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China Economics Update: Upbeat 3Q and September growth after strong manufacturing offset soft consumption

中国经济评论: 制造业坚挺推动三季度和九月数据反弹，消费继续偏弱

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9 月经济数据和 3 季度增长反弹并好于预期，制造业升级，贸易和政策支持为主要推动力。汽车、装备制造、高端制造引领工业产出的强势扩张。传统基建，能源和技术领域的基础设施投资，以及企业资本支出支持投资，抵消了房地产的疲软增长。受全球制造业需求和中国贸易的区域化等因素支持，出口增长和对外顺差保持坚挺。疫情防控下消费，特别是线下服务保持低迷。

我们预计制造业继续支持年内的经济增长，疫情仍对经济有负面影响。预计投资和贸易增长仍将是增长的关键支柱，但疫情下消费复苏仍然乏力。预计稳地产措施继续推出，有助于支持房产销售的进一步温和复苏。反映疫情防控的持续影响，我们将 2022 年增长率预测下调到 3.9%。

宏观经济政策预计保持稳定。今年地方专项债的融资收入和其他金融工具（如 PSL）等仍为年内稳增长的政策措施提供资金来源。增长反弹和通胀上行的背景下，流动性政策预计保持稳定。关注 12 月的中央经济工作会议（CEWC）可能推出的下一阶段政策规划。

Sep data and 3Q GDP confirm that manufacturing upgrades, trade, and government policies provided key support to growth. 3Q GDP and Sep production beat expectations. Auto, equipment, and high-end manufacturing led strong IP expansion. Infrastructure investment in traditional infrastructure, energy transition, and the technology sectors alongside corporate capex were the impetus behind strong investment momentum, which offset weak growth in property. Exports again beat expectations, supported by still-robust global demand and China's regional pivot. However, retail sales growth disappointed, reflecting the impact of Covid restrictions.

We expect growth momentum to sustain in 4Q 2022F, though Covid remains a risk. We expect investment and trade growth will remain China's pillars of growth though consumption and consumer services will remain a drag under Covid controls. Housing-related supportive measures are likely to continue, supporting a further modest recovery in housing sales. We lower our 2022 GDP growth target to 3.9% following today's report.

Stable macro policies in the near-term. We expect already-issued local government bonds and other financial tools to provide financial resources to fund public infrastructure investment through to the year-end. Liquidity policies are likely to remain stable given continued growth momentum. The Central Economic Working Conference (CEWC) in Dec is likely to shed light on the policy agenda in coming years.

China's 3Q 2022 GDP growth beat expectations

The 3Q economic rebound following the 2Q Shanghai lockdown was stronger than the consensus forecast but in-line with our expectation. Sequential annualized growth accelerated from a downward-revised -2.7% in 2Q to 3.9% in 3Q (consensus: 2.8%, CCBIS: 3.7%), and annual growth rose from 0.4% YoY in 2Q to 3.9% YoY in 3Q. Year-to-date GDP growth lifted from 2.5% YoY in 2Q to 3% YoY in 3Q.

Strong industrial production and soft retail sales in Sep

Industrial production (IP) delivered stronger-than-expected growth in Sep**,** rising 6.3% YoY, well above the consensus forecast of a 4.8% YoY rise.

- Growth in **mining** output rebounded in Sep, but remained below the strong pace in 1H 2022. The infrastructure investment push may support domestic demand for mining output. However, dimming global growth prospects and the continued property downturn continue to drag demand for mining products. Growth in **electricity and utility production** output fell to 2.9% YoY, reflecting high base effects.
- Growth in **manufacturing production** accelerated from 3.1% YoY in Aug to 6.4% YoY in Sep, in part driven by base effects. However, the underlying strength was solid: **high-tech sectors** such as electric machinery and computer & electronic equipment manufacturing continued to record strong growth, driven by resilient export demand and domestic industrial upgrades. Year-to-date growth in high-tech manufacturing output ticked up to 8.5% YoY in Sep, well above the 3.9% growth rate in overall IP. By contrast, the contraction in pharmaceutical output accelerated as external demand for medical products eased. Auto production continued to enjoy strong growth of 23.7% YoY in Sep (Fig 2). An easing chip shortage, recovering supply chains, and global pent-up demand continue to support auto production.

Growth in retail sales slowed to 2.5% YoY in Sep, softer than the consensus forecast of a 3.0% YoY rise (Fig 3). Intermittent lockdowns remain a drag on consumer spending. Catering spending contracted 1.7% YoY. Housing-related spending, such as on furniture and home decorations, remained soft. Auto sales were a bright spot, having grown 14.2% in Sep, supported by recovering auto production and favorable tax policy. China's Ministry of Industry and Information technology and the Ministry of Finance extended the tax rebate on purchases of new energy vehicles until 31 Dec 2023. Online sales maintained strong momentum with 14.5% YoY growth. Spending on fuel and food grew notably at 8.5% YoY and 10.2% YoY, driven by elevated food and energy prices. Adjusting for price increases, we estimate real retail sales contracted by 0.7% YoY in Sep, compared with the 2.2% increase in Aug.

Fixed Asset Investment (FAI) growth picked up to 6.5% YoY in Sep by our estimate (Fig 4), driven by strong infrastructure and manufacturing investment. Real estate investment stabilized at recent troughs. By category:

- **Infrastructure investment picked up, reflecting investment for energy transition.** Investment in traditional infrastructure such as transportation and postal services, grew 10.5% YoY in Sep, the second fastest pace since Mar 2021. Growth in broad infrastructure investment accelerated to 14.9% YoY as investment in the utilities sector such power generation and transmission jumped 34% YoY in Sep, pointing to accelerated green investment and energy transition.
- **Double-digit manufacturing FAI growth sustained** at 10.7% YoY in Sep**.** According to the NBS, expansion of high-tech manufacturing investment maintained at a pace of 20.2% YoY over the past nine months. Industrial upgrades and the US' growing technology restrictions have created a strong incentive for domestic technology investment. This is consistent with our view of the new capex cycle in China, despite macro challenges.
- **Real estate investment** remained downbeat, contracting 12% YoY, similar to the contraction of 4% YoY in Aug.

Property indicators stabilized at recent bottoms in Sep. The contraction in property starts remained at around 45% YoY. The volume of property completions fell 6% YoY, slightly worse than Aug but a lot better than in 2Q 2022. The average new home price among 70 large cities contracted by 0.3% MoM in Sep, the 13th consecutive contraction in a row. However, property sales improved as Sep and Oct are traditional peak seasons for property sales (Fig 5). Government efforts to ensure housing project deliveries have helped stabilize housing sales, in our view.

Trade data offers upside surprise in Sep. In US dollar terms, export growth slowed from 7.1% YoY to 5.7% YoY, but came in better than the consensus estimate of 4% YoY (Fig 6). Import growth remained soft and unchanged at 0.3% YoY. Meanwhile, in renminbi terms, exports grew 10.7% YoY, close to 11.8% YoY growth in Aug. The trade surplus rose to US$84.7b, exceeding expectations. Regional divergence in exports was significant: exports to the US contracted by 11.6% YoY in Sep, the second consecutive monthly contraction. Exports to the EU also slowed. By contrast, exports to ASEAN remained strong at 30% YoY (Fig 7) thanks to regionalization of Chinese trade, consistent with our view.

Our view:

Solid manufacturing activities led by industrial upgrades, government support in key sectors, and strong trade are likely to persist. 3Q data points to solid manufacturing momentum led by the aforementioned factors. We expect infrastructure investment growth to remain strong. Meanwhile, robust manufacturing investment supported by industrial upgrades in traditional sectors and accelerated investment in green and high-tech sectors, is likely to sustain. The 20th Party Congress reaffirmed China's commitment to developing the real economy, the green transition, and technological advancement. We expect continued policy and market signals to guide investment in these directions. While slowing foreign demand may dampen China's trade growth, which has contributed almost 1ppt to growth in 2022, we expect global manufacturing to remain generally robust, supported by capex needs and the need to avert a deep recession in the main western nations. This, along with China's regional trade pivot, suggests that global trade will remain a supportive factor for growth in China into next year.

Meanwhile, the soft growth trend in consumer spending and housing is likely to persist in the months ahead. Local governments have urged residents to avoid long distance travel in order to prevent the spread of Covid ahead of the National Day holiday. According to the Ministry of Culture and Tourism, the number of tourists over the National Day holiday fell by 18.2% this year compared with 2021. So far this year, tourism revenue has declined 26.2% compared with 2021. Lower mobility will continue to drag the consumption rebound. Housing data has shown some signs of stabilization. A broad pickup, however, is only likely once we see further improvement in macro momentum and an easing in Covid controls. To reflect the headwinds to growth, we lower our 2022 GDP growth forecast to 3.9%.

Macro policies likely to remain supportive and stable in the near term. The issuance of 2022 local government special bonds has been largely completed (Fig 8). The Ministry of Finance has not announced an early batch of the 2023 bond quota. However, front-loaded issuance of 2022 special bonds should continue to support infrastructure investment for the remainder of 2022. Other financial tools will also help. For example, the PBoC issued a net RMB108.2b Pledged Supplementary Lending to policy banks to support infrastructure projects and the property sector.

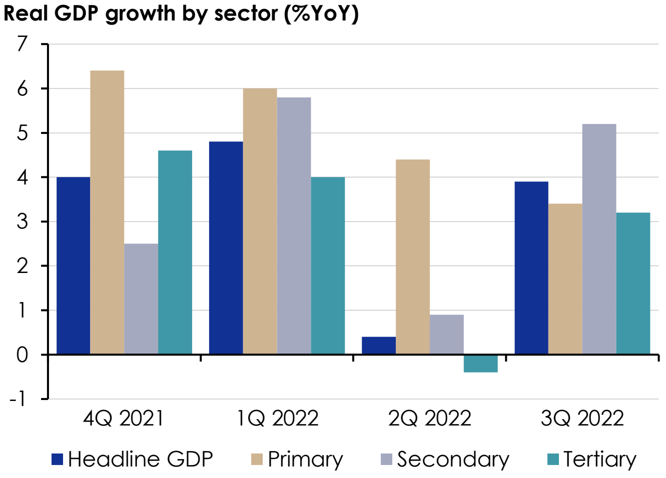
On the housing front, policymakers have announced a raft of stimulus measures to support first homebuyers and replacement demand. A growing number of local governments have offered tax and cash incentives to support property transactions. Property developers have cut prices to attract buyers. The PBoC has recently cut the interest rates from housing provident fund loans by 15bp for first homebuyers from 1 Oct.

Additional construction of public housing could also materialize: A key takeaway from the 20th Party Congress report is that the policy focus will be on promoting the optimization of the housing supply structure and increasing the supply of affordable housing (details here), although the broad discouragement of housing speculation remains in place.

On the monetary policy front, headline inflation accelerated from 2.5% YoY to 2.8% YoY in Sep as food prices accelerated. Rising inflationary pressure coupled with recovering growth and strong credit growth in Oct are likely to lessen the urgency to loosen policy in the near term. The PBoC rolled over RMB500b in maturities of the 1-year Medium-term Lending Facility (MLF) with the rate unchanged in Oct. We expect the PBoC to maintain the official policy rates, including the 7-day reverse ratio rate, and expect the 1-year MLF rate to remain unchanged as long as the recovery continues. However, additional policy easing is likely if growth momentum weakens again on the back of Covid disruptions.

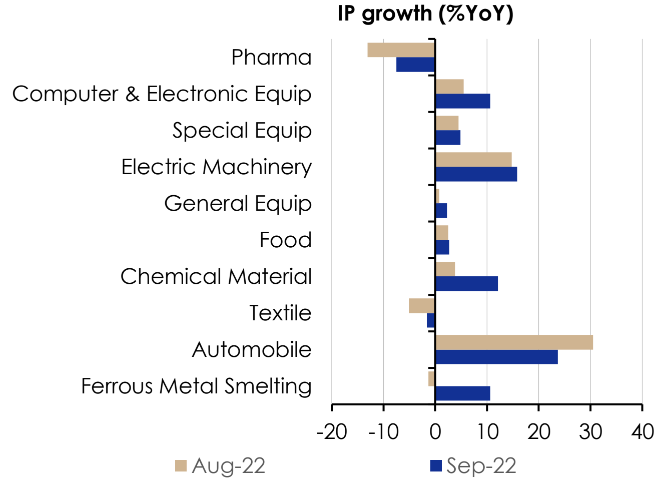
The Central Economic Work Conference (CEWC), typically held in Dec should shed light on the medium-term policy agenda.

Fig 1: 3Q GDP rebounded, led by the industrial sector



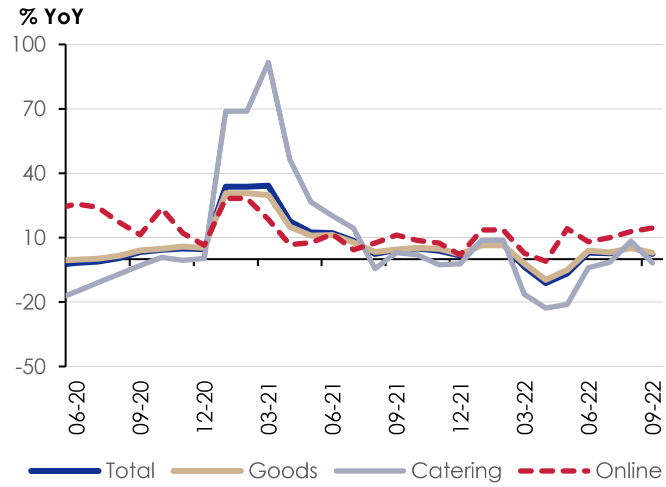
Source: NBS, CCBIS

Fig 2: Auto and equipment manufacturing led IP growth



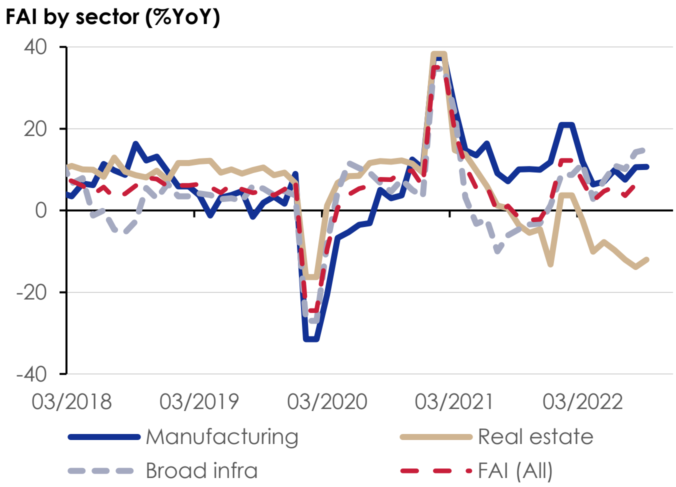
Source: NBS, CCBIS

Fig 3: Retail sales growth disappointed in Sep



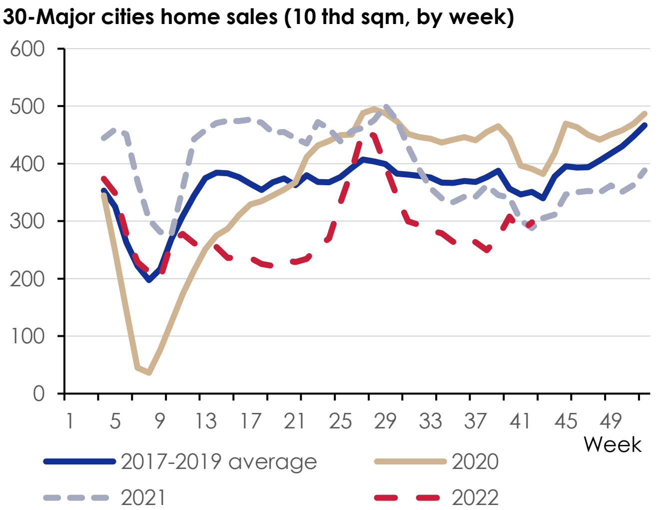
Source: NBS, CCBIS

Fig 4: Infrastructure & manufacturing supports FAI growth



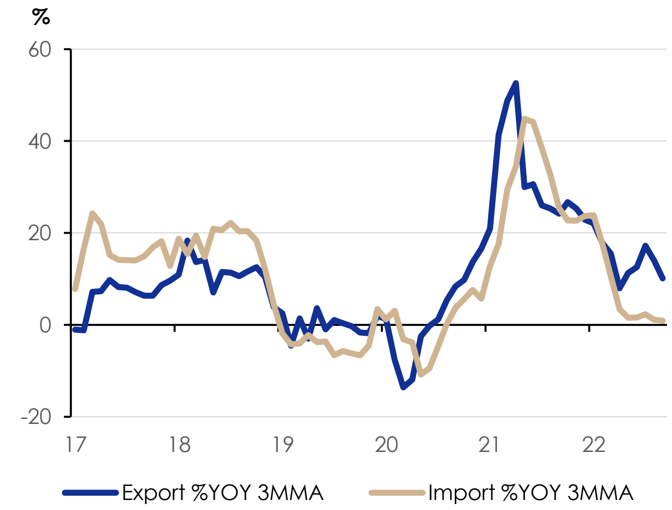
Source: NBS, CCBIS

Fig 5: Home sales improved recently



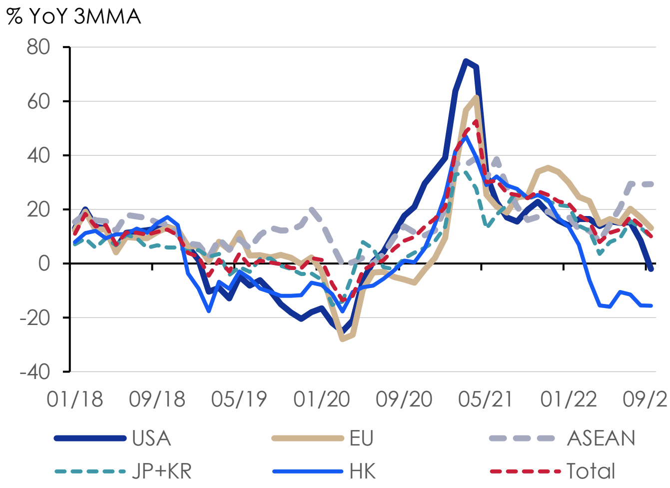
Source: NBS, CCBIS

Fig 6: Exports slowed in Sep despite outperformance



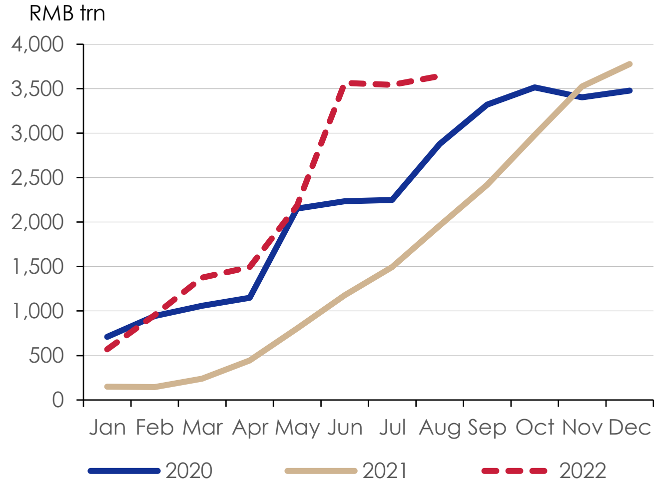
Source: CEIC, CCBIS

Fig 7: Exports to the US and EU slowed



Source: CEIC, CCBIS

Fig 8: 2022 special bond issuance has completed



Source: Wind, CEIC, CCBIS

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