

Chartbook

28 August 2024

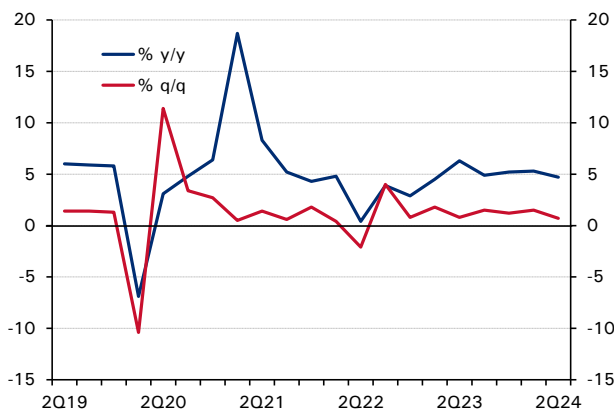


China: Latest indicators confirm lackluster economic environment

After a disappointing Q2 2024, China's underlying economic activity entered Q3 on an uninspiring note. Industrial production and fixed asset investment growth decelerated from the previous month, worse than the market had expected. Although retail sales growth did improve to 2.7% y/y in July, it continues to trail significantly the pre-Covid growth trend of 8%+ amid a lack of support from fiscal policy and structural weaknesses. Meanwhile, July's trade figures highlighted the fragile external demand outlook, especially considering heightened trade tensions with western countries. Consumer price inflation, at a modest 0.5% y/y in July, failed to reassure on the robustness of household demand, while the unemployment rate ticked up to 5.2% in July. In more grim data, local currency bank credit excluding loans to financial institutions fell on an annual basis for the first time in several years, weighed down by ongoing property sector woes.

On the monetary policy front, the People's Bank of China (PBoC) left key lending rates left unchanged, with the one-year LPR at 3.35% and the five-year LPR, a reference for long-term credit including mortgages, at 3.85%, after surprisingly cutting them in July. As the yield differential between the US and Chinese benchmark papers has narrowed, pressure on the yuan has also eased lately. Therefore, the US Federal Reserve's potential interest rate cut at in September should present the PBoC with more opportunities to reduce domestic interest rates to support the economy. Amid the soft economic backdrop, the government's 2024 GDP growth target of 5% appears challenging, underscoring an urgent need to fix underlying economic issues through more forceful policy measures aimed at boosting consumption.

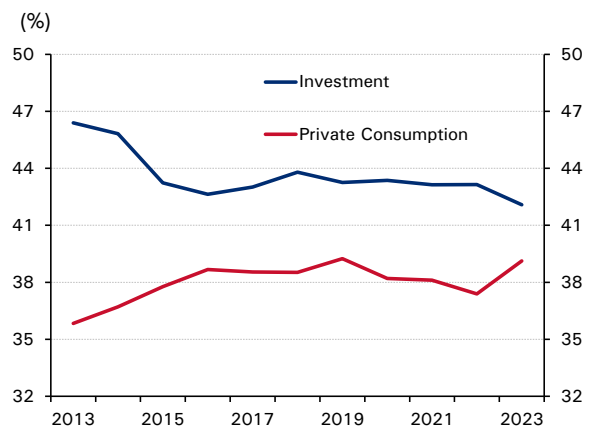
Chart 1: Real GDP growth



Growth in Q2 2024 (+4.7% y/y) continues to be weighed down by the property sector and weak consumption. The economy grew 0.7% q/q in Q2 after +1.5% q/q in Q1.

Source: Haver Analytics

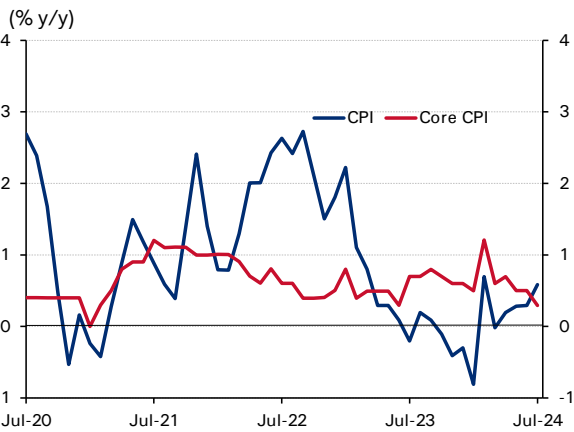
Chart 2: Share of GDP



Investment as a share of GDP is broadly on a declining trend, highlighting underlying economic weakness. Meanwhile, private consumption, despite ticking up last year, remains relatively below-par to boost growth meaningfully.

Source: Haver Analytics.

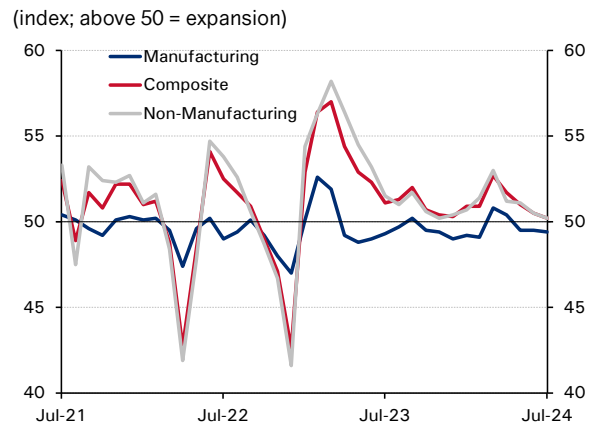
Chart 3: Consumer price inflation



Consumer price inflation inched up to a five-month high of 0.5% y/y in July from 0.2% in June, beating market forecasts of 0.3% but remains muted overall.

Source: Haver Analytics

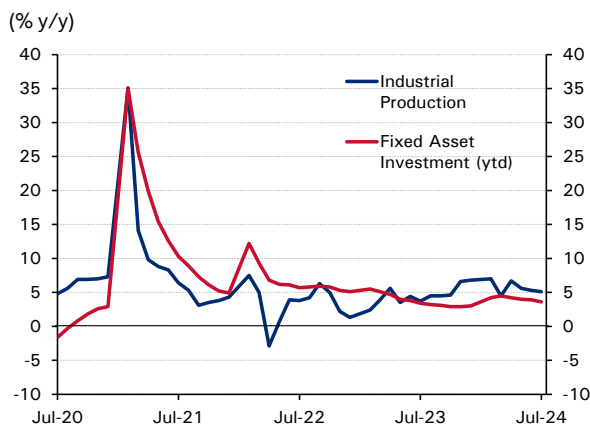
Chart 4: Purchasing Managers' Index surveys



PMI readings remained on a downtrend in June, with the composite index reaching its lowest level since December 2023 at 50.5, highlighting a fragile outlook.

Source: Haver Analytics

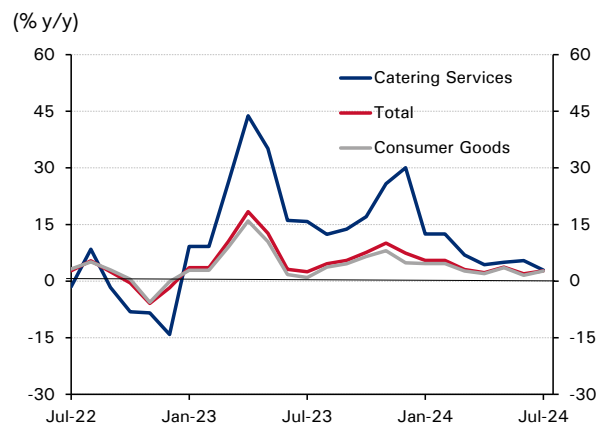
Chart 5: Industrial output and fixed investment



Industrial output growth softened to 5.3% y/y in June, indicating weakening economic activity while fixed asset investment lagged, dragged by the property sector.

Source: Haver Analytics

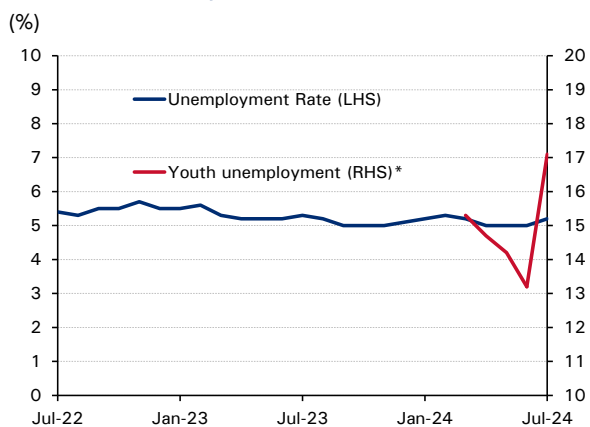
Chart 6: Retail sales



Retail sales grew by 2.7% y/y in July, recovering from June's 17-month-low of 2% but the growth remains much below its pre-Covid trend.

Source: Haver Analytics

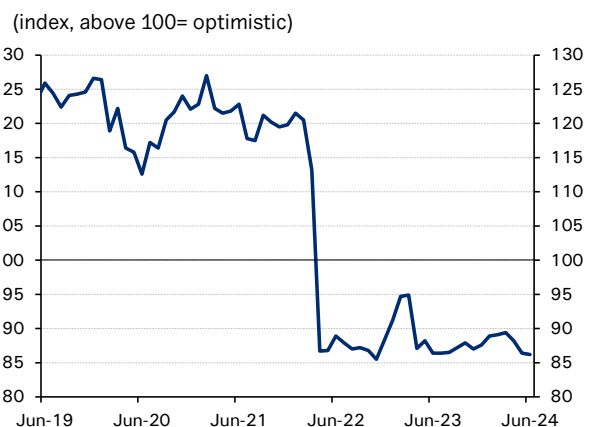
Chart 7: Unemployment rate



The youth unemployment rate (16-24 years) accelerated past 17% in July, up from 13.2% in June, partly driven by a seasonal influx of new graduates.

Source: Haver Analytics. *After methodology change; excludes students

Chart 8: Consumer Confidence

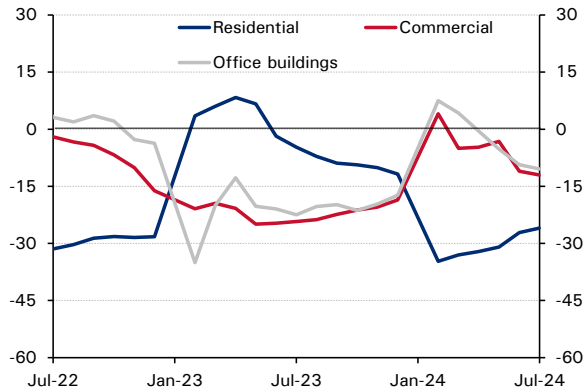


The index for consumer confidence in China continued to be weaker than its pre-2022 levels, at 86.2 in June 2024.

Source: Haver Analytics

Chart 9: Real estate sales by value

(% y/y, Cumulative ytd)

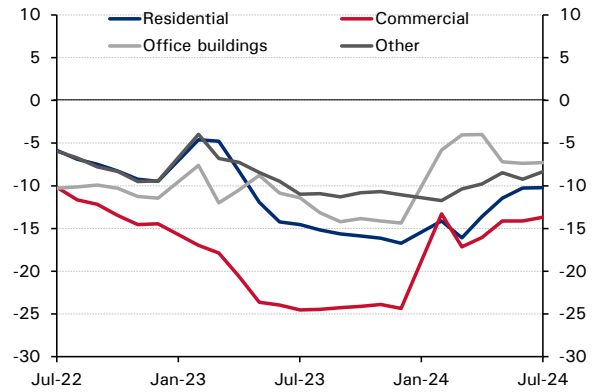


Residential real estate sales continued to fall, dropping 26% y/y in Jan-July...

Source: Haver Analytics

Chart 10: Real estate investments

(% y/y, Cumulative ytd)

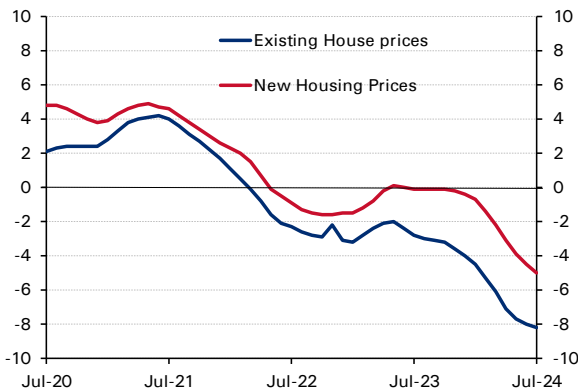


...as investor confidence in real estate remained poor, with investments sustaining another annual fall over the same period.

Source: Haver Analytics

Chart 11: House prices in 70 medium & large cities

(% y/y)

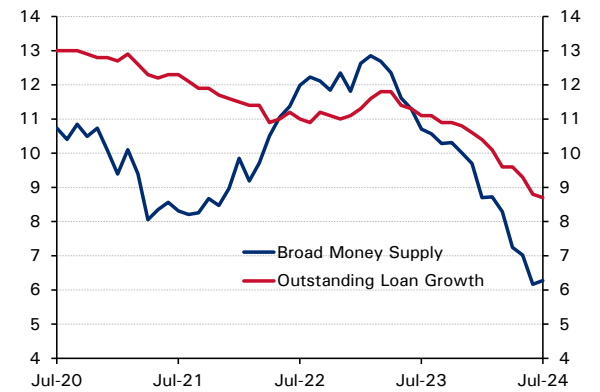


New house prices slid 5.0% y/y in July, the sharpest drop since June 2015, deepening from a decline of 4.5% in June as the government's support policies failed to stem the fall.

Source: LSEG

Chart 12: Money supply (M2) and credit growth

(% y/y)

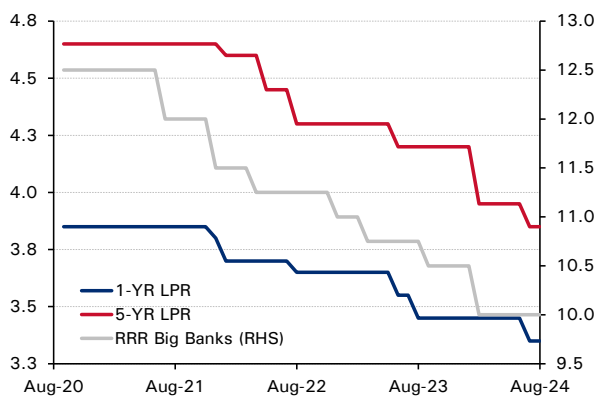


Outstanding loan growth fell to a historic low of 8.7% y/y in July. Though money supply ticked up to +6.3% y/y in July from 6.2% y/y in June, it is still much below pre-2024 growth.

Source: Haver Analytics

Chart 13: Interest rates

(%)

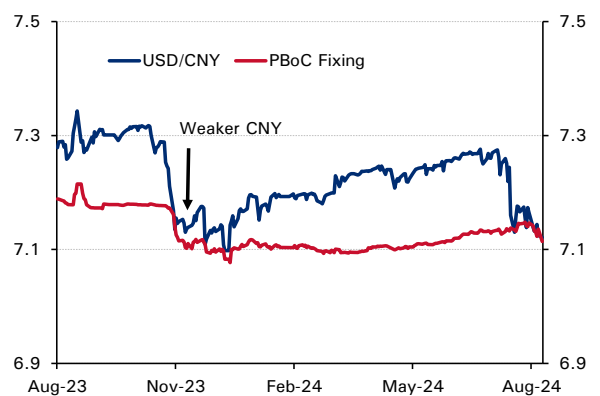


The central bank left the Loan Prime Rates (LPR) unchanged in August, in line with market expectations after unexpectedly cutting them in July.

Source: Haver Analytics

Chart 14: Dollar-yuan exchange rate

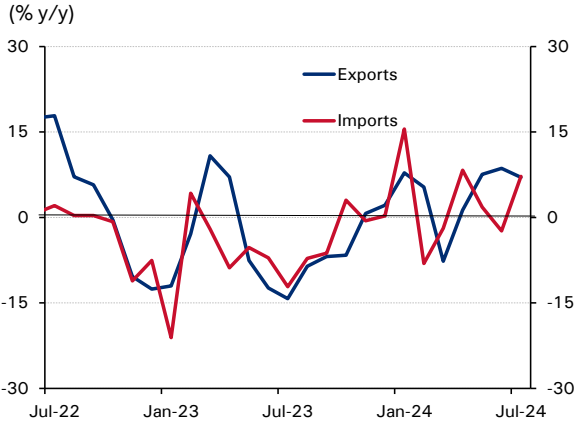
(USD/CNY)



The yuan has appreciated over 1% so far this month as USD came under pressure after soft US job data which boosted chances of aggressive Fed policy rate cuts.

Source: Haver Analytics

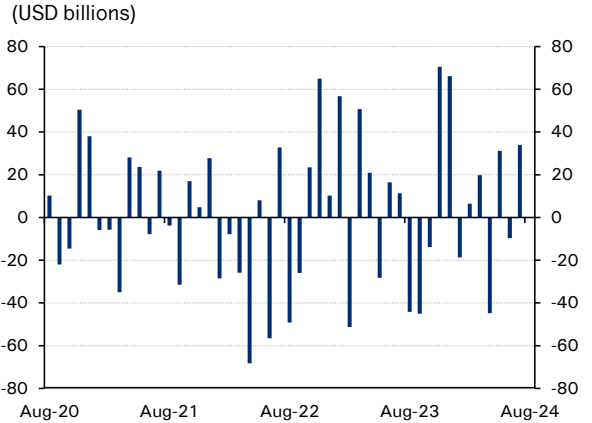
Chart 15: International trade



Exports rose 7.0% y/y in July, down from an 8.6% rise in June, the softest growth since April, implying a weak external demand outlook. But imports increased 7.2% y/y, rebounding from June's 2.3% fall.

Source: Haver Analytics

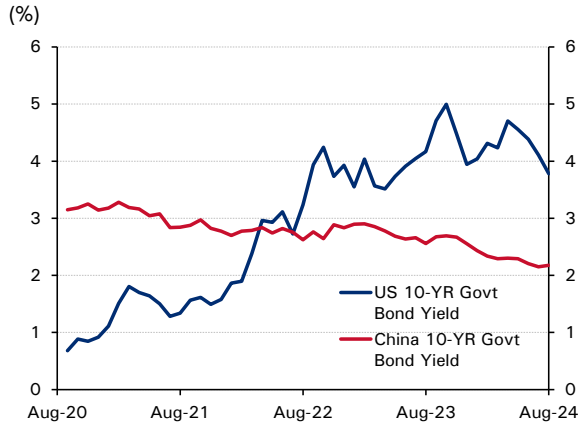
Chart 16: Monthly FX reserve changes



China's foreign currency reserves rose 1.1% to \$3.256 trillion in July, up from \$3.222 trillion a month earlier. This monthly rise, amounting to about \$34 billion, marked the largest increase in seven months.

Source: Haver Analytics

Chart 17: China and US government bond yields



US and Chinese 10Y bonds' yield spread narrowed further as the Fed approaches its policy pivot, leading to a large fall in UST yields, while those on Chinese bonds dropped modestly as investors hope for further monetary easing.

Source: Haver Analytics

Chart 18: Stock markets



Equity markets have sold off in the past few days, pulling their year-to-date performance into negative territory (as of 26 August).

Source: Haver Analytics

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