China in focus

Economics
China

Labour market under pressure

- China's July activity data slowed although most categories remained in expansionary territory
- Looking ahead, policy stimulus looks set to continue, including actions to stabilise the labour market for youth

China data review (July 2022)

July activity data showed a broad-based slowdown compared to the month before, although most stats stayed expansionary, except for property investment which contracted further. Policymakers may continue easing in order to support the economic recovery.

- **Retail sales** came in at 2.7% YoY in July, down from 3.1% YoY in June. Consumer goods excluding autos (1.9% y-o-y) disappointed; however, better containment of COVID-19 cases in July benefited the service sector; the contraction in catering services, for example, narrowed in July (-1.2% YoY vs. -2.2% in June and -20.8% in May). Meanwhile, consumption stimulus supported automobile (7.1% YoY) and home appliance (9.1% YoY) sales in July.

- **Industrial production** (3.8%) remained supportive for the economy in July. The mining (8.1% YoY) and utility sectors (9.5% YoY) kept strong momentum, while automobile production continued to recover (22.5% YoY). Looking ahead, while global demand may slow in the coming quarters, we still expect to see strong growth in medium- and high-tech manufacturing activity on the back of increased policy support and a longer-term trend towards technology upgrading.

- **Infrastructure investment** (excluding utilities) accelerated to 9.1% YoY in July vs. 8.2% in June. This year's quota for local government special bonds (LGSBs) mostly ran out by the end of June, but more funding could be in the pipeline, including the second batch of RMB300bn for policy banks to replenish infrastructure funds (*Caixin*, 30 August 2022), and the potential front-loaded LGSB quota of RMB1.5trn from 2023 (*Bloomberg*, 7 July 2022). These measures should continue to support infrastructure investment growth for the rest of the year.

- China's headline **Consumer Price Index (CPI) inflation** rose to 2.7% YoY, pushed up by a faster rise in food prices, particularly pork. However, the acceleration was tempered by a drop in retail energy prices. Meanwhile, **Producer Price Index (PPI) inflation** fell to 4.2% YoY, due to falling global commodity prices and a relatively sluggish domestic recovery weighed down by a still weak property sector.

- China's **exports** of goods rose at an even faster pace in July, to 18.0% YoY, boosted by demand for toys (27.9%), clothing (18.5%), travel-related goods (41.3%) and automobiles (64%). Meanwhile, **imports** saw only a moderate improvement, rising by 2.3% YoY, held back in part by continued domestic headwinds from an uptick in COVID-19 cases and weakened property market sentiment. The **trade surplus** rose to a new record high of USD101.26bn.

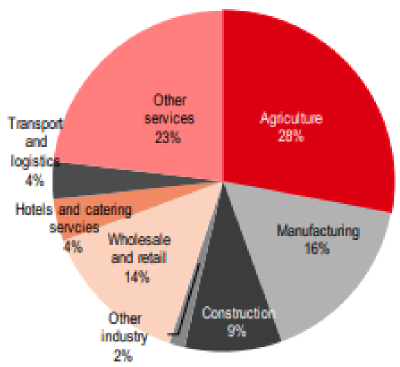
HSBC

Thematic article: Labour market under pressure

Labour market stress has led to more precautionary savings

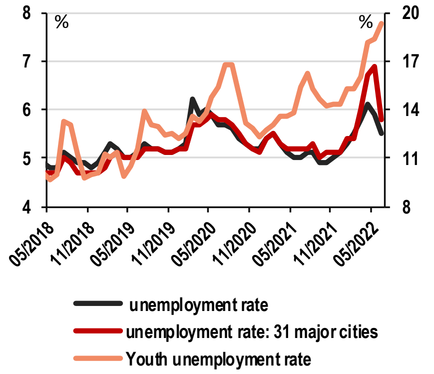
Recent Omicron outbreaks in China have put more pressure on both economic growth and the labour market. The surveyed urban unemployment rate was at 5.4% in July (off the recent high of 6.1% in April), while youth unemployment (for those aged 16-24) climbed to 19.9% (Chart 2), This led to a **jump in precautionary savings and a dip in consumer sentiment**. A prolonged period of people being out of work could also hurt their job prospects and purchasing power as it means lost wages, prevents upward employment mobility, and holds back consumption.

1. Employment breakdown



Source: NBS 2018, HSBC

2. The unemployment rate has reached a level similar to Q1 2020



Source: Wind, HSBC

Long-term labour market impact

The labour market faces a risk of long-term scarring from COVID-19

Pressure on the labour market could persist in the coming months as a record 10.76 million university students receive their diplomas and several million students complete vocational school training (source: Wind). So far there have been fewer job offers for new graduates than in the same period last year, while over 15% of surveyed graduates intend to delay their entry into the labour market (source: Ministry of Education).

Meanwhile, **migrant workers are also facing pressure** as they are primarily employed in the services industry. About 25% are employed in the retail, transportation and accommodation and catering sectors (source: CEIC), which have been hit hard by COVID-19 restrictions.

Indeed "gig economy" jobs, like food delivery and ride-hailing, can help to alleviate some of the labour market pressure; however, **the scarring effect should impact the long-term labour force participation rate**, potentially further exacerbating the demographic problems China faces and weighing on long-term productivity.

Stabilising employment

Stronger policy stimulus needed short-term

Stronger actions are needed to stabilise employment. Central and local governments are unveiling various measures, such as: i) encouraging companies to employ workers by offering direct subsidies, ii) launching online recruitment and providing training courses for new graduates, and iii) providing low-cost start-up loans for would-be young entrepreneurs.

Structural reforms for the future

In the longer term, **structural reforms are needed to address the imbalance** between the above-average youth unemployment levels and the shortage of skilled labour, especially in the advanced manufacturing sectors. China needs a healthy job market that can accommodate the influx of 10 million university graduates each year which, in turn, **can better support its manufacturing upgrading and innovation**.

Key upcoming China economic data

Date	Indicator	Prior
31 Aug	NBS Manufacturing PMI	49.0
1 Sep	Caixin Manufacturing PMI Final	50.4
5 Sep	Caixin Services PMI	55.5
7 Sep	Exports YoY	18.0%
7 Sep	Imports YoY	2.3%
9 Sep	Producer Price Index (PPI) YoY	4.2%
9 Sep	Consumer Price Index (CPI) YoY	2.7%
12-19 Sep	M2 Money Supply YoY	12.0%
16 Sep	Retail Sales YoY	2.7%
20 Sep	Loan Prime Rate 1Y	3.65%
20 Sep	Loan Prime Rate 5Y	4.30%

Source: Refinitiv Eikon

Performance of key A-share indexes*

	Current	Last month	Last 1yr
Shanghai Composite	3,241	-0.38%	-8.15%
Shenzhen Composite	2,148	-1.54%	-12.02%
CSI 300	4,090	-1.93%	-15.04%

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

Disclosure appendix

Additional disclosures

1 This report is dated as at 30 August 2022.

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

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