

China Economy in Oct

Look beyond seasonality for stabilization in Nov and Dec

Besides domestic demand and pains from trade dispute, seasonality factors were also to blame for muted economic data in Oct, such as 1) the National Day holiday, which caused temporary interruptions of manufacturing and construction activities; and 2) the “Double 11 Festival”, which held back consumers’ purchase decisions till Nov. Beyond transitory factors, however, we still expect to see stabilization of economic performance in Nov and Dec, boosted mainly by consumption and infrastructure investment.

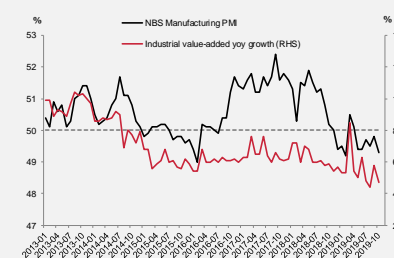
- Manufacturing- automobile +4.9% YoY.** Industrial value-added growth dived to 4.7% YoY in Oct. Both mining and manufacturing sectors decelerated, including high-tech industries. This trend was consistent with what PMI and other high-frequency monitors indicated. The bright spot was automobile manufacturing, of which value-added increased 4.9% YoY and remained on its recovery track. We think manufacturing output is likely to stabilize in Nov and Dec, taking into account lower base last year and less stringent environment protection regulations.
- FAI – mild deceleration of real estate and infrastructure whereas manufacturing stood up well.** FAI growth inched down to 5.2% YoY in Jan-Oct from 5.4% in 9M19. **1) Manufacturing investment** growth stayed at 2.6% YoY in Jan-Oct, inching up 0.1ppt from that in 9M19. **2) infrastructure investment** decelerated a bit, increasing 2.0% YoY in Oct and 4.2% YTD, but is likely to hold up well because the State Council injected another dose of infrastructure boost on its 13 Nov executive meeting to lower minimum capital requirement for certain projects. **3) Real estate investment growth**, which decelerated to 10.3% YoY in Jan-Oct, may continue to decline but only modestly because 1) land transaction fee, a leading indicator for land acquisition investment, has been narrowing its decline since Aug to -15.2% YoY in Jan-Oct; and 2) new housing starts and areas in-construction maintained steady pace of growth to lift construction expenses.
- Retail sales –consumers were waiting for Nov discounts.** Headline/Ex-car retail sales value growth was 7.2%/8.3% YoY in Oct, vs. 7.8%/9.0% in Sep. We believe such weakness was partly due to the fact that consumers had held back their purchases to wait for “Double 11” discount in Nov. Clothing, cosmetics, household appliances and other consumption items experienced meek growth in Oct. Car sales remained on a recovering track, although YoY decline in Oct enlarged to 3.3% from 2.2% in Sep. Taking all into account, we think retail sales figures are likely to rebound in Nov.

Data Summary

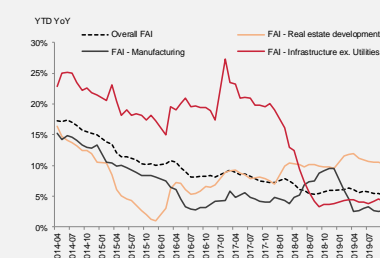
YoY growth (%)	1H19	Jul-19	Aug-19	Sep-19	Oct-19	10M19
Industrial value-added	6	4.8	4.4	5.8	4.7	5.6
Fixed asset investment, YTD	5.8	5.7	5.5	5.4	5.2	5.2
- Manufacturing FAI	3	3.3	2.6	2.5	2.6	2.6
- Real estate FAI	10.9	10.6	10.5	10.5	10.3	10.3
- Infrastructure FAI	4.1	3.8	4.2	4.5	4.2	4.2
Retail sales value	8.4	7.6	7.5	7.8	7.2	8.1

Source: NBS, CMBIS

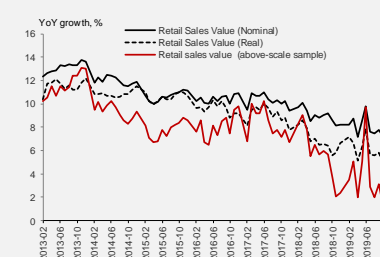
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Source: NBS, CMBIS



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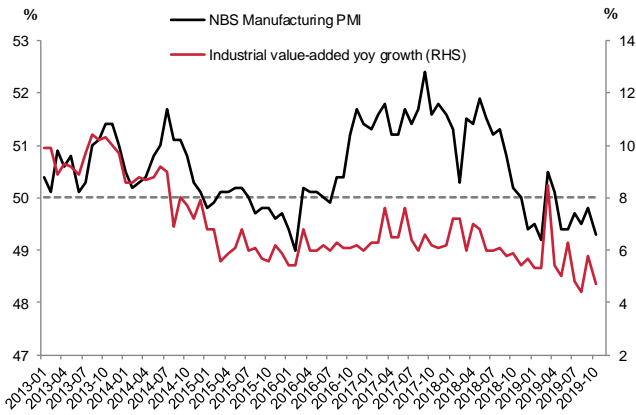


Source: NBS, CMBIS

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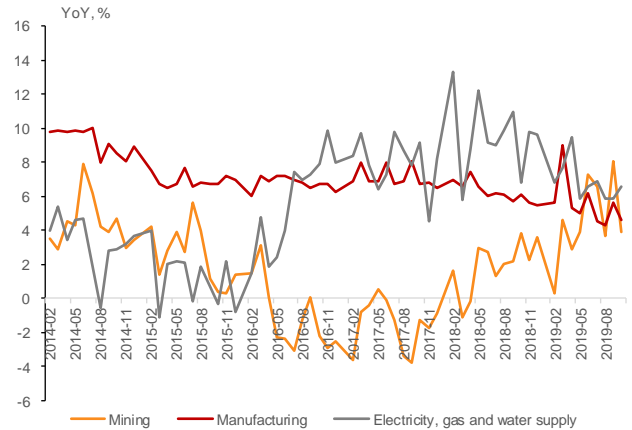
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Figure 1: Industrial value-added growth plunged to 4.7% YoY in Oct



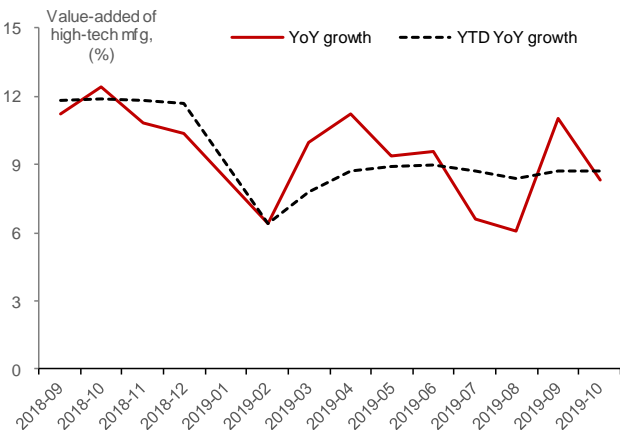
Source: NBS, Wind, CMBIS

Figure 2: Mining and manufacturing decelerated while utilities improved



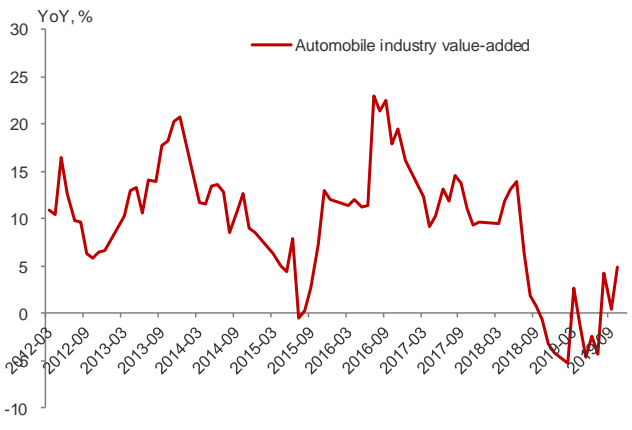
Source: NBS, Wind, CMBIS

Figure 3: High-tech manufacturing



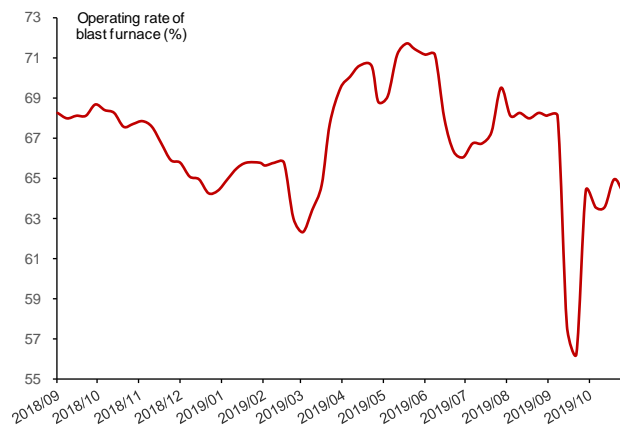
Source: NBS, Wind, CMBIS

Figure 4: Automobile manufacturing on recovery track



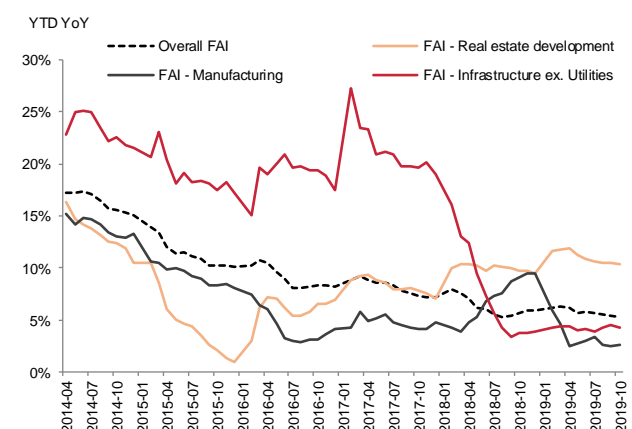
Source: NBS, Wind, CMBIS

Figure 5: Operating rate of blast furnace mired around National Day holiday



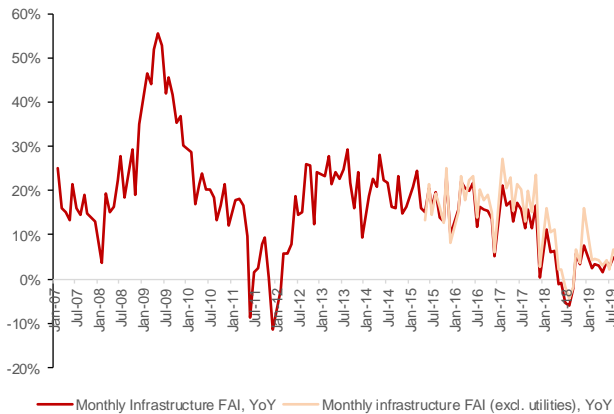
Source: NBS, Wind, CMBIS

Figure 6: FAI increased 5.2% YoY in Jan-Oct



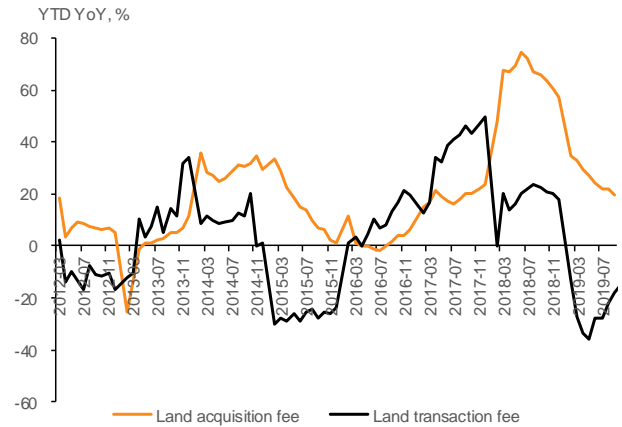
Source: NBS, Wind, CMBIS

Figure 7: Infrastructure FAI growth dipped in Oct



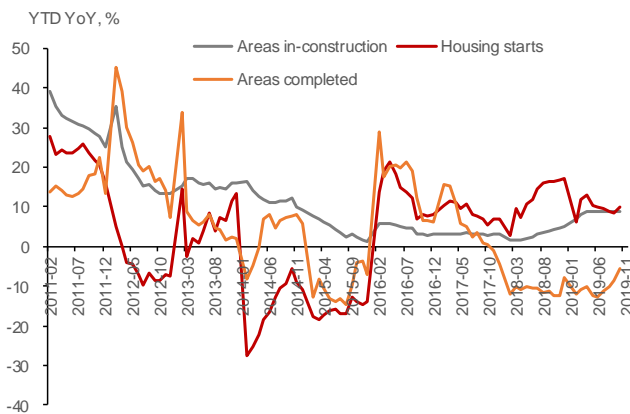
Source: NBS, Wind, CMBIS

Figure 8: Land transaction fee narrowed decline



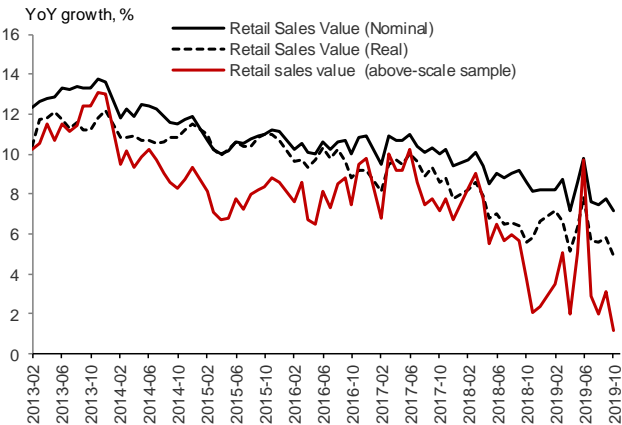
Source: Ministry of Finance, Wind, CMBIS estimates

Figure 9: Housing starts and areas in-construction increased steadily to lift real estate investment



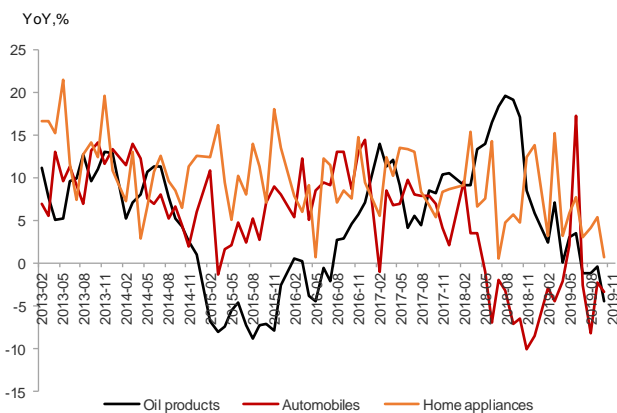
Source: NBS, Wind, CMBIS

Figure 10: Retail sales growth was 7.2%YoY in Oct and 8.3% excluding cars



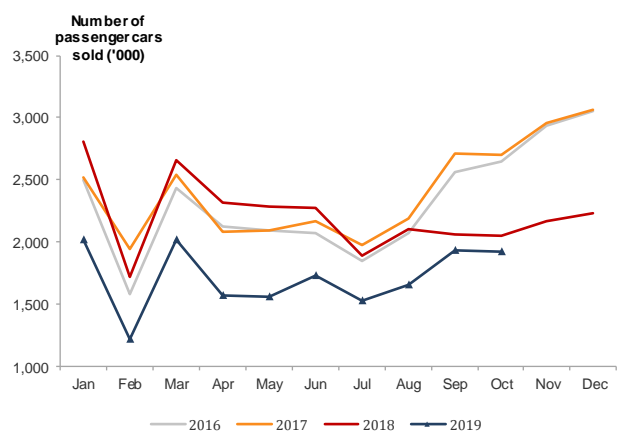
Source: NBS, Wind, CMBIS

Figure 11: Retail sales of major items



Source: NBS, Wind, CMBIS

Figure 12: Car sales remained on recovery track



Source: China Automobile Association, Wind, CMBIS

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