



CAPITAL ECONOMICS

INDEPENDENT ANALYSIS, FORECASTS
AND CONSULTANCY

China Chart Pack

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31st August 2023

China Chart Pack

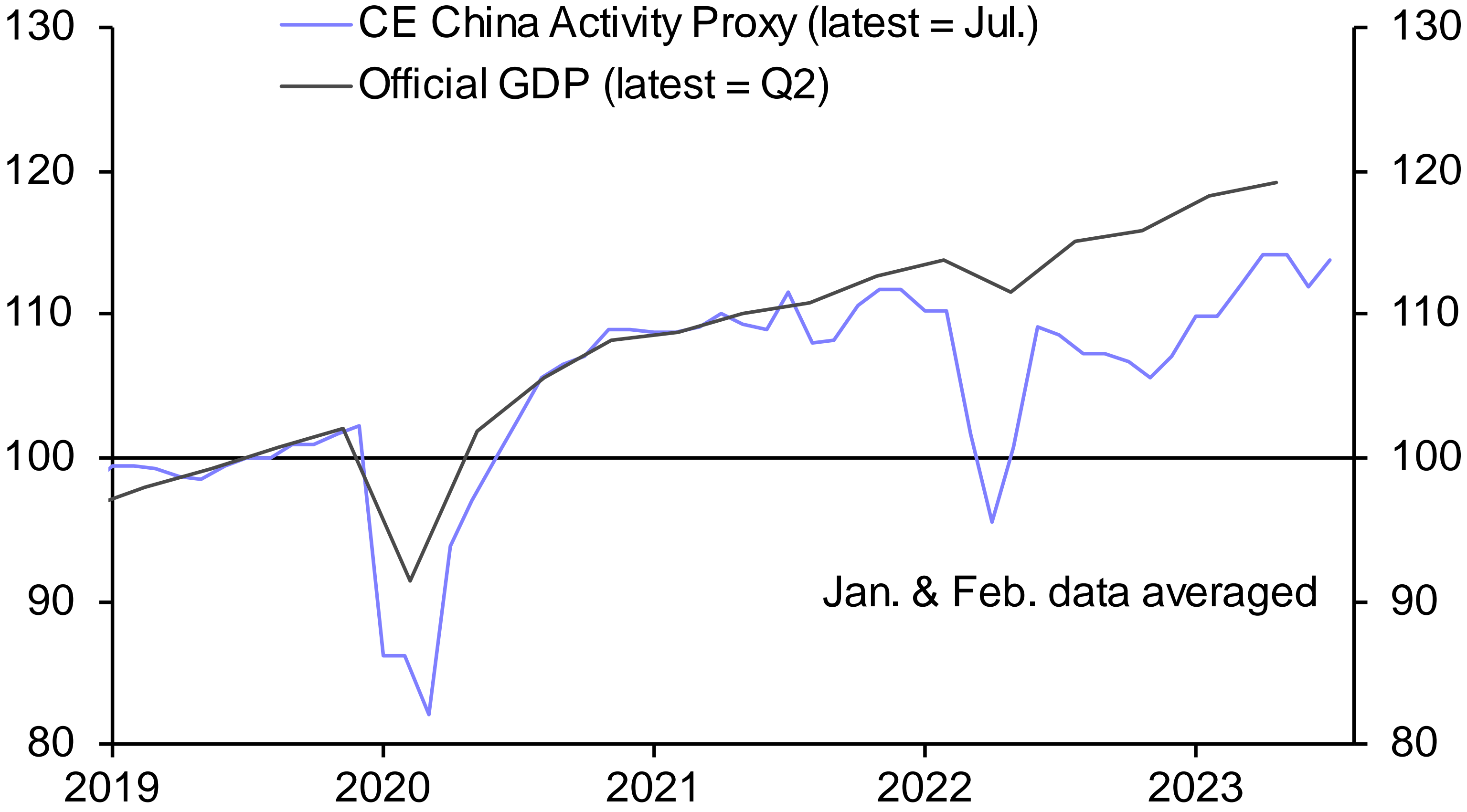
Our View: China's reopening recovery has fizzled out and the economy is now at risk of a downward spiral. We think policymakers will provide enough stimulus to avoid this and deliver a modest reacceleration in growth over the coming quarters. But most of the slowdown since the start of the pandemic is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

- **Activity**: The economy has been treading water recently. But there are some signs that it is regaining a bit of momentum.
- **Labour Market**: The labour market has softened, with job postings pointing to broad-based weakness.
- **Trade**: Exports remain under pressure as the pandemic boom in global goods demand unwinds.
- **Property**: Housing starts are still falling but more progress is being made completing existing projects.
- **Inflation**: CPI has joined PPI in deflationary territory. But the main culprit is swings in food and energy prices.
- **Policy**: Policy rates were cut for the second time in three months, but the declines are too small to have much impact. Fiscal loosening is providing greater support.
- **Financial Markets**: Investor sentiment has worsened due to the gloomy economic outlook and property sector woes.
- **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 output has levelled off recently, though it regained some ground in July.

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

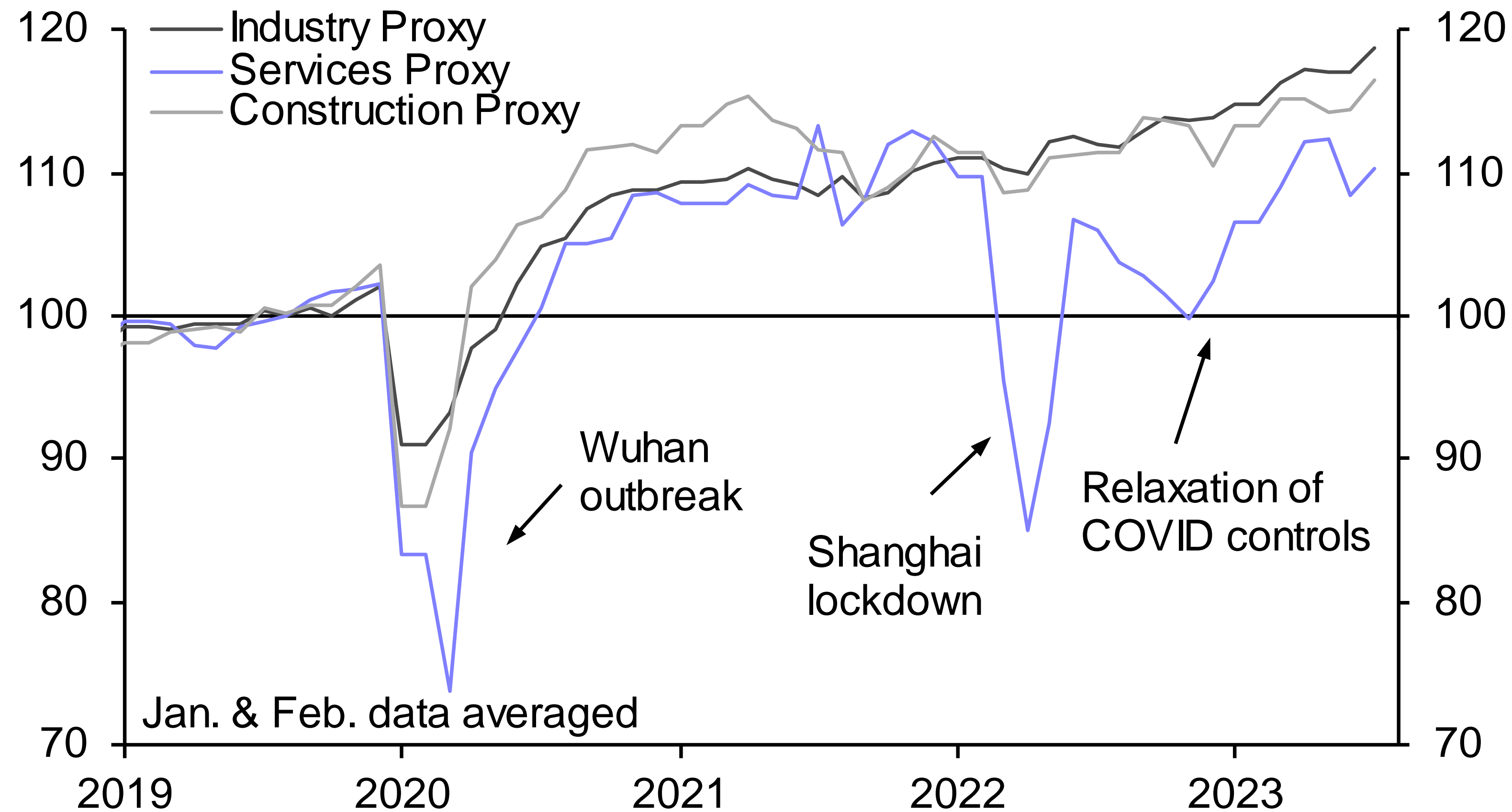


Sources: CEIC, WIND, Capital Economics



All sectors made gains last month. Construction activity surpassed its 2021 peak, which provided support to wider industry. Services remain a relative weak spot.

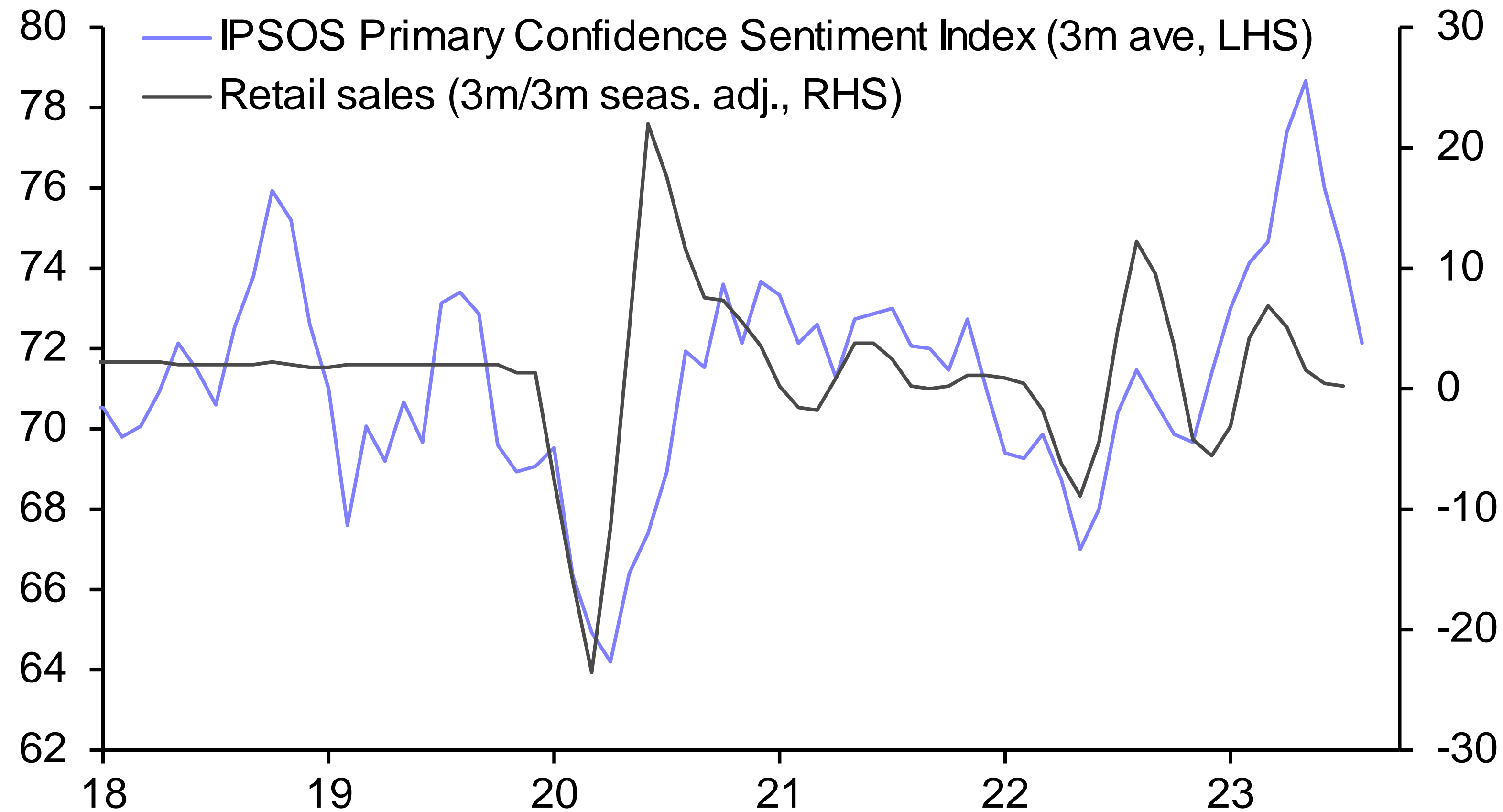
CE China Activity Proxy – Sector Proxies (2019 = 100, seas. adj.)



Sources: CEIC, WIND, Capital Economics

This reflects a drop in consumer confidence, which has weighed on retail sales.
This risks becoming self-reinforcing.

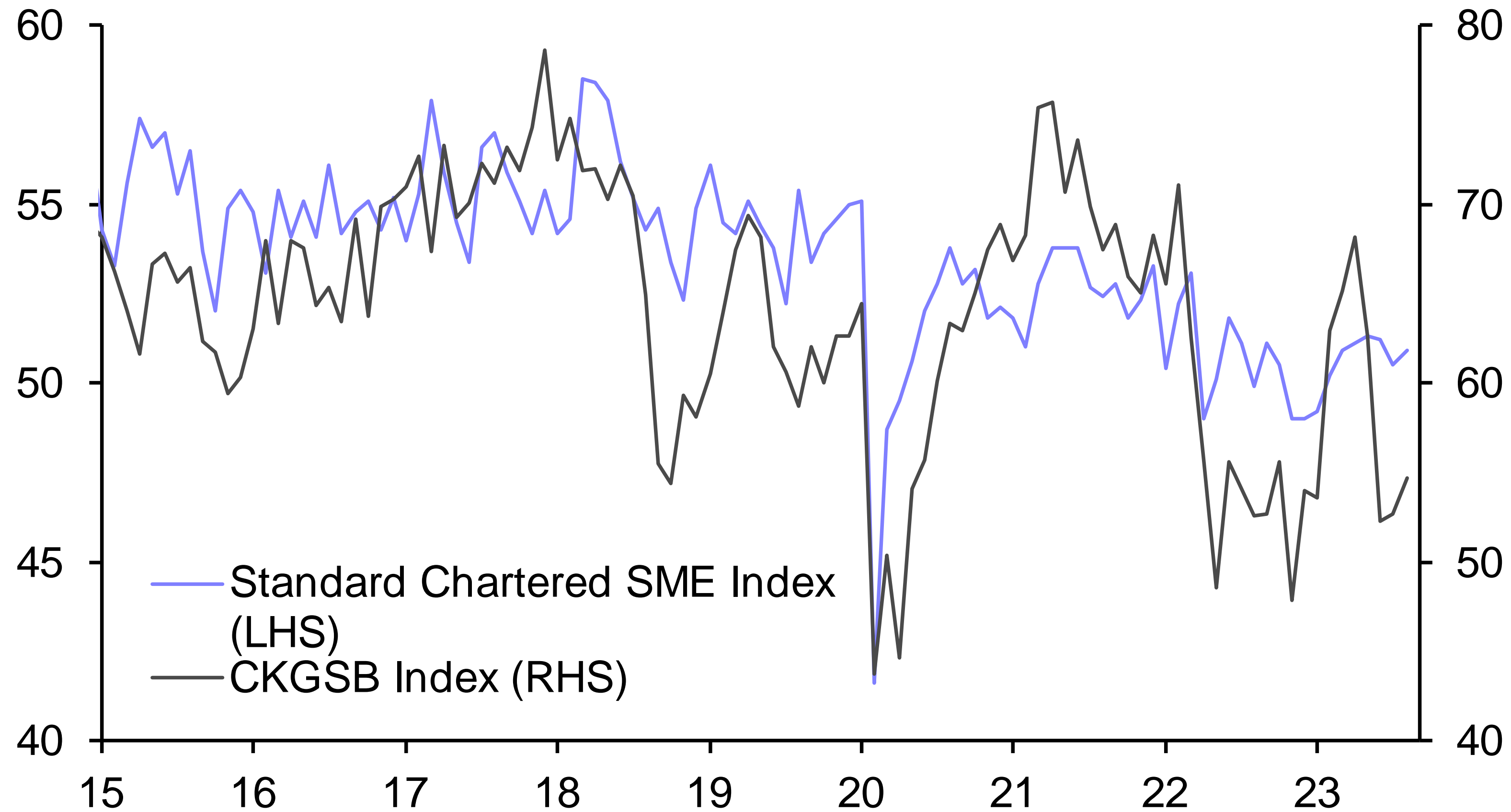
China Consumer Confidence & Retail Sales



Sources: CEIC, Refinitiv, Capital Economics

Sentiment among firms is also weak, which is holding back their investment intentions. The biggest source of concern is the property sector.

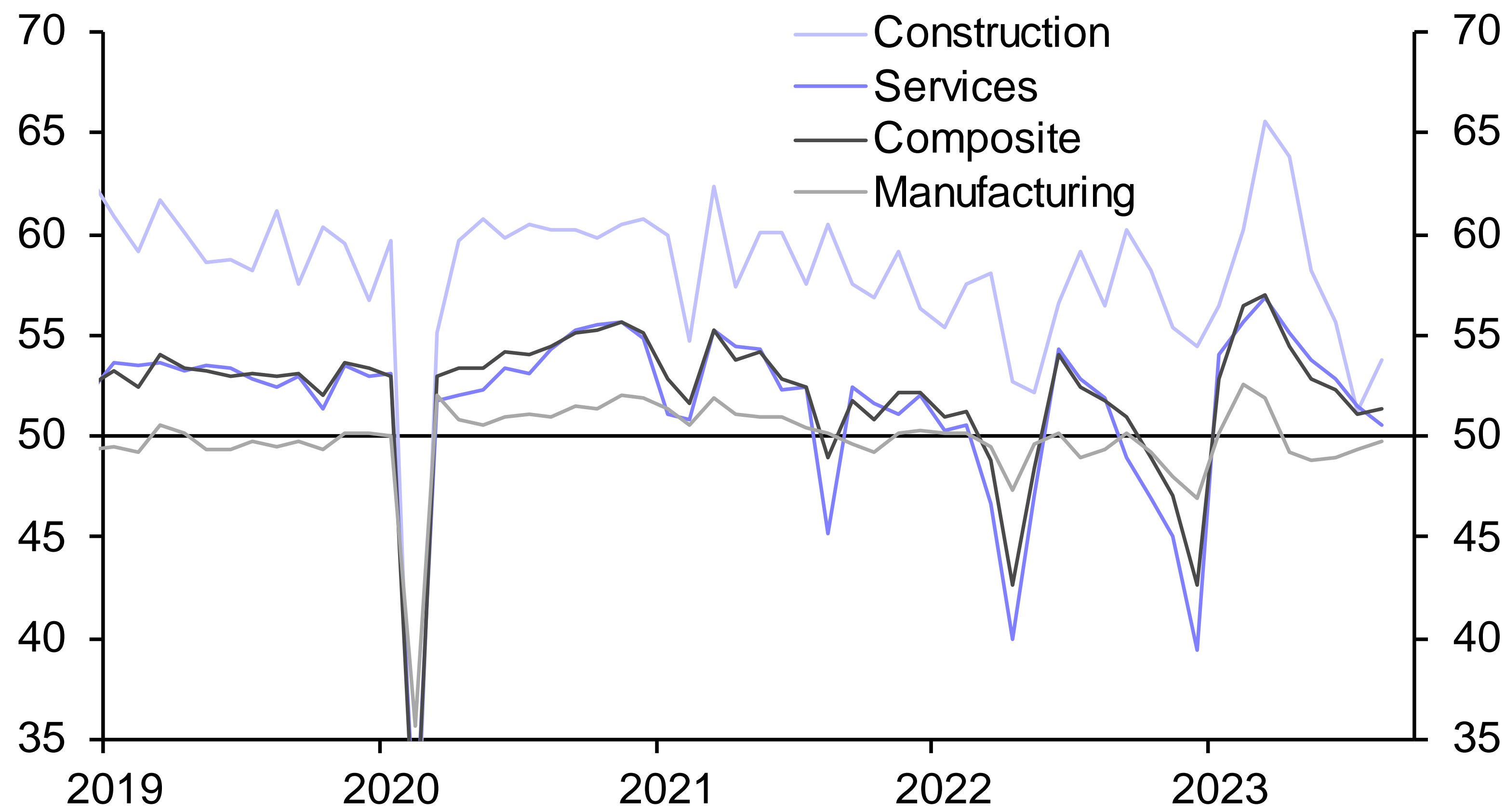
Business Surveys – Future Investment Intention



Sources: CEIC, Bloomberg, Capital Economics

The PMIs suggest momentum improved slightly in August, thanks to policy support. Construction accelerated while downward pressure on industry eased.

China Official PMIs

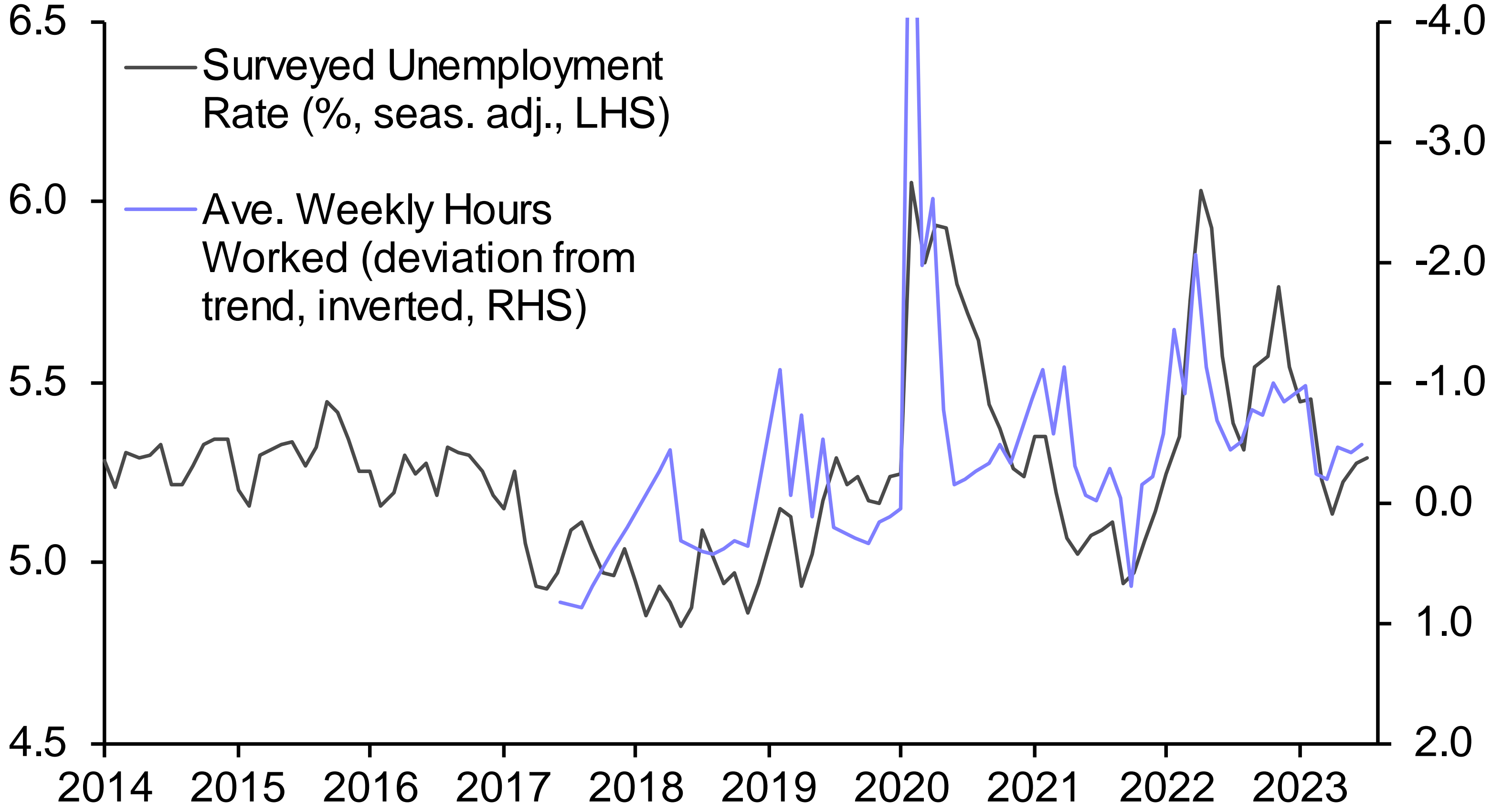


Sources: CEIC, Capital Economics



After tightening earlier in the year, the labour market has started to soften again amid the current economic struggles.

China Unemployment Rate & Hours Worked



Sources: CEIC, Capital Economics

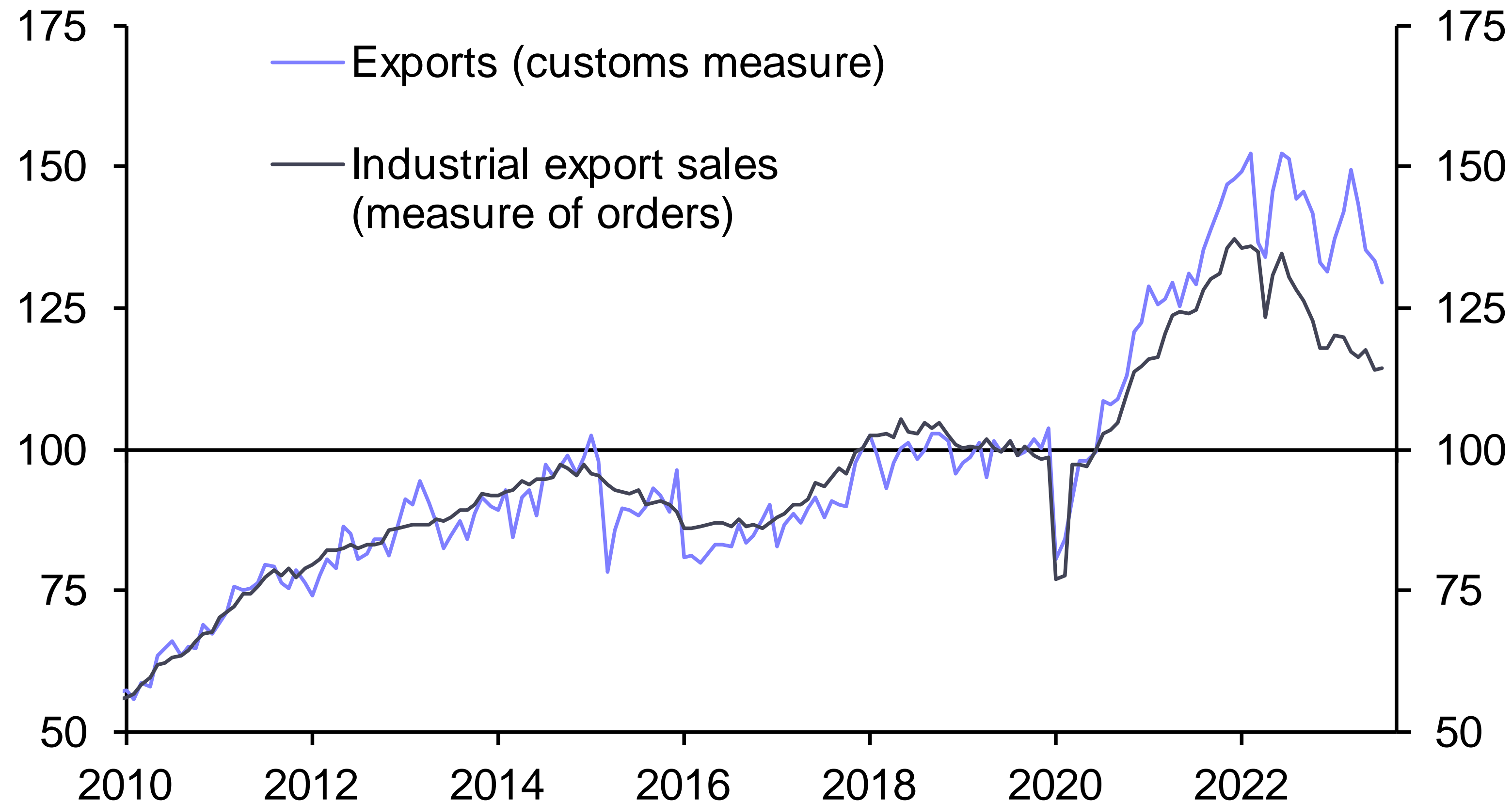
The renewed downturn in the labour market has been broad-based, with postings for both manufacturing and services jobs reversing their initial reopening bounce.



Sources: CEIC, Capital Economics

Foreign orders have retreated as the pandemic boom in global goods demand has unwound. This suggests that exports will fall further in the coming months.

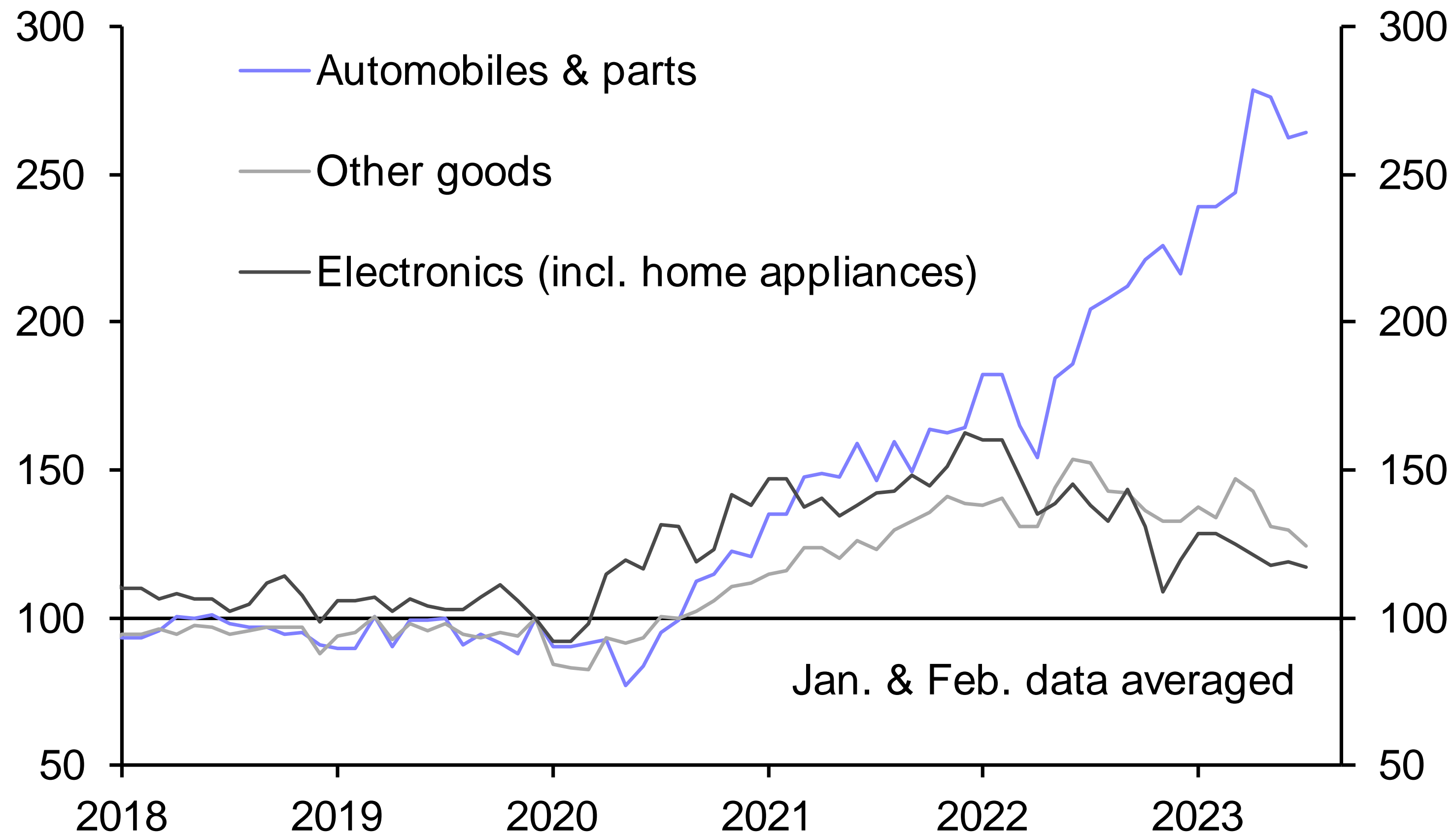
China Exports & Industrial Export Sales (\$, 2019=100, CE seas. adj.)



Sources: CEIC, Capital Economics

Exports of most products are dropping back, but strong gains in car shipments are partially offsetting declines elsewhere.

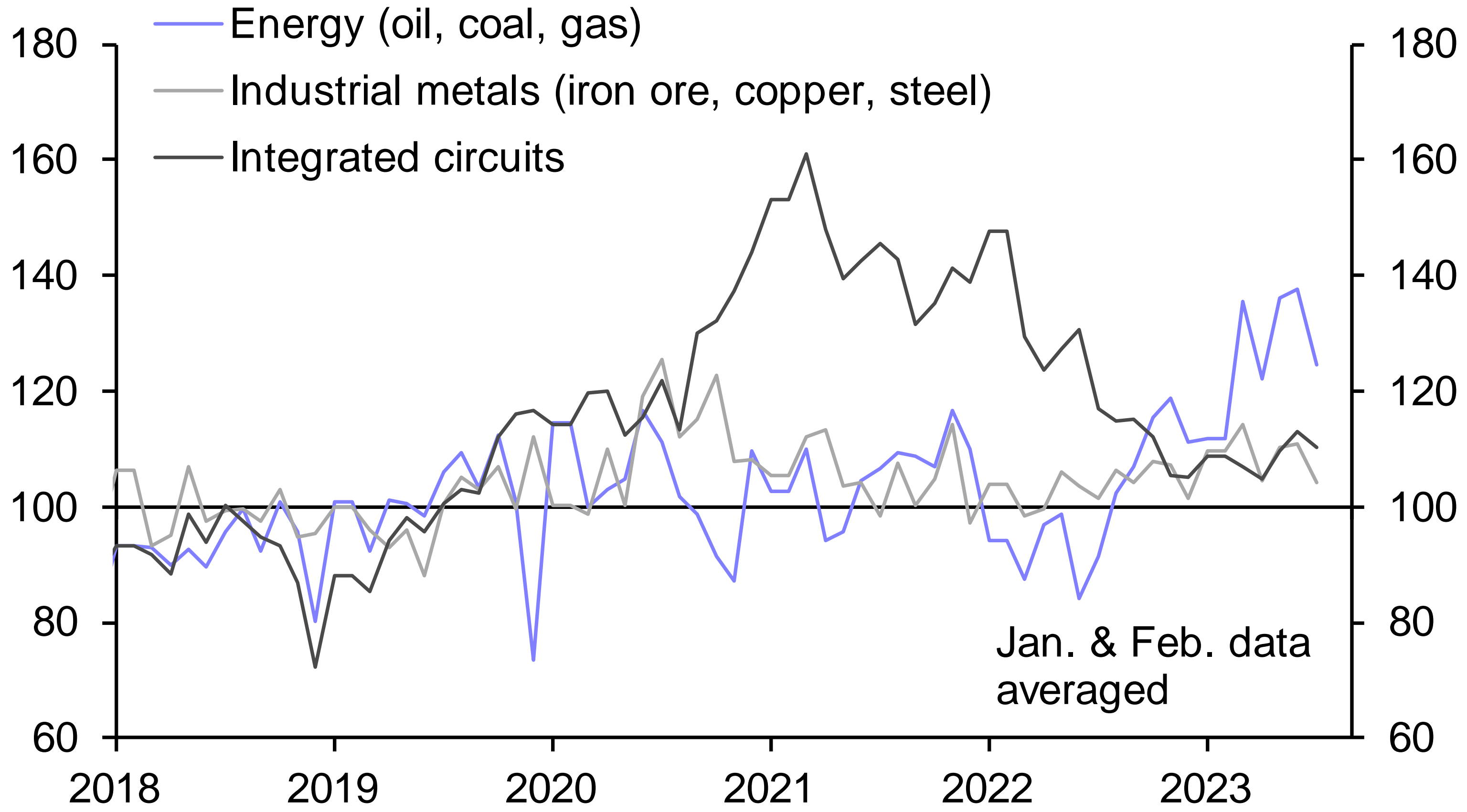
China Exports (\$, Dec. 2019 = 100, seas. adj.)



Sources: CEIC, Capital Economics

Sluggish goods demand is holding back imports of manufactured components. But fuel imports remain a bright spot thanks to the recovery in passenger travel.

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

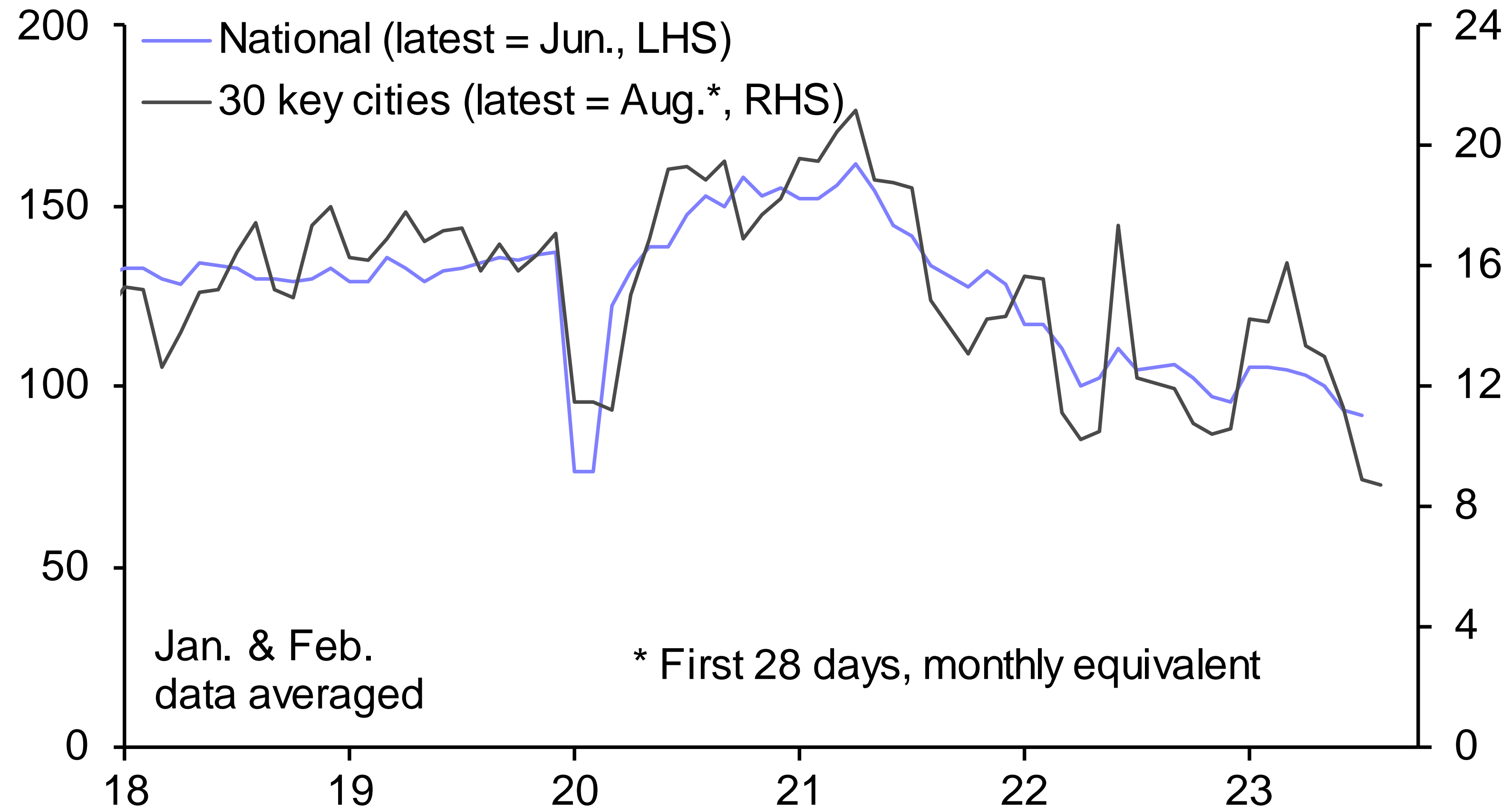


Sources: CEIC, Capital Economics



Housing demand continues to spiral downwards and is showing no signs of bottoming out anytime soon.

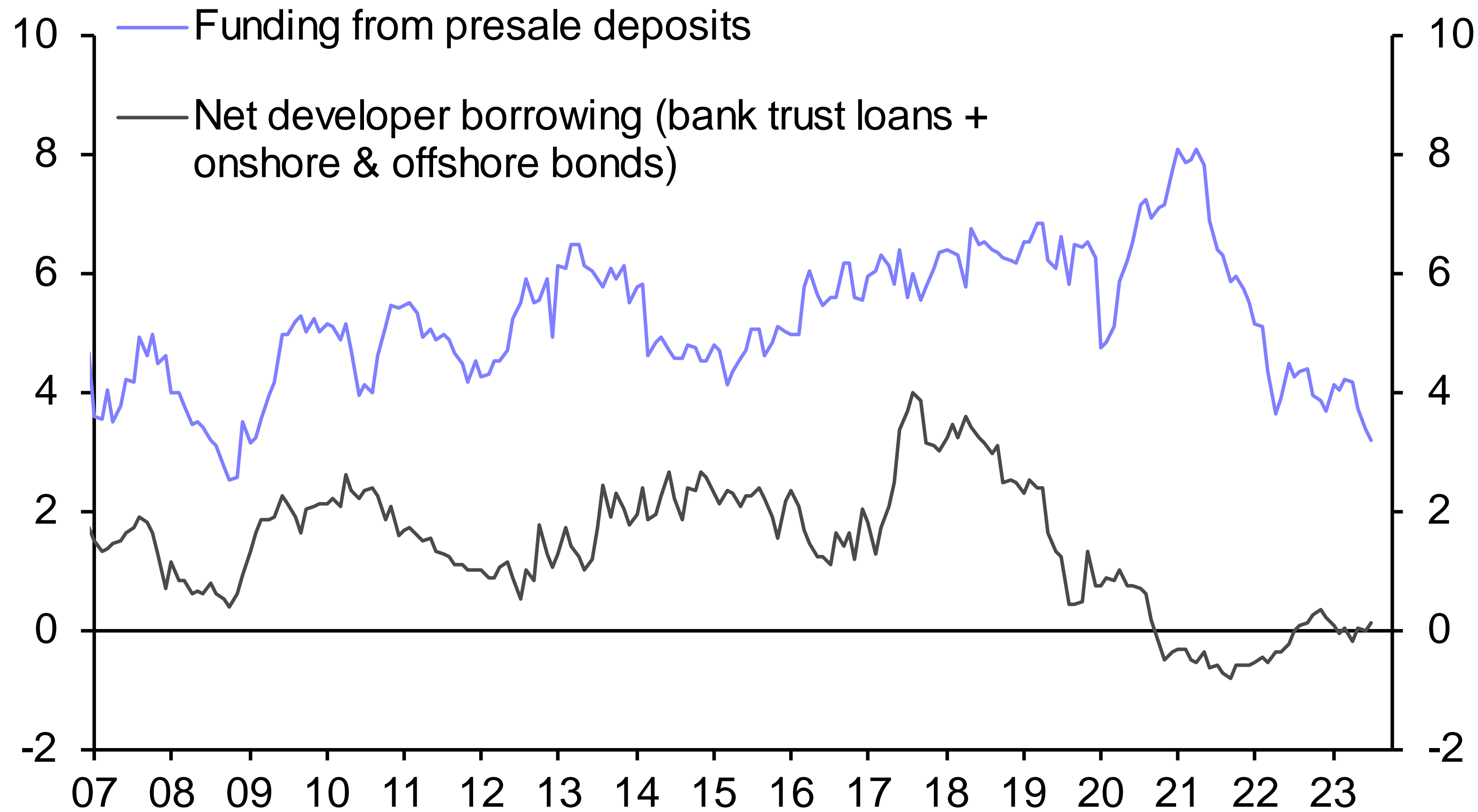
China New Home Sales (million sqm, seas. adj.)



Sources: CEIC, Wind, Capital Economics

Developers are struggling with shrinking presale deposits and a reluctance among creditors to provide them with more credit, despite regulatory easing.

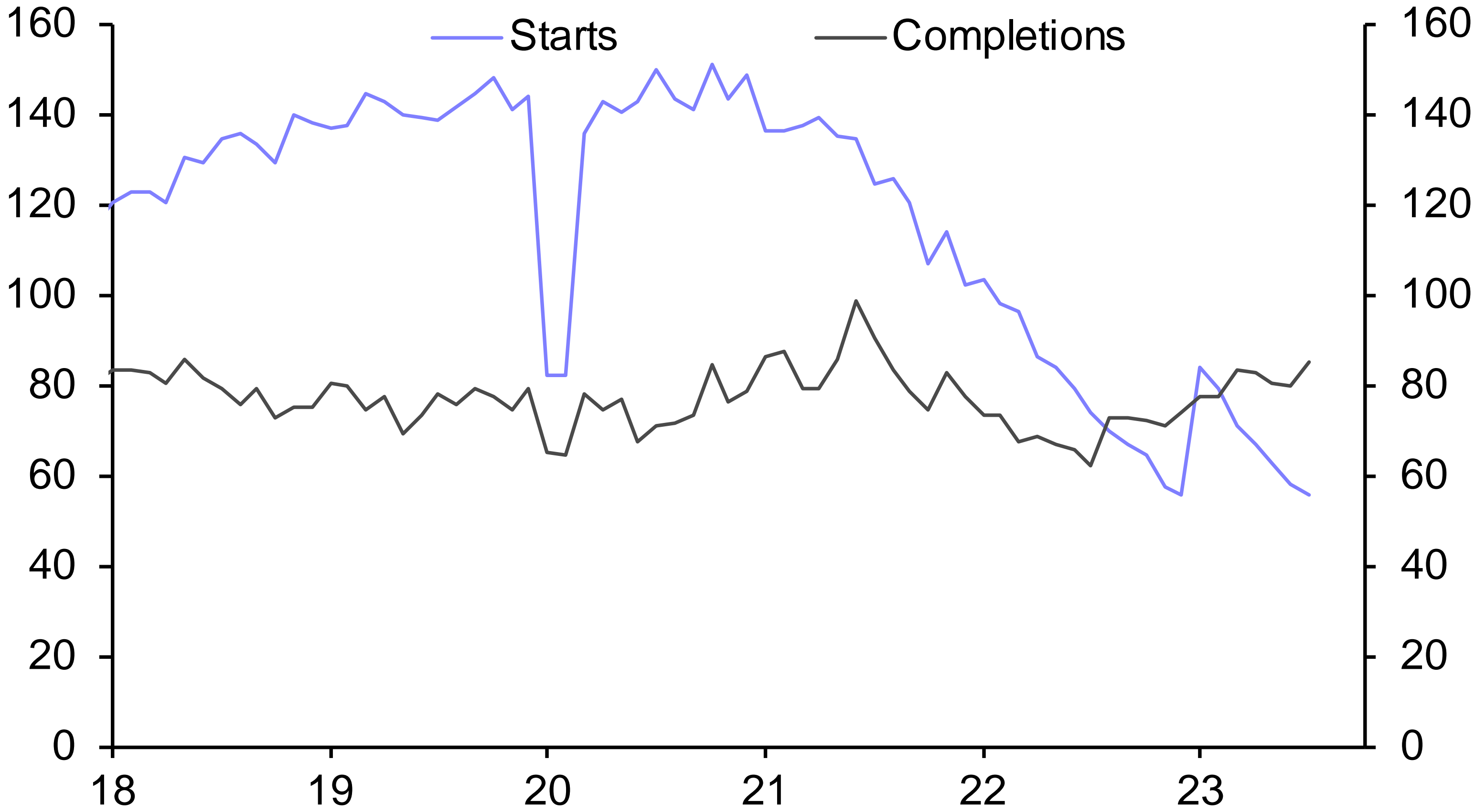
China Developer Financing (% of trend GDP, seas. adj.)



Sources: CEIC, Capital Economics

Developers are breaking ground on fewer new homes. But efforts to accelerate the completion of existing projects appears to be making headway.

Residential Floor Space Started & Completed (sqm mn, SA)

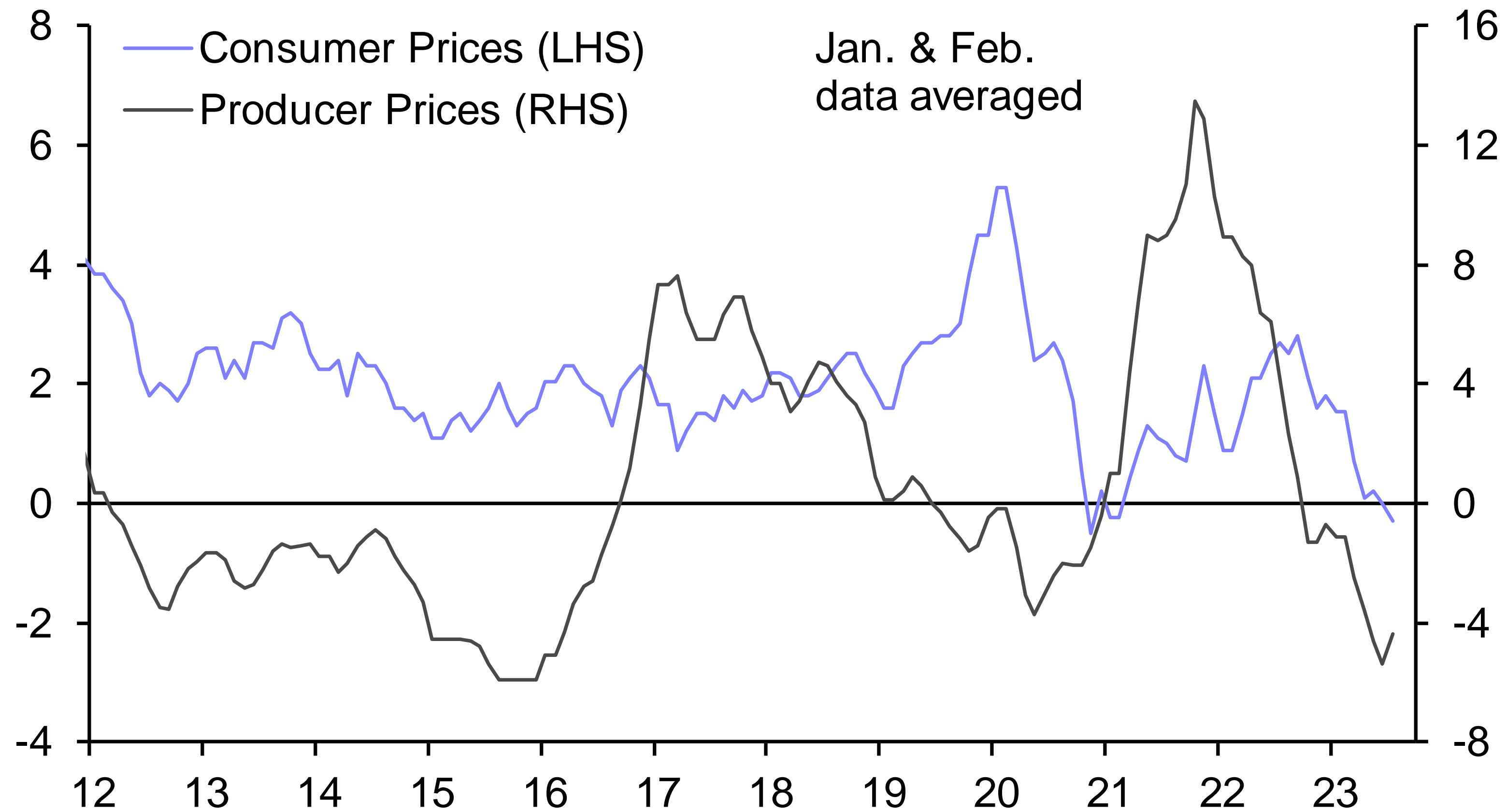


Sources: CEIC, Capital Economics



CPI joined PPI in deflationary territory last month. But the main culprits are base effects and swings in food and energy prices.

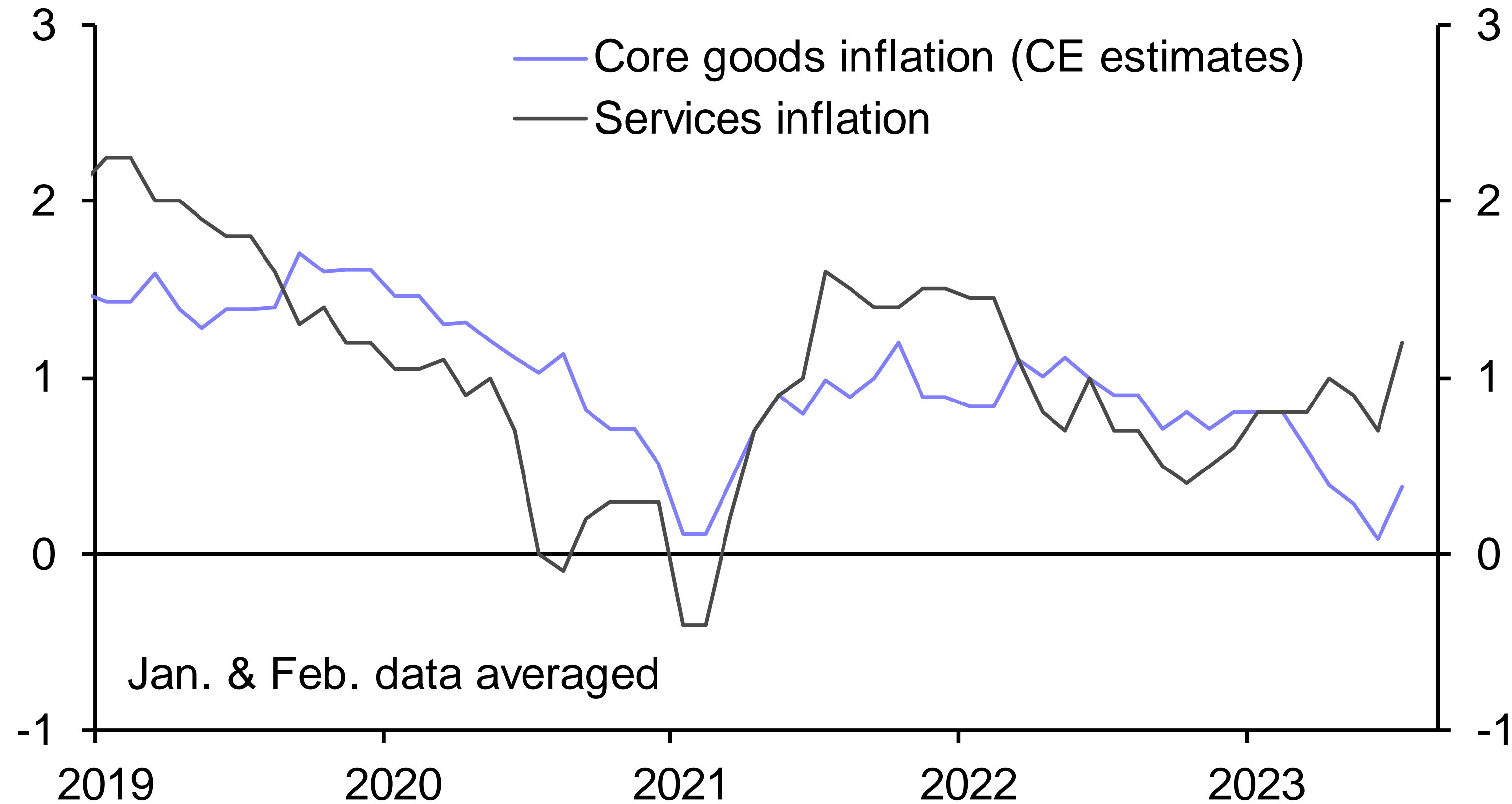
China Consumer & Producer Prices (% y/y)



Sources: CEIC, Capital Economics

Core inflation ticked up in July but remains low. This reflects excess goods supply. By contrast, services inflation has risen to a 17-month high.

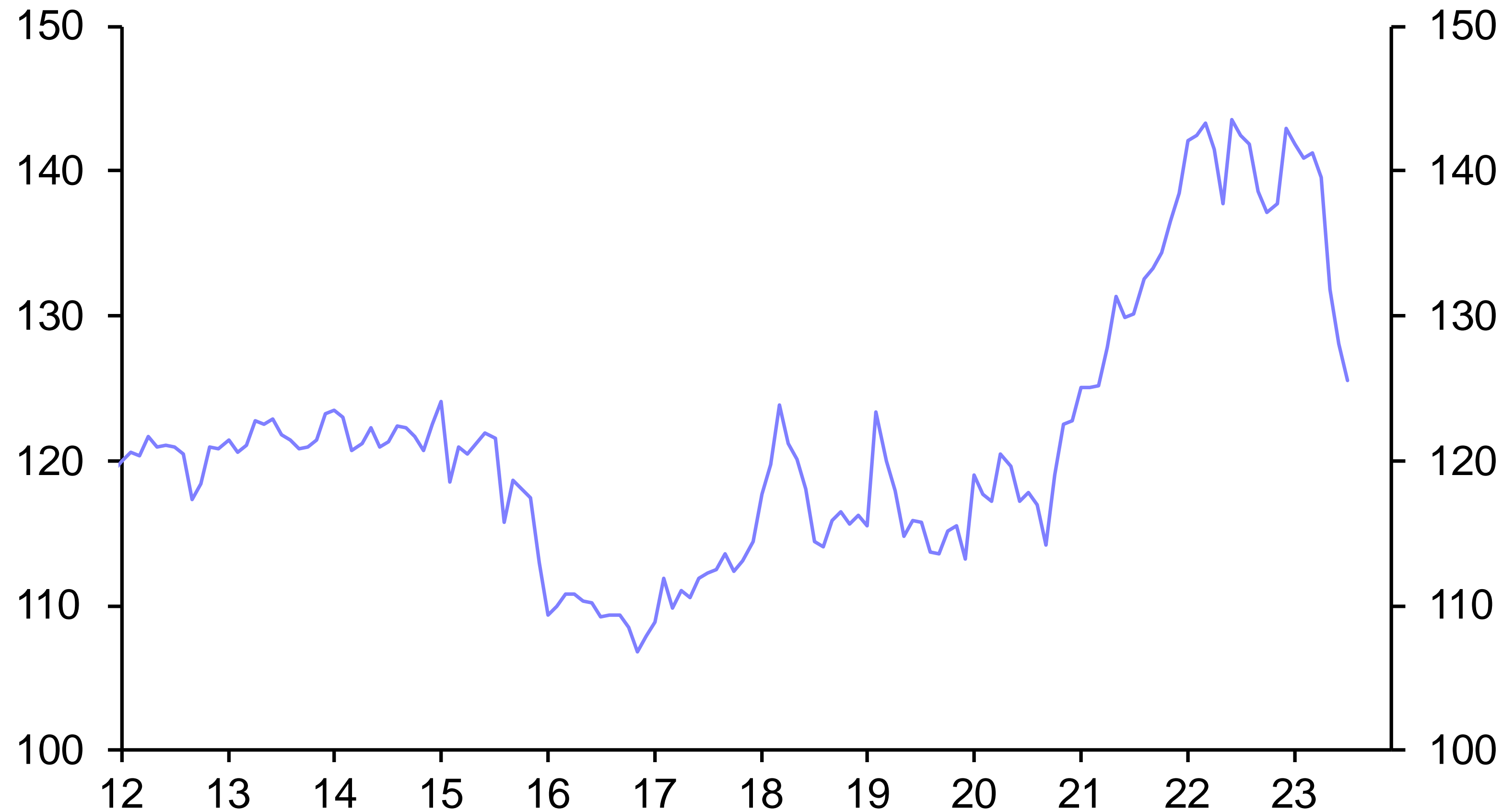
Consumer Prices (% y/y)



Sources: CEIC, Capital Economics

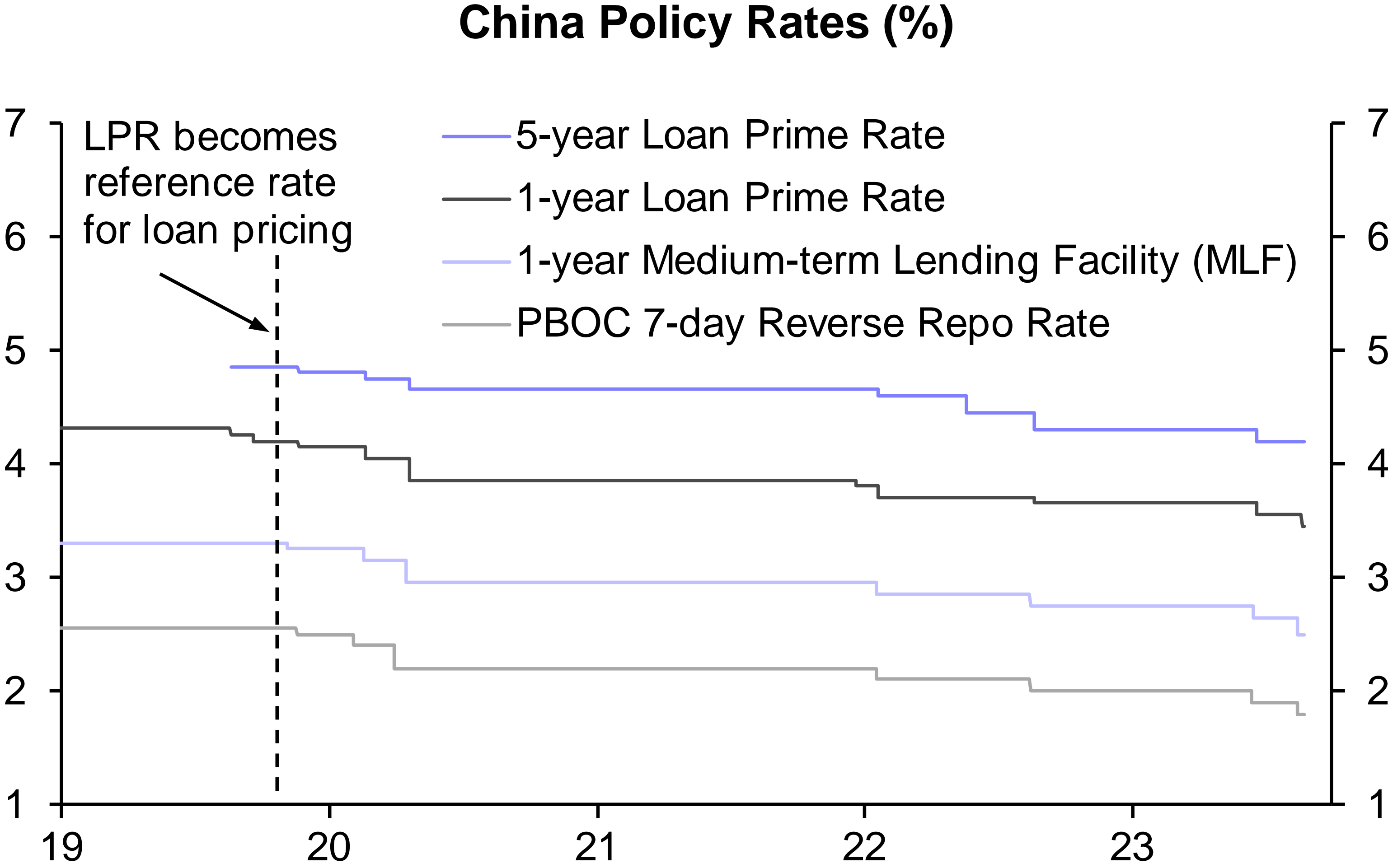
Firms expanded capacity in response to the pandemic boom in global goods demand. With demand now easing, firms are slashing export prices.

Export Price Index (\$, 2010 = 100)

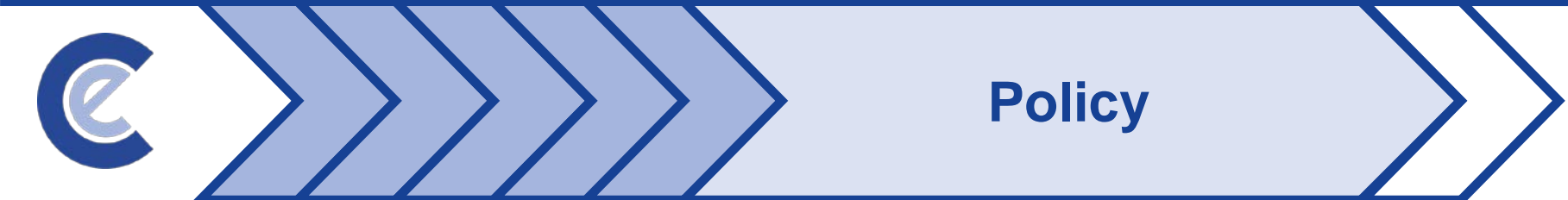


Sources: Refinitiv, Capital Economics

The PBOC cut its 1Y MLF by 15bps, the most since the initial pandemic hit. But the 1Y LPR was lowered by only 10bps and the 5Y LPR was left on hold.

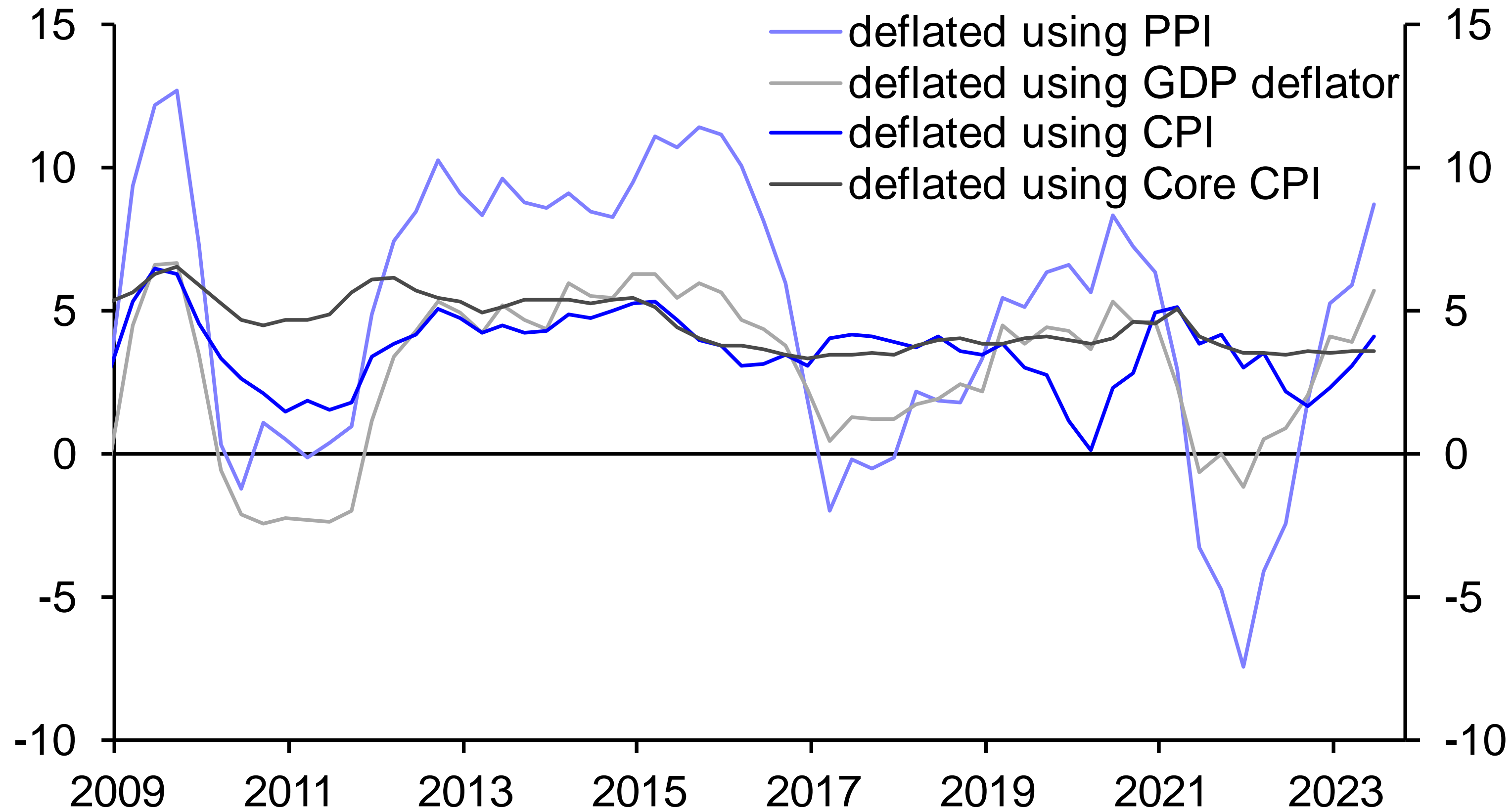


Sources: CEIC, Capital Economics



Such small cuts won't revive credit demand. Partly because disinflation is pushing up real interest rates, offsetting the effects of monetary easing.

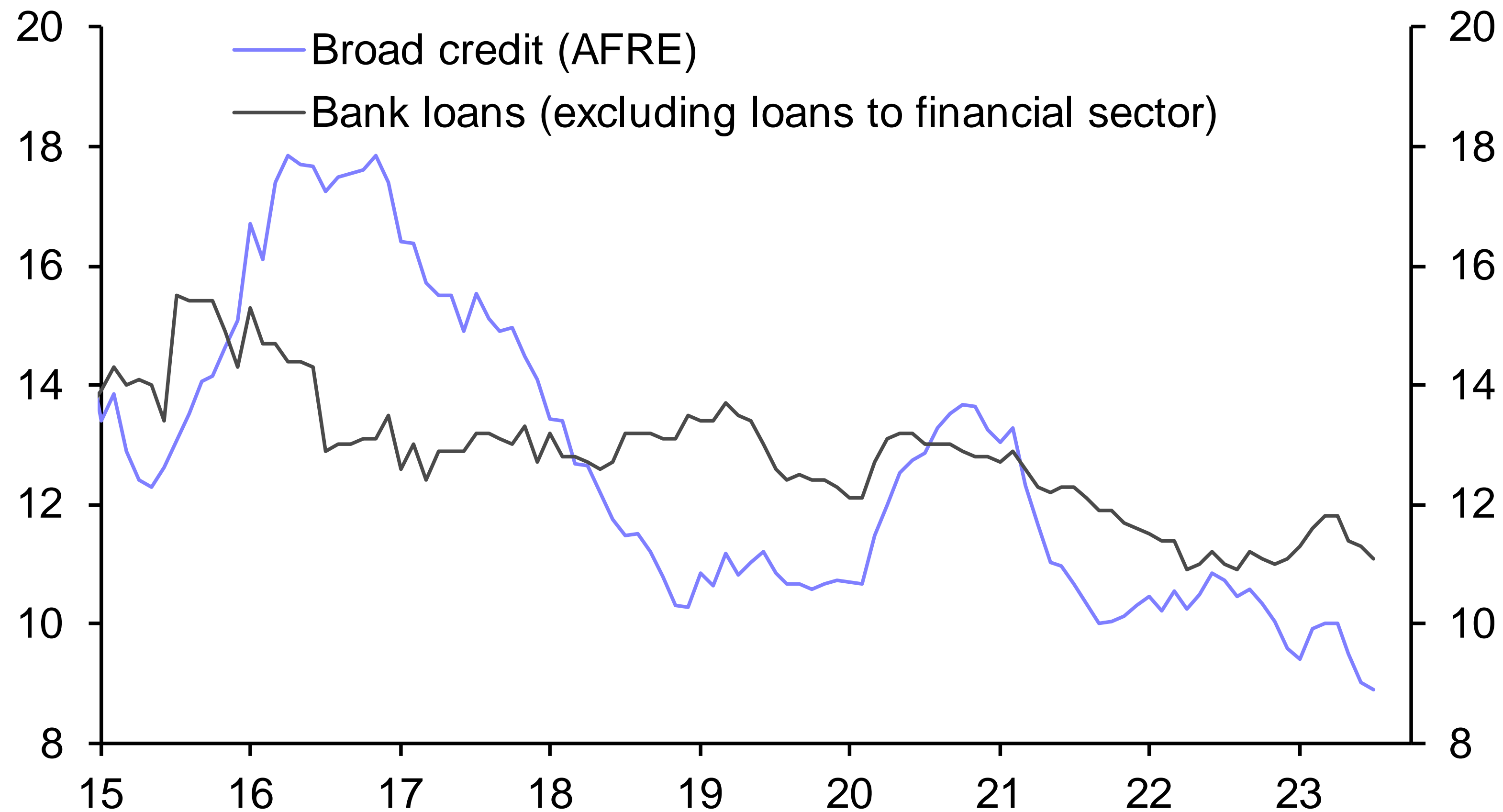
Bank Lending Rates (%)



Sources: CEIC, Capital Economics

Due to weak sentiment and the absence of more substantial stimulus, bank lending has cooled recently, and broad credit growth has dropped to a record low.

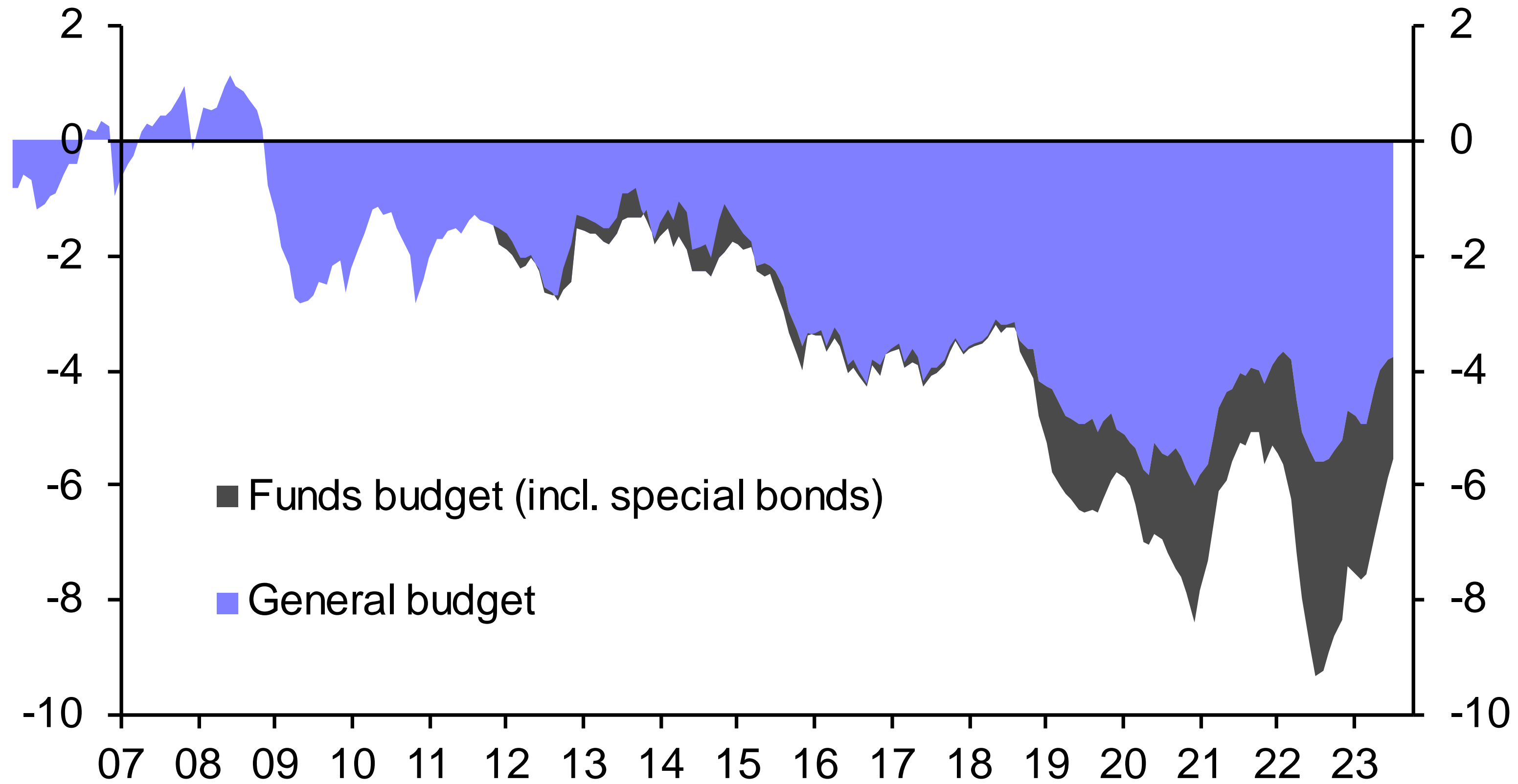
Growth of Outstanding Credit (% y/y)



Sources: CEIC, Capital Economics

Despite some front-loading of infrastructure spending in early 2023, the fiscal stance has generally been tightened this year.

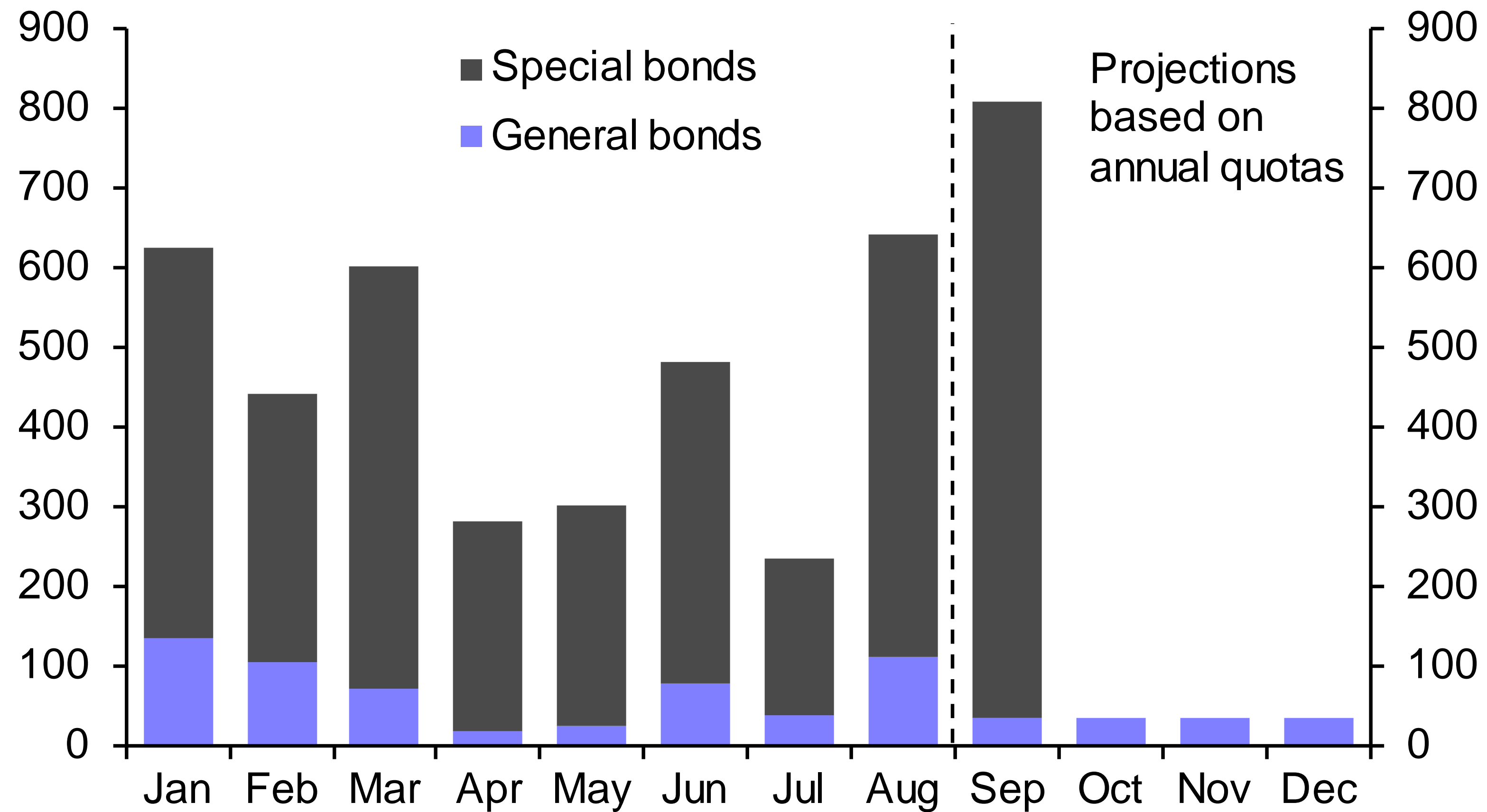
China Budget Balance (% of trend GDP, 12m rolling)



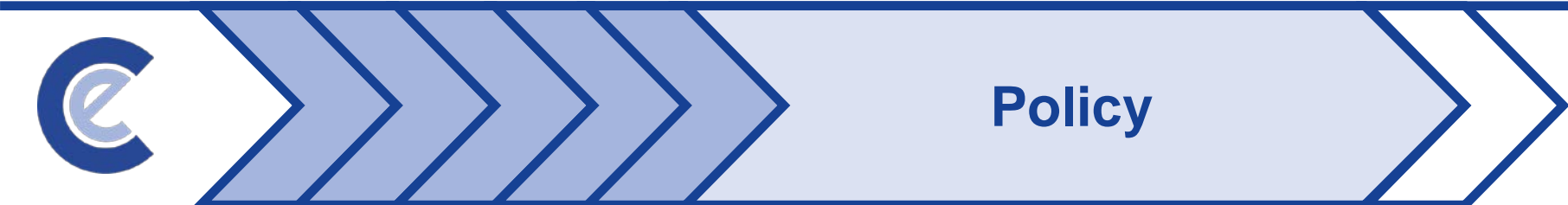
Sources: CEIC, Capital Economics

But government borrowing and spending is now ramping up again thanks to directives to fully utilize the annual special bond quotas by the end of September.

New Local Chinese Government Bond Issuance (RMB bn)

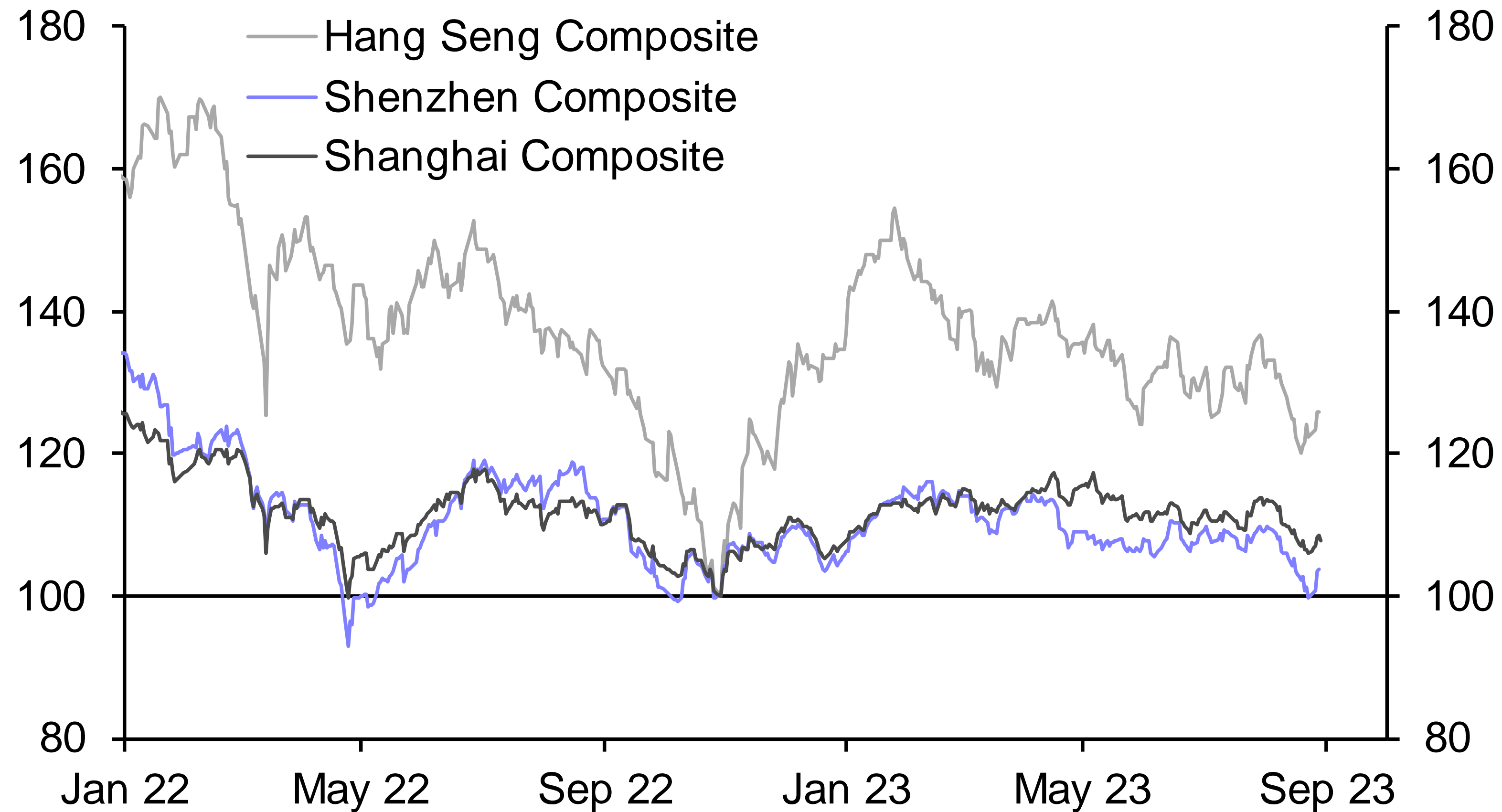


Sources: CEIC, WIND, Capital Economics



Chinese equities have sold off lately due to worsening investor sentiment amid concerns over the economic outlook and troubles in the property sector.

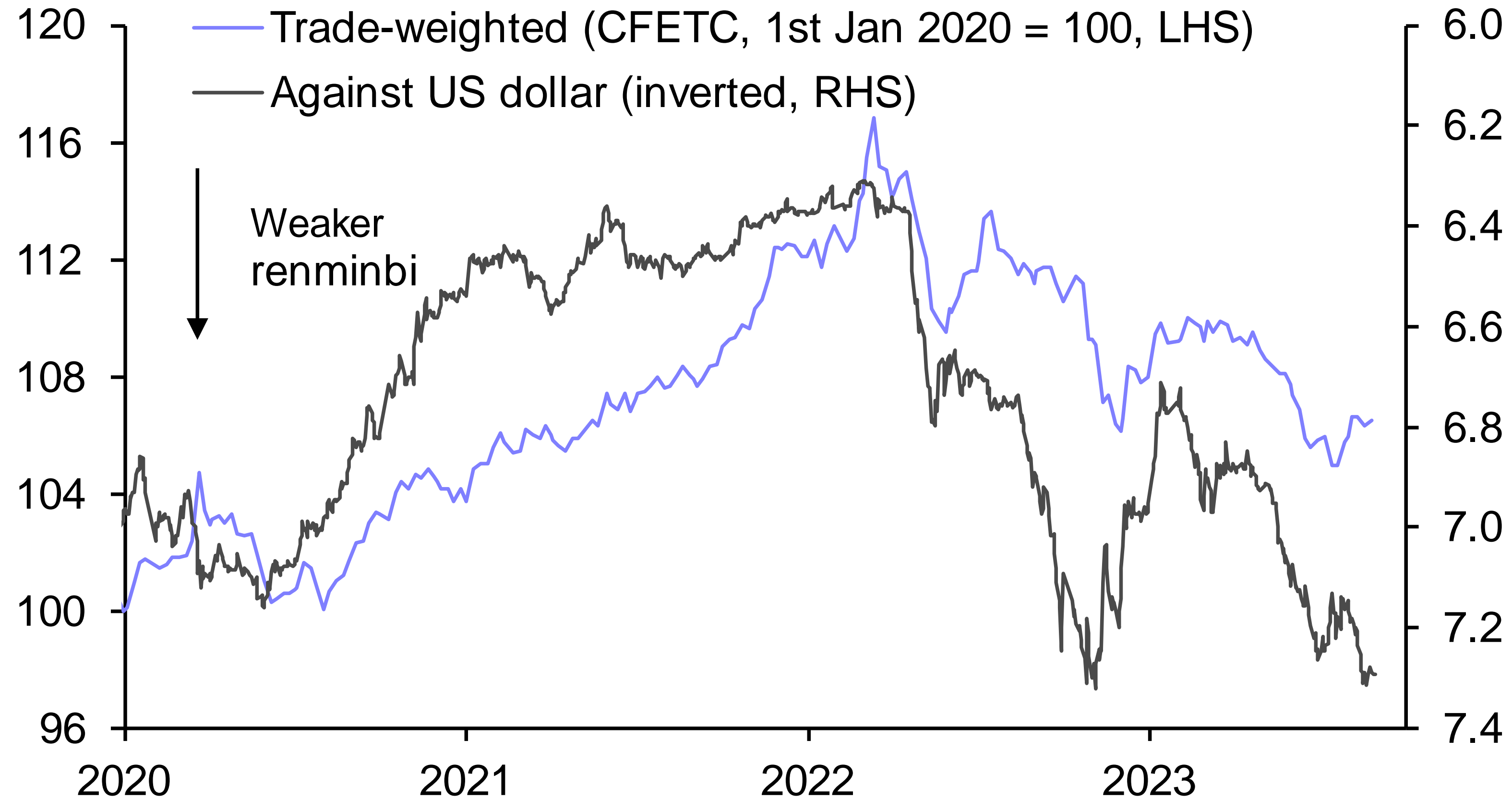
China Equity Indices (31st Oct. 2022 = 100)



Sources: CEIC, Refinitiv, Capital Economics

Although the renminbi has held up in trade weighted terms, it has depreciated against the US dollar this month, reaching its weakest level since November.

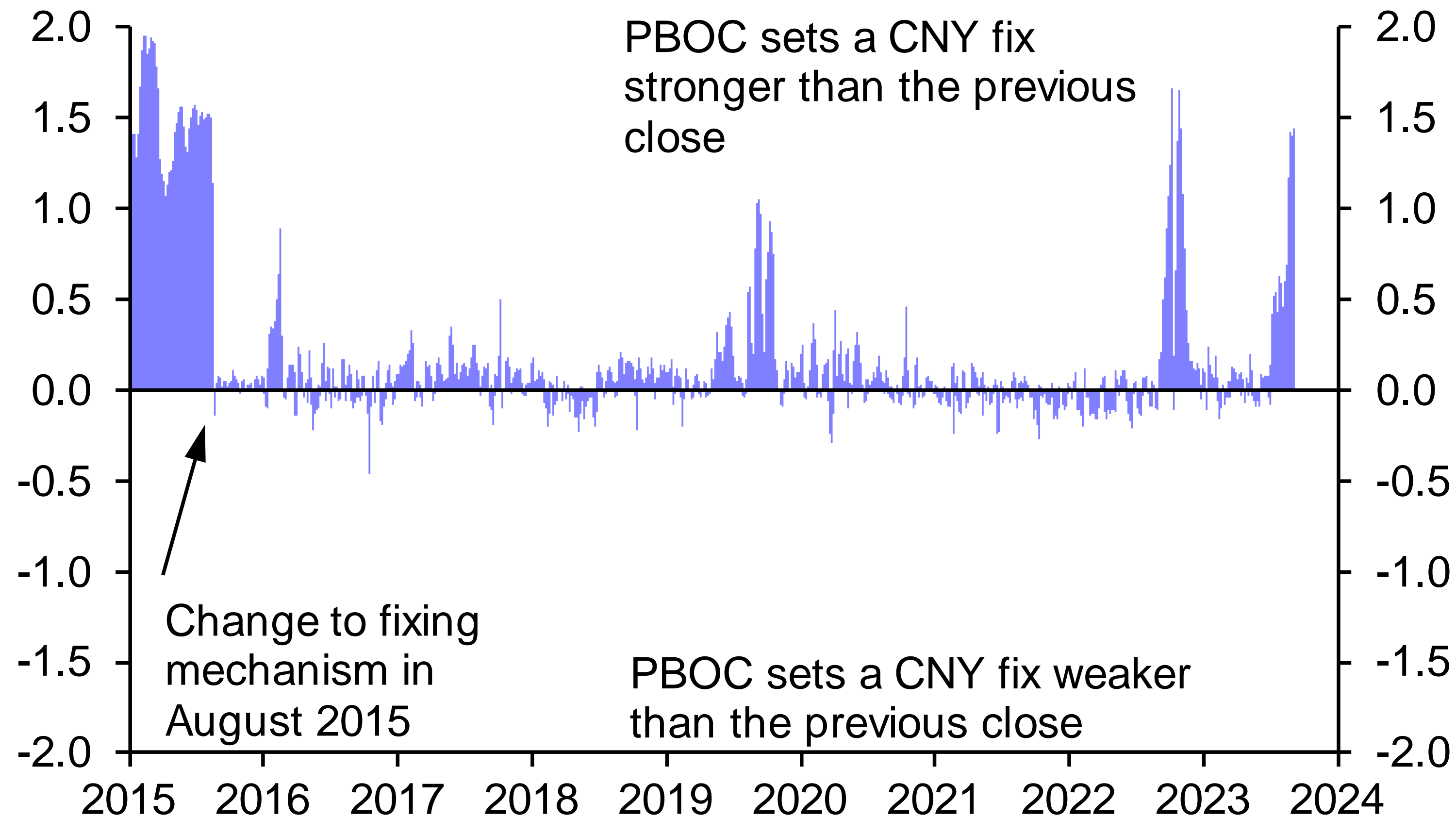
Renminbi Exchange Rate



Sources: CEIC, Refinitiv, Capital Economics

But the PBOC has been pushing back against market pressure, for example by introducing a strong bias into the renminbi's daily fixing rate.

Gap between PBOC fix and previous close (% , 7d ave.)



Sources: CEIC, Refinitiv, Capital Economics

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