

# China Economy

## Growth slowed and may slowly pick up ahead

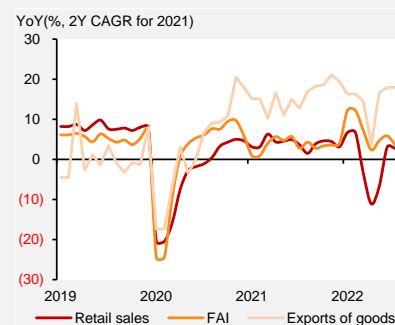
China's growth slowed in July amid the confidence shock in the pre-sale housing market and the resurgence of Covid-19 cases in some cities. Housing sales, development investment, consumption and service business all deteriorated. China will maintain easing liquidity and further loosen mortgage policy as housing market may slowly recover in future. Meanwhile, local governments do not have sufficient fiscal resources to execute zero-Covid policy. Household consumption may also gradually improve. Manufacturing investment may further slow in next few months before gradually stabilizing along with the economic resumption. Infrastructure investment may remain strong in 3Q22 before gradually slowing amid lack of new strong fiscal stimulus. China's economy should be in a gradual resumption process in 2H22-1H23 with challenges such as weak housing market, sluggish confidence and overseas recession risk. The GDP growth is expected to rise from 3.5% in 2022 to 6.5% in 2023.

- Growth slowed in July.** After a rapid resumption in June, China's growth slowed in July. The YoY growth of value added industrial output (VAIO) and service output index mitigated from 3.9% and 1.3% in June to 3.8% and 0.6% in July. One factor was the confidence shock in property market. As some homebuyers threatened to stop repaying their mortgage loans for unfinished housings, potential buyers, banks and developers became more cautious about the pre-sale housing market. Property sales and development investment deteriorated in July. Another factor was the resurgence of new Covid-19 cases with possible isolation policies in some cities, which influenced business expectation and consumer confidence. Growth of manufacturing fixed investment and retail sales decelerated in July. The export of goods maintained high growth in July due to China's price advantage, but investors were concerned about its sustainability as global recession risk increased. Infrastructure investment growth was also strong, but the upside room may be limited as local governments used up special bond quotas for this year and their land revenue sharply shrunk.
- Growth may gradually rise in future as resumption should continue in 2H22-1H23.** China's growth should gradually rise in future after the recent slowdown for two reasons. First, property market has seen the worst period and will recover slowly. Local governments have made commitments to the central government to solve the problem of unfinished buildings. Such risk in the pre-sale market should drop noticeably as potential homebuyers' confidence may gradually recover. Meanwhile, the PBOC will maintain easing liquidity and credit policy to stabilize property market and support the growth. Second, local governments do not have sufficient fiscal resources to execute the zero-Covid policy as economy has slumped and land revenue has shrunk. It is likely to see a gradual resumption of consumption and service business in 2H22-1H23.
- Housing market deteriorated in July, but may slowly recover ahead.** Gross floor area (GFA) sold for commodity buildings dropped 29.2% YoY in July after declining 18.3% YoY in June. High-frequency statistics indicates condition in high-tier cities was much better than in low-tier cities. Average sales price for commodity buildings continued to improve with the YoY

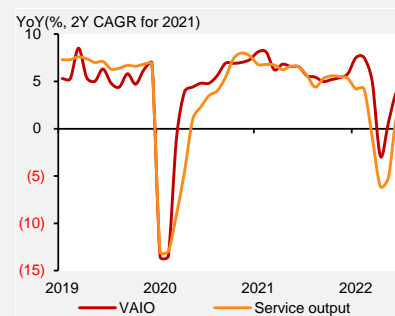
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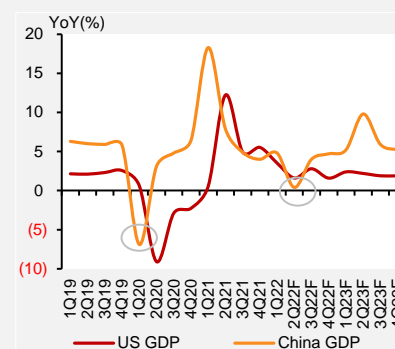
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Source: Wind, CMBIGM



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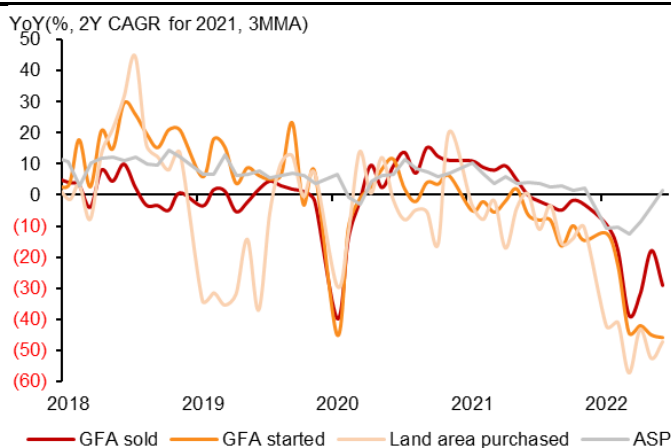
growth turning positive in July, partially thanks to more sales contribution from high-quality projects or high-tier cities. Developers remained in stress condition as their land purchase, new starts and development investment further deteriorated. Total fund source for development investment dropped 25.4% in 7M22 after decreasing 25.3% in 1H22. Land area purchased, GFA for commodity buildings started and property development investment respectively slumped by 47.3%, 45.8% and 12.1% in July, compared to the decrease of 52.7%, 44.9% and 9.6% in June. The shock therapy of deleveraging in the property sector has caused a liquidity crisis for developers and a hard landing for housing sales and development investment. Housing prices have seen less declines as supply dropped even more significantly than demand. Looking forward, China is likely to maintain easing liquidity and further loosen mortgage policy to stabilize housing market. Housing sales may gradually recover from 3Q22. But property development investment and land market should improve more slowly as it may further deteriorate in 3Q22.

- **Retail sales slowed and should gradually pick up in future.** Retail sales rose 2.7% YoY in July, down from 3.1% in June. Both housing market slump and the resurgence of Covid-19 cases influenced consumer confidence. The performance varied by sector. Items related to housing market remained weak as furniture and construction & decoration materials respectively dropped 6.3% and 7.8% YoY in July after dropping 6.6% and 4.9% YoY in June. Auto and communication equipment moderately slowed as their YoY growth decelerated from 13.9% and 6.6% in June to 9.7% and 4.9% in July. But home appliance picked up 7.1% in July after rising 3.2% in June, as hot summer fueled demand for some house equipment. Catering, beverage, alcohol & tobacco and petroleum product all improved noticeably as out of home activities increased. Looking forward, retail sales may gradually resume in next four quarters amid continuing reopening and employment improvement.
- **FAI slowed in manufacturing and picked up in infrastructure sector.** Total urban fixed asset investment (FAI) rose 3.6% YoY in July, down from 5.8% YoY in June. The YoY growth of manufacturing investment slowed from 9.9% in June to 7.6% in July as fixed investment inflation declined and business confidence remained weak. Infrastructure investment remained strong as its YoY growth reached 11.5% in July and 12% in June. Specifically, those sectors related to grain and energy supply security saw strong growth. Water conservancy and public utility (especially new energy production & supply) jumped 14.5% and 15.1% in 7M22 after rising 12.7% and 15.1% in 1H22. Public facility also picked up 11.7% in 7M22, compared to 10.9% in 1H22. However, transportation, storage & post service was weak as its YoY growth slowed from 4.6% in 1H22 to 4.3% in 7M22. Meanwhile, health & social welfare jumped 32.2%, and cultural, sport & recreational service only rose 6.9%. Looking forward, manufacturing investment may continue to slow down in next few months before gradually stabilizing along with the economic resumption progress. Infrastructure investment may remain strong in next 1-2 quarters before gradually slowing down amid lack of new strong fiscal stimulus.

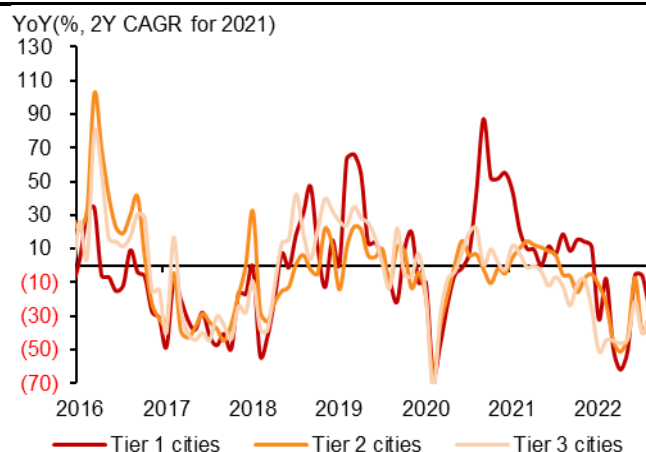
**Figure 1: China's economic indicators**

YoY(%)	2019	2020	2021	1Q21	2Q21	3Q21	4Q21	1Q22	Apr	May	Jun	Jul	2020-2021 CAGR
VAIO	5.7	2.8	9.6	24.5	9.0	4.9	3.9	6.5	(2.9)	0.7	3.9	3.8	6.1
-Mining	5.0	0.5	5.3	10.1	2.4	2.1	6.5	10.7	9.5	7.0	8.7	8.1	2.9
-Manufacturing	6.0	3.4	9.8	27.3	9.3	4.7	3.1	6.2	(4.6)	0.1	3.4	2.7	6.6
-Public utility	7.0	2.0	11.4	15.9	11.0	9.7	9.8	6.1	1.5	0.2	3.3	9.5	6.6
Delivery value for exports	1.3	(0.3)	17.7	30.4	16.3	14.2	13.2	14.4	(1.9)	11.1	15.1	9.8	8.3
Service Output	6.9	0.0	13.1	29.2	13.9	5.9	3.3	2.5	(6.1)	(5.1)	1.3	0.6	6.3
Urban FAI (YTD)	5.4	2.9	4.9	25.6	7.5	(0.4)	(0.9)	9.3	6.8	6.2	6.1	5.7	3.9
-Property development	9.9	7.0	4.4	25.6	9.8	(0.6)	(7.8)	0.7	(2.7)	(4.0)	(5.4)	(6.4)	5.7
-Manufacturing	3.1	(2.2)	13.5	29.8	14.9	8.8	10.6	15.6	12.2	10.6	10.4	9.9	5.4
-Infrastructure	3.3	3.4	0.2	26.8	(0.4)	(7.1)	(2.8)	10.5	8.3	8.2	9.3	9.6	1.8
Retail sales	8.0	(3.9)	12.5	33.9	14.1	5.1	3.5	3.3	(11.1)	(6.7)	3.1	2.7	4.0
Exports of goods	0.5	3.6	29.9	48.8	30.6	24.2	23.1	15.8	3.7	16.7	17.9	18.0	16.0
Imports of goods	(2.7)	(0.6)	30.1	29.4	44.5	25.9	23.7	9.6	0.0	4.0	1.0	2.3	13.7

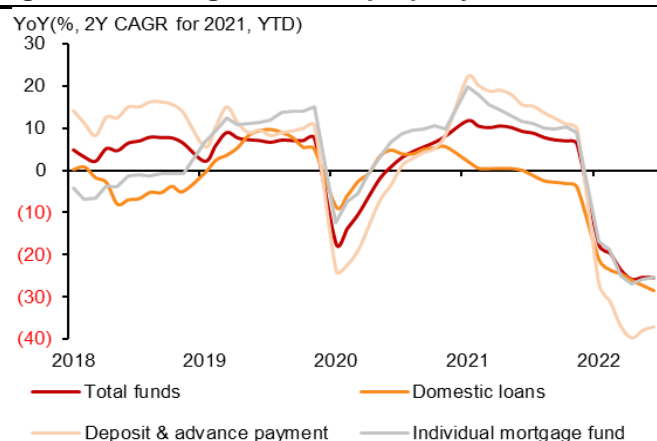
Source: Wind, CMBIGM

**Figure 2: Property market indicators**

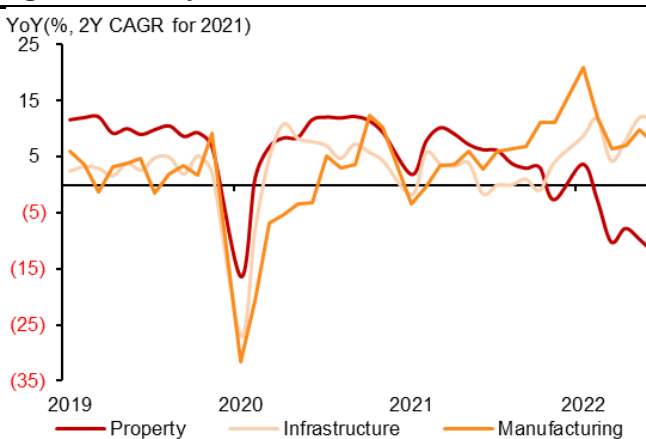
Source: WIND, CMBIGM

**Figure 3: Housing sales by Cities**

Source: WIND, CMBIGM

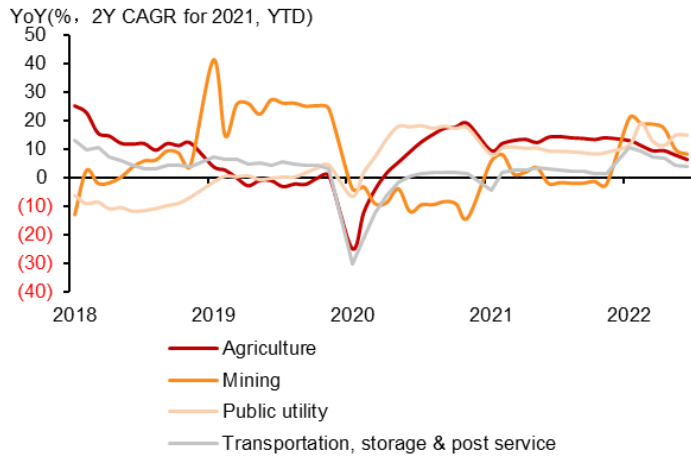
**Figure 4: Funding source for property investment**

Source: WIND, CMBIGM

**Figure 5: FAI by sector**

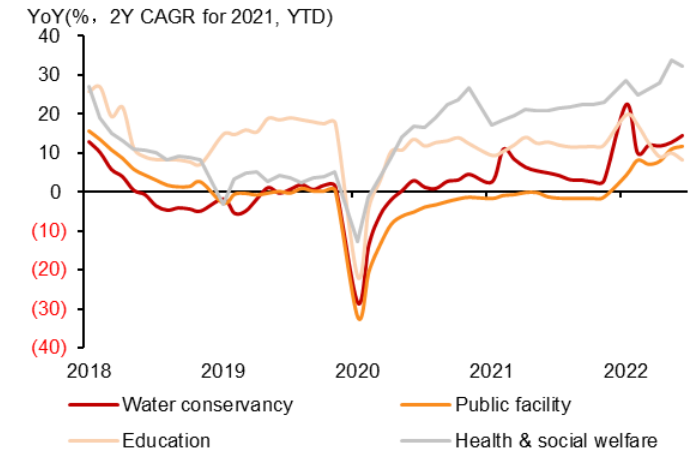
Source: WIND, CMBIGM

**Figure 6: FAI in agriculture & infrastructure sectors**



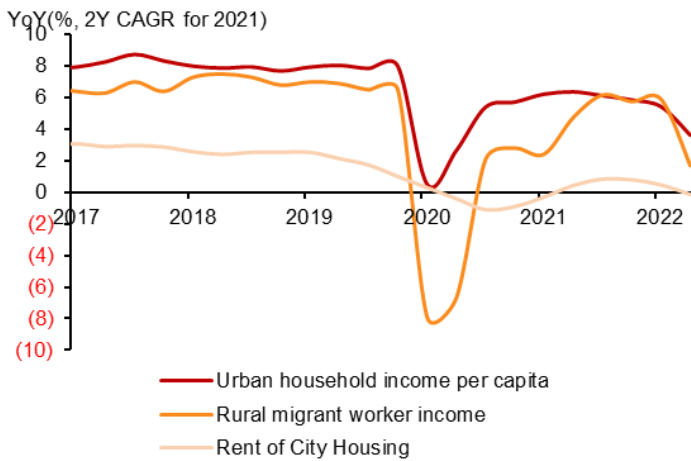
Source: WIND, CMBIGM

**Figure 7: FAI in infrastructure & social service**



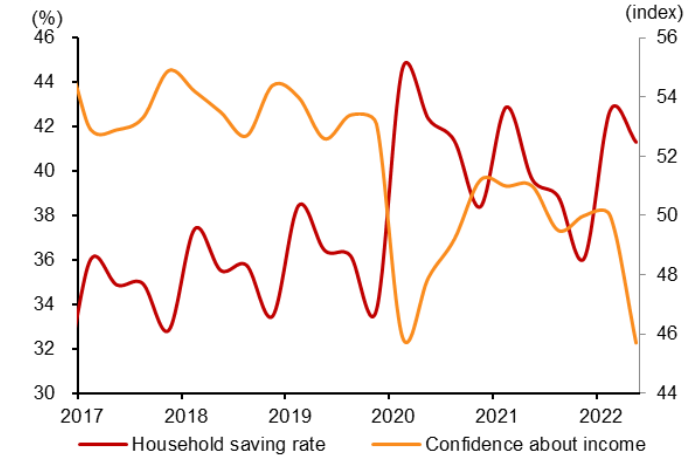
Source: WIND, CMBIGM

**Figure 8: Household income & rent for housing**



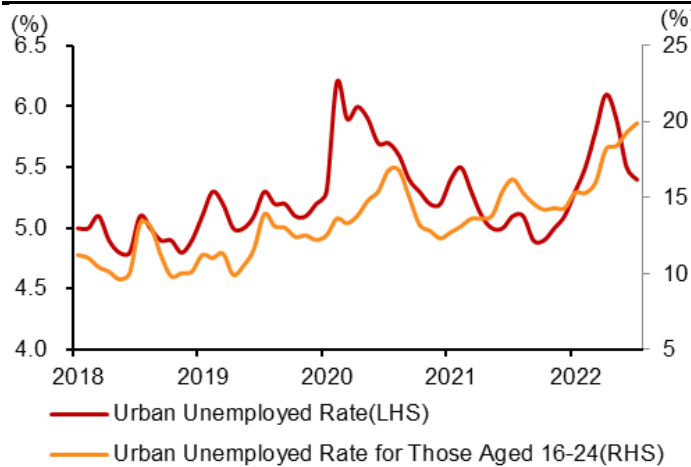
Source: WIND, CMBGM

**Figure 9: Consumer confidence**



Source: WIND, CMBGM

**Figure 10: Urban surveyed unemployment rates**



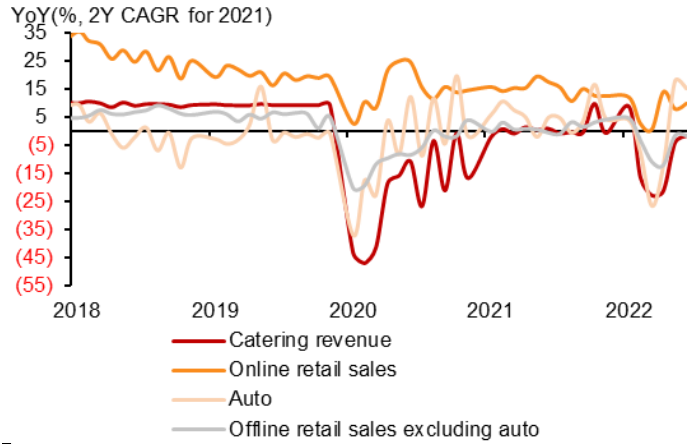
Source: WIND, CMBGM

**Figure 11: Employment Index**



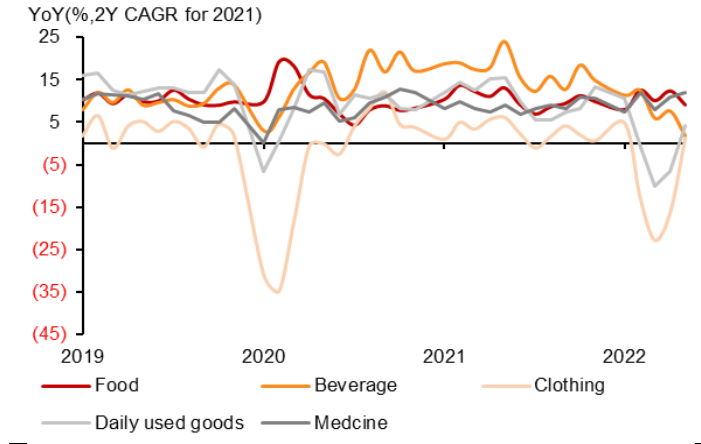
Source: WIND, CMBGM

**Figure 12: Retail sales**



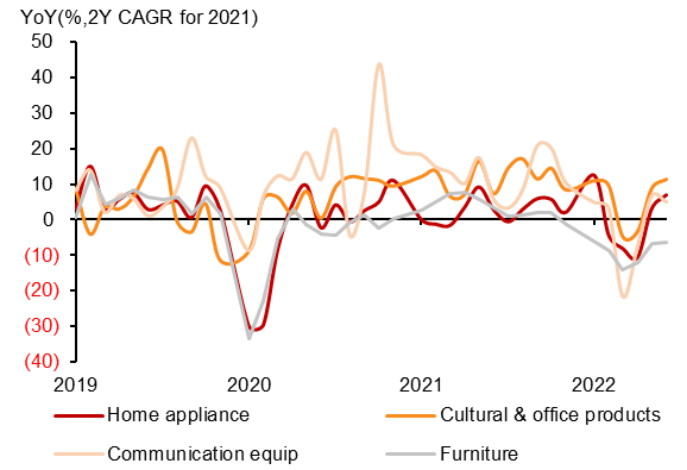
Source: WIND, CMBGM

**Figure 13: Retail sales of staples & garments**



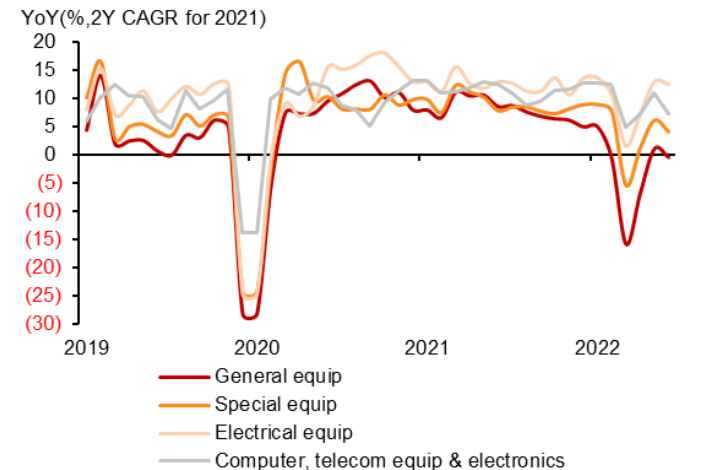
Source: WIND, CMBGM

**Figure 14: Retail sales of some durables**



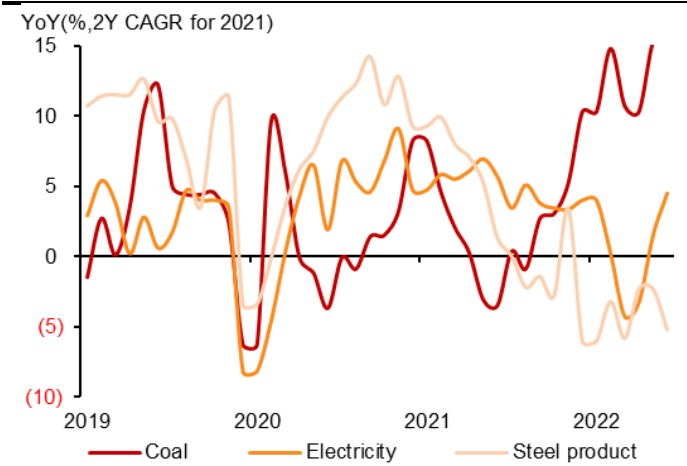
Source: WIND, CMBGM

**Figure 15: Production of energy & steel product**



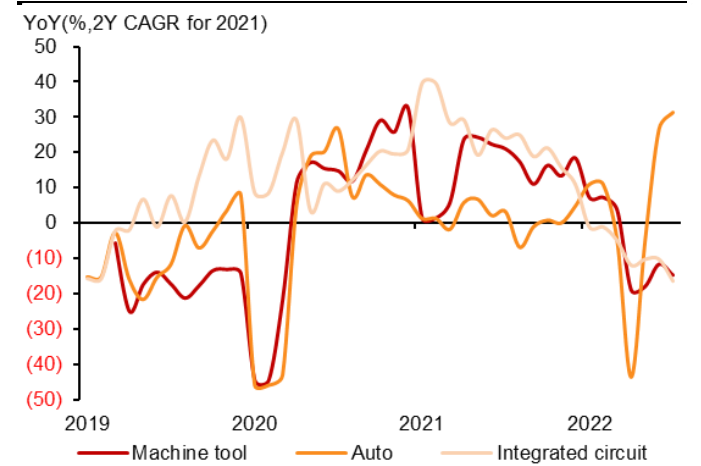
Source: WIND, CMBGM

**Figure 16: Production of machine tool & auto**



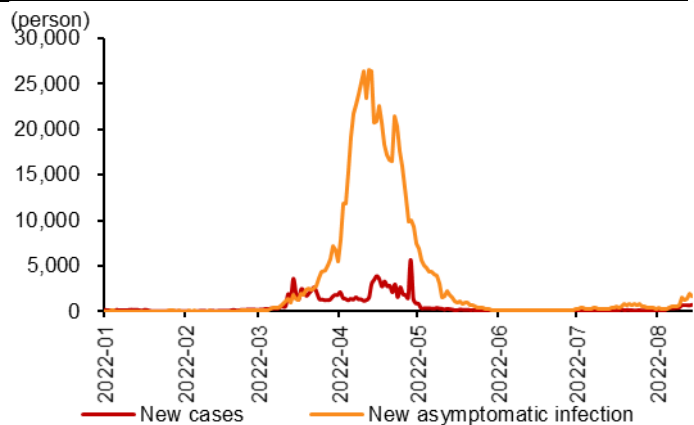
Source: WIND, CMBGM

**Figure 17: VAIO in equipment industries**



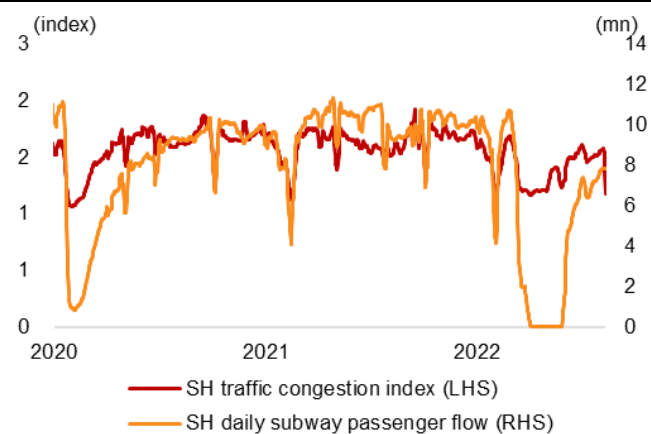
Source: WIND, CMBGM

**Figure 18: New Covid-19 cases in China**



Source: WIND, CMBGM

**Figure 19: Mobility indicators in Shanghai**



Source: WIND, CMBGM



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