# Greater China — Week in Review

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## Highlights: Grinding lower

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Last week's data dump showed that China's domestic economy continued to exhibit a pattern of stronger external demand relative to internal demand, with production outpacing consumption. However, the weakness in effective demand, initially concentrated in the household sector, has now started to affect the corporate sector.

The latest softer economic data from July and August suggests that China's third-quarter growth may struggle to rebound from the second quarter's 4.7%, heightening the risk of missing the government's 5% annual growth target.

China's export growth in August accelerated to 8.7% YoY, up from 7% YoY in July, surpassing market expectations, while imports grew by a weaker-than-expected 0.5% YoY. Consequently, China's goods trade surplus widened again to over US$90 billion. Notably, exports to the EU surged by 13.4% YoY in August, suggesting that front-loading activities are in play amid rising trade tensions. These front-loading efforts may continue to support China's external demand, providing a key pillar for the country's overall economic growth.

Credit supply remains sluggish, with both households and businesses exhibiting weak demand for credit. Loan to household sector amounted to CNY190 billion, a CNY202.2 billion decline year-on-year. Loan to corporate increased by CNY840 billion, with bill financing accounting for more than half, adding CNY545.1 billion.

The year-on-year growth rate of M2 remained stable at 6.3%, unchanged from the previous month. However, M1's growth rate continued to decline, reaching -7.3%, a further drop of 0.7 percentage points, marking a new low. The widening gap between M2 and M1, now at 13.6%, underscores a slowdown in credit expansion and reduced money creation capabilities.

On domestic demand, China's retail sales grew by 2.1% YoY, down 0.6 percentage points from the previous month. The weaker retail sales was partly due to rising unemployment. The urban surveyed unemployment rate increased to 5.3%, largely driven by a surge of university graduates entering the labor market.

The deceleration of the fixed asset investment growth was mainly attributed to weaker infrastructure investment, which continued to decline, growing by 4.4% YoY from January to August, down from 4.9% in the previous period.

**Nevertheless, there are also a few bright spots in the economy.** Firstly, the equipment manufacturing sector played a crucial stabilizing role, with value-added output rising by 6.4%, contributing nearly half (47.9%) of the overall industrial production growth. The electronics sector maintained double-digit growth, while high-tech manufacturing saw an 8.6% increase in value-added.

Secondly, the "trade-in" policy began to show results. By the end of August, over 800,000 applications for vehicle scrappage and renewal subsidies had been received according to Ministry of Commerce. Retail sales of household appliances and audio-visual equipment rebounded, turning a 2.4% decline in the previous month into a 3.4% increase in August, with green appliances seeing double-digit growth.

Thirdly, government bond issuance accelerated, as fiscal policy implementation began to take effect more rapidly. Government bond financing increased by CNY1.6 trillion in August, a year-on-year rise of CNY437.1 billion.

Looking forward, the acceleration in government bond issuance in late August is expected to provide more support for infrastructure projects and trade-in policies, potentially helping to stabilize the economy in the coming months.

Despite a substantial increase in bond supply in August and the central bank's sale of long-term government bonds, Chinese government bond yields continued to decline. The central bank's net liquidity injections through open market operations helped bolster market sentiment. Additionally, the absence of incremental fiscal policies from the National People's Congress Standing Committee removed any immediate negative catalysts, which further fueled bullish sentiment in the bond market. As a result, long-term yields reached new lows for the year, with the 10-year government bond yield falling below 2.10% and the 30-year yield dropping to 2.22%.

| Key events | |
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| **Facts** | **OCBC Opinions** |
| ▪ Despite a substantial increase in bond supply in August and the central bank's sale of long-term government bonds, Chinese government bond yields continued to decline. | ▪ The central bank's net liquidity injections through open market operations helped bolster market sentiment. Additionally, the absence of incremental fiscal policies from the National People's Congress Standing Committee removed any immediate negative catalysts, which further fueled bullish sentiment in the bond market. As a result, long-term yields reached new lows for the year, with the 10-year government bond yield falling below 2.10% and the 30-year yield dropping to 2.22%. |

| Key Economic News | |
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| ▪ In August, China's key economic growth indicators continued to weaken. Industrial production growth decelerated, increasing by 4.5% YoY, down 0.6 percentage points from the previous month.<br>▪ Investment growth also slowed, growing by 3.4% YoY from January to August, down from 3.6% YoY from January to July.<br>▪ China's retail sales grew by 2.1% YoY, down 0.6 percentage points from the previous month. | ▪ On production, the equipment manufacturing sector played a crucial stabilizing role, with value-added output rising by 6.4%, contributing nearly half (47.9%) of the overall industrial production growth. The electronics sector maintained double-digit growth, while high-tech manufacturing saw an 8.6% increase in value-added. However, a slight decline in equipment manufacturing output reduced its overall support for industrial production.<br>▪ The deceleration of the fixed asset investment growth was mainly attributed to weaker infrastructure investment, which continued to decline, growing by 4.4% YoY from January to August, down from 4.9% in the previous period. Manufacturing investment remained robust, increasing by 9.1% YoY, slightly down from 9.3%, but still significantly outpacing overall investment by 5.7 percentage points. Investment in high-tech industries grew by 10.2% YoY, outperforming overall investment by 6.8 percentage points.<br>▪ On the positive note, the decline in real estate investment narrowed slightly. From January to August, real estate investment fell by 10.2% YoY, unchanged from the January-July period. However, the monthly decline in real estate investment in August was less severe than in July thanks to improving funding supports to developers.<br>▪ The weaker retail sales was partly due to rising unemployment. The urban surveyed unemployment rate increased to 5.3%, largely driven by a surge of university graduates entering the labor market. However, the employment situation for migrant workers remained positive, with their unemployment rate falling to 4.6%, a 0.3 percentage point decrease from the previous month.<br>▪ The "trade-in" policy began to show results. By the end of August, over 800,000 applications for vehicle scrappage and renewal subsidies had been received according to Ministry of Commerce. Retail sales of household appliances and audio-visual equipment rebounded, turning a 2.4% decline in the previous month into a 3.4% increase in August, with green appliances seeing double-digit growth.<br>▪ Looking forward, the acceleration in government bond issuance in late August is expected to provide more support for infrastructure projects and trade-in policies, potentially helping to stabilize the economy in the coming months. |
| ▪ In August, total social financing (TSF) increased by CNY3 trillion, a CNY98.1 billion decline compared to the same period last year, though it exceeded market expectations. The year-on-year growth rate of TSF stock was 8.1%, down 0.1 percentage points from the previous month. | ▪ In September, new Yuan loans totaled CNY900 billion, representing a CNY460 billion decrease year-on-year. Medium- and long-term loans showed particular weakness, down by CNY194.6 billion compared to the previous year. Credit supply remains sluggish, with both households and businesses exhibiting weak demand for credit. Loan to household sector amounted to CNY190 billion, a CNY202.2 billion decline year-on-year, with short-term and medium- to long-term loans decreasing by CNY160.4 billion and CNY40.2 billion, respectively. Corporate loans increased by CNY840 billion, with bill financing accounting for more than half, adding CNY545.1 billion. However, short-term and medium- to long-term corporate loans decreased by CNY149.9 billion and CNY154.4 billion as compared to the same period last |

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| | year, respectively.<br>▪ Corporate bond financing rose by CNY169.2 billion, but this was CNY109.6 billion lower year-on-year. August saw significant volatility in the bond market, with credit bond yields fluctuating in the secondary market, leading to a sharp increase in issuance costs. As a result, several bond issuances were either canceled or delayed.<br>▪ The year-on-year growth rate of M2 remained stable at 6.3%, unchanged from the previous month. However, M1's growth rate continued to decline, reaching -7.3%, a further drop of 0.7 percentage points, marking a new low. The widening gap between M2 and M1, now at 13.6%, underscores a slowdown in credit expansion and reduced money creation capabilities.<br>▪ On a positive note, government bond issuance accelerated, as fiscal policy implementation began to take effect more rapidly. Government bond financing increased by CNY1.6 trillion in August, a year-on-year rise of CNY437.1 billion. |
| ▪ China's export growth in August accelerated to 8.7% YoY, up from 7% YoY in July, surpassing market expectations, while imports grew by a weaker-than-expected 0.5% YoY. Consequently, China's goods trade surplus widened again to over $90 billion. | ▪ Notably, exports to the EU surged by 13.4% YoY in August, suggesting that front-loading activities are in play amid rising trade tensions. These front-loading efforts may continue to support China's external demand, providing a key pillar for the country's overall economic growth. |
| ▪ China's consumer price index (CPI) accelerated to 0.6% YoY in August, up from 0.5% YoY in July. On a month-on-month basis, CPI rose by 0.4%. | ▪ The uptick in inflation was primarily driven by a surge in food prices due to extreme summer weather. In particular, vegetable prices jumped by 18.1% MoM, while pork prices rose for the fourth consecutive month, increasing by 7.3% MoM. However, the impact of rising food costs was partially offset by softening fuel prices, which fell by 2.9% MoM in August. This decline in fuel prices exerted downward pressure on the CPI, contributing to a 0.3% YoY drag on the index. Excluding food and energy, China's core CPI fell by 0.2% MoM, bringing the core inflation rate to just 0.3% YoY, the lowest level since March 2021, indicating continued weakness in domestic demand. Additionally, the contraction in the Producer Price Index (PPI) widened to 1.8% YoY in August, compared to a 0.8% YoY decline in July. Given these trends, the GDP deflator is likely to remain in negative territory for the third quarter, necessitating further policy support to turn the deflator positive. |

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