



# CHINA ECONOMICS UPDATE

## Industry no offset for slump in property credit demand

- **An increase in lending to other parts of China's economy has provided a counter-balance to the slump in credit demand that was triggered by the property crisis, but still only a partial one.**
- That's not the impression given by a chart that has been widely-shared this week. It shows a surge in bank lending to industry that almost perfectly matches the slump in lending to the real estate sector since the end of 2020. (See Chart 1, which reproduces the chart in [this post](#) on X/Twitter.) **The implication of this chart is that policymakers in China have successfully redirected lending from real estate to manufacturing without major disruption to the overall flow of credit.**
- **That would be impressive.** It would suggest that China's leadership has been able to neatly smooth the impact on credit demand of a crisis unfolding in a major part of the economy, and done so in a way that furthers strategic objectives – bolstering manufacturing as a response to global fragmentation and as a means to support emerging sectors like green technology.
- **It is certainly true that real estate-linked bank lending has slumped.** The driver of that slump is not immediately apparent from Chart 1. It is not primarily due to a collapse in direct financing for property developers – though there has been one. It is mostly because issuance of new mortgages has dried up. (See Chart 2.) Put another way, the shift in credit demand in Chart 1 has not been from developers to industry but from households to industry.
- That doesn't weaken the broader point about lending to industry offsetting the property downturn. **But the narrative that policymakers responded to the property slump by boosting credit to industry doesn't work for 2020 and 2021. The story should be the other way around:** manufacturing was booming in China in the second half of 2020 thanks to pandemic-linked demand. It was because the economy was doing so well that policymakers felt comfortable introducing the "Three Red Lines" that precipitated the property crisis. (See Chart 3.)
- **There is a stronger case that the further increase in lending to industry over the past 12 months is a response to the deepening crisis in property. But increased lending hasn't just been channelled to industry.** As Chart 4 shows, there has been a similar increase in bank lending to firms in the service sector. And over the year to the end of Q2, outstanding medium and long-term bank loans for infrastructure projects increased by almost exactly the same amount (RMB4.91 trillion) as those to industry (RMB4.95 trillion).
- **In other words, there has been an effort to offset the drop in credit demand linked to the property crisis, but it has been a broad push across the economy rather than one focused on manufacturing in particular.** That tallies with what we see elsewhere, for example in the data on investment: the slump in real estate investment has been cushioned by continued growth of investment elsewhere. (See Chart 5.)
- If bank lending to services and infrastructure have increased about as much as lending to industry, shouldn't that have more than made up for the slump in lending to real estate? Evidently they haven't: growth of overall bank lending is not far off a 20-year low. Part of the explanation is that Chart 1 looks only at nominal increases. Chart 6 shows the same data relative to GDP: on this basis, lending to industry is still well short of where lending to real estate stood at the time of the Three Red Lines.
- More important, there has been a shift in the structure of corporate financing in favour of the medium and long-term bank loans shown in Chart 1 with the result that it exaggerates the recent increase in corporate credit demand. **Medium- and long-term bank lending to industry has surged over the past year. (See Chart 7.) But much of this represents a shift out of shorter-term instruments.** Overall growth of bank lending to industry is only slightly faster now (13.4% y/y) than it was a year ago (12.4%). **And the broadest measures of lending growth for both bank loans and overall credit are still skirting all-time lows.** (See Chart 8.)

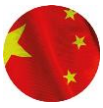


Chart 1: Net New Bank Loans (medium & long-term, 4-quarter sum, RMB trillion)

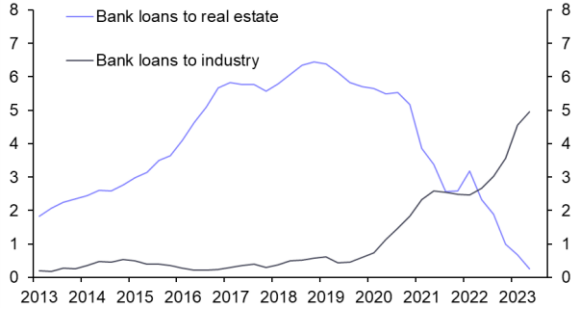


Chart 2: Net New Bank Loans to Real Estate (medium & long-term, 4-quarter sum, RMB trillion)

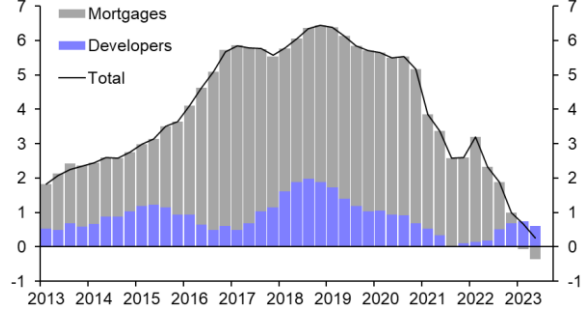


Chart 3: Net New Bank Loans (medium & long-term, 4-quarter sum, RMB trillion)

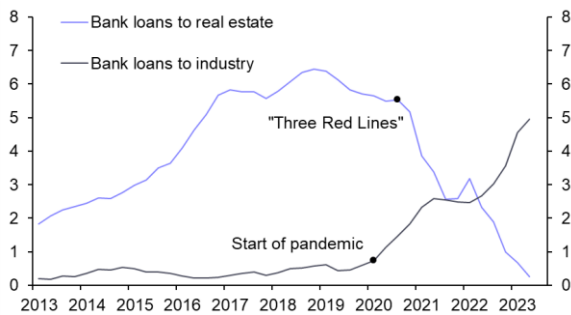


Chart 4: Net New Bank Loans (medium & long-term, 4-quarter sum, RMB trillion)

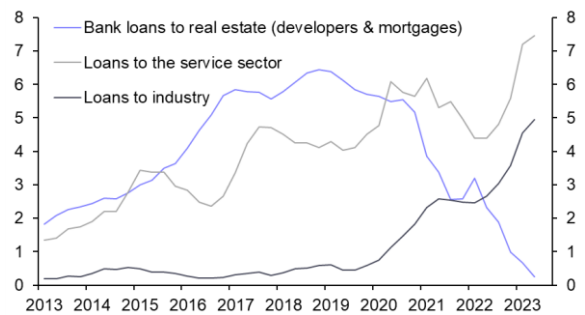


Chart 5: Fixed Investment (Dec. 2019 = 100, seas. adj.)

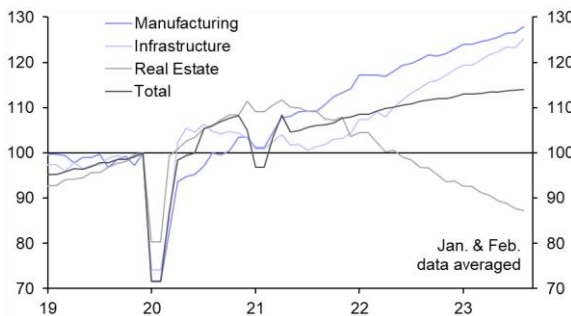


Chart 6: Net New Bank Loans (medium & long-term, 4-quarter sum, % of GDP)

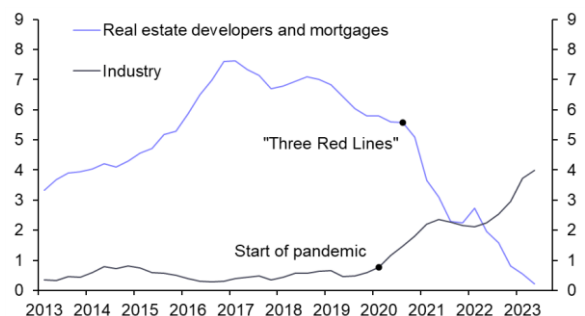


Chart 7: Outstanding Bank Loans (RMB, % y/y)

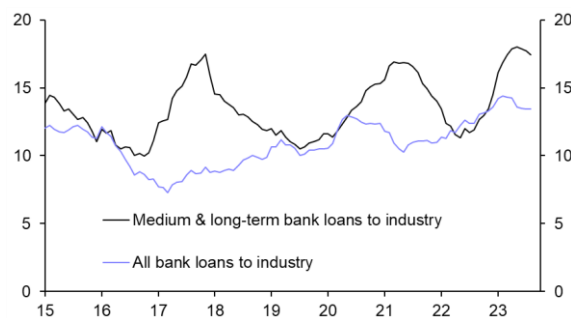
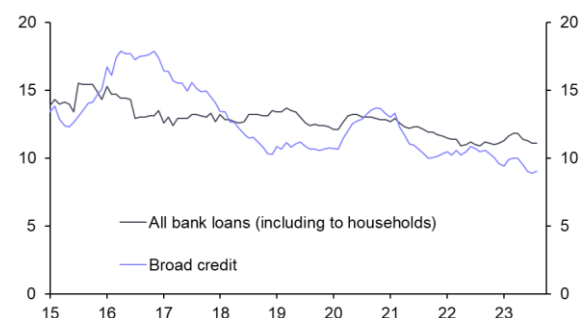


Chart 8: Outstanding Bank Loans & Credit (RMB, % y/y)



Sources: CEIC, Capital Economics



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