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China Economics Update: Aug data confirms growth stabilization
中国经济评论: 8 月数据显示经济增长改善

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Aug data points to improving growth momentum. We expect a continued recovery ahead. Retail sales were boosted by car sales and continued improvement in offline consumption. Broad infrastructure and manufacturing investment growth rebounded while property sales showed signs of stabilization. A bottoming-out in the global manufacturing cycle has also been positive to China's trade.

We expect policies to stay accommodative. The PBoC has ramped up monetary easing to lower borrowing costs and ensure adequate liquidity. We expect this accommodative stance to continue. Fiscal spending and special bond issuance will accelerate to stabilize growth. We also anticipate targeted fiscal easing to support consumption and manage debt risks.

8 月份数据显示增长势头有所改善。预计经济将进一步温和复苏。汽车销售和线下消费的进一步改善推动社会消费品零售总额的增长。广义基础设施投资和制造业投资增长反弹。近期房地产销售亦出现企稳迹象。全球制造业的触底回升有助稳定中国的贸易。

我们预计宏观政策将持续宽松。央行近期加大货币政策宽松力度，以降低借贷成本，确保流动性充足。我们预计宽松立场将持续。财政支出力度和地方政府专项债的发行将加速发力。针对性的财政措施预计持续注重支持消费并管理债务风险。

Rebound in industrial production (IP) and retail sales

IP growth rebounded faster than expected (4.5% YoY actual versus 3.9% YoY expected), pointing to the resilience of China's industrial sector despite severe weather conditions nationwide throughout Aug. Sequentially, IP growth picked up from a flat outcome in Jul to 0.5% MoM in Aug, consistent with the rebound in both the Caixin and official manufacturing PMIs.

By sector, mining output grew 2.3% YoY in Aug, driven by sharp acceleration in energy-related industrial output amid rising global energy prices. Growth in electricity output slowed in Aug, likely weighed down by the high base last year and severe weather conditions.

Growth in manufacturing output accelerated to 5.4% YoY in Aug. Growth in auto production rose to 10%, while electric machinery & equipment output remained strong at over 10% in Aug despite a gradual slowdown (Fig 1). Furthermore, growth in the output of computers, communications, and other electronics accelerated to almost 6% following seven months of softness, indicating a likely rebound in global tech demand. Solid output growth in downstream sectors supported demand for upstream products, such as steel and non-ferrous products, despite weak housing construction.

Retail sales posted a solid rebound in Aug. Retail sales growth rebounded by almost 2ppt to 4.6% YoY in Aug, better than the consensus forecast for 3.0% YoY. Seasonally adjusted sequential growth accelerated from a small contraction in the previous month to 0.3% MoM in Aug, though the result was below the average of 0.7% MoM for 2019 during the pre-pandemic period.

By category, growth in catering remained strong at 12.4% YoY in Aug, albeit slowing as the normalization of offline consumption runs its course. Online sales picked up slightly. Growth in goods consumption picked up following sluggish growth in Jun and Jul. A rebound in car sales was a key contributor as local governments offered incentives and car dealers offered discounts (Fig 2).

Fixed-asset investment (FAI) growth rebounded slightly to 2.0% YoY in Aug by our estimate (Fig 3). Accelerating growth in broad infrastructure and manufacturing investment was the bright spot. YoY contraction in the property sector eased. By category:

- **Broad infrastructure investment growth picked up to 9.6% YoY in Aug,** driven by strong investment in China's power sector, up 33% YoY in Aug. By contrast, growth in traditional infrastructure investment slowed to 3.9% YoY, the slowest pace since Apr 2022. The investment push related to the green transition remains the key medium-term policy theme, in our view.
- **Manufacturing investment growth rose** to 7.1% YoY in Aug, with continued divergence across industries. Year-to-date high-tech manufacturing investment growth remained solid at 11.2% YoY in Aug. Furthermore, investment into China's auto industry grew by 19.1% YoY amid the rise of China's NEVs. By contrast, traditional industries faced downward pressure; for instance, textiles contracted 1.5% YoY in Aug.
- **We estimate the contraction in real estate investment eased for the first time this year to 10.9% YoY in Aug**. However, property developers continued to face an increasingly challenging funding outlook. The year-on-year contraction in funding for the current year widened 5ppt to 25% YoY.

Other property indicators remained sluggish. The contraction in property starts eased slightly to 23% YoY, though it remains wide. The contraction in property sales was largely unchanged at 24% YoY. Growth in property completions slowed to 11%. High frequency property sales data has shown tentative signs of improvement lately (Fig 4). According to the NBS, the contraction in the average new home price among 70 large Chinese cities widened to 0.29% MoM in Aug, the largest contraction since Oct 2022, partly reflecting property developer efforts to attract sales via price cuts following easing restrictions on the property sector.

Our view:

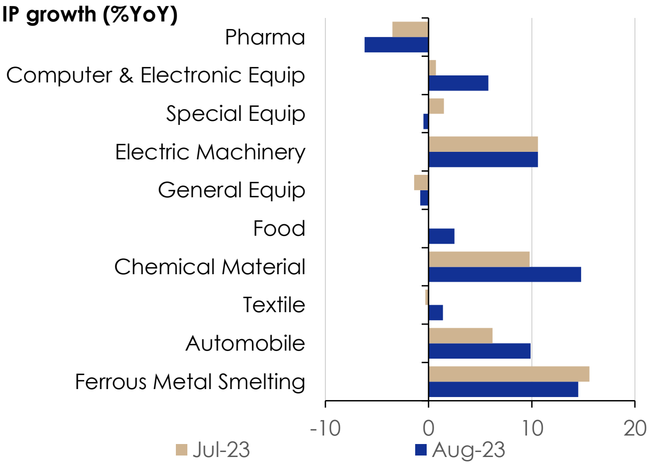
Aug data suggests sequential growth momentum has improved. The retail pick-up in most consumer goods reflects improvement in spending from car sales to cellphones, alongside a smaller contraction in housing-related goods. Solid spending growth in mobile phones is likely to continue as Apple and Huawei recently unveiled new flagship devices. Furthermore, services consumption, such as tourism and entertainment, has shown strong growth during past summer holiday periods. For example, box office sales increased 75% in Aug 2023 compared to Aug 2022. A bottoming-out of the global manufacturing cycle and a potential rebound in the demand for global consumer electronics is likely to stabilize Chinese exports ahead (Fig 6).

Easing restrictions will help stabilize the property sector. The Jul Politburo meeting decided supply and demand in the housing market has undergone major changes (details here). Since then, the government has delivered a series of measures to ease mortgage rules, including lowering down payments, cutting mortgage rates on both new and existing mortgages, and allowing buyers to enjoy preferential mortgage rules for first home purchases. We expect a growing number of major cities to implement additional easing measures to support housing demand under the "one city one policy" framework. Tentative signs of housing market stabilization have emerged lately (Fig 4). Sep and Oct are traditional peak seasons for the Chinese property market, which is likely to help sales growth in the coming months, although consolidation pressure in the sector will remain.

Macro policies to stay accommodative. Local government special bond issuance picked up in Aug, contributing to stronger-than-expected Aug credit growth (read here for details and Fig 5). We estimate local governments will issue about RMB900b in special bonds in Sep, fully utilizing the 2023 quota. Fiscal spending in the remainder of 2023 could also accelerate to support domestic demand. Furthermore, defusing debt risks among highly indebted local governments remain a priority. Policymakers are likely to deliver a RMB1t refinancing quota.

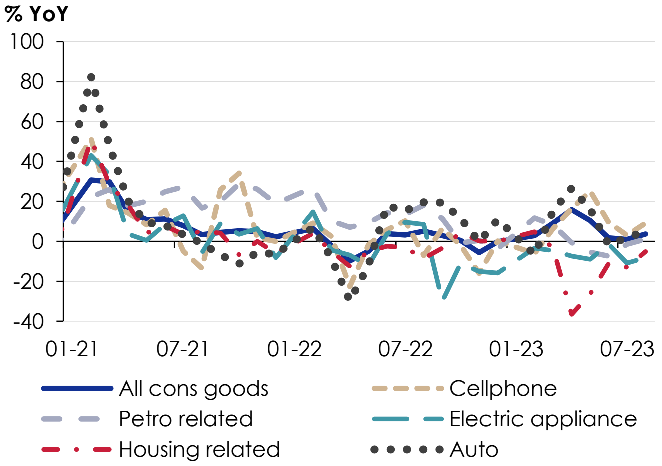
We expect additional monetary easing to lower borrowing costs and ensure adequate liquidity. The PBoC has ramped up policy easing lately. It announced it would cut the Required Reserve Ratio (RRR) for all banks by 25bp effective 15 Sep 2023, marking the second RRR cut this year. As part of today's Open Market Operations (OMO) on 15 Sep 2023, the PBoC net injected RMB191b via the Medium-Term Lending Facility (MLF), while the MLF rate was kept unchanged at 2.5% following a 15bp cut in Aug. Further cuts to policy interest rates and the RRR are still on the cards, in our view.

Fig 1: Output in electric machinery and chemical materials led the rebound in IP



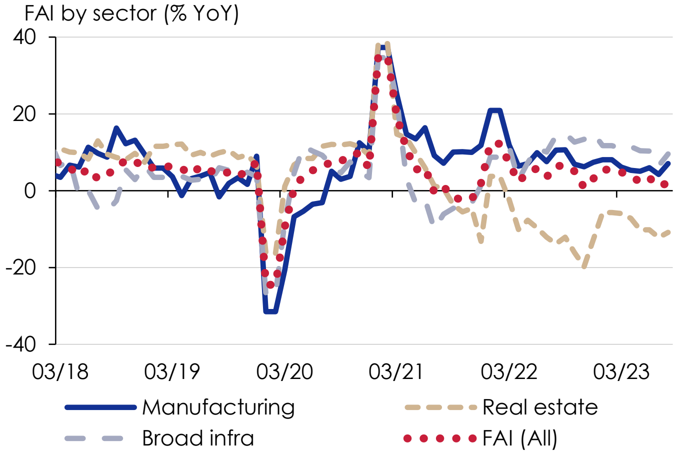
Source: NBS, CCBIS

Fig 2: Modest improvement across most consumer goods



Source: NBS,CEIC, CCBIS

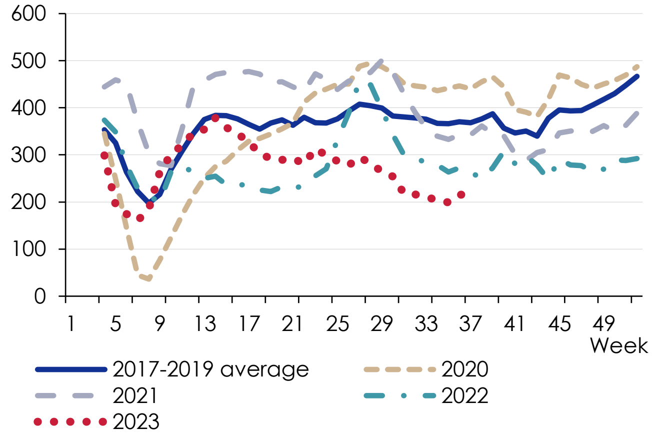
Fig 3: Infrastructure and manufacturing investment held up



Source: NBS, CCBIS

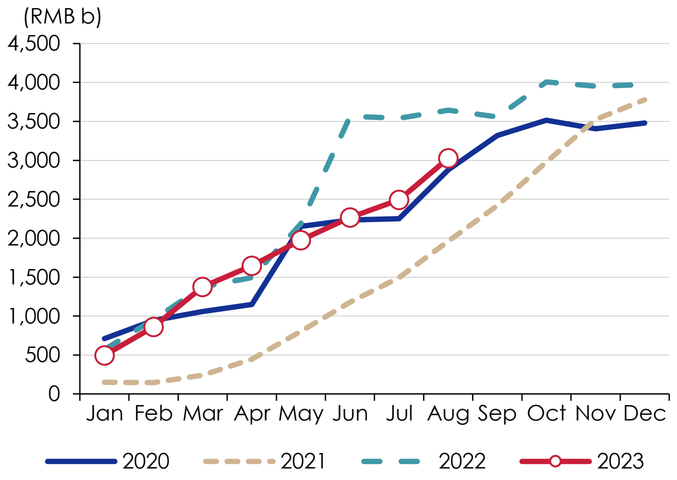
Fig 4: Property sales stabilized in recent weeks

30-Major cities home sales (10 thd sqm, by week)



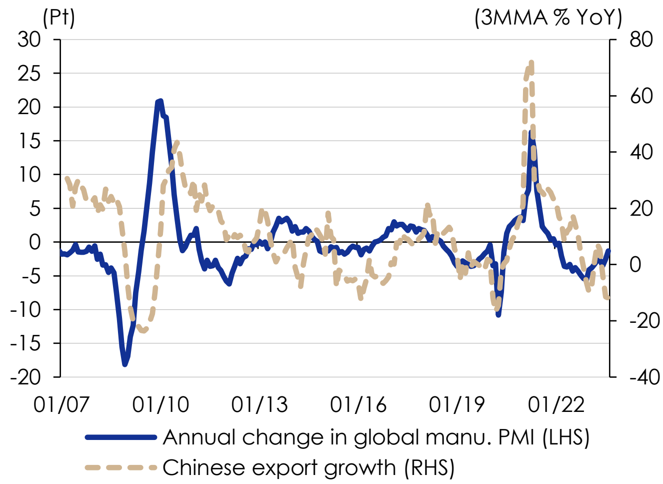
Source: NBS, CCBIS

Fig 5: Solid special bond issuance momentum into Sep



Source: NBS, CCBIS

Fig 6: Tentative signs of a bottom-out in global manufacturing



Source: CEIC,Wind, CCBIS

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