

# China Economy in 3Q19

## Trough in 3Q, expect marginal stabilization in 4Q

According to the NBS, China's GDP growth trended down to 6.0% YoY in 3Q19 (6.4%/6.2% in 1Q/2Q), tagging YoY growth in the first three quarters at 6.2%. Consumption/capital expenditure accounted for 60.5%/19.6% of GDP growth, respectively, whereas net export contributed to the rest 19.6%. Overall speaking, growth dip in 3Q is anticipated. Nonetheless, we still bet on marginal and temporary stabilization in 4Q thanks to a couple of factors.

- **Manufacturing: high-tech industries recovered.** Industrial value-added growth rebounded to 5.8% YoY, pausing its deceleration since Jul. Both mining and manufacturing sectors posted faster growth at 8.1%/5.6% in Sep vs. 3.7%/4.3% in Aug. High-tech manufacturing output growth accelerated to 11% in Sep from single-digit growth since May, primarily driven by increased output of computer, communication and other electronic industries. Based on high frequency monitors, we think manufacturing activities could continue firming up in Oct on a YoY basis.
- **FAI – infrastructure spending continued to strengthen.** Overall FAI growth in Jan-Sep inched down a bit to 5.4% YoY from 5.5% in Jan-Aug. 1) As expected, manufacturing investment increased 2.5% YoY in Jan-Sep, vs. 2.6% in Jan-Aug, in light of high base last year and sluggish PPI. 2) Infrastructure expenditure further strengthened to 4.5% YoY in Jan-Sep, up 0.3ppt from Jan-Aug, thanks to construction recovery, speedier project expenditures and execution of local government special bond (YTD new issuance reached RMB 2.13tn). 3) Real estate FAI growth stayed flat at 10.5% YoY in Jan-Sep, supported by robust construction expenditures and land acquisition fees, which did not decline as fast as expected.
- **Retail sales - car sales decline narrowed.** Headline retail sales value growth inched up to 7.8% in Sep (ex-car growth was 9.0% in Sep). Decline in car sales narrowed markedly from 8.1% in Aug to 2.2% in Sep and the upward trend is likely to continue into 4Q19 thanks to phase-in of previous supportive policies, launch of new flagship models and estimated stronger sales in Dec compared to 2018.
- **We still bet on stabilization in 4Q19,** thanks to 1) previous stimulative policies and presumably more after end-Oct Politburo meeting; 2) Infrastructure spending will firm up to ~5% as construction speed up; 3) Consumption will likely be prompted by car sales, which may rebound in 4Q19; 4) Timing effect - earlier Lunar New Year in 2020 may lift economic activities in 4Q19; 5) Eased tensions between China and U.S.

### Data Summary

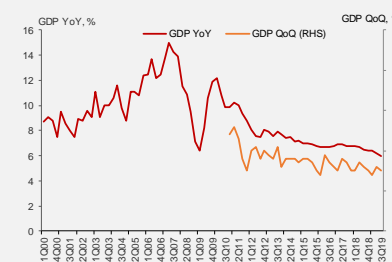
YoY growth (%)	Jun-19	1H19	Jul-19	Aug-19	Sep-19	9M19
Industrial value-added	6.3	6.0	4.8	4.4	5.8	5.6
Fixed asset investment, YTD	5.8	5.8	5.7	5.5	5.4	5.4
- Manufacturing FAI	3.0	3.0	3.3	2.6	2.5	2.5
- Real estate FAI	10.9	10.9	10.6	10.5	10.5	10.5
- Infrastructure FAI	4.1	4.1	3.8	4.2	4.5	4.5
Retail sales value	9.8	8.4	7.6	7.5	7.8	8.2

Source: NBS, CMBIS

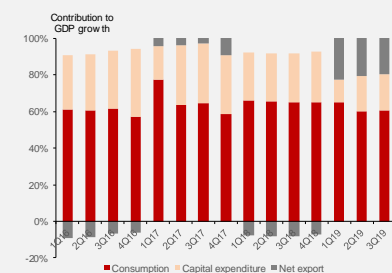
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Source: NBS, CMBIS



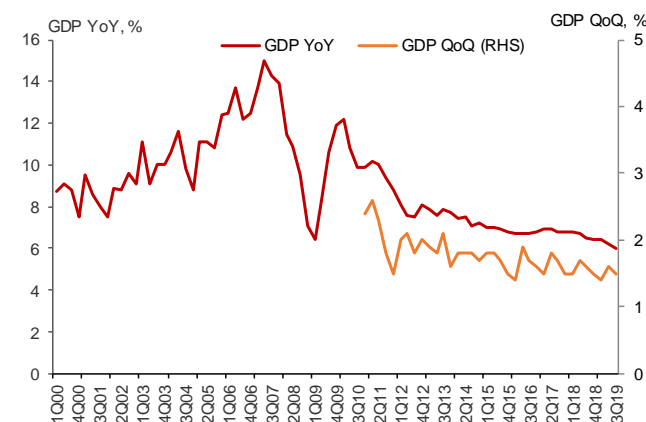
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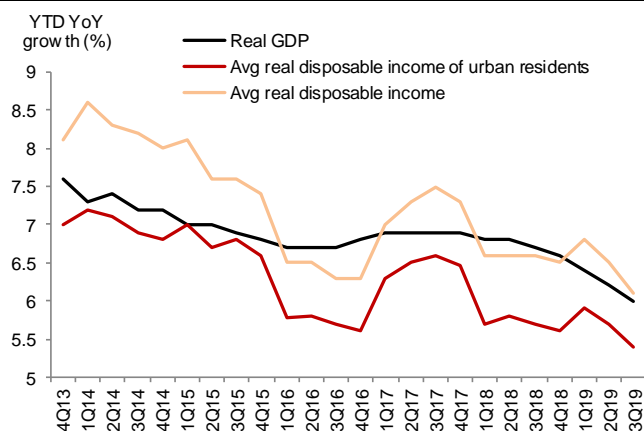
## Focus chart

**Figure 1: GDP growth trended down to 6.0% YoY in 3Q19**



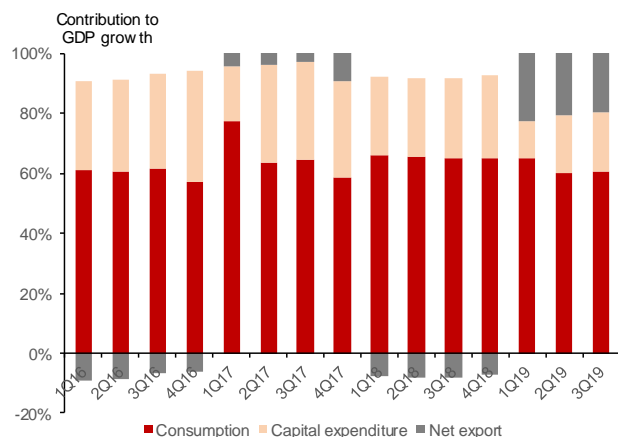
Source: NBS, Wind, CMBIS

**Figure 2: Income growth is decelerating at faster speed than real GDP**



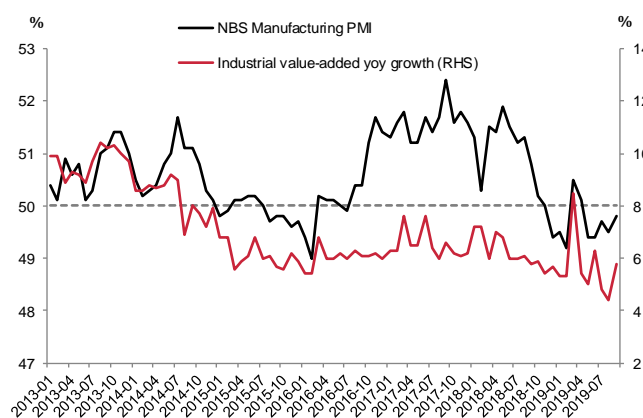
Source: NBS, Wind, CMBIS

**Figure 3: Contribution to GDP**



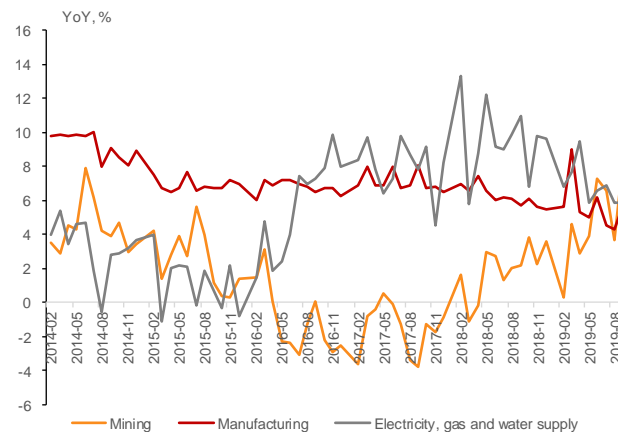
Source: NBS, Wind, CMBIS

**Figure 4: Industrial value-added growth rebounded to 5.8% YoY in Sep**



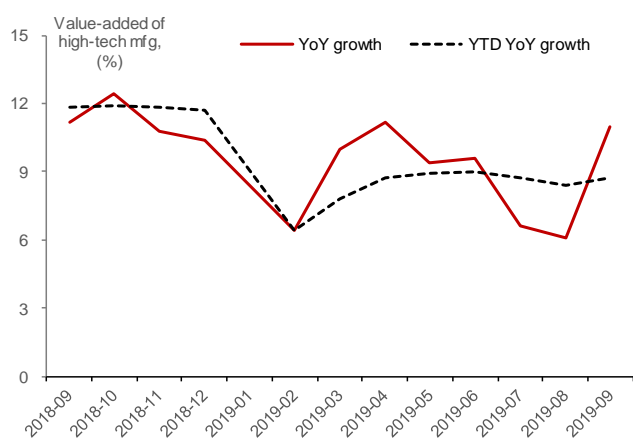
Source: NBS, Wind, CMBIS

**Figure 5: Growth of mining and manufacturing edged up in Sep**



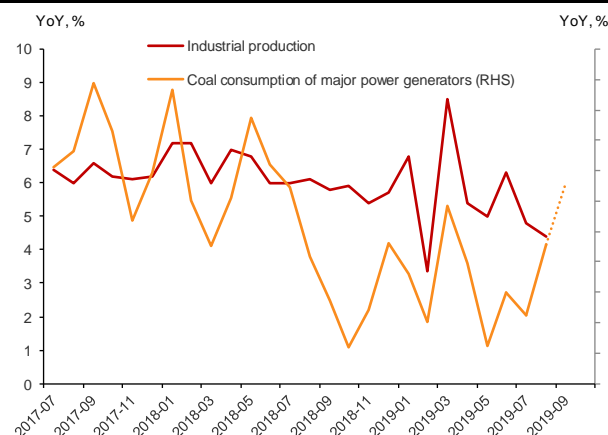
Source: NBS, Wind, CMBIS

**Figure 6: High-tech manufacturing rebounded in Sep thanks to recovery of computer, telecommunication and other electronics industry**



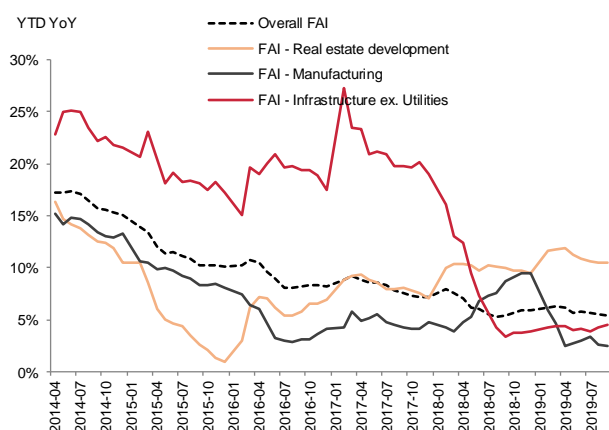
Source: NBS, Wind, CMBIS

**Figure 7: Coal consumption of major power generators – YoY growth recovery may continue into Oct**



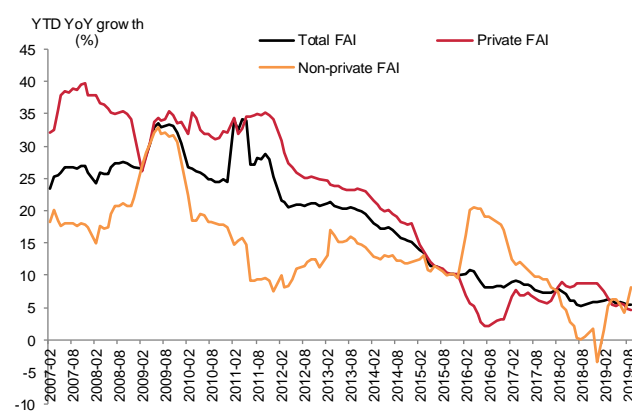
Source: NBS, Wind CMBIS

**Figure 8: FAI by key sectors**



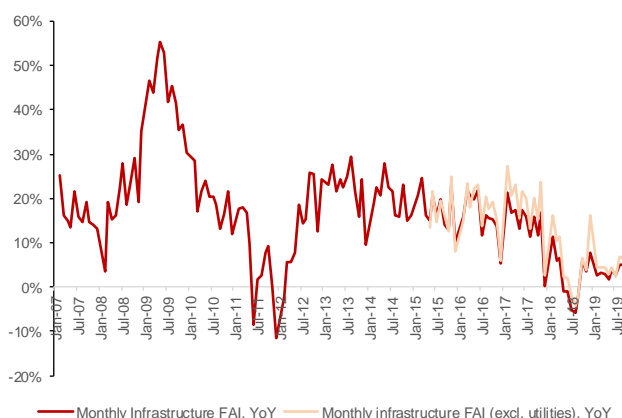
Source: NBS, Wind, CMBIS

**Figure 9: FAI: private vs. non-private**



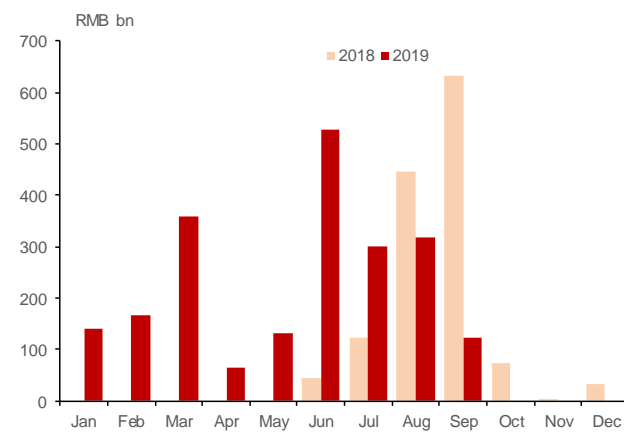
Source: NBS, Wind, CMBIS estimates

**Figure 10: Infrastructure FAI growth has been trending up since Aug**

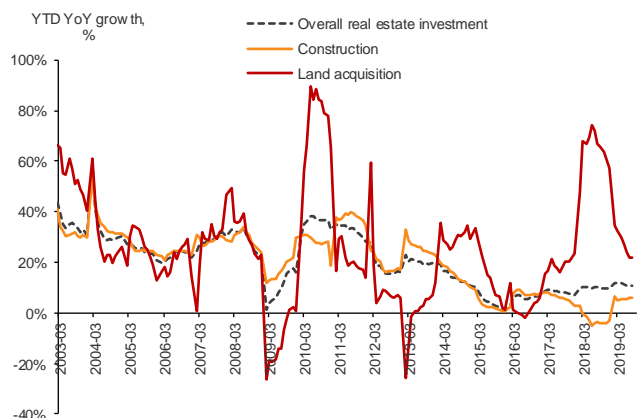


Source: NBS, Wind, CMBIS estimates

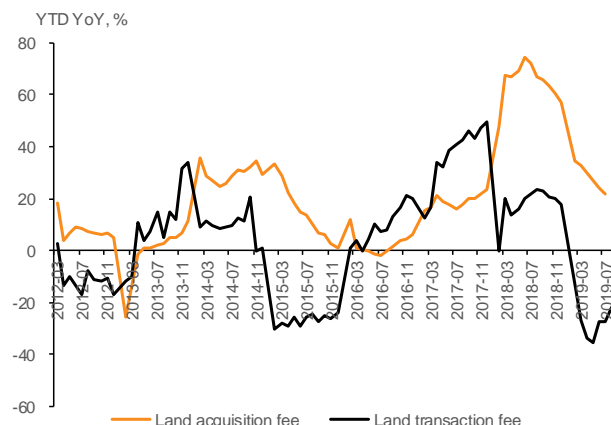
**Figure 11: Local government special bond new issuance amounted to RMB 2.13tn as of 30 Sep 2019**



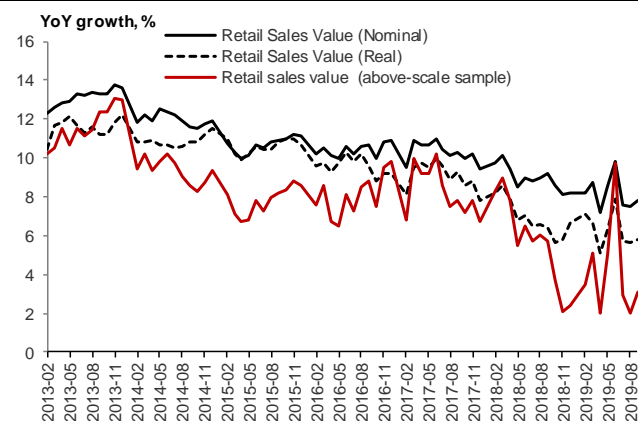
Source: Ministry of Finance, Wind, CMBIS estimates

**Figure 12: Land acquisition decelerated while construction expenditures were robust**


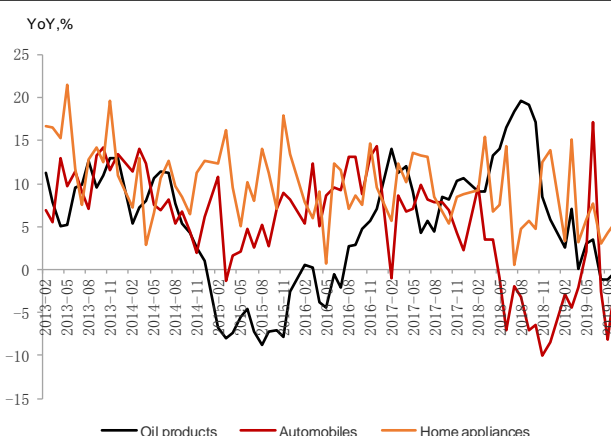
Source: NBS, Wind, CMBIS estimates

**Figure 13: Decline of land transaction fee narrowed to 18.2% in Jan-Sep from 22% in Jan-Aug**


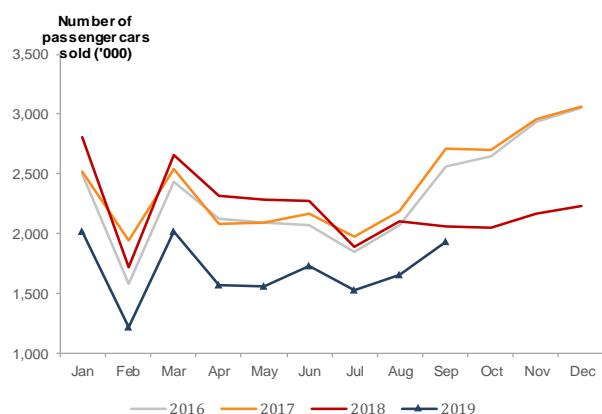
Source: NBS, Wind CMBIS

**Figure 14: Retail sales growth firmed up in Sep primarily due to car sales**


Source: NBS, Wind, CMBIS

**Figure 15: Car sales dropped 2.2% YoY in Sep (vs. 8.1% in Aug)**


Source: NBS, Wind CMBIS

**Figure 16: Number of passenger cars sold picked up in Sep, narrowing YoY decline**


Source: China Automobile Association, Wind, CMBIS

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