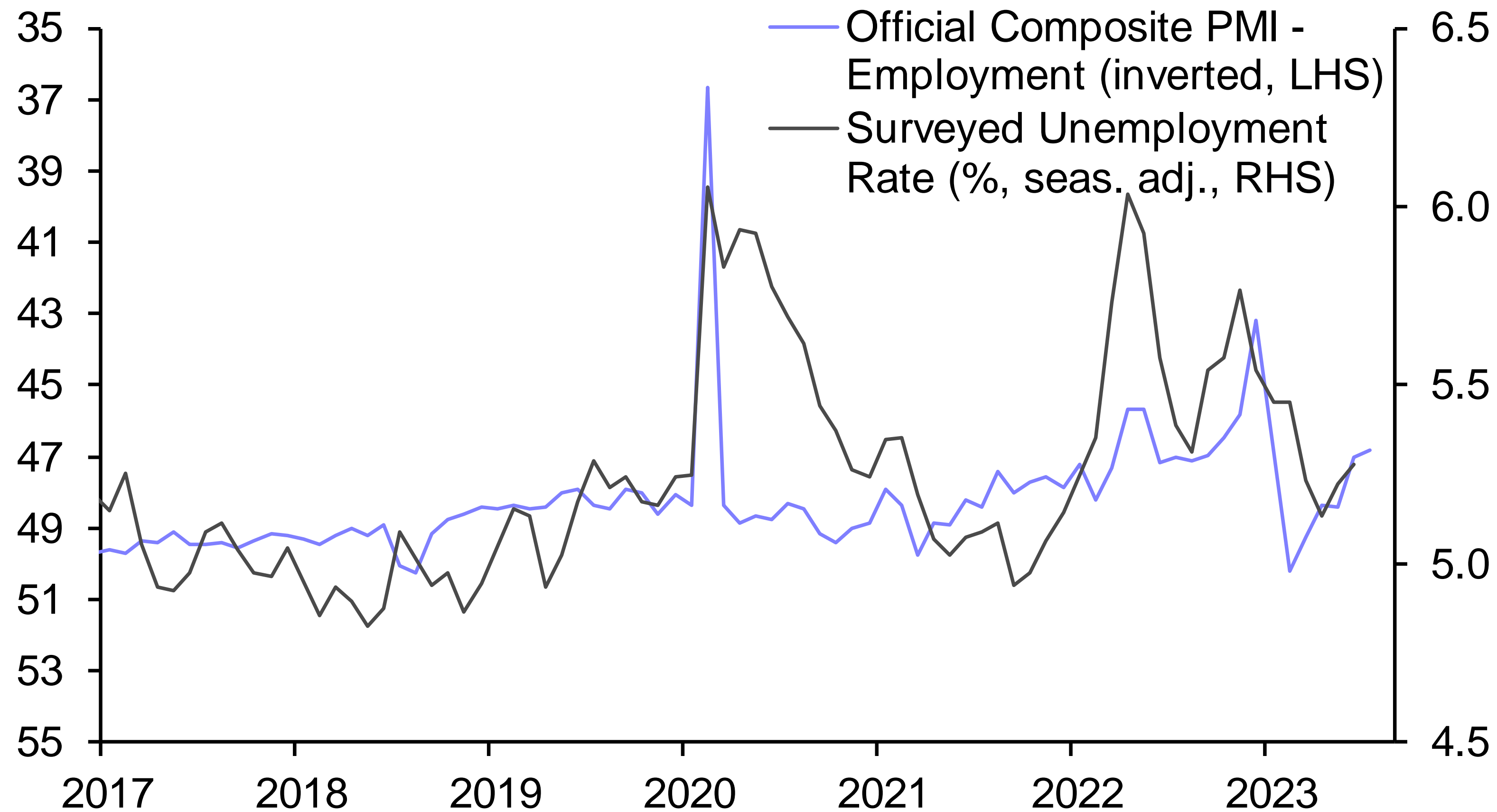


Sources: CEIC, Capital Economics



The labour market tightened following reopening. But after returning to its pre-pandemic average, the unemployment rate has started to tick up again.

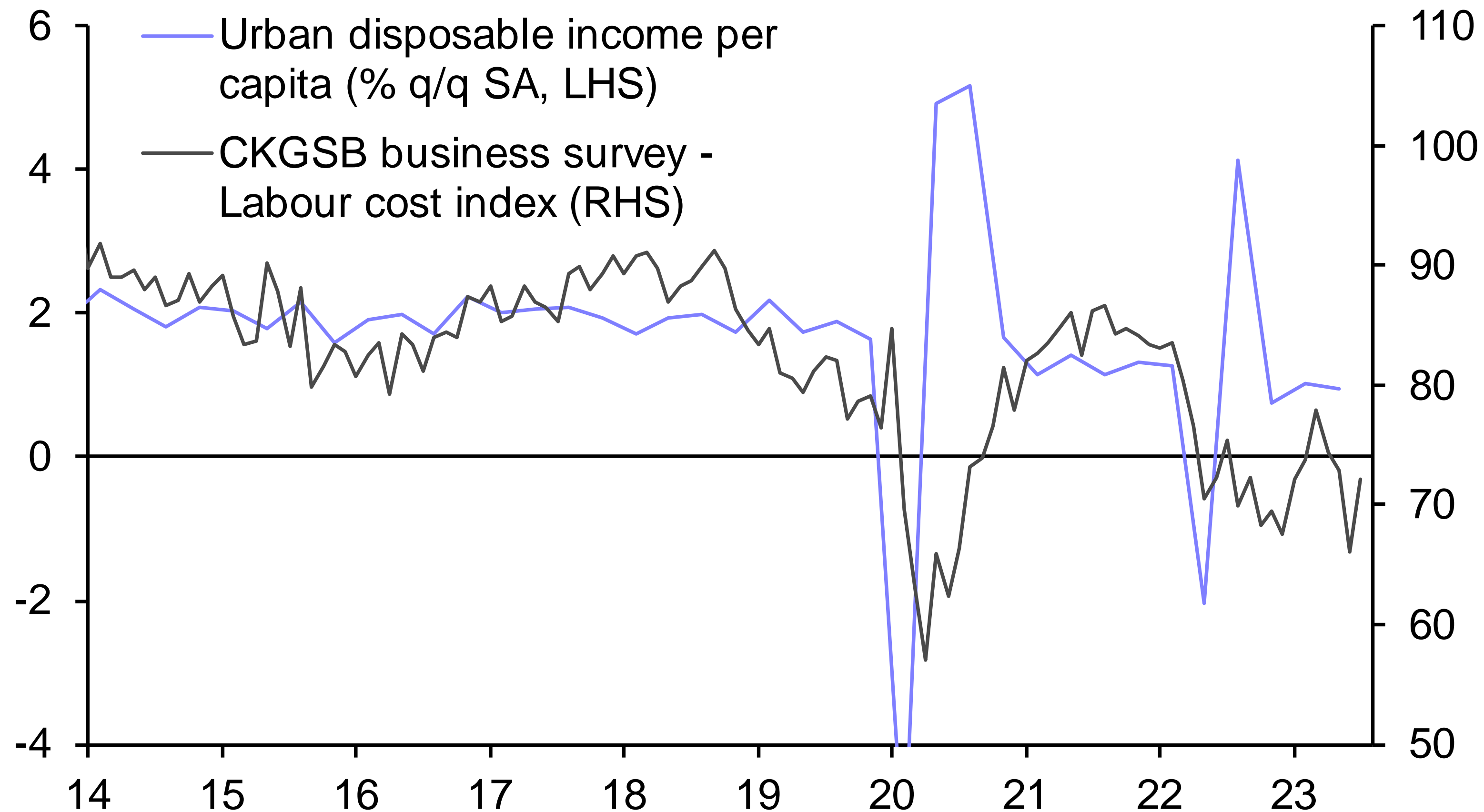
China Unemployment Rate & Composite PMI



Sources: CEIC, Capital Economics

Income growth stagnated in Q2 and is still subdued by historic standards. Survey evidence suggests it will remain soft for a while longer.

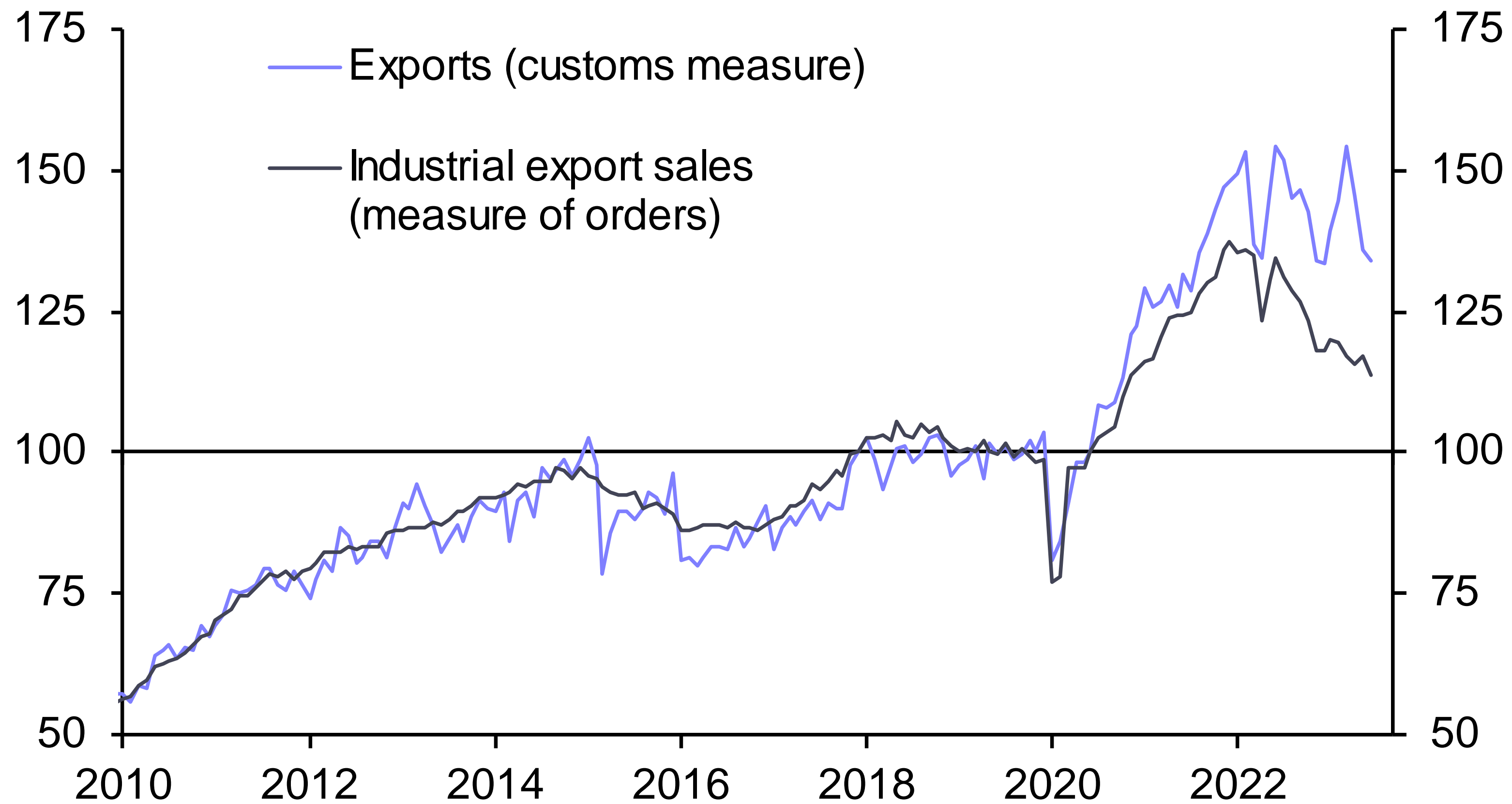
China Urban Income Growth



Sources: CEIC, Capital Economics

Foreign orders have dropped back as the pandemic boom in global goods demand has unwound. This suggests exports will fall further before long.

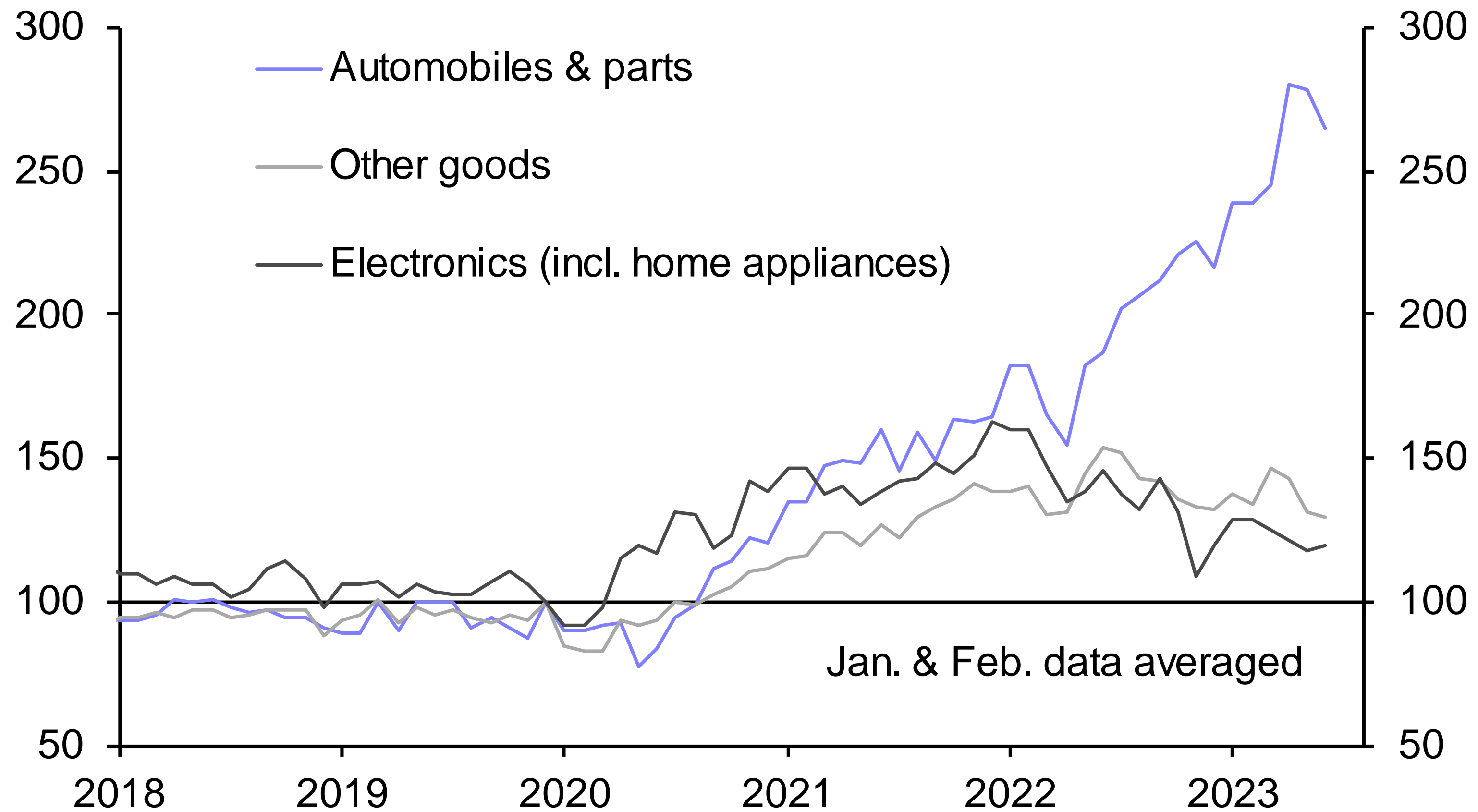
China Exports & Industrial Export Sales (\$, 2019=100, CE seas. adj.)



Sources: CEIC, Capital Economics

The softening of exports has been broad-based, with electronics dropping the most. But car shipments have bucked the trend and remain a bright spot.

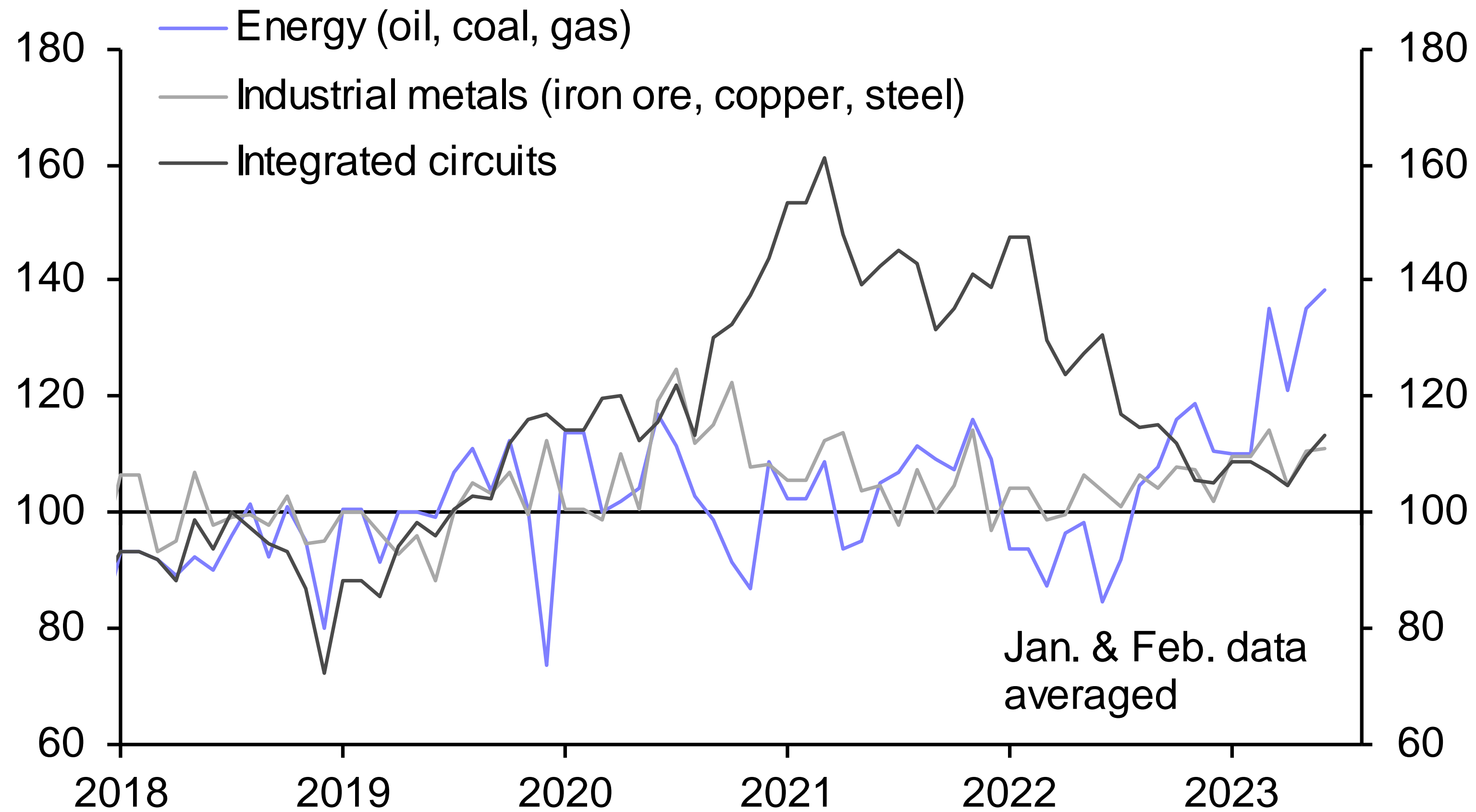
China Exports (\$, Dec. 2019 = 100, seas. adj.)



Sources: CEIC, Capital Economics

Imports of manufactured inputs remain soft due to weak goods demand, but the reopening recovery in passenger travel has boosted fuel imports.

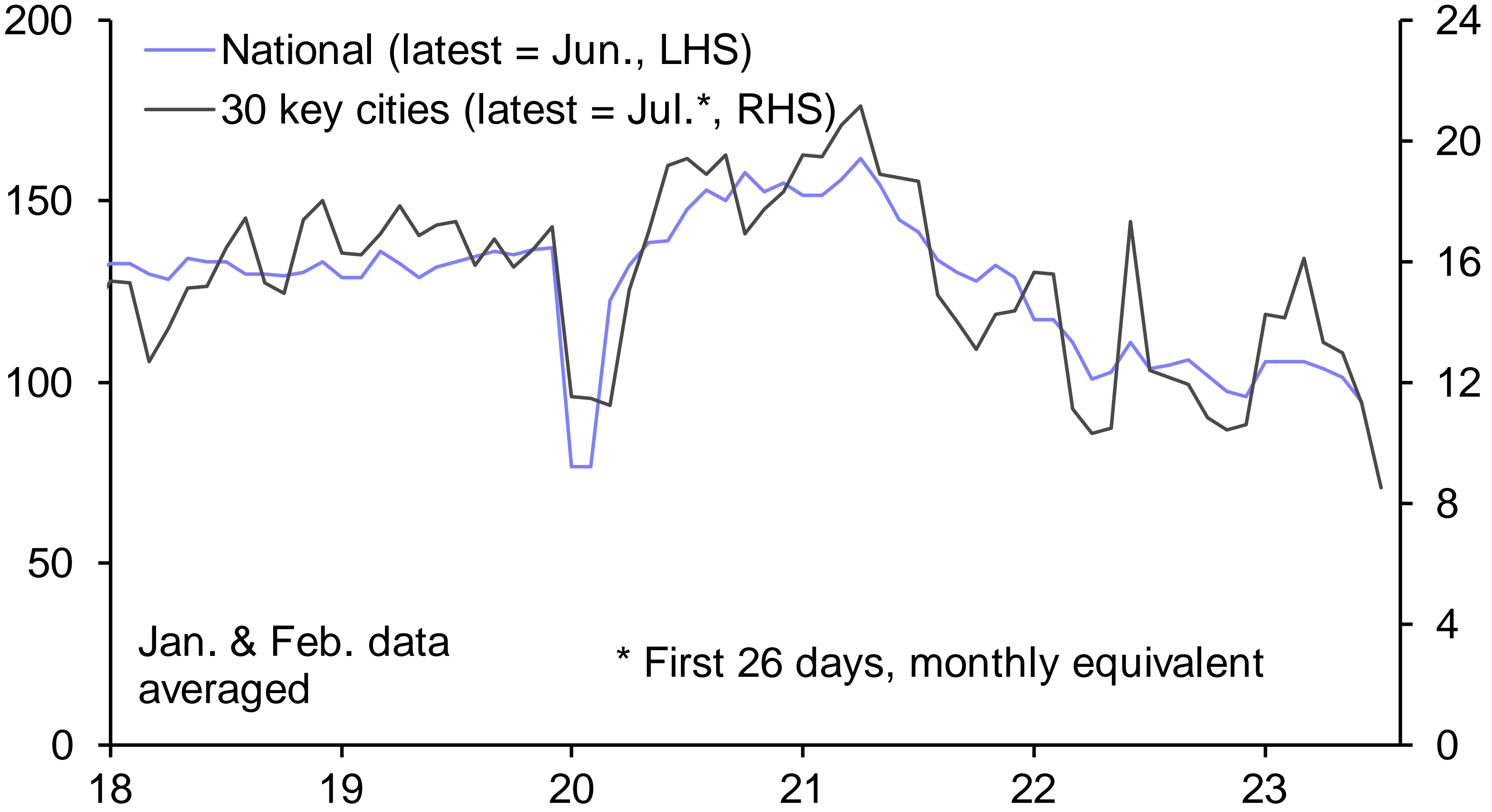
China Import Volumes by Product (2019 = 100, seas. adj.)



Sources: CEIC, Capital Economics

The slump in housing demand has deepened, with the latest data suggesting that new home sales have reached the lowest level in more than a decade.

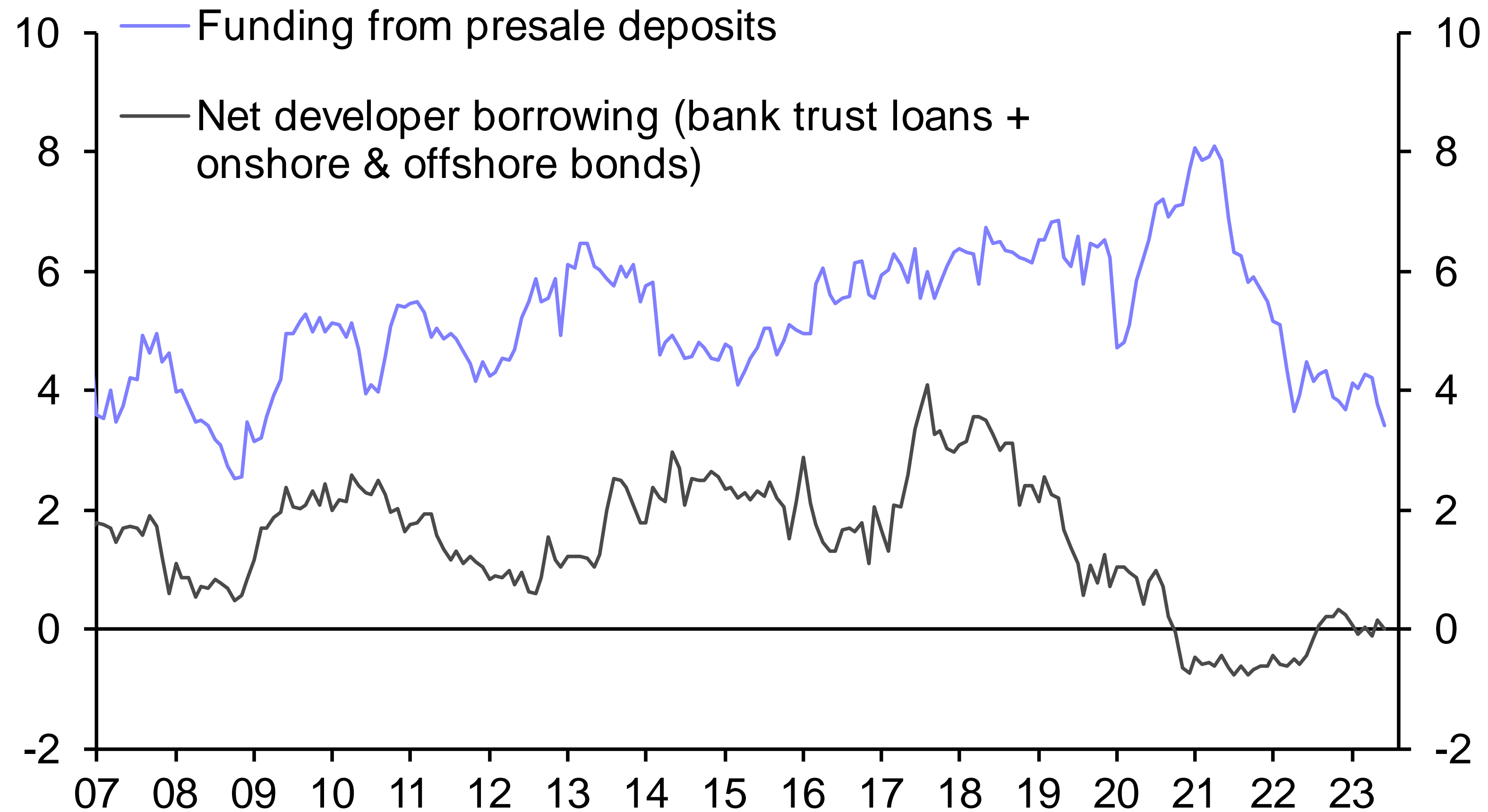
China New Home Sales (million sqm, seas. adj.)



Sources: CEIC, Wind, Capital Economics

Shrinking presale deposits are weighing on developer finances, even as their access to borrowing has improved following regulatory easing late last year.

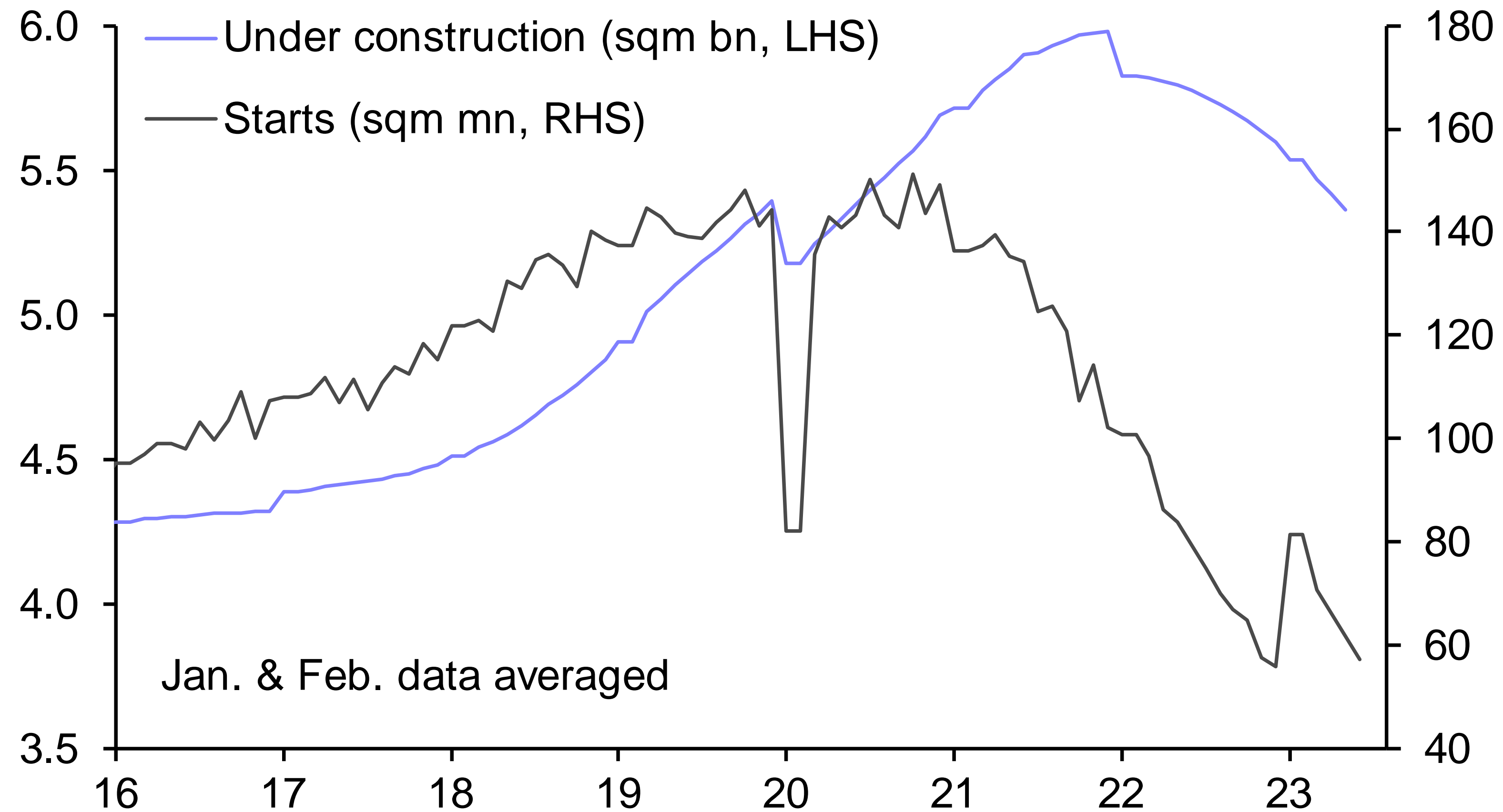
China Developer Financing (% of trend GDP, seas. adj.)



Sources: CEIC, Capital Economics

Property construction continues to fall and is unlikely to bottom out until there has been a clear turnaround in housing demand.

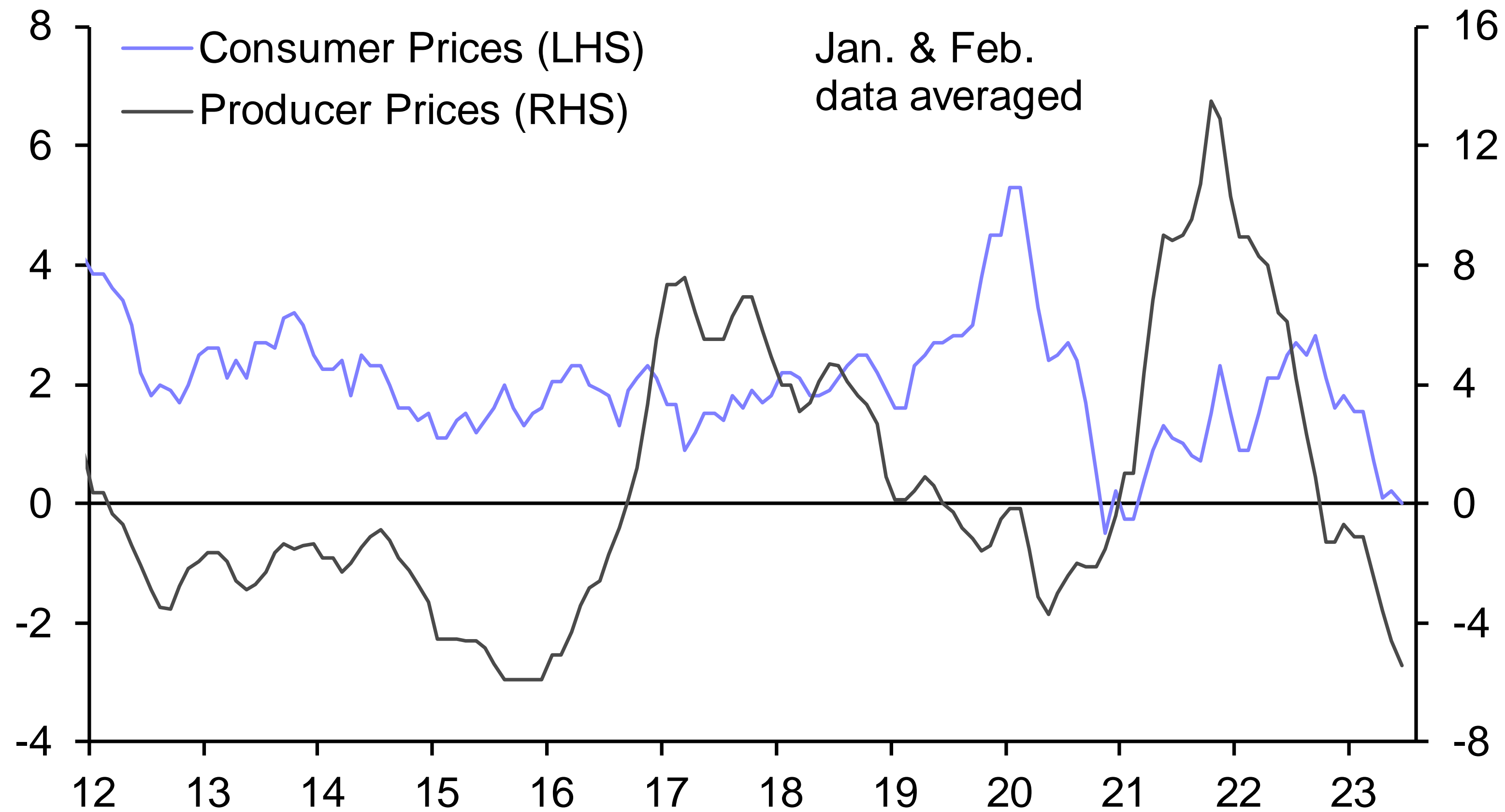
China Property Construction Activity (seas. adj.)



Sources: CEIC, Capital Economics

CPI and PPI inflation have both declined sharply in recent months. But this is mostly due to base effects and swings in food and energy prices.

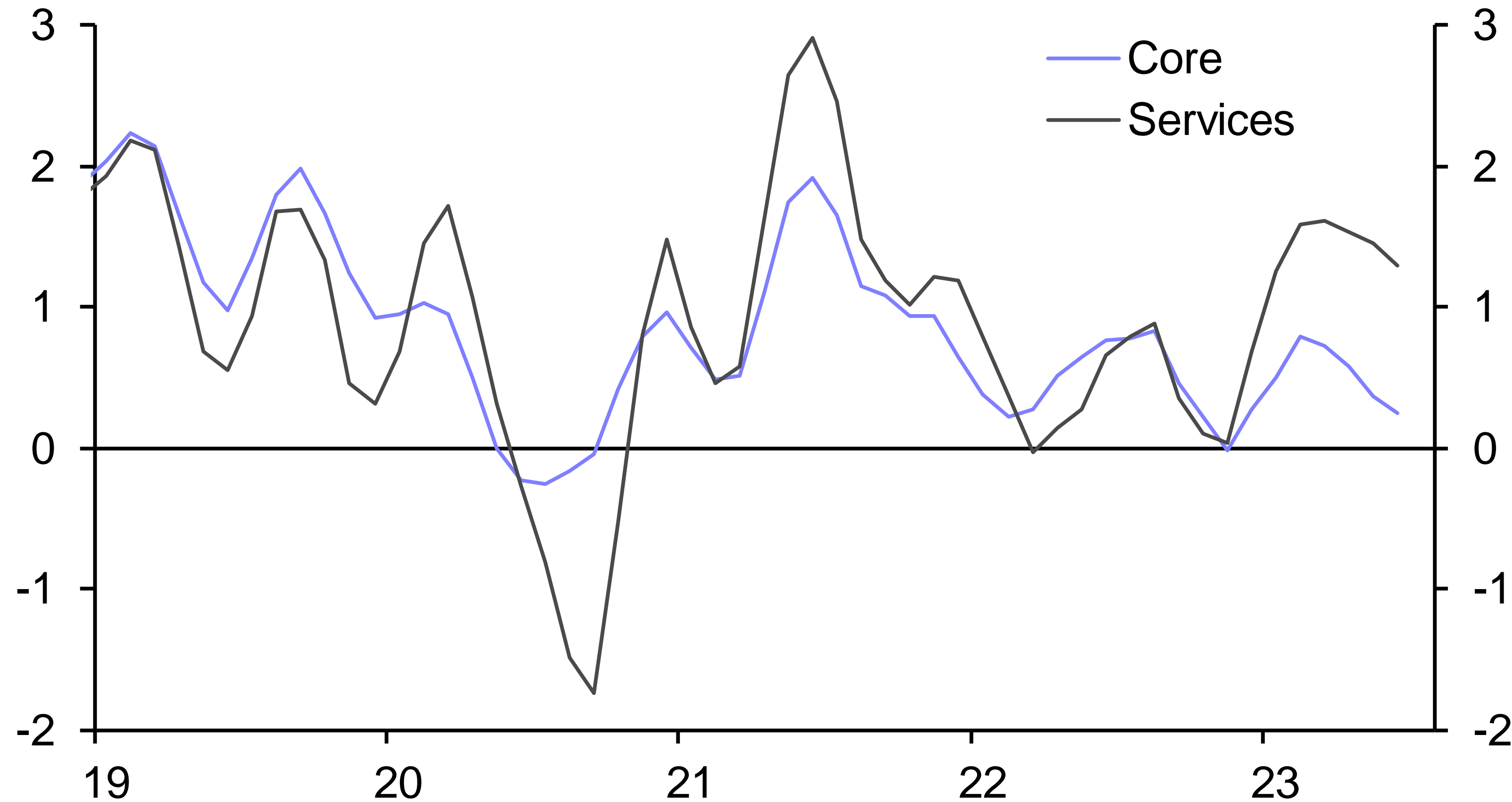
China Consumer & Producer Prices (% y/y)



Sources: CEIC, Capital Economics

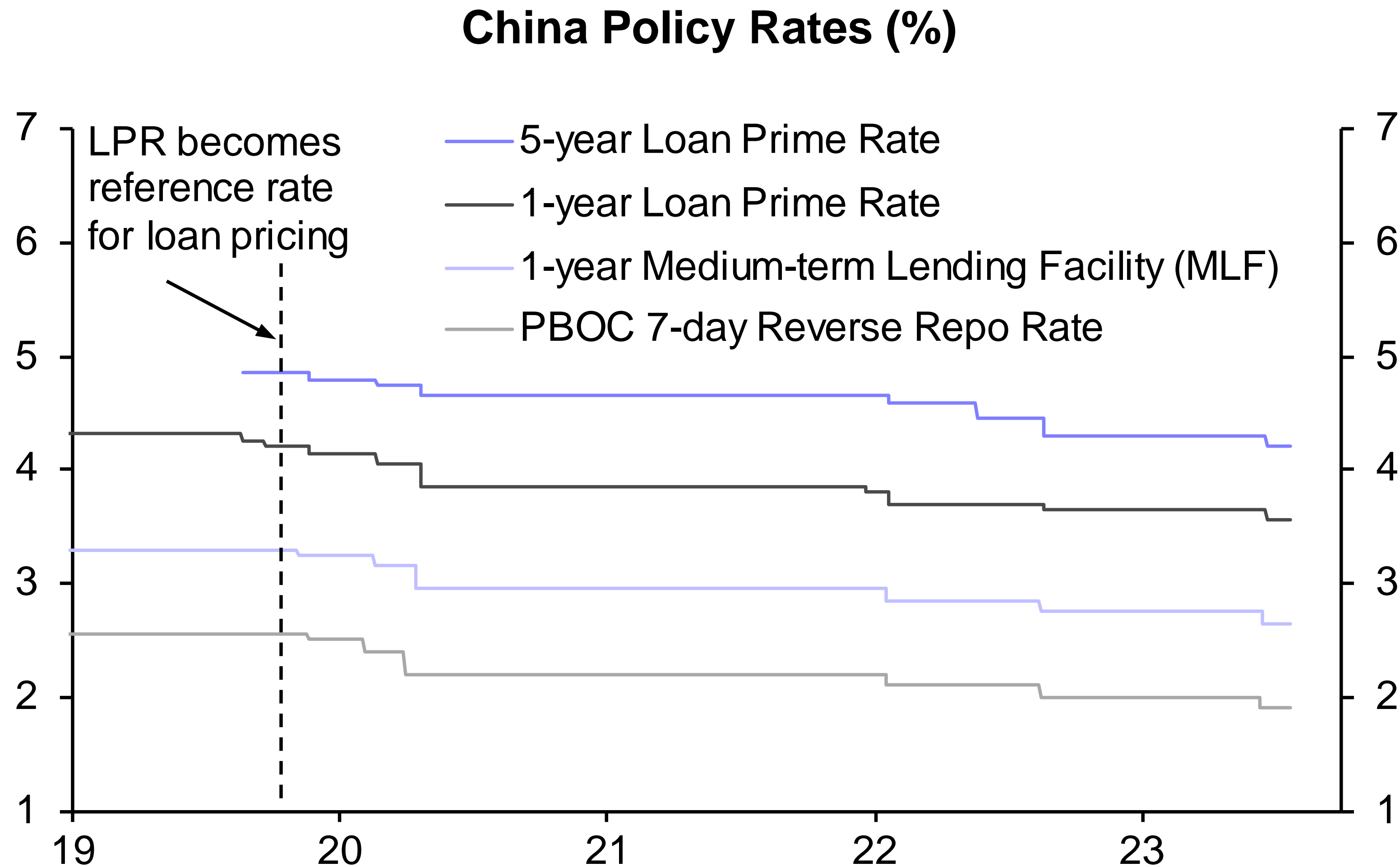
In m/m terms, services inflation has picked up this year. But core inflation remains subdued, with [excess capacity](#) in manufacturing holding down goods prices.

China Consumer Prices (% 3m/3m, SA annualized)



Sources: CEIC, Capital Economics

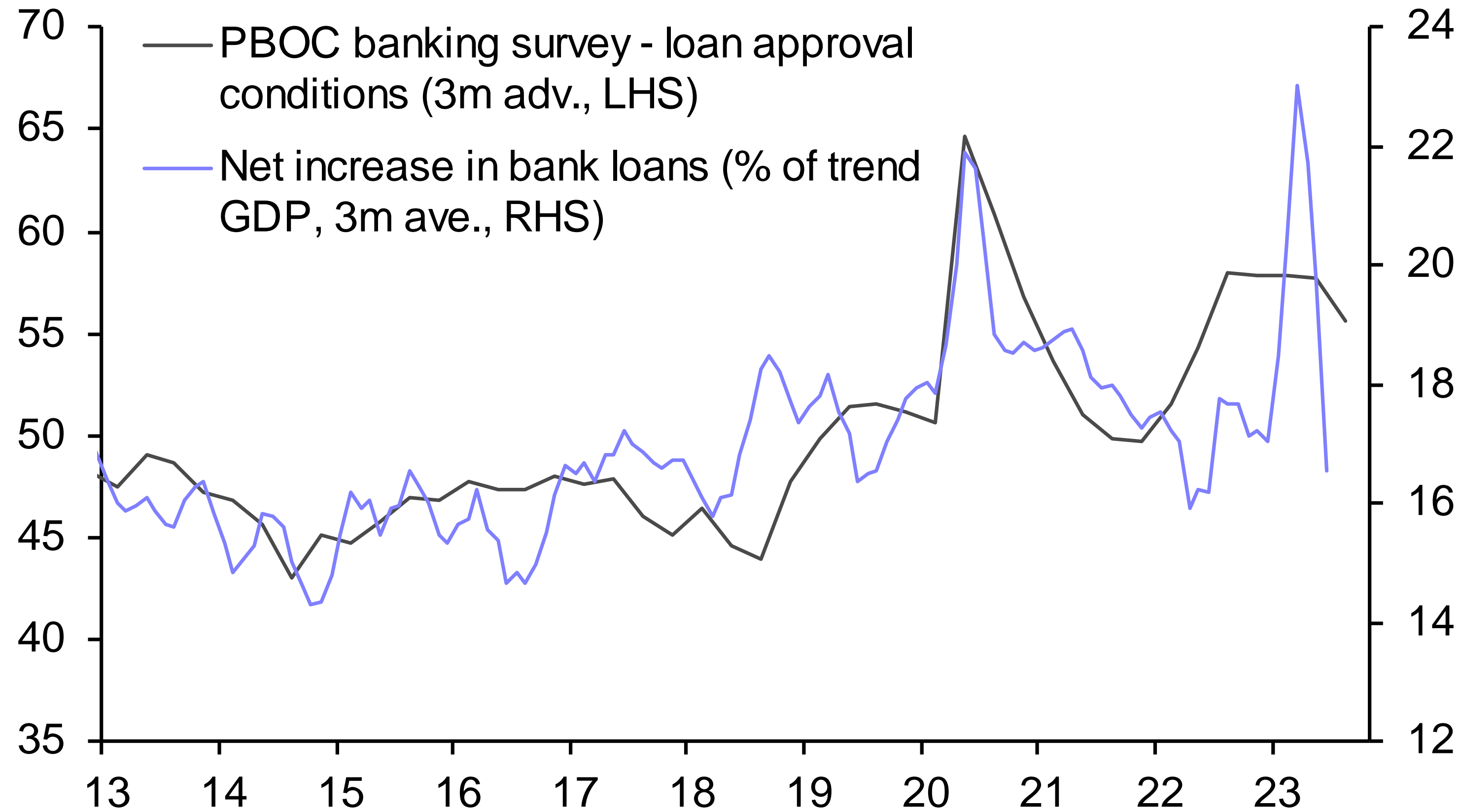
The PBOC kept its policy rates on hold in July but signaled further RRR and rate cuts at its quarterly press conference.



Sources: CEIC, Capital Economics

Further monetary easing may be ineffective. Weak demand means easier availability of credit probably won't lift lending much, as was the case last year.

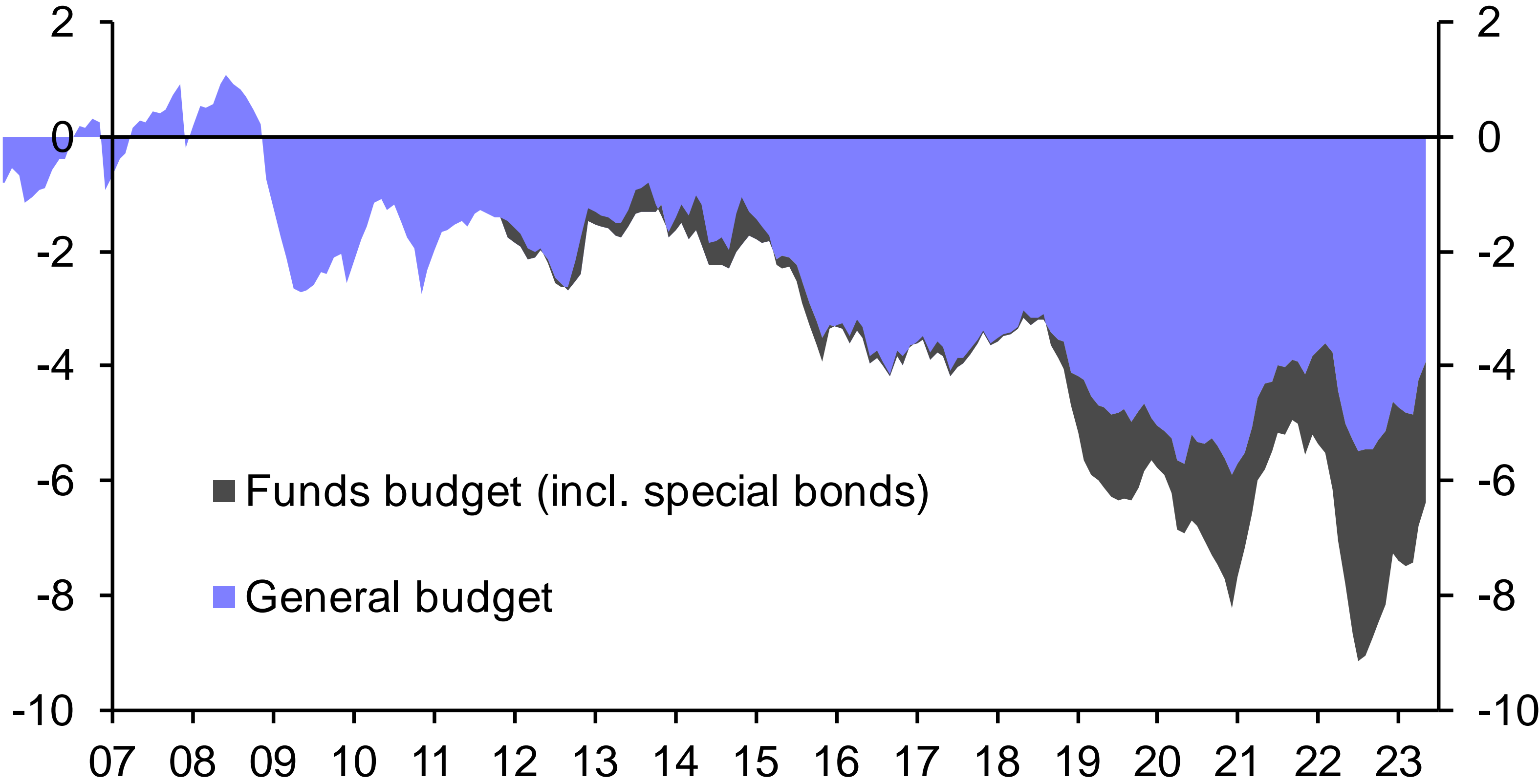
Bank Lending & Loan Approval Conditions



Sources: CEIC, Capital Economics

Despite some front-loading of infrastructure spending at the start of the year, the fiscal stance has generally tightened recently.

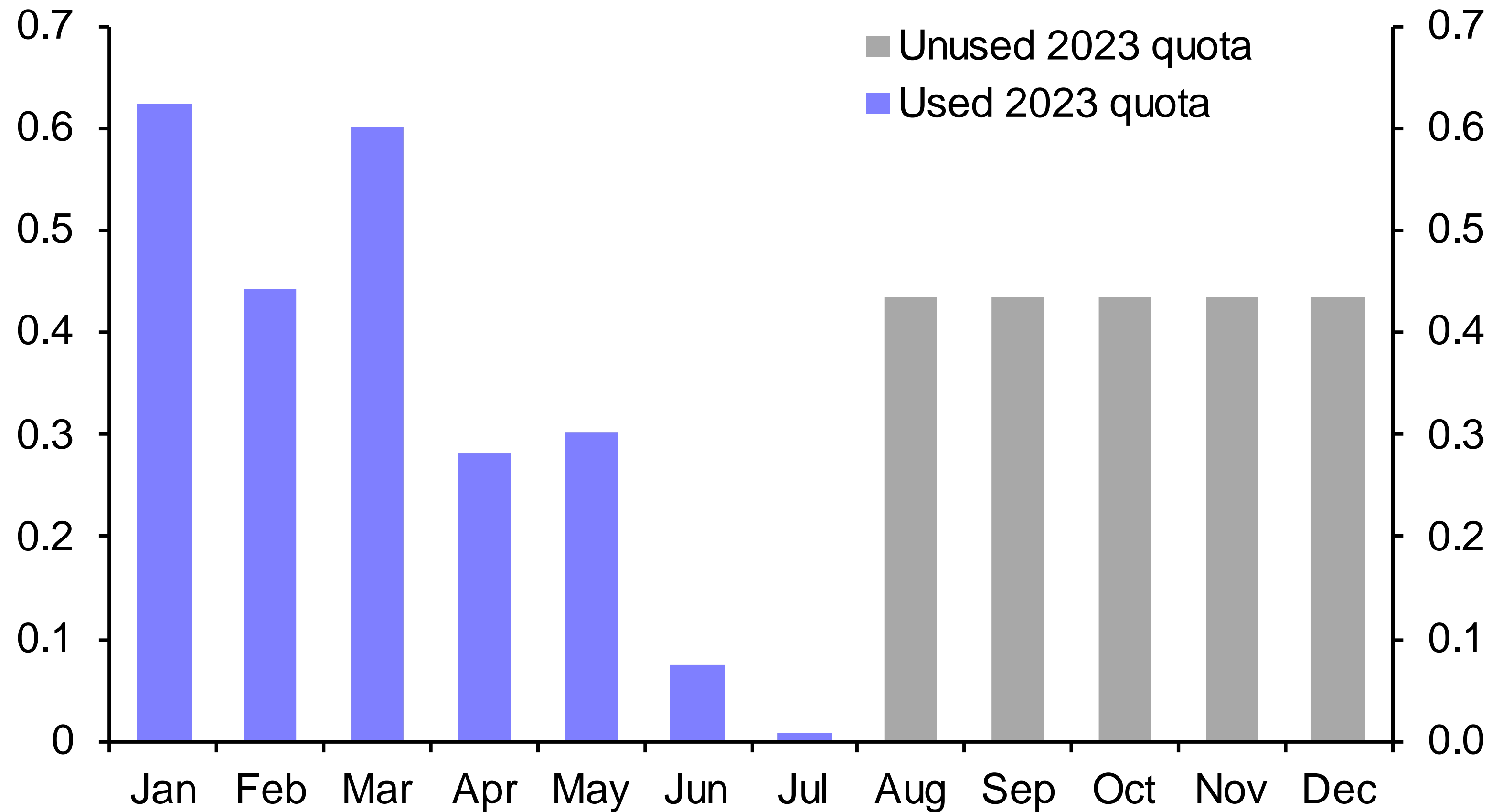
China Budget Balance (% of trend GDP, 12m rolling)



Sources: CEIC, Capital Economics

We think officials may expand the annual govt bond quotas to support growth. But even if left unchanged, on-budget borrowing should pick up again.

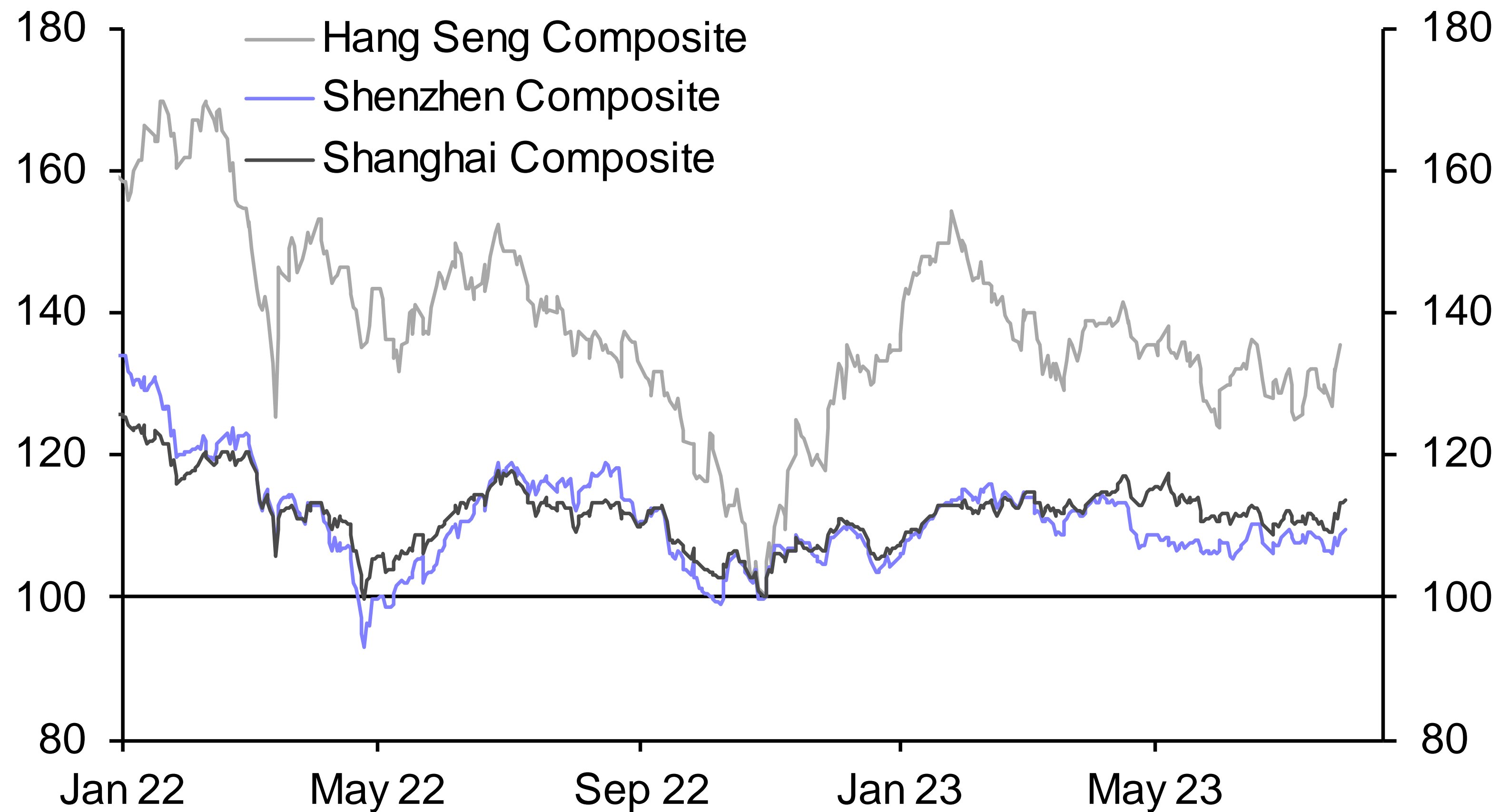
New Local Chinese Government Bond Issuance (RMBtrn)



Sources: CEIC, WIND, Capital Economics

Promises of policy stimulus have supported Chinese stocks recently, though they remain some way off their post-reopening highs.

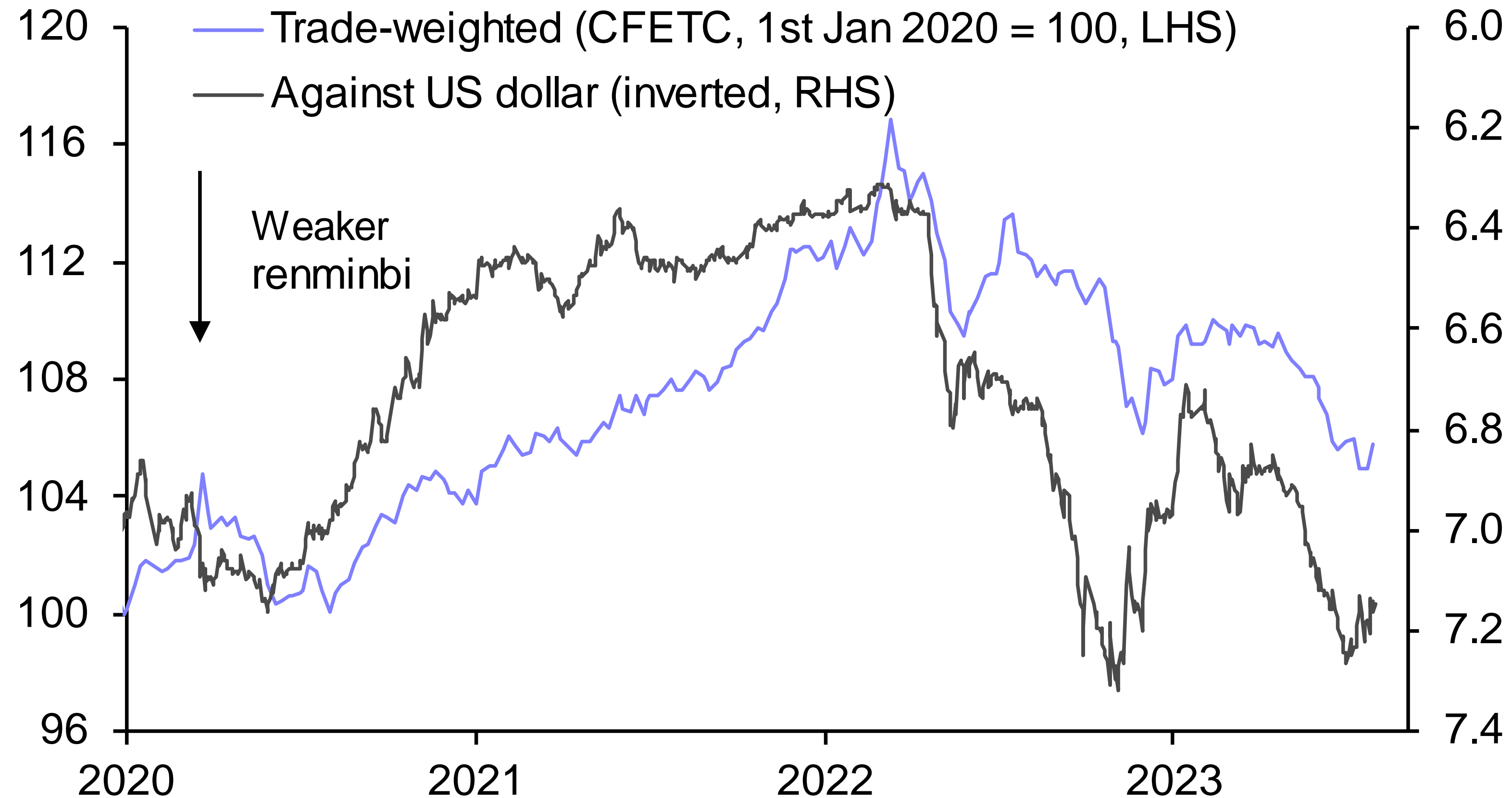
China Equity Indices (31st Oct. 2022 = 100)



Sources: CEIC, Refinitiv, Capital Economics

Downward pressure on the renminbi has eased, thanks to a reversal in capital outflows amid expectations for stimulus and some PBOC intervention.

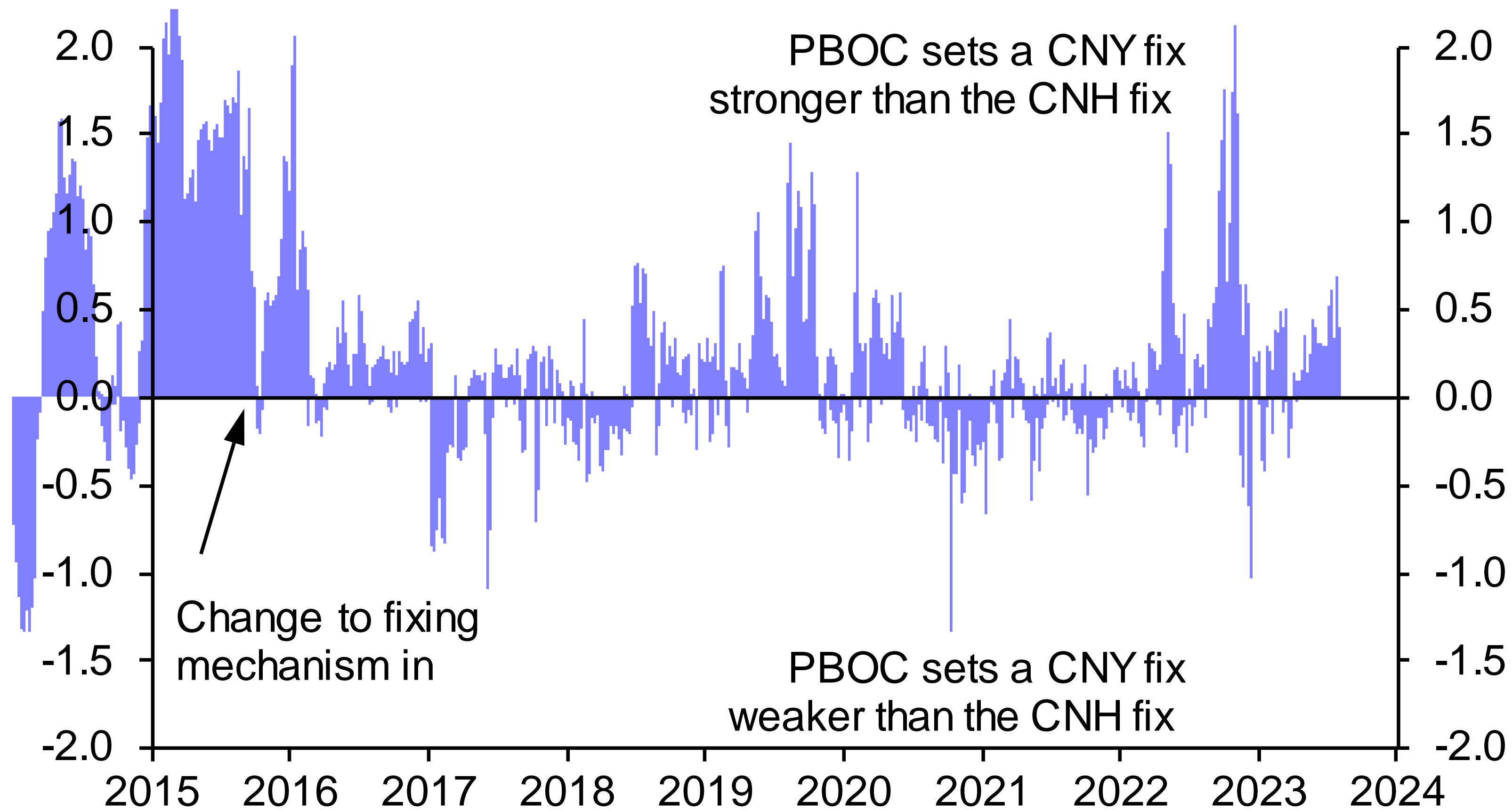
Renminbi Exchange Rate



Sources: CEIC, Refinitiv, Capital Economics

The PBOC is introducing bias into the renminbi's daily fixing rate, though it has been intervening less heavily than it did late last year.

Difference Between USD/CNY Daily Fix & USD/CNH 9:00am Fix (% , 7d ave.)



Sources: CEIC, Refinitiv, Capital Economics

Europe – London

Capital Economics Ltd
5th Floor, 100 Victoria Street
Cardinal Place
London
SW1E 5JL

Telephone: +44 (0)20 7823 5000

Subscription enquiries: sales@capitaleconomics.com

Commissioned Projects:
commissionedprojects@capitaleconomics.com

General enquiries: business@capitaleconomics.com

North America – Toronto

Capital Economics (N.A.) Ltd
2 Bloor Street West, Suite 1740
Toronto
M4W 3E2

Telephone: +1 416 413 0428

E-mail: business.na@capitaleconomics.com

The North American office is a branch of Capital Economics (N.A.) Ltd, a wholly-owned subsidiary of Capital Economics Ltd. Registered in England, Registration No. 6190831. Registered in Canada, Registration No. BN 851886358.

North America – New York

Capital Economics (USA) Inc
C/O Capital Economics (N.A.) Ltd
2 Bloor Street West, Suite 1740
Toronto
M4W 3E2

Telephone: +1 416 413 0428

E-mail: business.us@capitaleconomics.com

Capital Economics (USA) Inc. is registered in the State of Delaware, 1209 Orange Street, Wilmington, New Castle, Delaware 19801, Registration No. 150368300

Asia – Singapore

Capital Economics (Asia) Pte. Ltd
Income At Raffles
#26-03, 16 Collyer Quay
Singapore 049318

Telephone: +65 6595 5190

E-mail: businessasia@capitaleconomics.com

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