



**CAPITAL ECONOMICS**

INDEPENDENT ANALYSIS, FORECASTS  
AND CONSULTANCY

# China Chart Pack

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# China Chart Pack

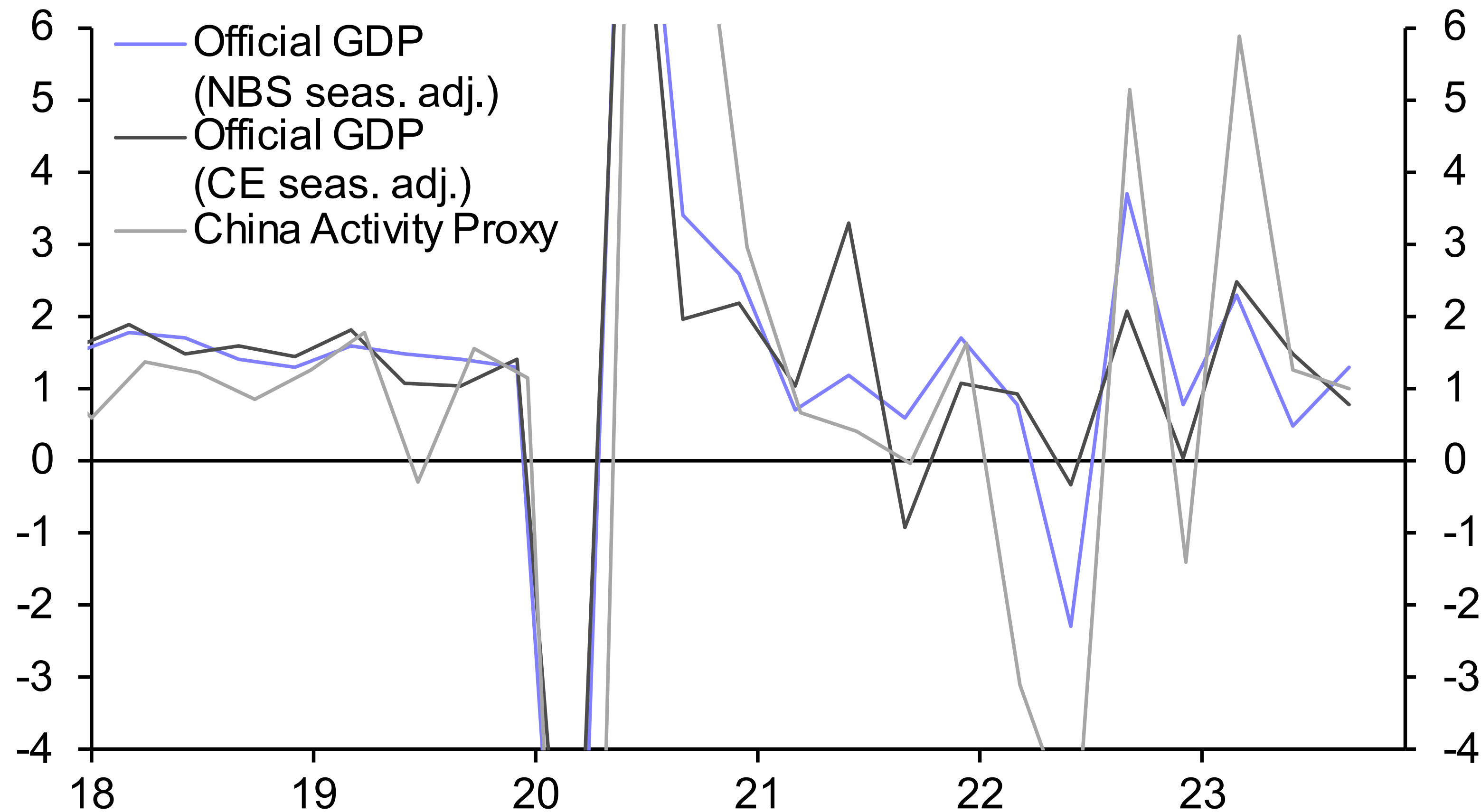
**Our View:** China's economy is regaining some momentum after stalling during the summer. A step up in policy support looks set to deliver a modest cyclical recovery but trend growth remains under pressure.

- **Activity**: Although growth appears to have slowed in Q3, the economy was regaining momentum in September.
- **Labour Market**: The labour market is still tightening which has helped to put a floor beneath consumption.
- **Trade**: Export volumes have hit a fresh high, but we doubt this is sustainable given the challenging global economic outlook.
- **Property**: Green shoots are appearing thanks to policy support, but the impact has been uneven.
- **Inflation**: Deflation fears dissipated further as PPI deflation eased, thanks to higher energy and metals prices.
- **Policy**: The PBOC refrained from cutting policy rates due to exchange rate concerns. But broad credit growth has stabilised thanks to supportive fiscal policy.
- **Financial Markets**: Equities boomed in late 2022 after the shift away from zero-COVID, but the gains have now reversed.
- **To see all our analysis on China's economy and details of our forecasts, visit our [China landing page](#).**



Official figures showed that the economy accelerated in Q3. As usual, their accuracy is [questionable](#). Our estimates point to a slowdown.

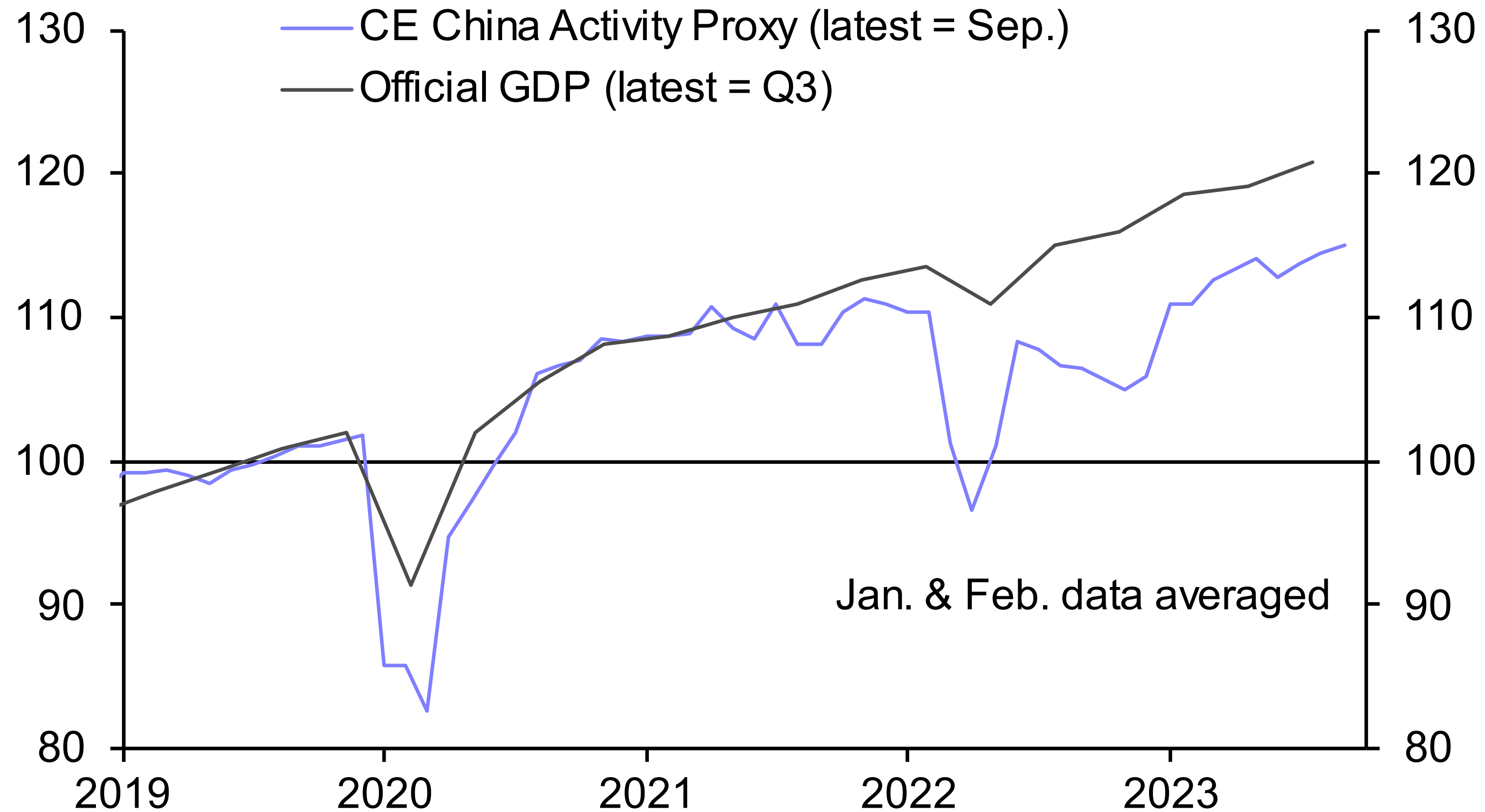
### CE China Activity Proxy & Official GDP (% q/q, seas. adj.)



Sources: CEIC, WIND, Capital Economics

The [China Activity Proxy](#), our in-house alternative to official GDP, suggests that cumulative growth since end-2019 is 6%-pts lower than official figures claim.

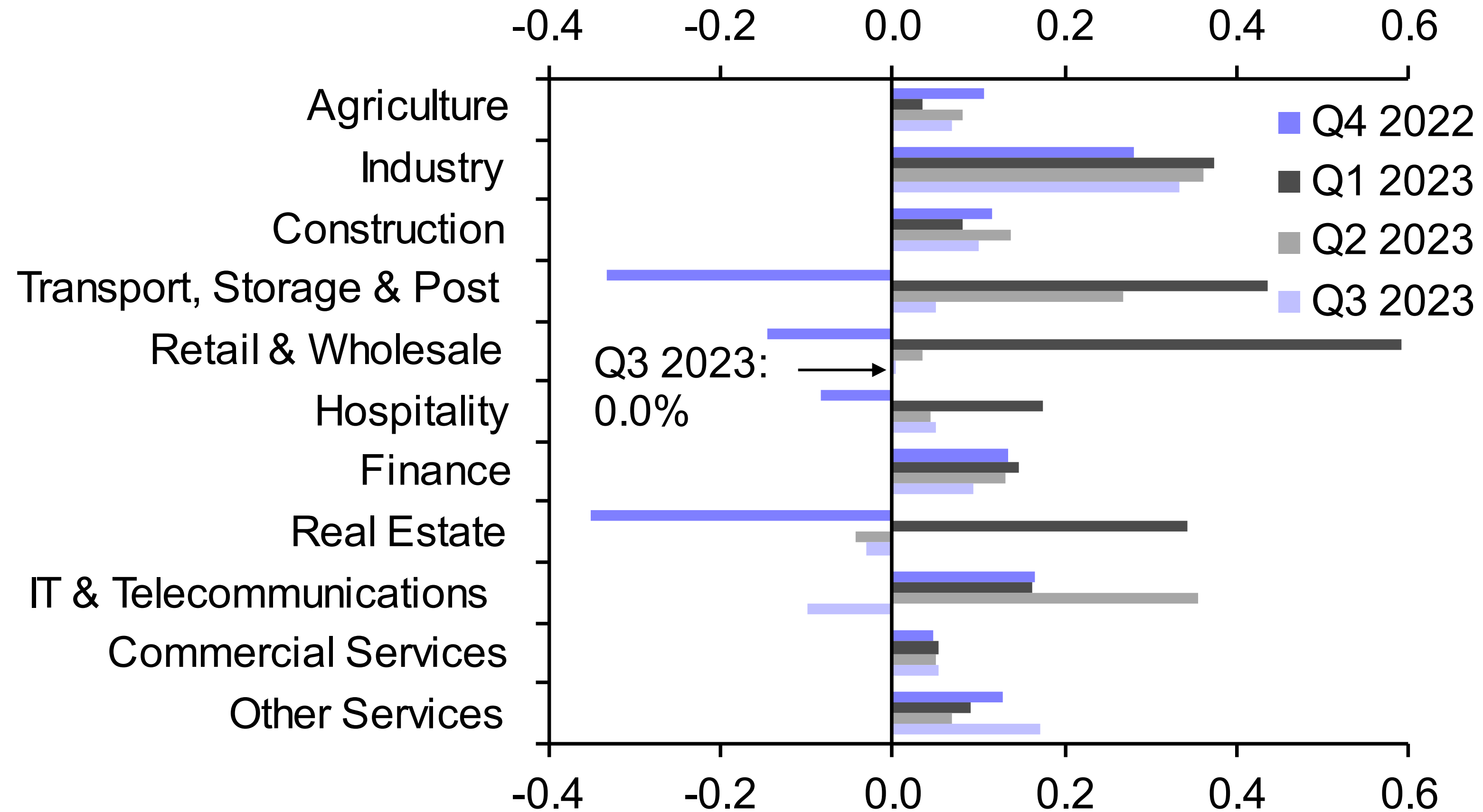
### CE China Activity Proxy & Official GDP (2019 = 100, seas. adj.)



Sources: CEIC, WIND, Capital Economics

For what its worth, the sectoral breakdown of official GDP corroborates other evidence that much of the service sector is still struggling.

### %-pt Contribution to q/q GDP Growth by Sector (seas. adj.)

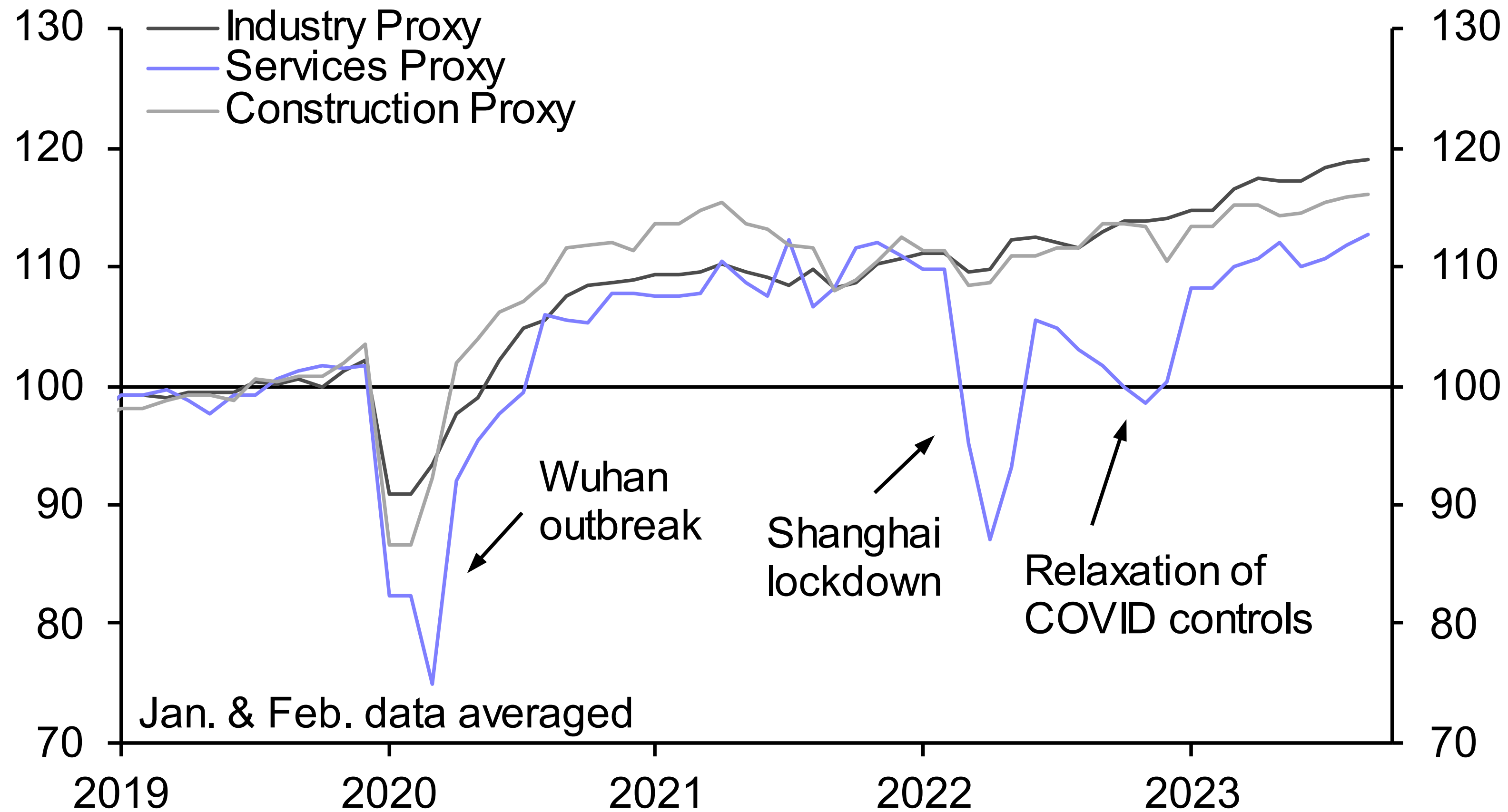


Sources: CEIC, Capital Economics



In monthly terms, services activity made the most headway in September but is still a relative weak spot. Gains in industry and construction are slowing.

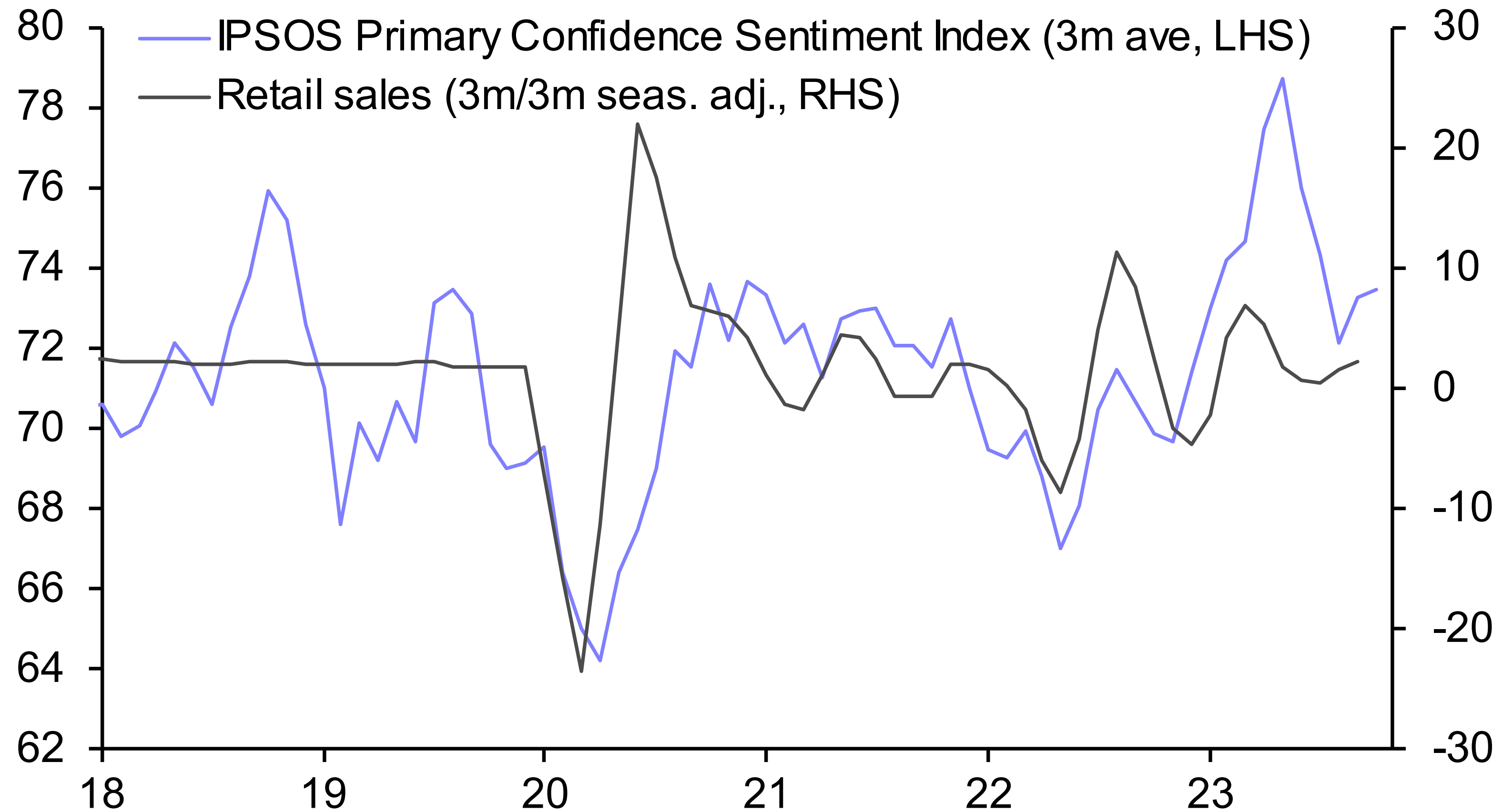
### CE China Activity Proxy – Sector Proxies (2019 = 100, seas. adj.)



Sources: CEIC, WIND, Capital Economics

The recovery in retail sales growth continues to gain momentum. This reflects an improvement in consumer sentiment thanks to sustained policy support.

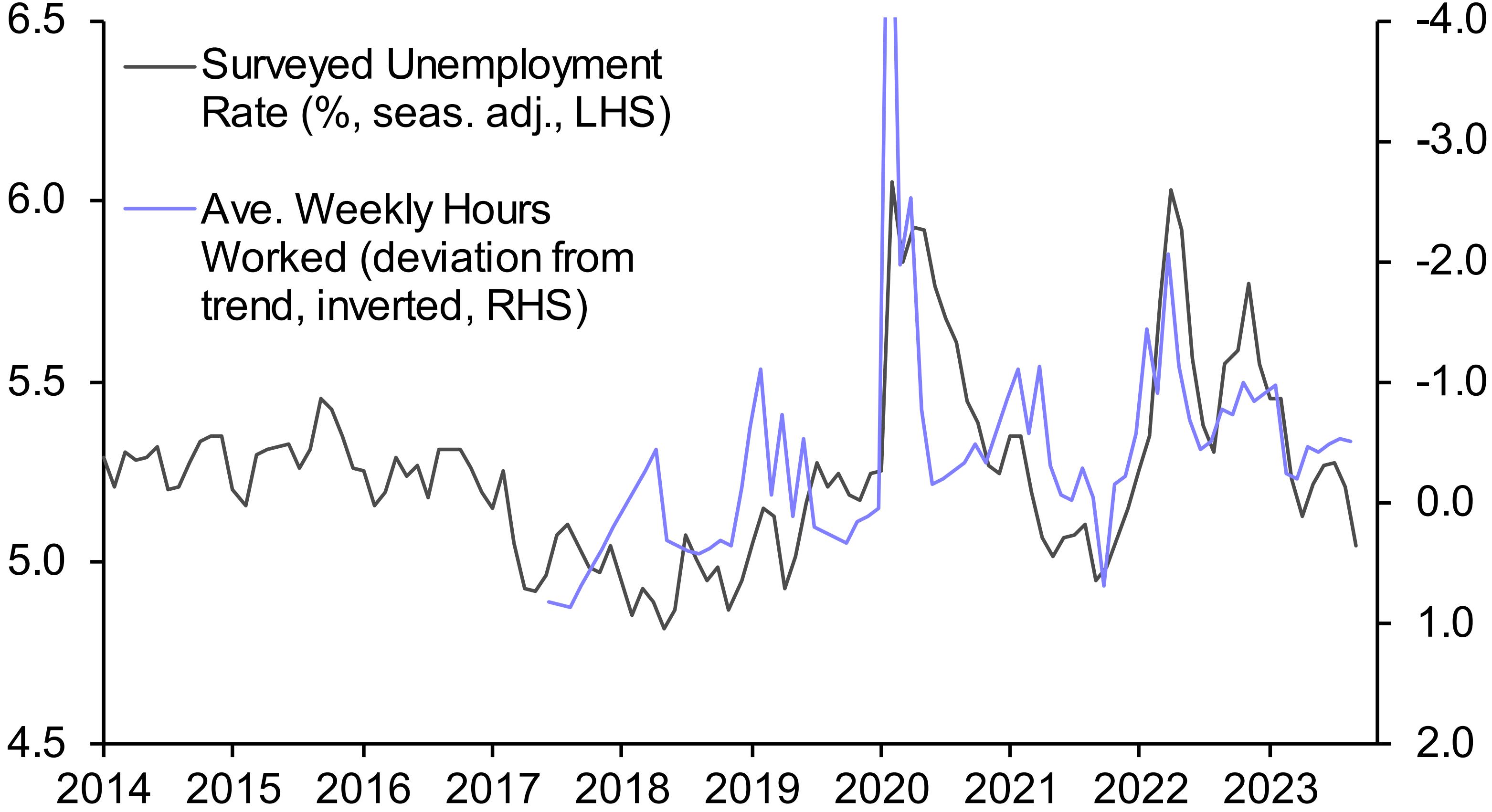
### Consumer Confidence & Retail Sales



Sources: CEIC, Capital Economics

Households aren't in as precarious a position as many believe. Most signs suggest the labour market is still tightening. As confidence improves, so should spending.

### Unemployment Rate & Hours Worked

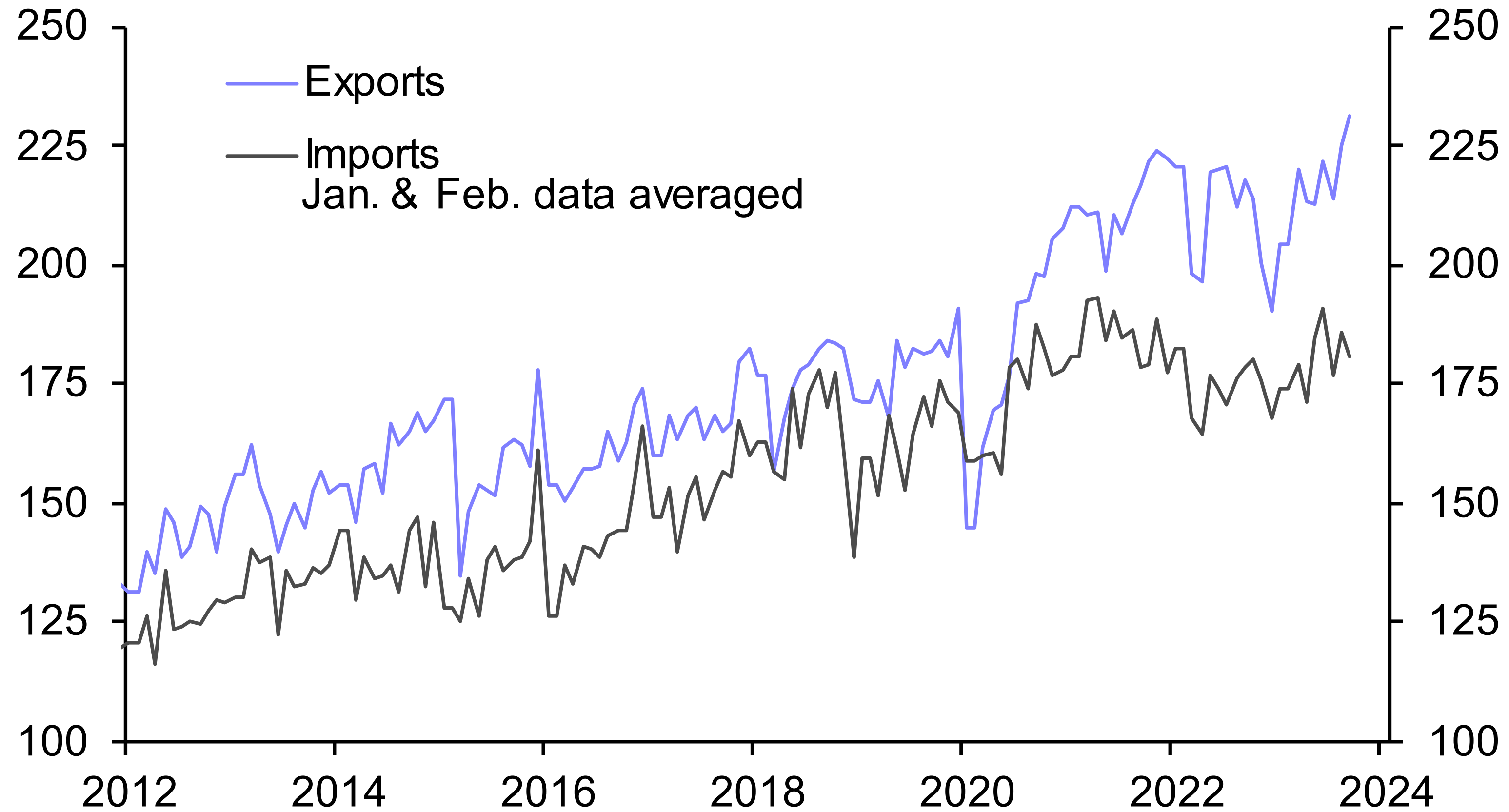


Sources: CEIC, Capital Economics



Export volumes have remained robust recently, hitting a fresh high last month.

### Goods Trade (\$bn, seas. adj., 2010 prices)

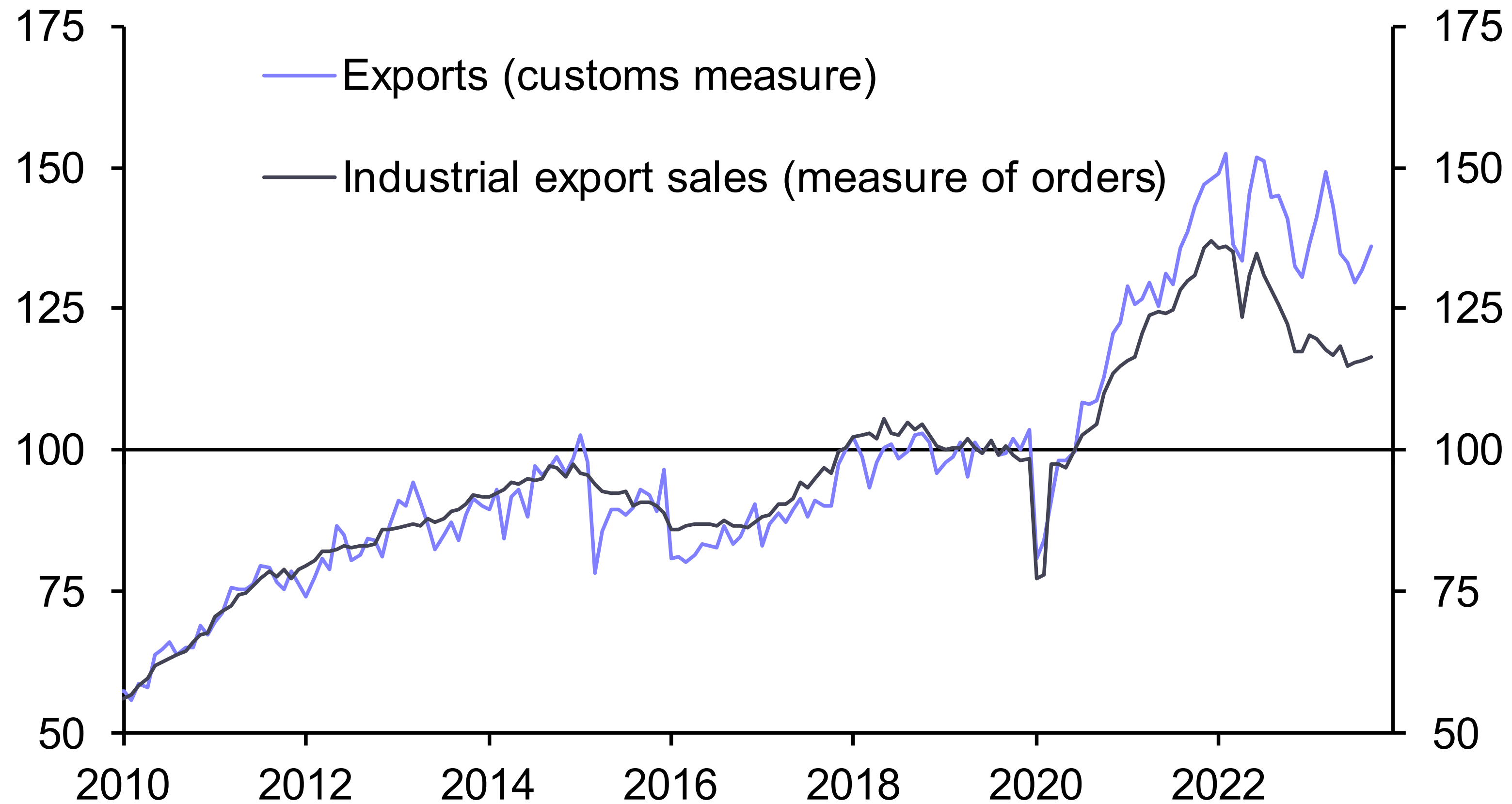


Sources: CEIC, Capital Economics



But foreign orders have dropped back as the pandemic boom in global goods demand has levelled off. This hints at some downside to exports in the near-term.

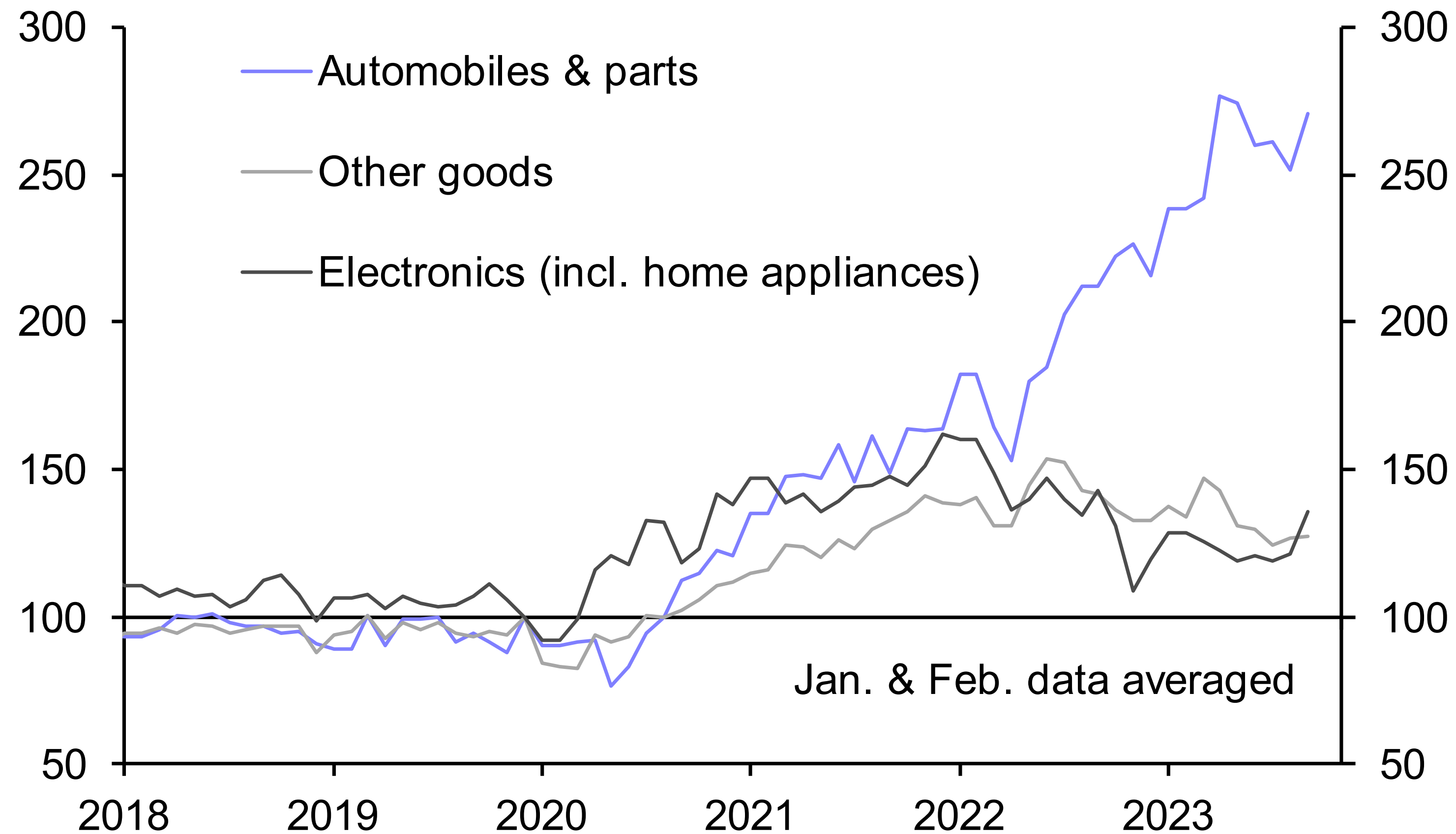
### China Exports & Industrial Export Sales (\$, 2019=100, CE seas. adj.)



Sources: CEIC, Capital Economics

Shipments of most products have dropped back this year, but electric vehicle exports have shown remarkable strength.

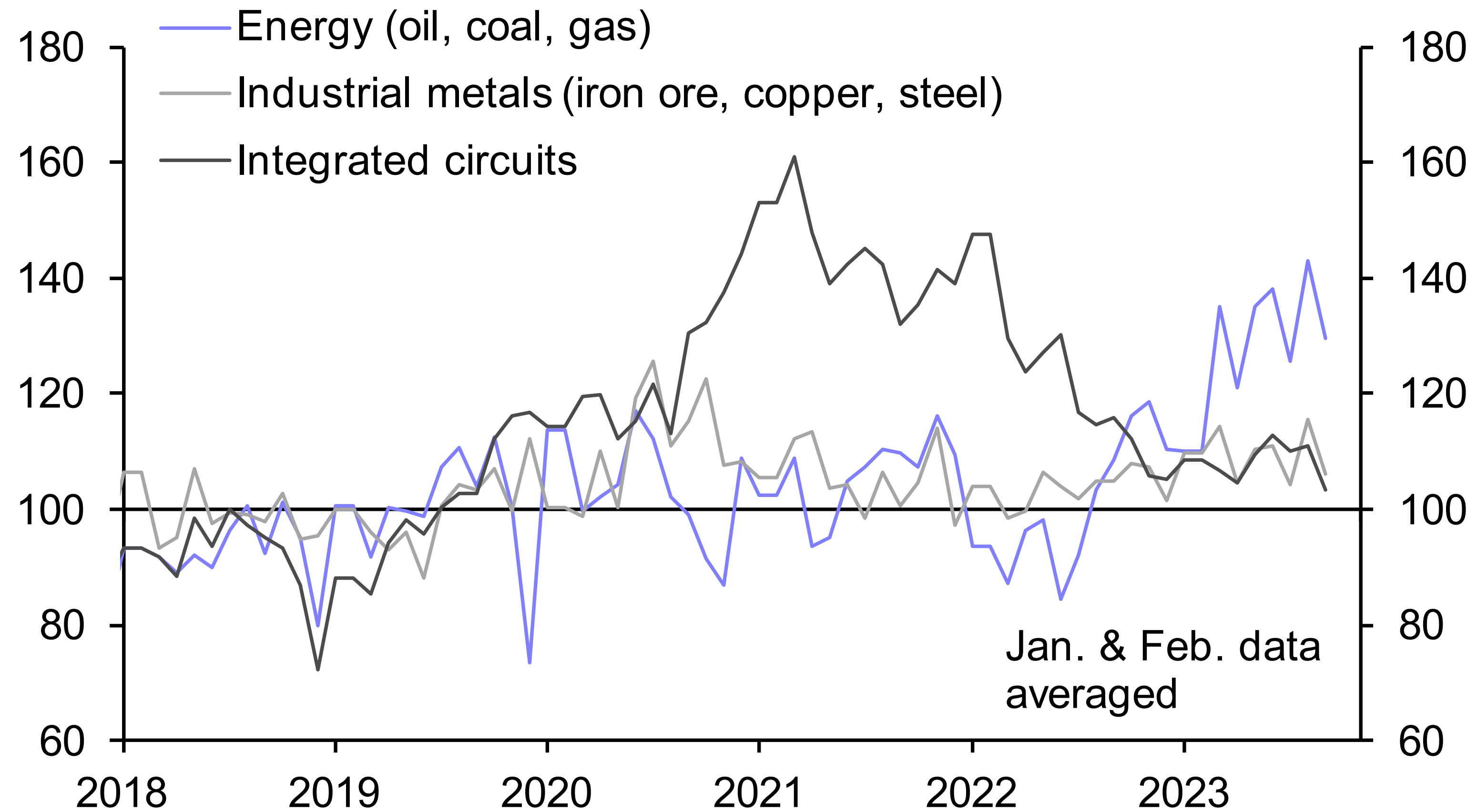
**China Exports (\$, Dec. 2019 = 100, seas. adj.)**



Sources: CEIC, Capital Economics

While many imports have fallen, fuel imports have surged this year on increased domestic demand. But oil demand may not rise much further in the near-term.

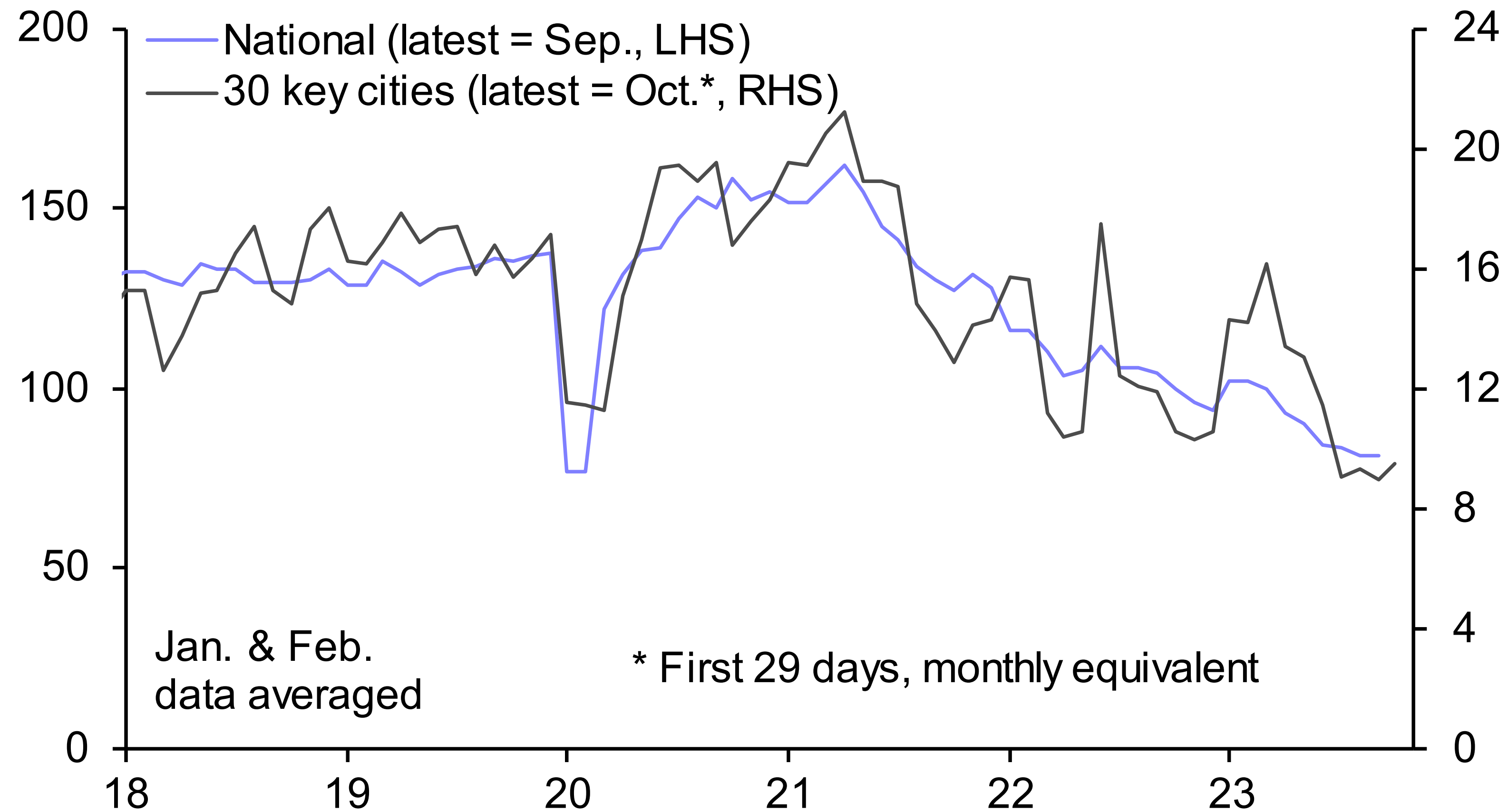
### China Import Volumes by Product (2019 = 100, seas. adj.)



Sources: CEIC, Capital Economics

Green shoots are appearing in the housing sector thanks to easing measures. For instance, there are tentative signs that new home sales are bottoming out.

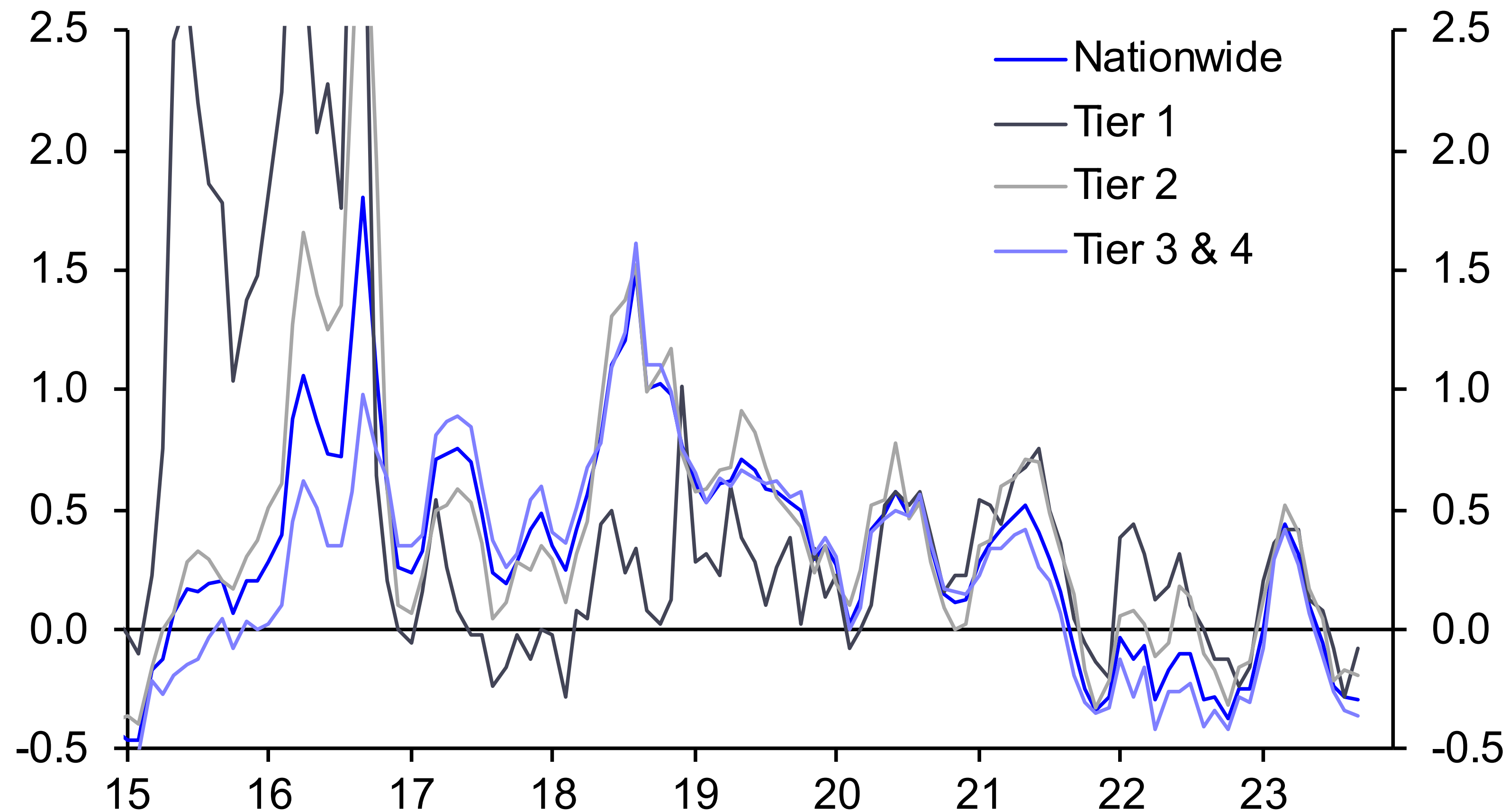
### China New Home Sales (million sqm, seas. adj.)



Sources: CEIC, Wind, Capital Economics

But the impact of policy support has been uneven. Price data suggest tier 1 and 2 cities have benefitted the most.

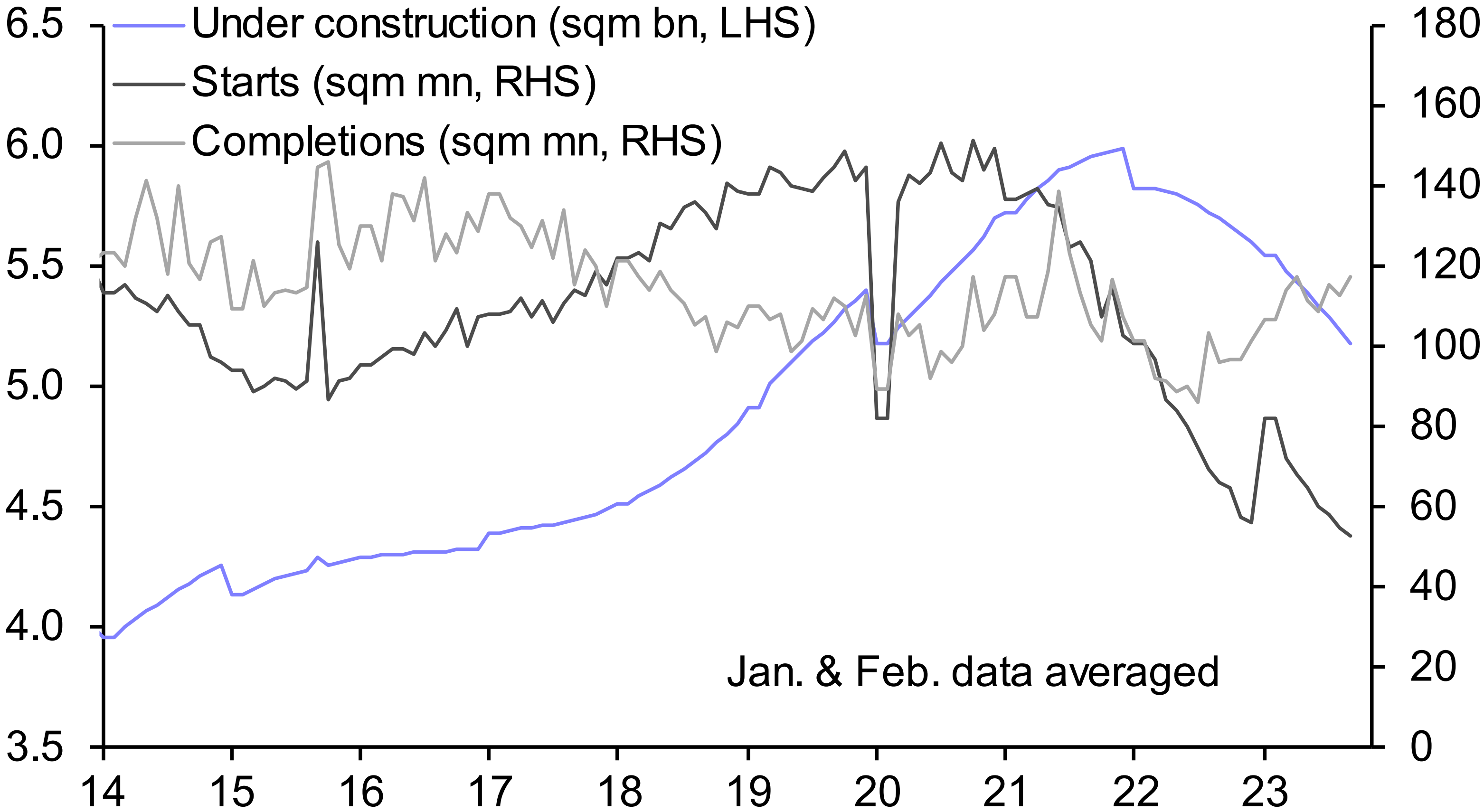
**New House Price (% m/m, 70 city ave.)**



Sources: CEIC, Capital Economics

Progress continues to be made on completing existing projects. But starts are still tumbling and the usual lags suggest they will continue to do so for some time.

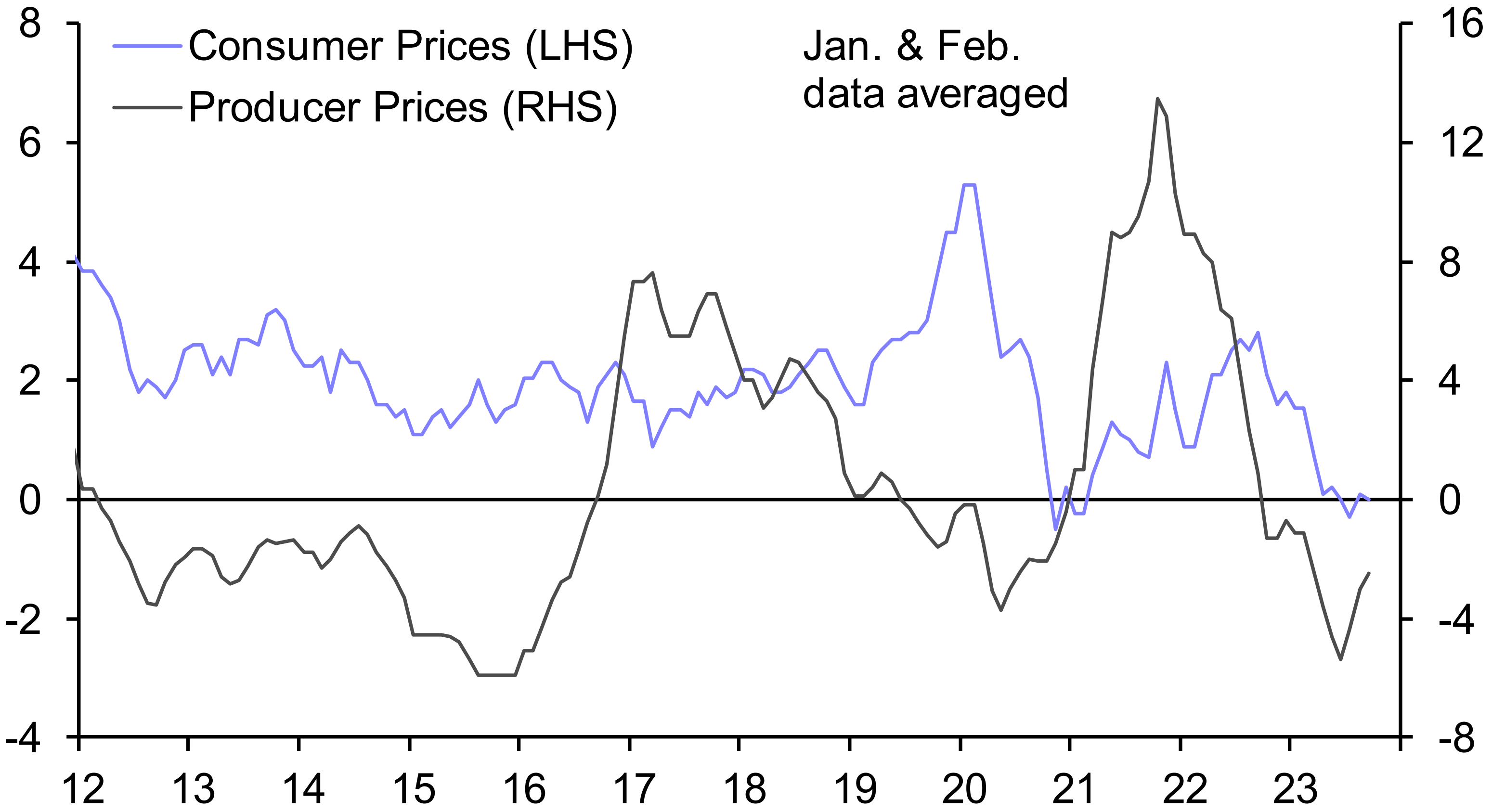
### Residential Floor Space Started & Completed (sqm mn, SA)



Sources: CEIC, Capital Economics

# Deflation fears dissipated further in September: PPI deflation continued to ease thanks to higher energy and metals prices.

## China Consumer & Producer Prices (% y/y)

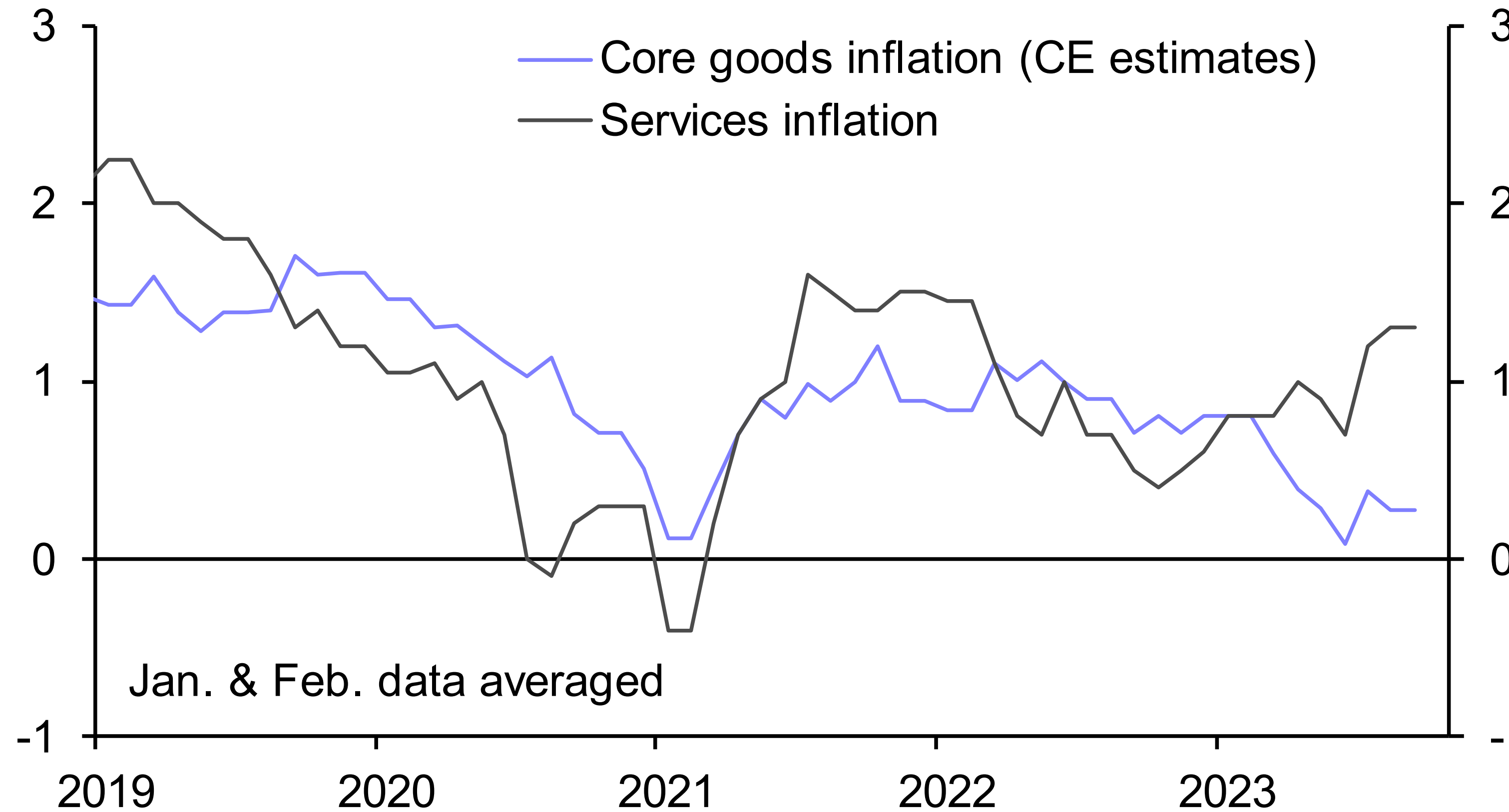


Sources: CEIC, Capital Economics



China's low inflation rate is not primarily due to domestic weakness. Services inflation, tied mostly closely to domestic demand, is at a 19-month high.

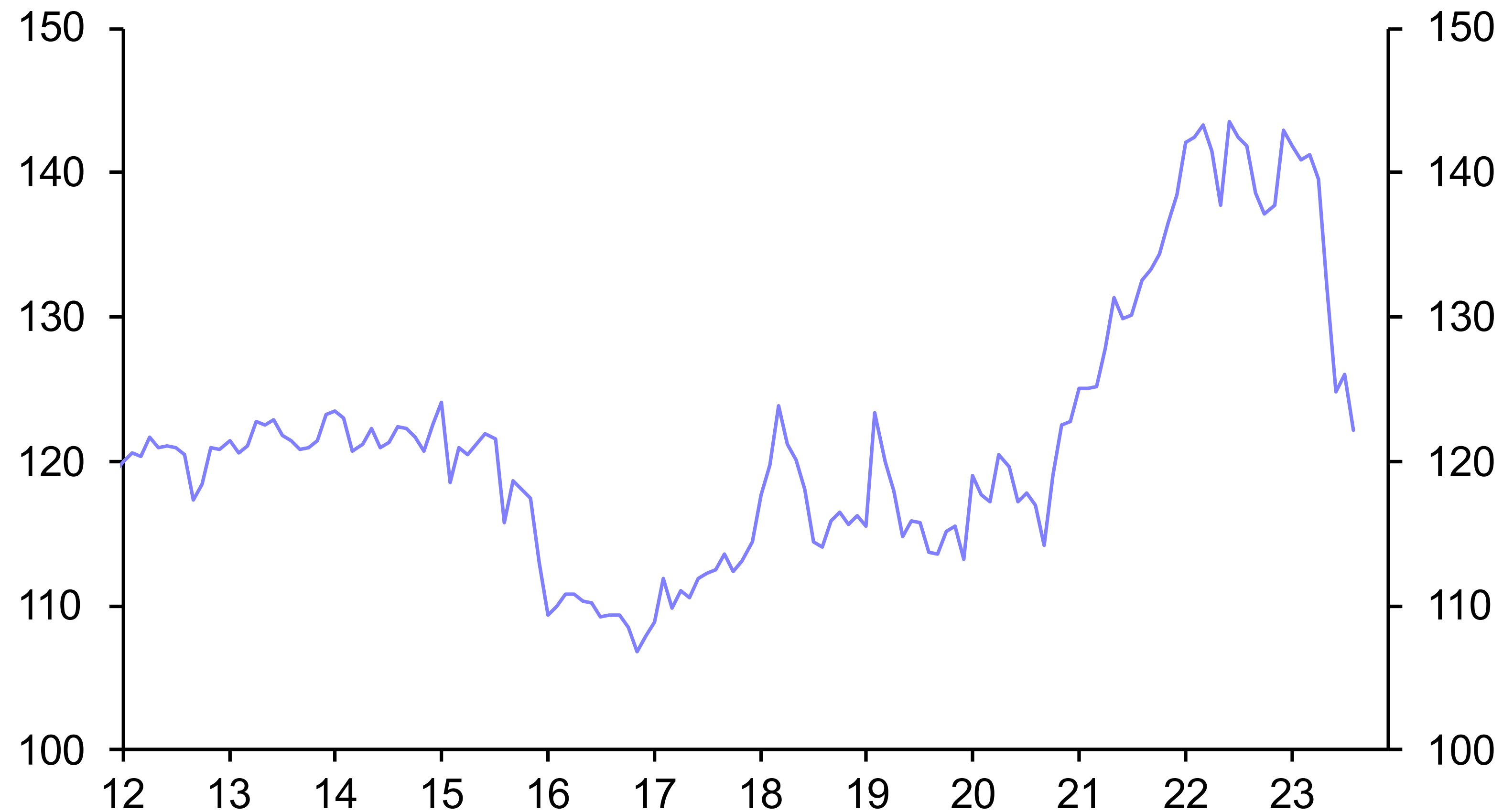
### Consumer Prices (% y/y)



Sources: CEIC, Capital Economics

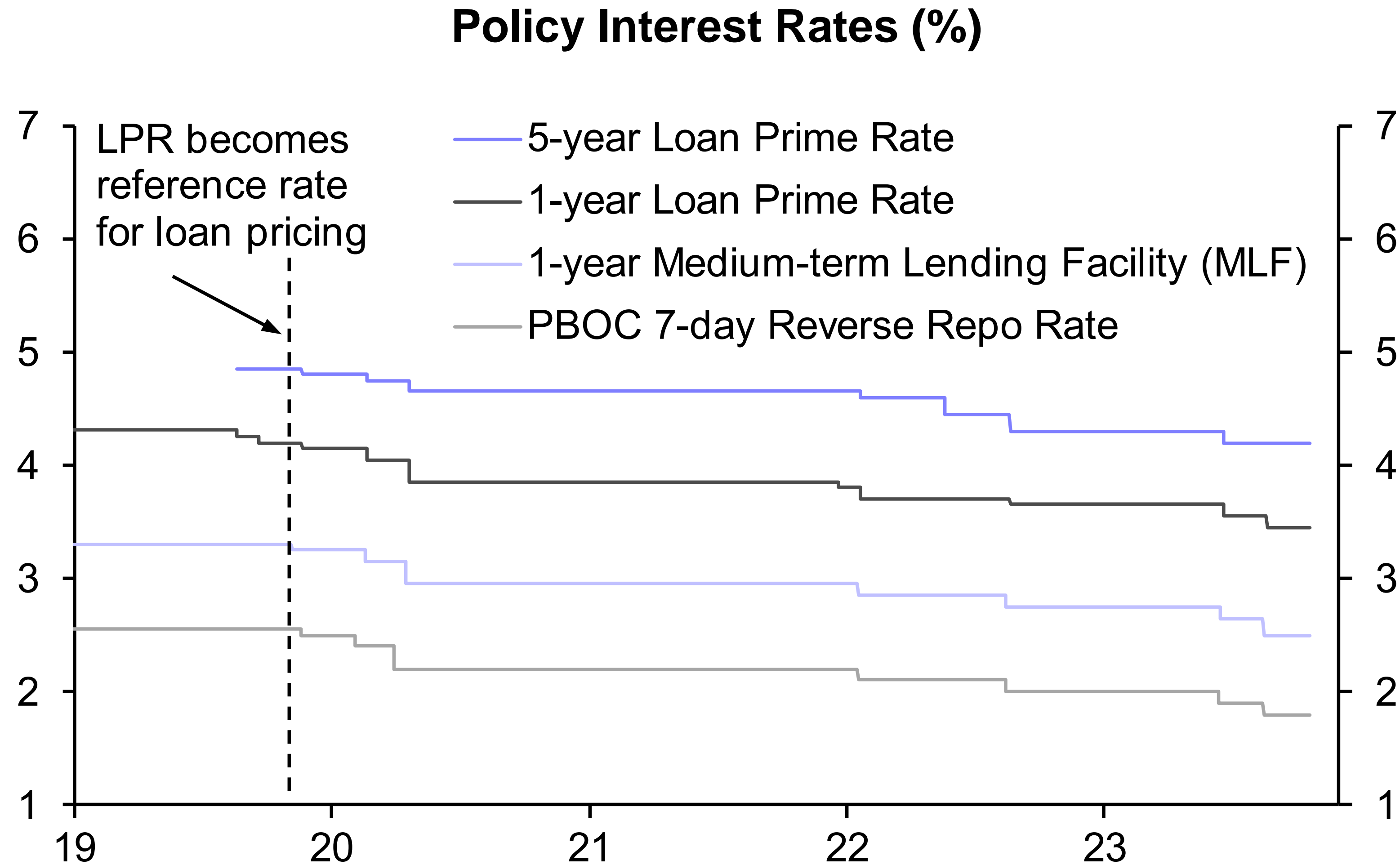
Instead, low inflation is tied to a rise in spare capacity as the pandemic boom in global goods demand has fizzled out. Export prices have dropped sharply.

**Export Price Index (\$, 2010 = 100)**



Sources: Refinitiv, Capital Economics

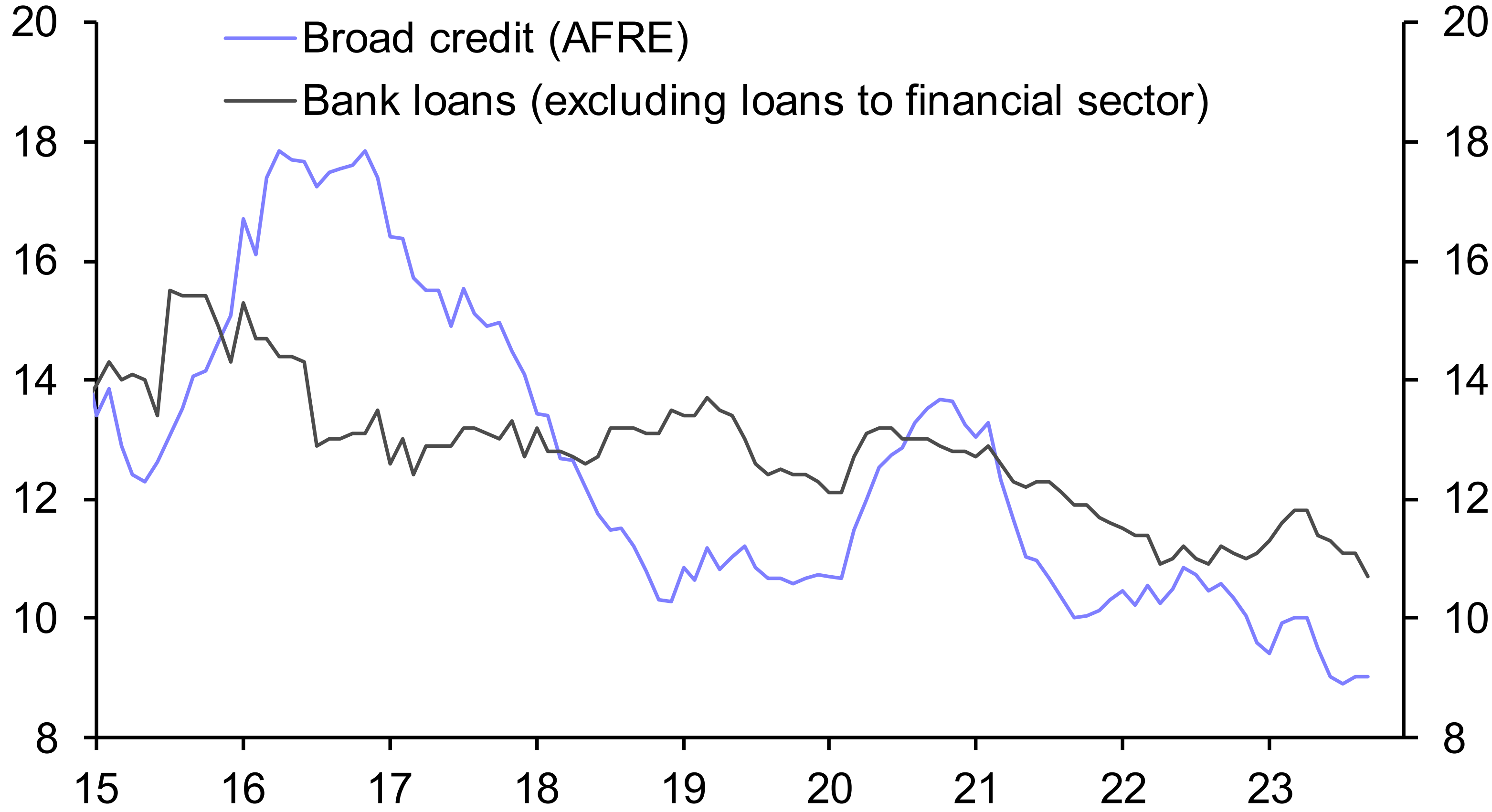
The PBOC refrained from cutting its policy rates this month, presumably because it fears doing so would undermine its recent success in stabilising the renminbi.



Sources: CEIC, Capital Economics

But broad credit growth has stabilized after slowing sharply over the past months, thanks to a surge in local government bond issuance.

### Growth of Outstanding Credit (% y/y)

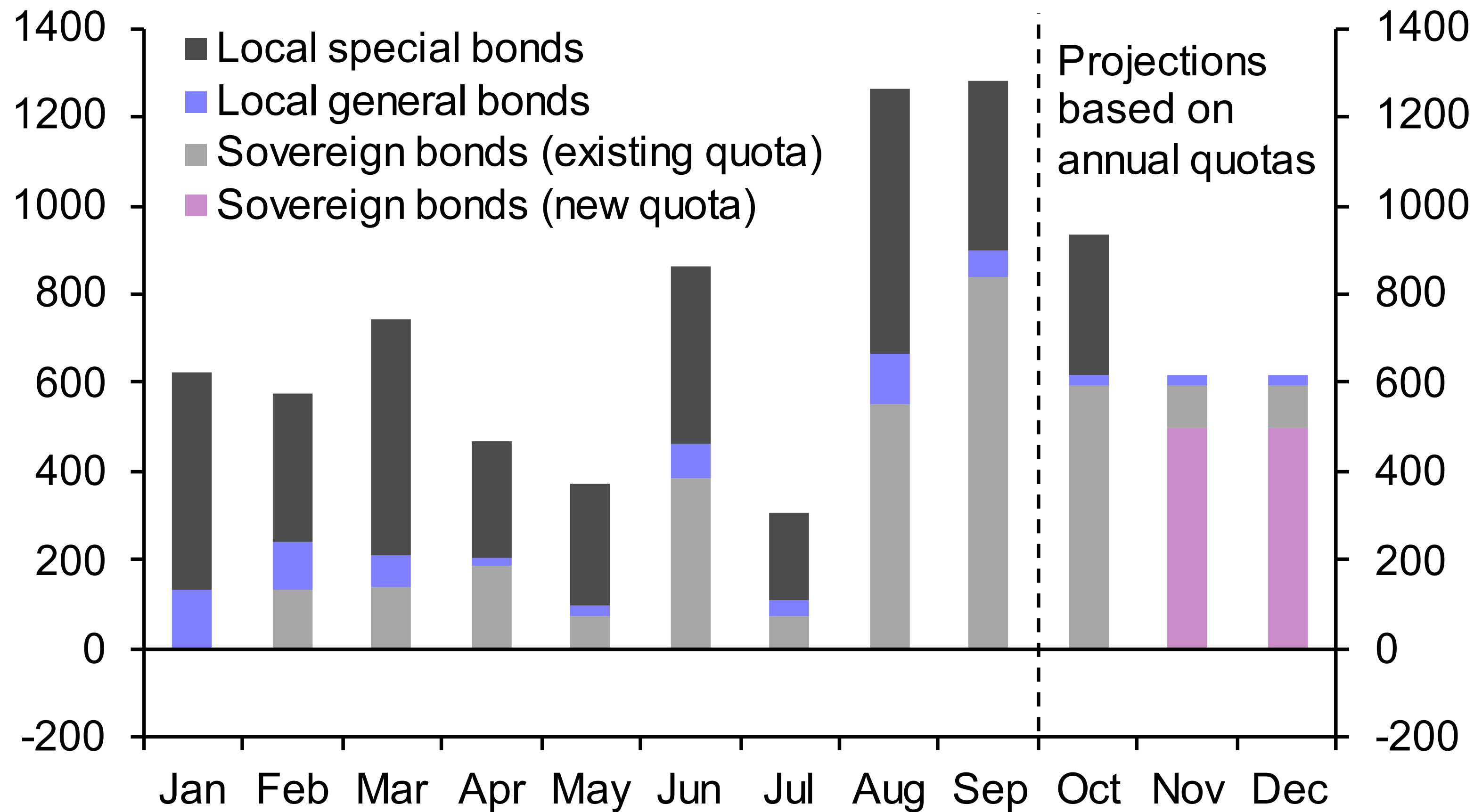


Sources: CEIC, Capital Economics



Fiscal support continues to flow. The annual budget was revised to allow issuance of RMB1trn in extra sovereign bonds, averting a fiscal cliff next month.

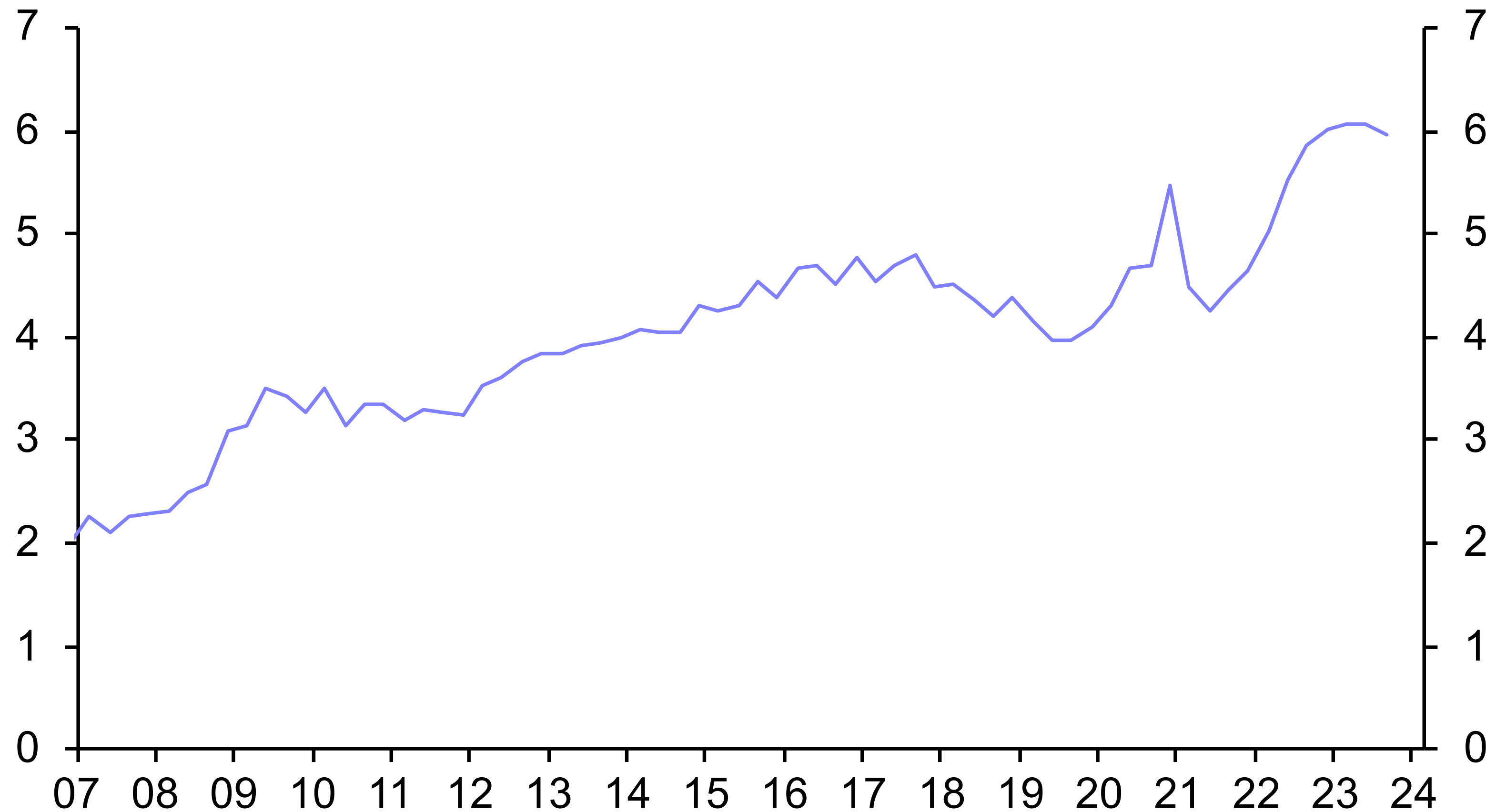
### New Chinese Government Bond Issuance (RMB bn)



Sources: CEIC, WIND, Capital Economics

Fiscal support will be devoted to investment even though it is close to an all-time high – policymakers believe that spending should be directed to the supply-side.

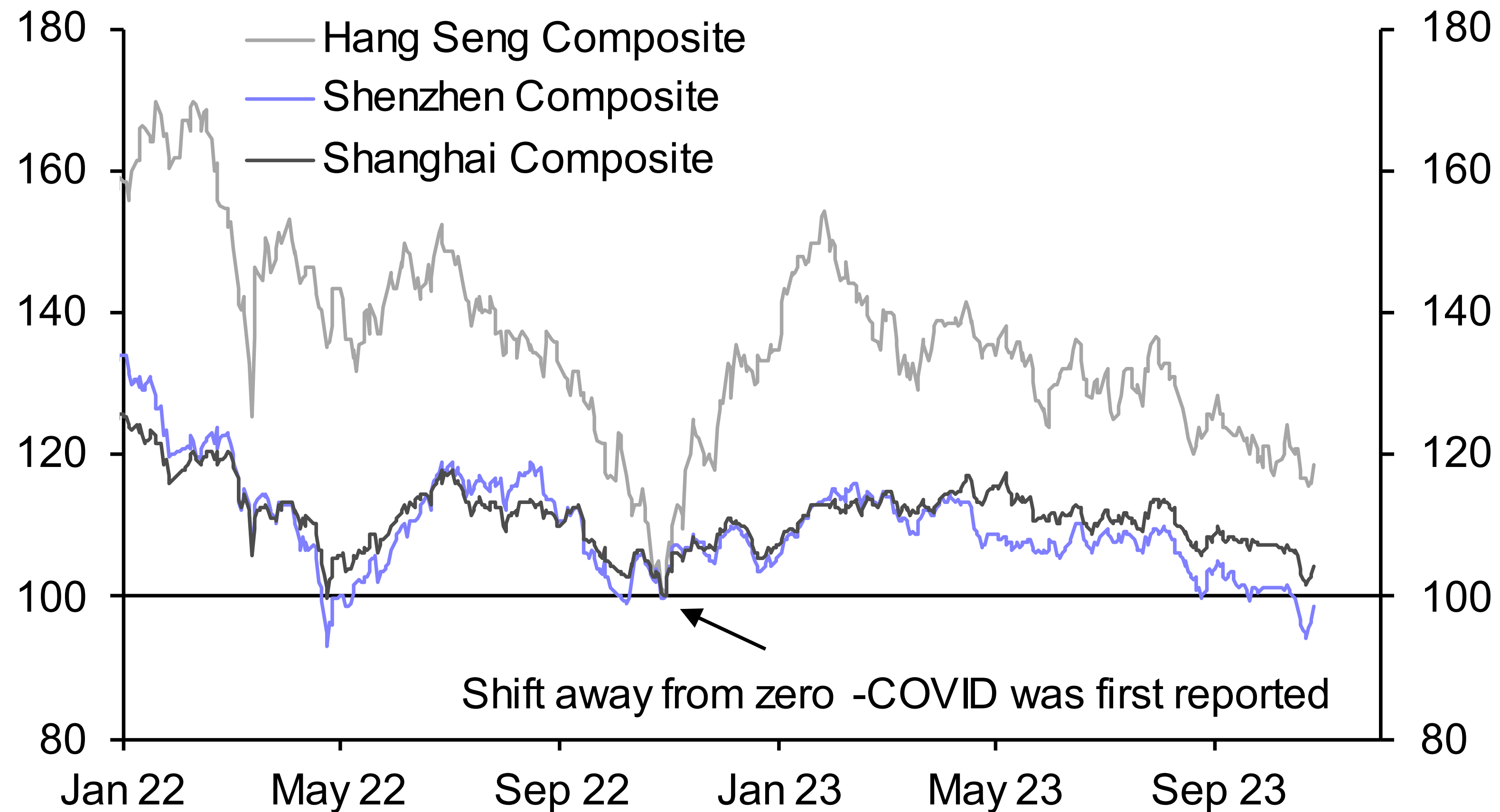
### Investment Funded by State Budget (% of trend GDP, seas. adj.)



Sources: CEIC, Capital Economics

Equities jumped in late 2022 after the shift away from zero-COVID. But the gains have now mostly reversed, with prices still trending down in recent weeks.

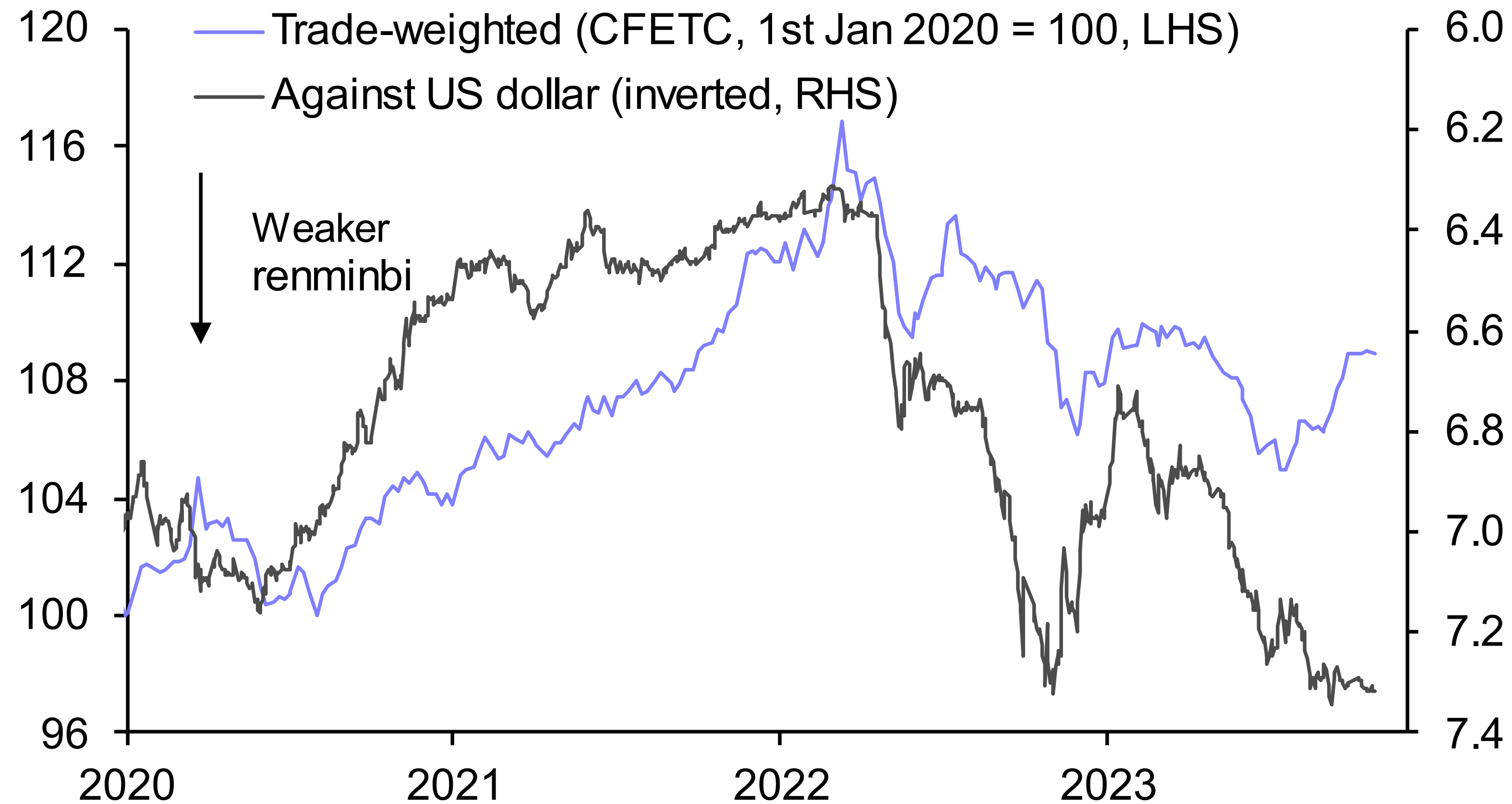
### China Equity Indices (31<sup>st</sup> Oct. 2022 = 100)



Sources: CEIC, Refinitiv, Capital Economics

After a sharp depreciation against the US dollar, the renminbi appears to have stabilised this month, largely thanks to the PBOC's [efforts](#).

## Renminbi Exchange Rate

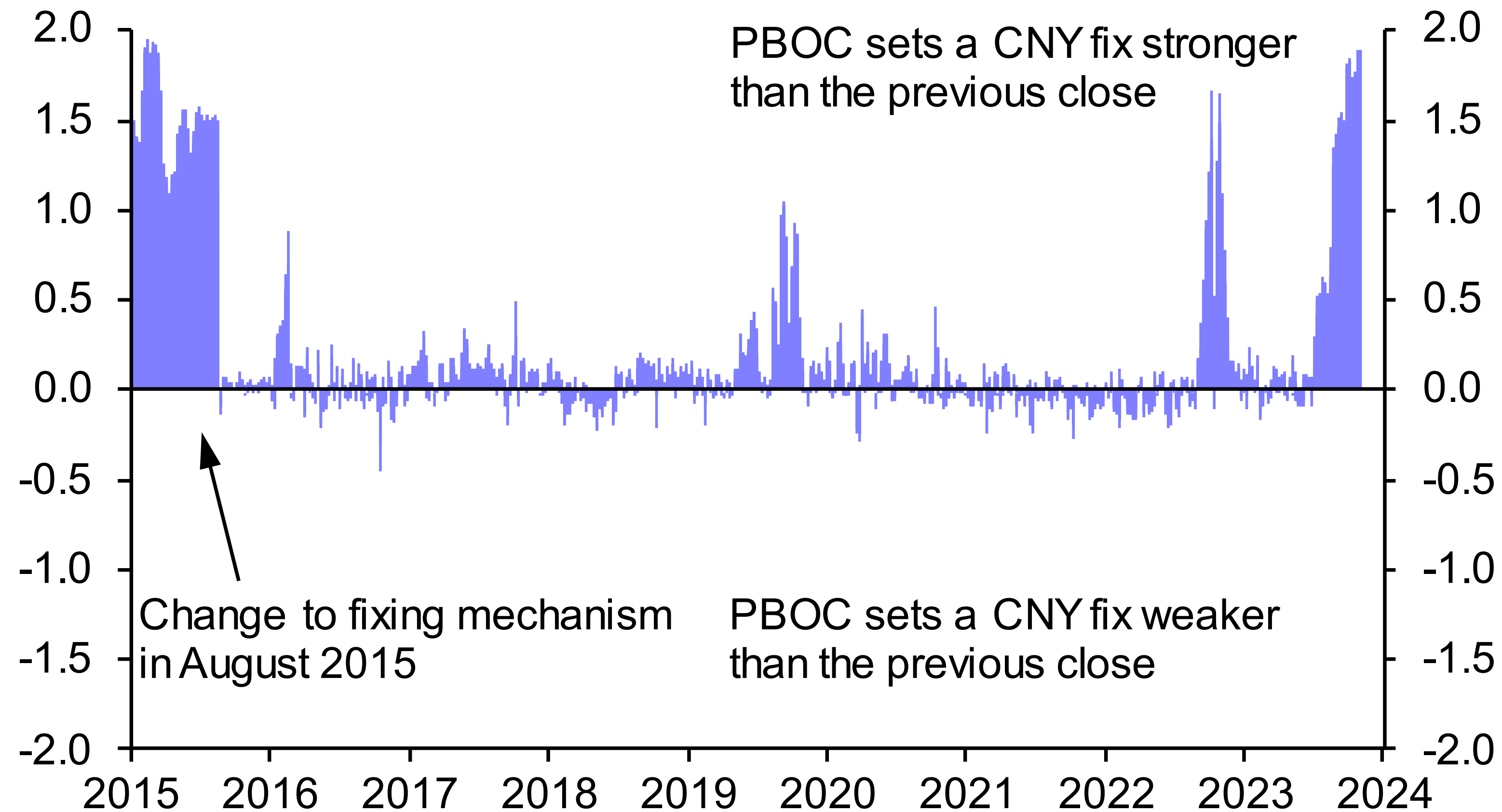


Sources: CEIC, Refinitiv, Capital Economics



For example, the PBOC has been pushing back by introducing the strongest bias into the renminbi's daily fixing rate since the mechanism was introduced in 2015.

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



Sources: CEIC, Refinitiv, Capital Economics

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