China in focus

Economics
China

An investment-led rebound

- Activity data came in better than expected in August, but headwinds have not fully abated
- We expect more policy support for the property sector with infrastructure and manufacturing to lead the rebound

China data review (August 2022)[1]

Activity data showed a continued improvement with stronger readings in industrial production, retails sales and infrastructure investment. However, a deepening slump in property investment highlights the ongoing challenges facing the economic recovery. A stronger policy push is needed for the recovery momentum to continue.

- **Industrial production** rose 4.2% y-o-y in August given an increase in power generation amidst record hot weather. Utility generation was up 13.6%, far exceeding the average pace of 4.3% so far this year. This offset some headwinds from slowing external demand and temporary power disruptions. Within manufacturing, automobile production was the standout, up to 30.5% y-o-y, helped by a policy push to revive consumption.
- **Retail sales** ticked up 5.4% y-o-y in August, helped by strong goods sales on the back of a stronger policy push to increase consumption of larger ticket items (e.g. through tax breaks for automobiles and local consumption vouchers), as well as a lower base. The domestic consumption recovery seems to be on a better footing this time around, which has also helped to feed into a modest easing in labour market pressures.
- **Infrastructure investment** accelerated 14.2% y-o-y in August helped by stronger funding support and policy directives by the State Council to use up proceeds from special local government bond issuance by the end of August. Further funding support was also announced in late August, which should help to keep infrastructure investment strong in the coming months.
- CPI inflation pushed above PPI inflation for the first time since December 2020. **Consumer prices** rose 2.5% y-o-y given lower retail fuel prices and ongoing uncertainty from COVID-19, while **producer prices** fell to 2.3% y-o-y due to falling global oil prices, continued weakness in the property sector, and a high base from the previous year.
- **Exports** picked up 7.1% y-o-y in August, down from 18.0% in July, as slower global demand and a relatively higher base contributed to the drop. **Imports** also slowed, to 0.3% from 2.3% in July, due in part to ongoing domestic headwinds, particularly from COVID-19 and property sector weakness. This saw the trade surplus fall to USD79.39bn, the lowest level since June but remaining more than 40% higher than the average monthly surplus in 2021 of USD56bn.

[1] Source: CEIC, HSBC

HSBC

Thematic article: An investment-led rebound

Headwinds have persisted for longer than expected, primarily stemming from ongoing uncertainty about COVID-19, as well as a still weak property sector. The consumption recovery has been dampened by a drop in consumer confidence, while the boost from trade is slowing.

Reasons for optimism…

Infrastructure, manufacturing to drive the recovery

However, bright spots from **robust investment in infrastructure and manufacturing, backed by policy support, will likely help buffer these headwinds**. We expect a moderate economic recovery in the coming months, which should carry through into next year, given continued policy support and a low base. In 2024, we expect growth to stabilise, as the transition from construction-led to capital expenditure and consumption-led growth is still under way.

…despite headwinds

COVID-19 woes have dragged on. Recent flare-ups show the widest spread of cases since early 2020. Lockdowns have been imposed in many areas, including a city-wide lockdown for Chengdu, the second mega city with a population of over 20 million to do so. However, **the negative impact on economic activity is likely to be smaller** than in Q2 2022 as local governments have acted more swiftly and collaborated better to minimise logistical disruptions.

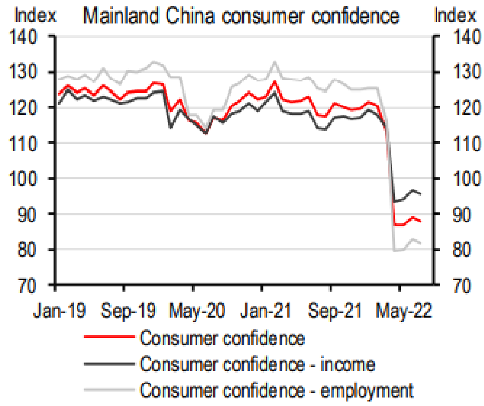
Consumption to recover only gradually

We see a **prolonged impact on consumption** given the very gradual improvement in consumer confidence (Chart 1). A ramp-up of restrictions in various regions during the summer holidays and the Mid-Autumn Festival may also hold back the services recovery. Although China still emphasises its zero COVID-19 policy, it is continuing its efforts to vaccinate the elderly and develop mRNA and antiviral drugs – key steps to protect its people.

Property sector sentiment remains weak

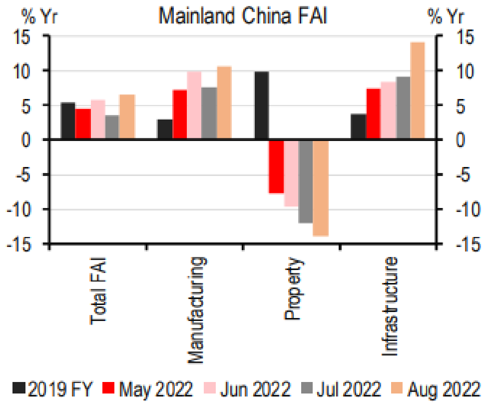
The property sector, which was already under pressure in H1 (Chart 2), was further weighed down by mortgage strikes for unfinished projects. Although this is not likely to be a systemic risk, **sentiment in the sector remains weak**. Policymakers have emphasised stabilisation of the housing market, but so far measures remain piecemeal, such as lower down-payment requirements in select cities and loans by local governments to complete stalled projects.

1: Consumer confidence has yet to significantly rebound…



Source: Wind, HSBC

2: …while property investment saw a larger drag



Source: CEIC, HSBC

What's needed

A comprehensive support package may be needed

We believe a **comprehensive centrally initiated support package is needed to help revive confidence**. An investment-led recovery will likely be the theme for the rest of the year and into 2023 with infrastructure investment set to accelerate. Although the exports cushion is softening against the backdrop of rising recessionary pressure in the West and rotation of consumption from goods to services, **domestic demand may gradually revive in 2023** when officials shift their focus to economic growth, as is typical after the periodic political reshuffle.

Key upcoming China economic data

Date	Indicator	Prior
8 Oct	Caixin Services PMI	55.0
14 Oct	Exports y-o-y	7.1%
14 Oct	Imports y-o-y	0.3%
14 Oct	Producer Price Index (PPI) y-o-y	2.3%
14 Oct	Consumer Price Index (CPI) y-o-y	2.5%
10-17 Oct	M2 Money Supply y-o-y	12.2%
18 Oct	Retail Sales y-o-y	5.4%
18 Oct	GDP, Q3, y-o-y	0.4%
20 Oct	Loan Prime Rate 1Y / 5Y	3.65% / 4.30%

Source: Refinitiv Eikon

Performance of key A-share indexes*

	Current	Last month	Last 1yr
Shanghai Composite	3,041	-6.16%	-14.00%
Shenzhen Composite	1,937	-9.80%	-17.47%
CSI 300	3,827	-6.42%	-20.83%

*Past performance is not an indication of future returns.
Source: Refinitiv Eikon. As of 29 September 2022 market close.

Disclosure appendix

Additional disclosures

1 This report is dated as at 30 September 2022.

2 All market data included in this report are dated as at close 29 September 2022, unless a different date and/or a specific time of day is indicated in the report.

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