



# CHINA ECONOMICS WEEKLY

## Emerging industries won't replace property

### Industrial policy not an offset for property

Can emerging new industries replace property as a driver of China's economy? There has been a flurry of discussion in the past couple of weeks in China about whether "new-type industrialisation" (NTI) can ensure they can. NTI has been [promoted by Xi](#) as an approach to upgrading across industry in response to rising costs domestically and competition between "great powers". It has a particular focus on "Strategic Emerging Industries."

It is unlikely that emerging new manufacturing sectors on their own will reach the scale or generate the growth or jobs that property did: at its peak, China's property sector generated 20-25% of GDP. That was a bigger share of output than is produced by the entire manufacturing sectors of Germany and Japan. In China, sectors defined as Strategic Emerging Industries – including advanced materials and tools and green energy products like electric vehicles – generated 13% of GDP in 2021.

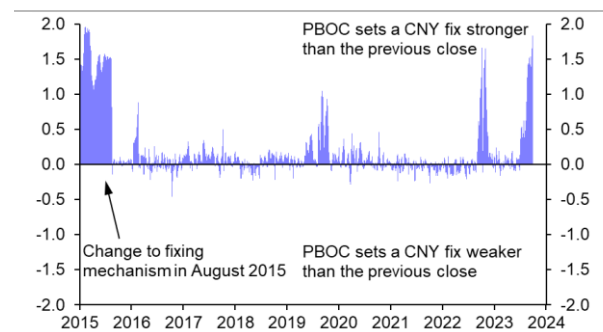
While the government has been promoting the NTI concept recently, it isn't offering anything new that could accelerate these sectors' growth. Strategic Emerging Industries are long-standing recipients of government support, with targets in the past two Five-Year Plans to expand their size. For the slowdown from property to be even partially offset, something new would be needed. And these sectors are generally capital and skills-intensive – they also won't provide alternative employment for many of those who worked in construction.

Instead of a new programme, NTI looks like a way to contextualise industrial policy goals. These goals, as with "Made in China 2025", are primarily intended to help China reach self-sufficiency and technological parity with the West in strategically-important sectors rather than to boost GDP growth. Indeed, in our view, by diverting resources to compete at the technological frontier, they will probably result in weaker economic growth overall.

### PBOC may dust off old tool

The PBOC was pushing back hard against market pressure on the renminbi to weaken in the run-up to the Mid-Autumn Festival and National Day holiday. The average gap this week between the daily CNY fix and the spot exchange rate was the largest since the current fixing mechanism was adopted in 2015. (See Chart 1.) One result of the PBOC's efforts to stop the renminbi breaching 7.30/\$ that we noted in our updated [Chart Pack](#) is that the renminbi has recently appreciated in trade-weighted terms.

Chart 1: Gap between PBOC fix and previous close (% , 7d ave.)



Sources: CEIC, Refinitiv, Capital Economics

Concern about the renminbi [is limiting](#) the extent of rate cuts. But the PBOC has other tools. In its statement after this week's Q3 Monetary Policy Committee meeting it pledged to use "precise, forceful" measures to support the economy. One of those could be resumption of Pledged Supplemental Lending (PSL). This scheme was created in 2014 to provide funding for policy banks to finance "shantytown" renovation. That could be a renewed focus alongside infrastructure, helping to sustain spending once local governments exhaust the bond quotas they have been told to use up in October.

### The week ahead

Today's mid-autumn festival runs into the National Day holiday. Onshore markets are closed all next week; Hong Kong's are closed on Monday. The only notable scheduled releases are of the PMIs.

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# Data Previews

## Sat. 30<sup>th</sup> Sep. / Sun. 1<sup>st</sup> Oct. – Manufacturing PMIs (Sep.)

Forecasts	Time (China)	Previous	Consensus	Capital Economics
“Official” PMI (30 <sup>th</sup> Sep.)	09.30	49.7	50.1	50.0
Caixin/S&P Global PMI (1 <sup>st</sup> Oct.)	09.45	51.0	51.2	51.0

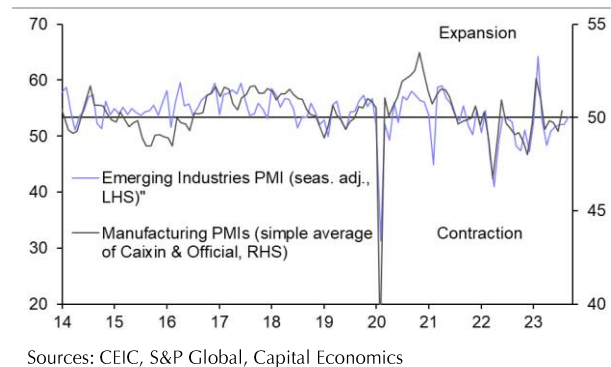
### Factory activity stabilising

After falling into contractionary territory for four months, the average of the official and Caixin manufacturing PMIs jumped in August, returning above 50. We think the surveys will hold on to these gains and be little changed in September.

Admittedly, the flash PMIs for China’s major trading partners were weak this month, hinting at a continued drag from cooling external demand. But domestic demand is likely to have held up better, supported by the recent step up in infrastructure spending. Encouragingly, the timely Emerging Industries PMI – which covers high-tech parts of

industry – continued to improve in September. (See Chart 2.)

Chart 2: Manufacturing & Emerging Industry PMIs



## Sat. 30<sup>th</sup> Sep. / Sun. 1<sup>st</sup> Oct. – Non-manufacturing PMIs (Sep.)

Forecasts	Time (China)	Previous	Consensus	Capital Economics
“Official” PMI (30 <sup>th</sup> Sep.)	09.30	51.0	51.5	51.5
Caixin/S&P Global PMI (1 <sup>st</sup> Oct.)	09.45	51.8	52.0	52.0

### Services slowdown may be bottoming out

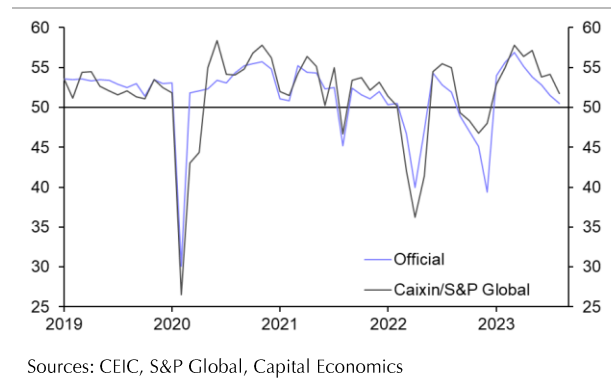
In contrast to the manufacturing surveys, the services PMIs fell again in August. (See Chart 3.) We think that might mark the trough this cycle, with the PMIs likely to show a pick-up in services activity in September.

Retail sales exceeded expectations in August, and growth in the services production index also improved, perhaps indicative of a turning point. The unemployment rate also declined, which should help to support wage growth. Consumer caution seems to be easing too, with the IPSOS consumer sentiment index ticking up in September.

Construction activity, which is part of the official non-manufacturing PMI, may have picked up too. Admittedly, new housing starts almost certainly fell again amid declining home sales. But bond issuance

by local government rose on the back of directives to fully utilise annual quotas for special bonds by the end of this month. As such, infrastructure construction probably picked up this month.

Chart 3: Services PMIs





# Economic Diary & Forecasts

## Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (China)	Previous*	Median*	CE Forecasts*
<b>September</b>						
Sat 30 <sup>th</sup>		<b>Chn</b> "Official" Manufacturing PMI (Sep.)	(09.30)	49.7	50.1	50.0
		<b>Chn</b> "Official" Non-manufacturing PMI (Sep.)	(09.30)	51.0	51.5	51.5
<b>October</b>						
Sun 1 <sup>st</sup>		<b>Chn</b> Caixin Manufacturing PMI (Sep.)	(09.45)	51.0	51.2	51.0
		<b>Chn</b> Caixin Services PMI (Sep.)	(09.45)	51.8	52.0	52.0
1 <sup>st</sup> – 6 <sup>th</sup>		<b>Chn</b> National Day Golden Week (National Holiday)	-	-	-	-
Mon 2 <sup>nd</sup>		<b>HK</b> National Day of the People's Republic of China (National Holiday)	-	-	-	-

### Selected future data releases and events:

#### October

Sat 7 <sup>th</sup>		<b>Chn</b> Foreign Exchange Reserves (Sep.)
Fri 13 <sup>th</sup>		<b>Chn</b> Inflation Data (Sep.)
		<b>Chn</b> Trade Data (Sep.)

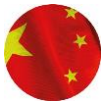
Also expected during this period:

9 <sup>th</sup> – 15 <sup>th</sup>		<b>Chn</b> Aggregate Financing "AFRE" (Sep., RMB)
9 <sup>th</sup> – 15 <sup>th</sup>		<b>Chn</b> New Net Lending (Sep., RMB)
9 <sup>th</sup> – 15 <sup>th</sup>		<b>Chn</b> M2 Money Supply (Sep.)
11 <sup>th</sup> – 18 <sup>th</sup>		<b>Chn</b> Foreign Direct Investment (Sep., RMB)

## Main Economic & Market Forecasts

%q/q annualised (%y/y), unless stated	Latest	Q3 2023	Q4 2023	Q1 2024	Q2 2024	2022	2023f	2024f	2025f
Official GDP	+0.8(+6.3)*	(4.3)	(5)	(4)	(4.4)	(3.0)	(5.0)	(4.5)	(4.0)
GDP (CE CAP-derived estimates)	+2.5(+11.3)*	(4.7)	(7.7)	(5.2)	(3.4)	(-3.4)	(6.5)	(4.0)	(2.5)
Consumer Prices	(+0.1)**	(0.2)	(0.2)	(1.1)	(1.2)	(2.0)	(0.5)	(1.0)	(1.0)
Producer Prices	(-3.0)**	(-2.5)	(-2.2)	(-1.6)	(-0.3)	(4.0)	(-2.5)	(-0.5)	(-1.0)
Broad Credit (AFRE)	(+9.0)**	(9.2)	(10.3)	(9.4)	(10.0)	(9.6)	(10.3)	(9.7)	(8.4)
Exports (US\$)	(-8.8)**	(-15.5)	(-8.5)	(-15.0)	(-15.5)	(7.0)	(-8.5)	(-10.0)	(2.0)
Imports (US\$)	(-7.3)**	(-7.5)	(-8.5)	(8.5)	(0.5)	(1.0)	(-7.5)	(1.5)	(2.0)
RMB/\$ <sup>†</sup>	7.30	7.30	7.30	7.20	7.10	6.95	7.30	6.90	6.70
7-day PBOC reverse repo <sup>†</sup> %	1.80	1.80	1.60	1.60	1.60	2.00	1.60	1.60	1.60
1-year Loan Prime Rate <sup>†</sup> (LPR) %	3.45	3.45	3.25	3.25	3.25	3.65	3.25	3.25	3.25
1-year MLF Rate <sup>†</sup> %	2.50	2.50	2.30	2.30	2.30	2.75	2.30	2.30	2.30
10-year Government Bond Yield <sup>†</sup> %	2.72	2.72	2.40	2.50	2.60	2.85	2.40	2.60	2.60
RRR (major banks) <sup>†</sup> %	10.50	10.50	10.25	10.25	10.25	11.00	10.25	10.25	10.25
CSI 300 Index <sup>†</sup>	3,690	3,690	3,800	3,900	4,000	3,872	3,800	4,200	4,900
Hong Kong GDP	(+1.5)*	(6.3)	(9.3)	(4.9)	(6.6)	(-3.5)	(5.0)	(4.5)	(1.5)
Hang Seng Index <sup>†</sup>	17,373	17,375	18,250	18,400	19,363	19,781	18,400	22,250	25,500

Sources: Bloomberg, Refinitiv, CEIC, Capital Economics \*Q2; \*\*Aug.; <sup>†</sup> End of period



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