CHINA CHART BOOK

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CAPITAL ECONOMICS 凯投宏观

Smaller firms feel tightening squeeze

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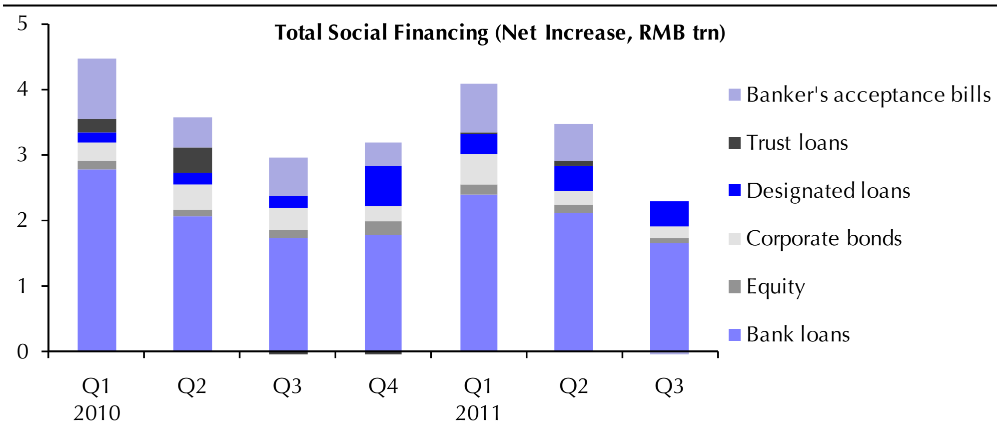
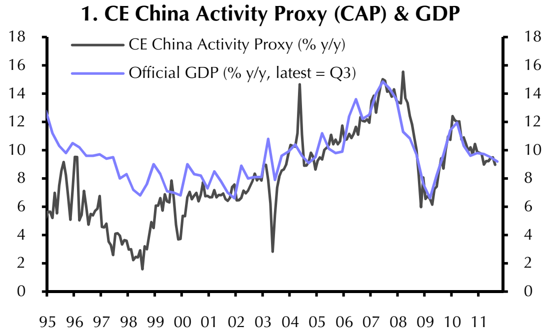
- China's attempts to rein in off-balance-sheet lending by banks have compounded the difficulties faced by smaller firms that were already cut off from formal credit channels. Net new bank lending last quarter was little changed from a year ago (RMB1,651bn now vs RMB1,732bn then) but the total amount of financing extended under the broader definition that the People's Bank uses fell by nearly a third. (See Chart below). Undiscounted banker's acceptances and trust loans have disappeared as sources of net new financing. Officials have reasserted control over total credit growth, at least for a while, but at the cost of pushing more borrowers into the arms of unregulated underground lenders.
- **Activity indicators** suggest that growth is stable. (Page 2.)
- **Consumer indicators** point to an encouraging pick-up in household spending. (Page 3.)
- **Business indicators** show heavy industry continuing to outperform. (Page 4.)
- **Property indicators** show that sales remain unusually weak. (Page 5.)
- **External indicators** show exports to Europe slumped last month. (Page 6.)
- **Inflation indicators** suggest consumer price inflation is fading. (Page 7.)
- **Monetary indicators** imply that credit conditions are still tight. (Page 8.)
- **Financial market indicators** show that interventions to support bank shares had little lasting impact. (Page 9.)
- **Hong Kong** may have notched up a second consecutive fall in GDP. (Page 10.)



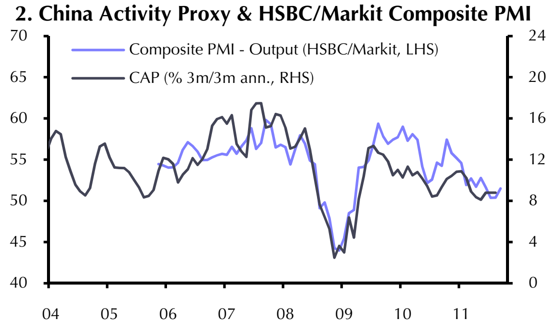
China Activity Indicators

- GDP growth slowed from 9.5% y/y in Q2 to 9.1% in Q3 **(1)**. This is consistent with q/q growth edging down from 10.0% to 9.5% in annualised terms, according to the official figures. Our China Activity Proxy shows the same pattern of broadly stable growth, though at a slower pace **(2)**.
- The contribution to growth from consumption increased by a percentage point between Q2 and Q3. Net exports were flat, while investment slowed **(3)**. High inflation in the prices of inputs, particularly commodities, has supported nominal investment growth, but the monthly data confirm that real growth has weakened **(4)**.
- This slowdown in real fixed investment has occurred within the state sector, as stimulus spending has unwound and relatively few new projects were launched at the beginning of the year. The slowdown in railway construction after the Wenzhou train crash in July has also had an effect, though a relatively small one. By contrast, private sector investment has been steady over the past year **(5)**. Growth of project starts values fell in September, but is much higher than a few months ago **(6)**.

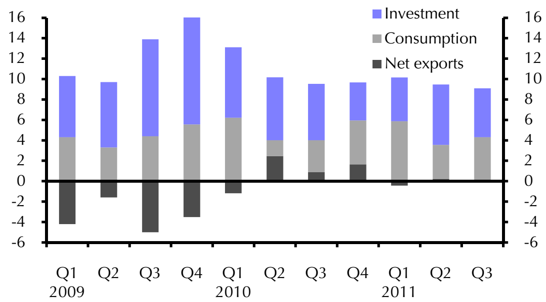
1. CE China Activity Proxy (CAP) & GDP



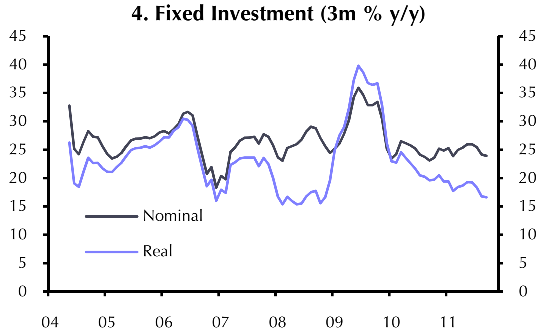
2. China Activity Proxy & HSBC/Markit Composite PMI



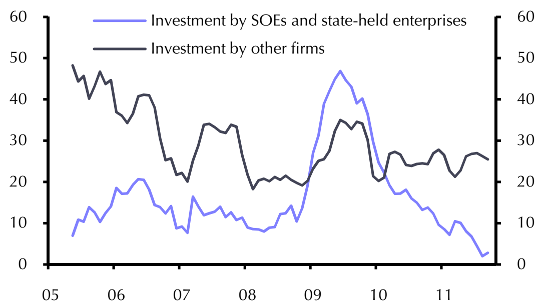
3. Contribution to GDP Growth (% pts, y/y)



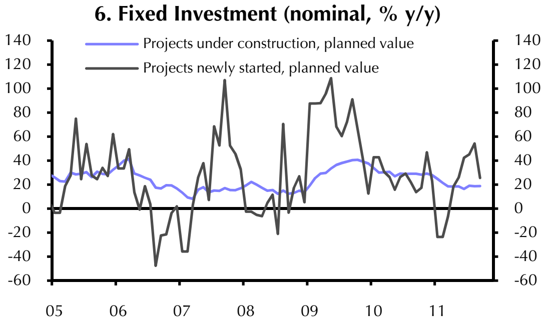
4. Fixed Investment (3m % y/y)



5. Fixed Investment (real, 3m % y/y)



6. Fixed Investment (nominal, % y/y)

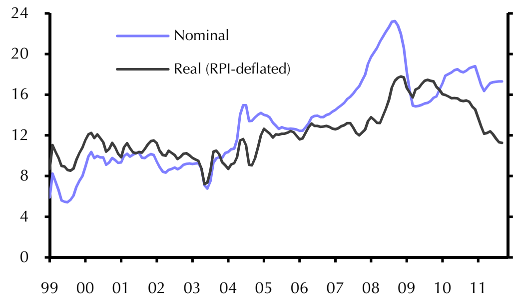


Sources – Thomson Datastream, Bloomberg, CEIC, CE

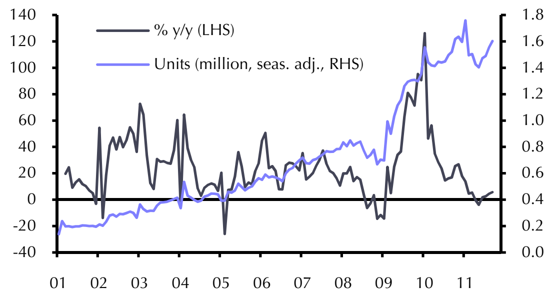
China Consumer Indicators

- Real retail sales growth in Q3 was the weakest in seven years **(1)**. Growth of auto sales has also been unusually subdued **(2)**. The retail sales figures are hard to square with the national accounts data showing a pick-up in consumption growth last quarter. But the retail sales data did show stronger growth in September. The survey-based measures of spending by urban households point to a lower *level* of real consumption growth but to an improvement last quarter (the surveys are an input to the national accounts data so the similarity should not be a surprise) **(3)**.
- The apparent acceleration may not last. It partly reflects the weakness in Q3 last year. An alternative survey from the People's Bank gives no sign that households are becoming more willing to spend. If they had more money, most say they would save it or invest in property or financial assets **(4)**.
- Consumer confidence in current conditions has fallen further. Confidence about the outlook is stronger **(5)**. The two PMIs offer different views on the state of the labour market in manufacturing, with the HSBC/Markit index, which gives more weight to smaller and private firms, more downbeat **(6)**.

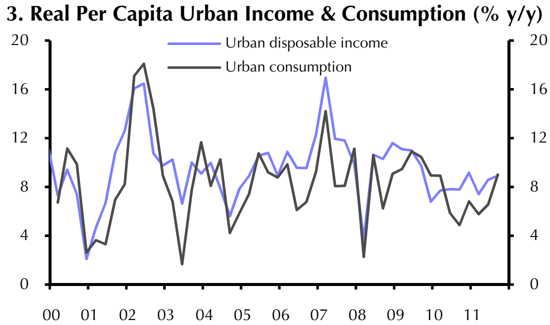
1. Retail Sales (3m % y/y)



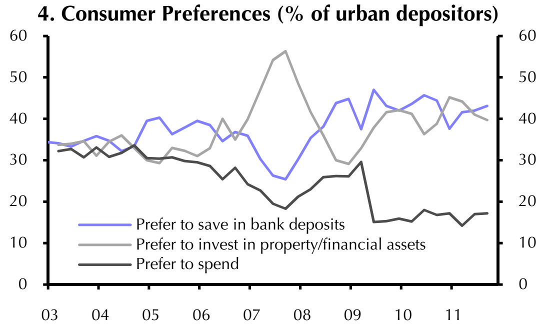
2. Vehicle Sales



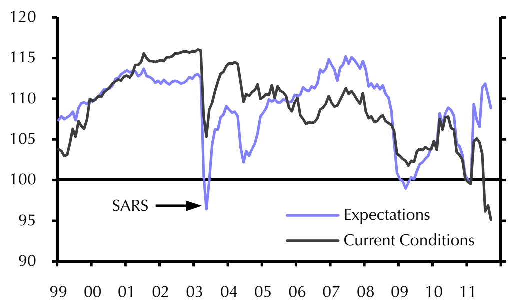
3. Real Per Capita Urban Income & Consumption (% y/y)



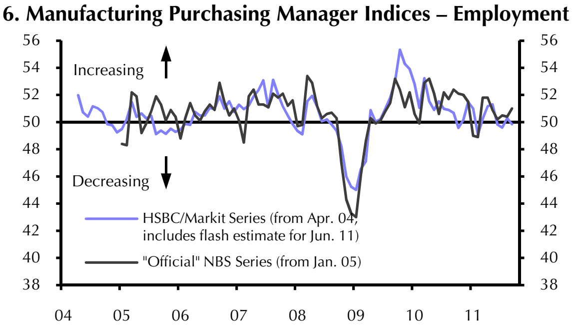
4. Consumer Preferences (% of urban depositors)



5. Consumer Confidence



6. Manufacturing Purchasing Manager Indices – Employment



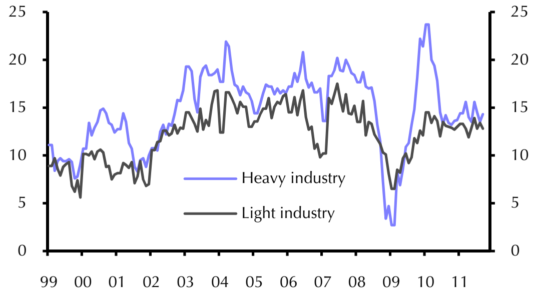
Sources – Thomson Datastream, Bloomberg, CEIC, Markit

China Business Indicators

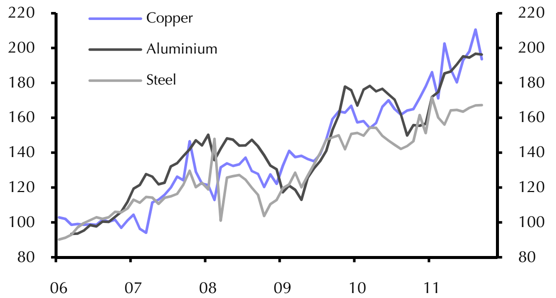
- Both PMIs signal that conditions in manufacturing has stabilised after worsening earlier this year **(1)**. Industrial production growth has been stable over the last couple of quarters, with heavy industry outpacing light industry, despite reports of electricity shortages in some regions **(2)**. Hydroelectric output, which accounts for 16% of China's electricity, continued to fall in September, and was 20% lower than one year ago.
- Copper output dropped back in September having risen in previous months **(3)**. Metals inventories tracked by the Shanghai Futures Exchange (SFE) have also declined recently. Aluminium inventories are back at "normal" levels but copper inventories are much higher than a few years ago **(4)**. Steel prices have fallen by around 8% since the end of August after steadying earlier this year **(5)**.
- Margins remain healthy for most industrial firms, despite the pressures they face from rising wages, high commodity prices and renminbi gains against the dollar **(6)**. This implies that productivity is still growing rapidly.

1. Manufacturing Purchasing Manager Indices

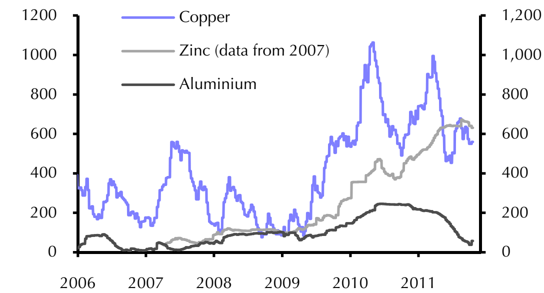
2. Industrial Value-Added (volume, % y/y)



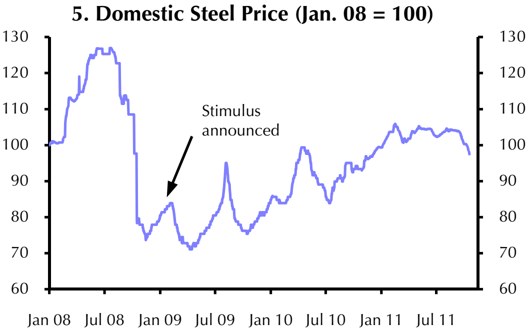
3. Primary Commodity Output (vol., seas. adj., 2006 = 100)



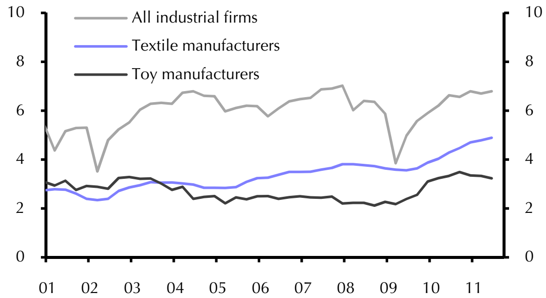
4. Shanghai Futures Exchange Inventories (Jan. 09 = 100)



5. Domestic Steel Price (Jan. 08 = 100)



6. Profit Margins (profits as % of sales, 4-qtr rolling sum)

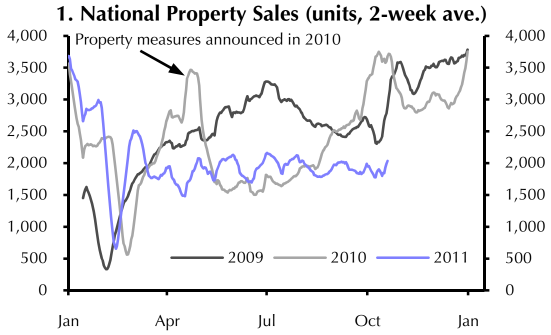


Sources – CEIC, Thomson Datastream, Bloomberg, Markit, CE

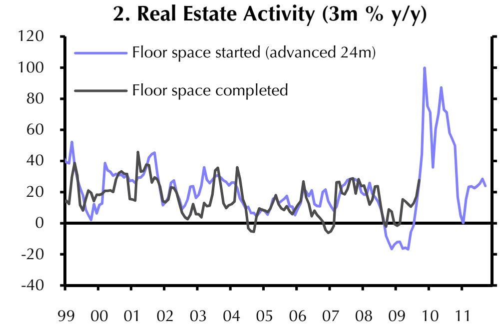
China Property Indicators

- Property sales nationwide have remained stable in September and the first half of October. These are usually very strong months for sales **(1)**. Some large banks have reportedly increased minimum mortgage rates this month. With other restrictions on property purchases for 2nd or 3rd homes remaining in place, a sales rebound is unlikely in the near term.
- The weak sale figures are adding to the pressures faced by real estate developers. A wave of new property is nearing completion **(2)**. With financing through banks and the shadow banking system restricted, some may be forced to cut prices. Prices for new (and existing) properties have been flat or falling in more than half of the 70 cities surveyed by the statistics bureau in the last two months. The official figures and our own estimates show that prices are higher than a year ago **(3, 4)** but prices have increased much less than average incomes in that time **(5)**.
- So far though, overall construction activity has remained strong, helped by faster building of social housing **(6)**. Given the pressures developers are under, activity is likely to slow.

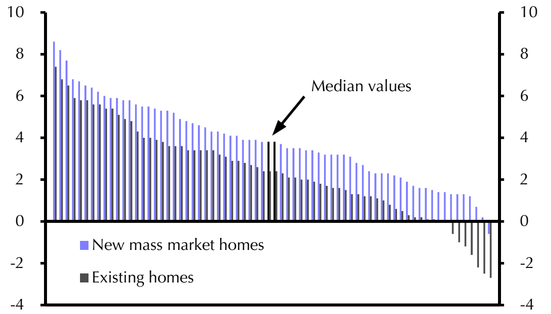
1. National Property Sales (units, 2-week ave.)



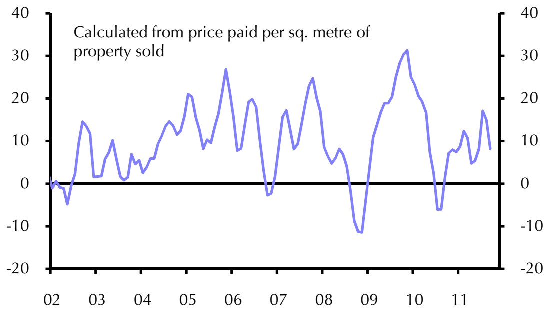
2. Real Estate Activity (3m % y/y)



3. Residential Property Price in 70 Cities (% y/y, Sep. 2011)

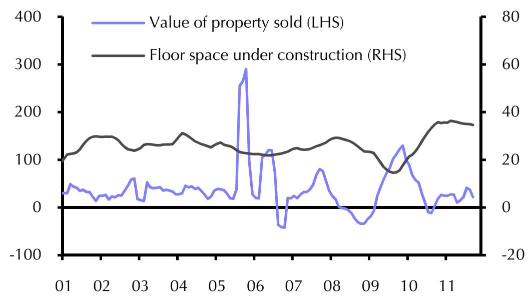


4. Average Residential Sales Price (3m % y/y)



5. Residential Property Prices Relative to Wages (2000 = 100)

6. Real Estate Activity (3m % y/y)

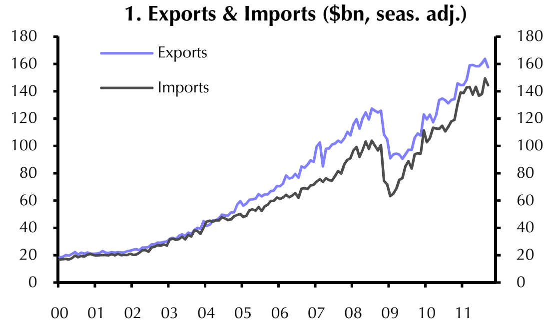


Sources – CEIC, Thomson Datastream, Bloomberg, CE

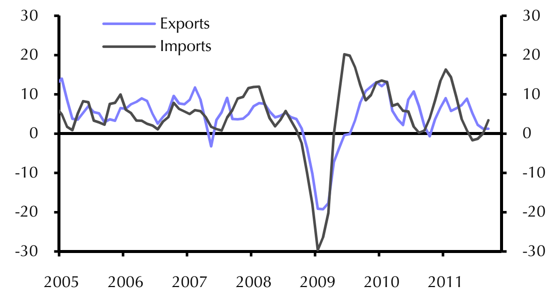
China External Indicators

- Both exports and imports fell in September in seasonally-adjusted terms, after a short-lived rebound in August **(1)**. Exports barely rose at all over Q3 as a whole; imports picked up slightly **(2)**. All of the import increase came in imports for domestic use. Imports of goods for processing and re-export remained weak **(3)**, implying that exporters are not optimistic about the months ahead. September's exports to the EU dropped 6.8% m/m, one of the biggest single-month declines on record.
- Imports for domestic use rose at a decent pace last quarter and commodity import volumes also started to rise after unusual weakness earlier in the year **(4)**.
- The trade surplus was little changed in seasonally-adjusted terms in Q3 **(5)**. The stabilisation of the trade surplus over the last couple of years does not reflect a rebalancing of China's trade with its major export markets **(6)**. Surpluses with the US and EU have continued to rise, offset by bigger deficits with the rest of the world, primarily commodity producers and other countries in Asia.

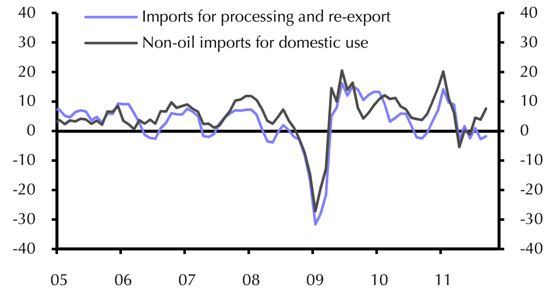
1. Exports & Imports ($bn, seas. adj.)



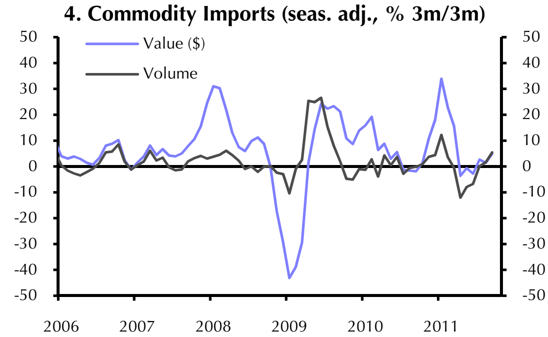
2. Exports & Imports (seas. adj., % 3m/3m)



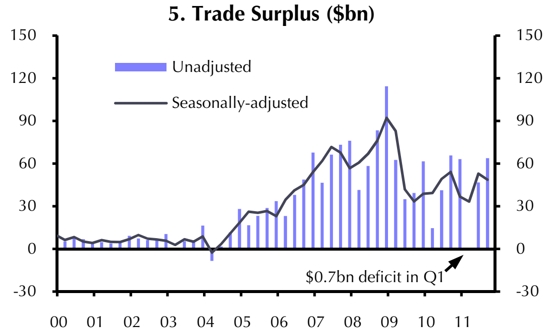
3. Imports (seas. adj., % 3m/3m)



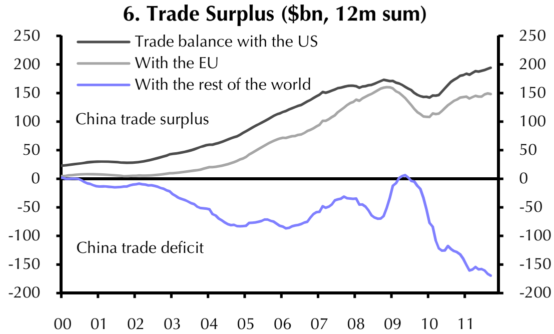
4. Commodity Imports (seas. adj., % 3m/3m)



5. Trade Surplus ($bn)



6. Trade Surplus ($bn, 12m sum)

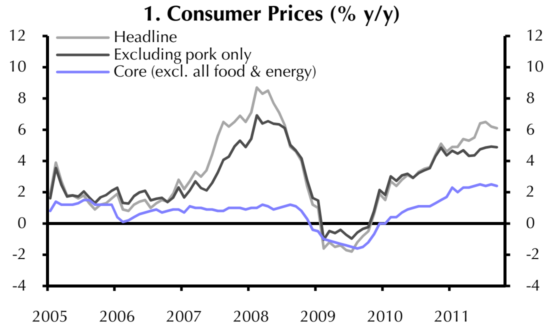


Sources – Thomson Datastream, CEIC, Capital Economics

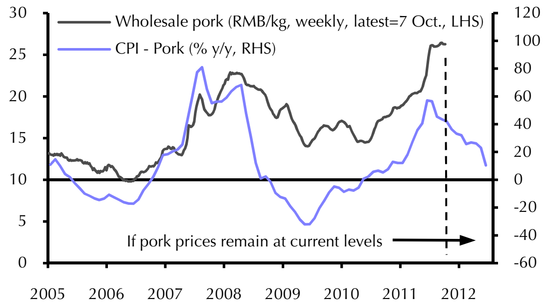
China Inflation Indicators

- Headline consumer price inflation fell for a second month, from 6.2% y/y in August to 6.1% in September. Core inflation has been steady over the last few months **(1)**. Pork prices, which drove much of the increase in inflation earlier in the year, have remained steady since mid-July **(2)**.
- Looked at in seasonally-adjusted terms, food price inflation seems to have peaked, while price pressures in non-food items has been steadily easing since Q1 **(3)**. This decline has been broad-based **(4)**, with a particularly large drop in residential price inflation, which contributed half of non-food inflation over the last 12 months.
- Favourable base effects caused producer price inflation to fall to the lowest level this year **(5)**.
- The renminbi price of US imports shipped from China was unchanged last month, and still 1.7% lower than a year ago. Higher dollar prices can be fully explained by renminbi appreciation rather than exporters passing on cost increases **(6)**.

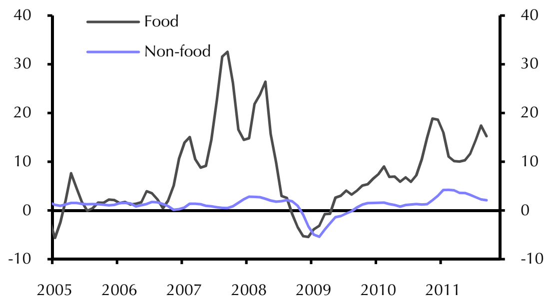
1. Consumer Prices (% y/y)



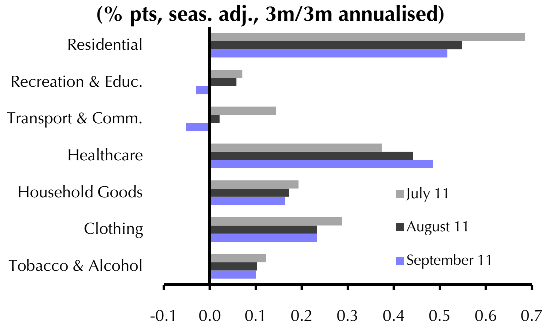
2. Pork Prices



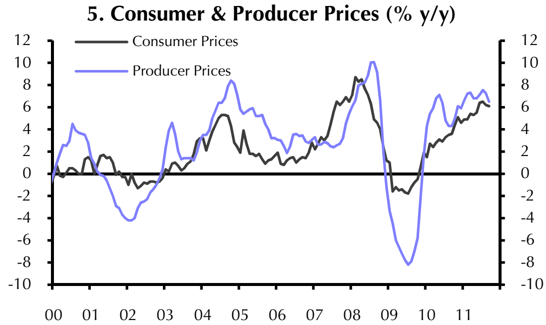
3. Consumer Prices (seas. adj., % 3m/3m, ann.)



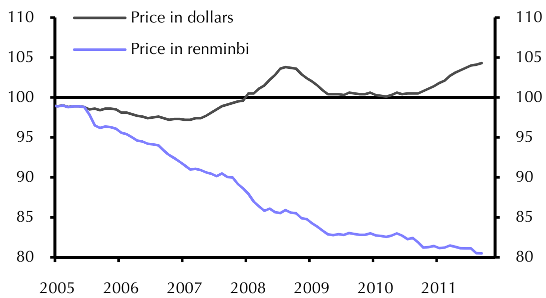
4. Non-Food Contribution to CPI Inflation (% pts, seas. adj., 3m/3m annualised)



5. Consumer & Producer Prices (% y/y)



6. Price of US Imports from China (2003 = 100)

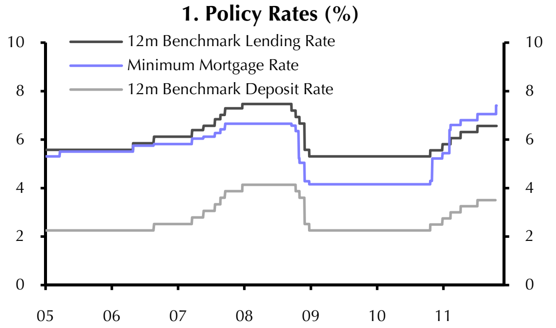


Sources – Bloomberg, Thomson Datastream, CEIC, Capital Economics

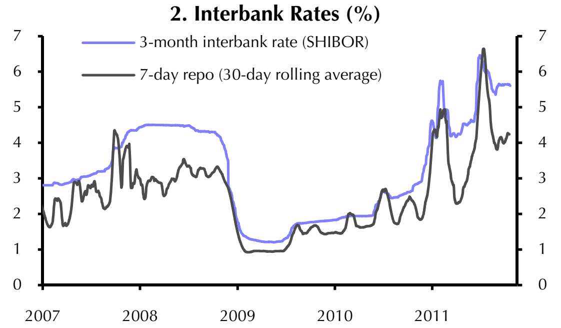
China Monetary Indicators

- The required reserve ratio (RRR) and benchmark interest rates have been on hold for three months. Credit conditions remain tight. A number of banks have raised mortgage rates in recent weeks. In total, mortgage rates have increased by roughly 200bp more than benchmark lending rates since October last year **(1)**.
- Meanwhile, the new rules making margin deposits subject to reserve requirements have had an impact roughly equivalent to half of the normal 50bp RRR hike in each of September and October. The People's Bank has continued to inject money through its sterilisation operations, but interbank rates remain high **(2)**.
- Net new lending in September was weaker than expected **(3)**, though the official M2 figures exaggerate the slowdown in broad money and credit growth **(4)**. The larger banks have slowed lending most over the last few months. Smaller banks, which small firms normally rely on more, have kept their lending roughly steady **(5)**.
- Efforts to limit the activities of the shadow-banking industry have resulted in the disappearance of undiscounted banker's acceptances and trust loans as a source of net new financing **(6)**.

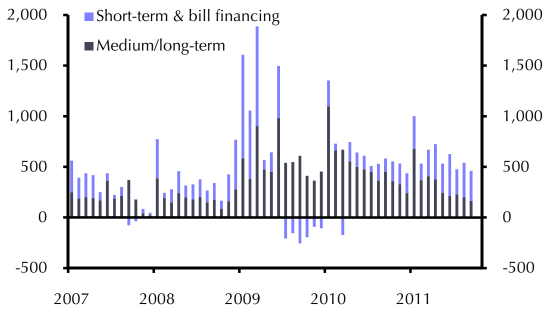
1. Policy Rates (%)



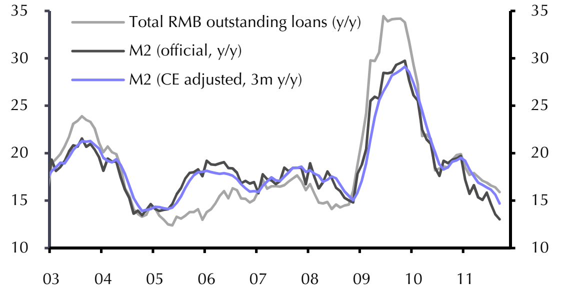
2. Interbank Rates (%)



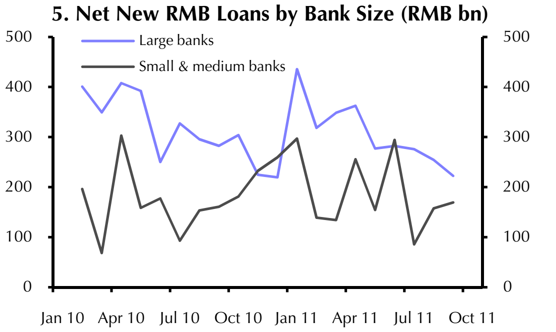
3. Net New RMB (RMB bn)



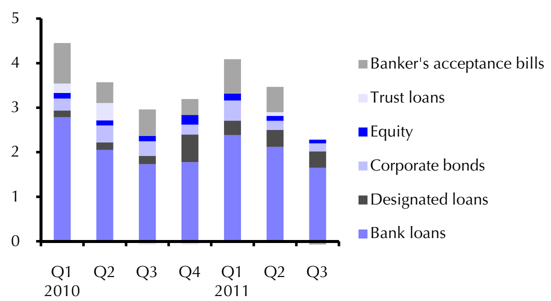
4. Money & Loan Growth



5. Net New RMB Loans by Bank Size (RMB bn)



6. Total Social Financing (Net Increase, RMB trn)

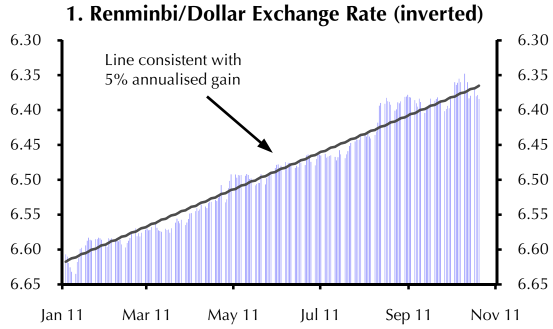


Sources – Thomson Datastream, Bloomberg, CEIC, Capital Economics

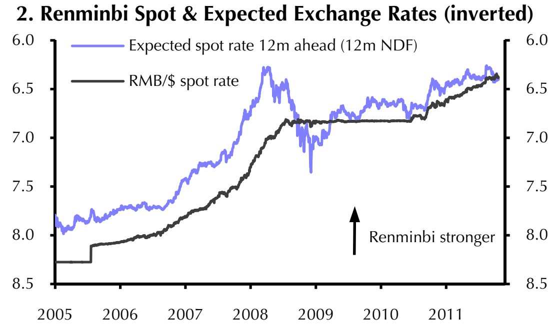
China Financial Market Indicators

- The renminbi has fallen back against the dollar over the last few days after strong gains at the beginning of this month, leaving it roughly where it was in mid-August **(1)**. At face value, participants in the NDF market now believe that a significant change has occurred for renminbi policy. NDFs have been pricing in minor depreciation over the next 12 months since the end of September **(2)**.
- The renminbi has stalled in trade-weighted terms this month, after sharp earlier gains **(3)**. The trade-weighted index is now roughly where it was a decade ago. Most would have expected significant appreciation over that period.
- Equity prices in China have continued to fall, though others in the region recovered fractionally in the last couple of weeks **(4)**. An announcement that Central Huijin would start buying shares in the four big banks provided a boost to financial stocks, but it proved short-lived. The slump in property stocks has deepened **(5)**. A turnaround is unlikely until clear signs of policy easing emerge. Nonetheless, with equity valuations low both on a historical basis and relative to other markets in the region, there is potential for a significant rebound **(6)**.

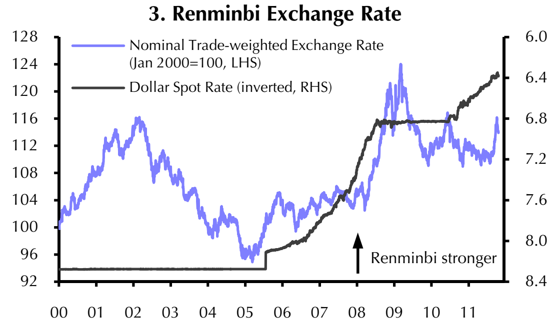
1. Renminbi/Dollar Exchange Rate (inverted)



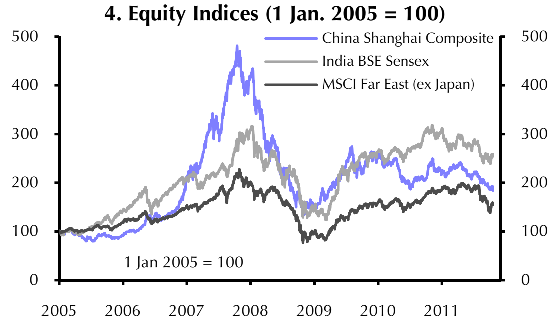
2. Renminbi Spot & Expected Exchange Rates (inverted)



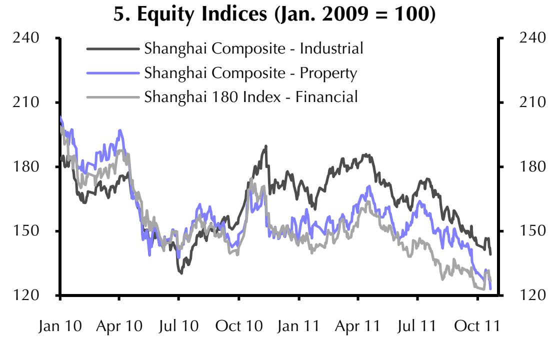
3. Renminbi Exchange Rate



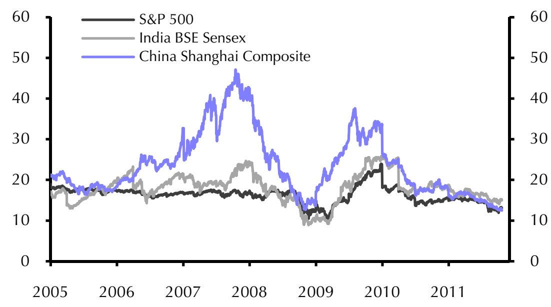
4. Equity Indices (1 Jan. 2005 = 100)



5. Equity Indices (Jan. 2009 = 100)



6. P/E Ratios

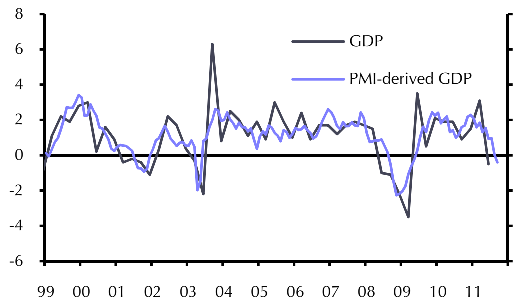


Sources – Thomson Datastream, Bloomberg, CEIC, Capital Economics

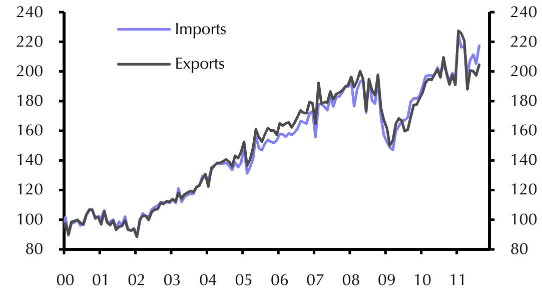
Hong Kong

- Hong Kong's economy contracted in Q2 in q/q terms and a further contraction in Q3 now looks likely too **(1)**. Exports have been weak after a short-lived surge at the beginning of the year and are now barely any higher than they were on the eve of the financial crisis three years ago **(2)**.
- As an extremely trade-focused economy, Hong Kong will be hit hard by any global slowdown. But domestic demand should help cushion the blow. The government has ample fiscal reserves. Meanwhile, unemployment is low **(3)**.
- The pace of price increases over the past year remains a concern. Consumer prices and residential housing prices have dropped back recently but not by much. Other property prices have continued to rise **(4,5)**.
- Equities were hit by the pullback from emerging markets in September, with the benchmark index tracking the regional trend **(6)**.

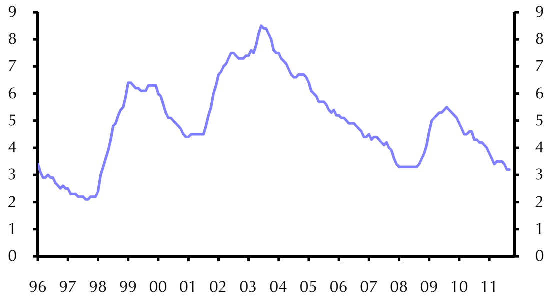
1. GDP



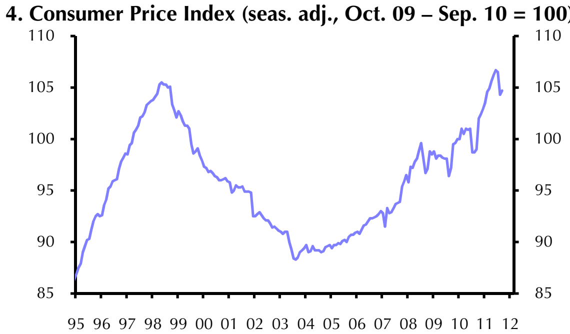
2. Trade Volumes (seas. adj.)



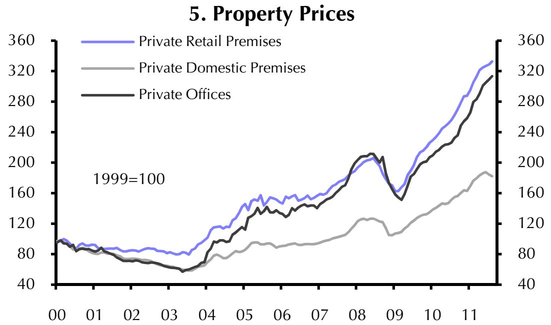
3. Unemployment (%)



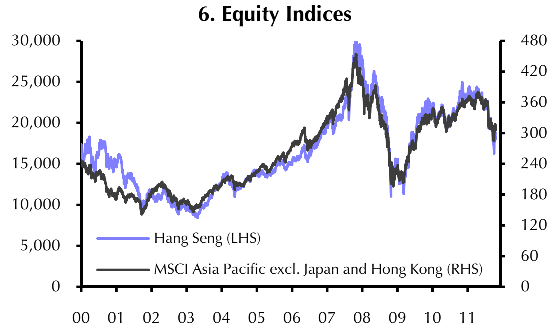
4. Consumer Price Index (seas. adj., Oct. 09 – Sep. 10 = 100)



5. Property Prices



6. Equity Indices



Sources – Markit, Bloomberg, Thomson Datastream, CEIC