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Economic Letter from Asia

Concerning China

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Concerning China

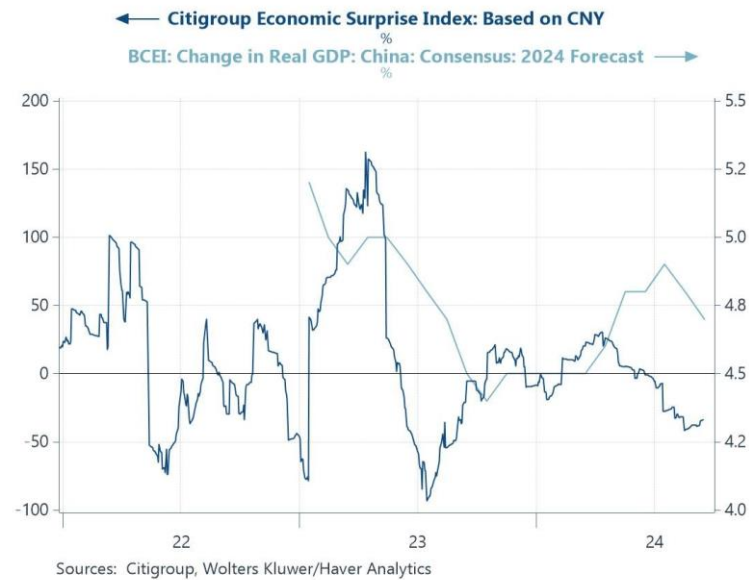
In this week's newsletter, we examine China and highlight growing economic concerns. Investors had already expressed scepticism about China's growth prospects even before the recent data were released (Chart 1). But this scepticism has been further validated by the latest figures, which show ongoing – and often worse than expected - deterioration (Chart 2). However, there is a hint of optimism: China's exports surpassed expectations in August, although import figures were disappointing (Chart 3). Consumer price pressures are increasing, but not severely, while producer prices continue to decline (Chart 4). As for the labour market, youth unemployment remains in double digits, with a significant rise in July, but potentially due to seasonal factors (Chart 5). Lastly, investor sentiment remains cautious, as indicated by continued outflows from Chinese equities, falling stock prices, and a generally negative market mood (Chart 6).

The China outlook

China's recovery remains uneven, with GDP growth slowing significantly to 4.7% y/y in Q2 versus 5.3% in Q1 (Chart 1). And pockets of instability persist. The property sector, for example, continues to struggle, with house prices having fallen more sharply in recent months despite numerous efforts by the authorities to address excess supply and stimulate demand. China continues to face external challenges as well, particularly in the electric vehicle (EV) sector, among others. Major economies, including the EU and Canada, have recently followed the US in imposing tariffs on imports of China-made EVs. Against this backdrop, Blue Chip Economic Indicators (BCEI) panelists downgraded their outlook for China this month. They now forecast GDP growth of 4.7% for 2024 and 4.3% for 2025, down from respective

projections of 4.8% and 4.4% last month. These adjustments suggest that China is now seen unlikely to achieve its 5% growth target for this year.

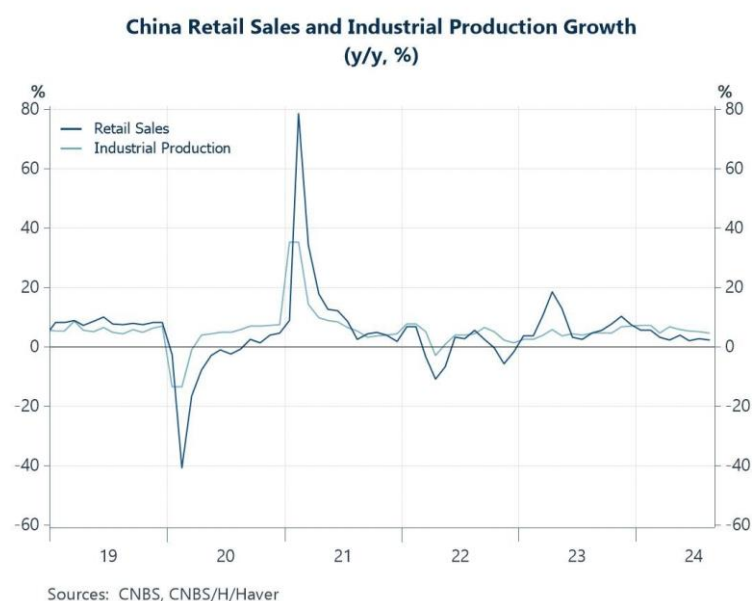
Chart 1: Economic surprise in China and Blue Chip 2024 real GDP forecast



China's latest dataflow

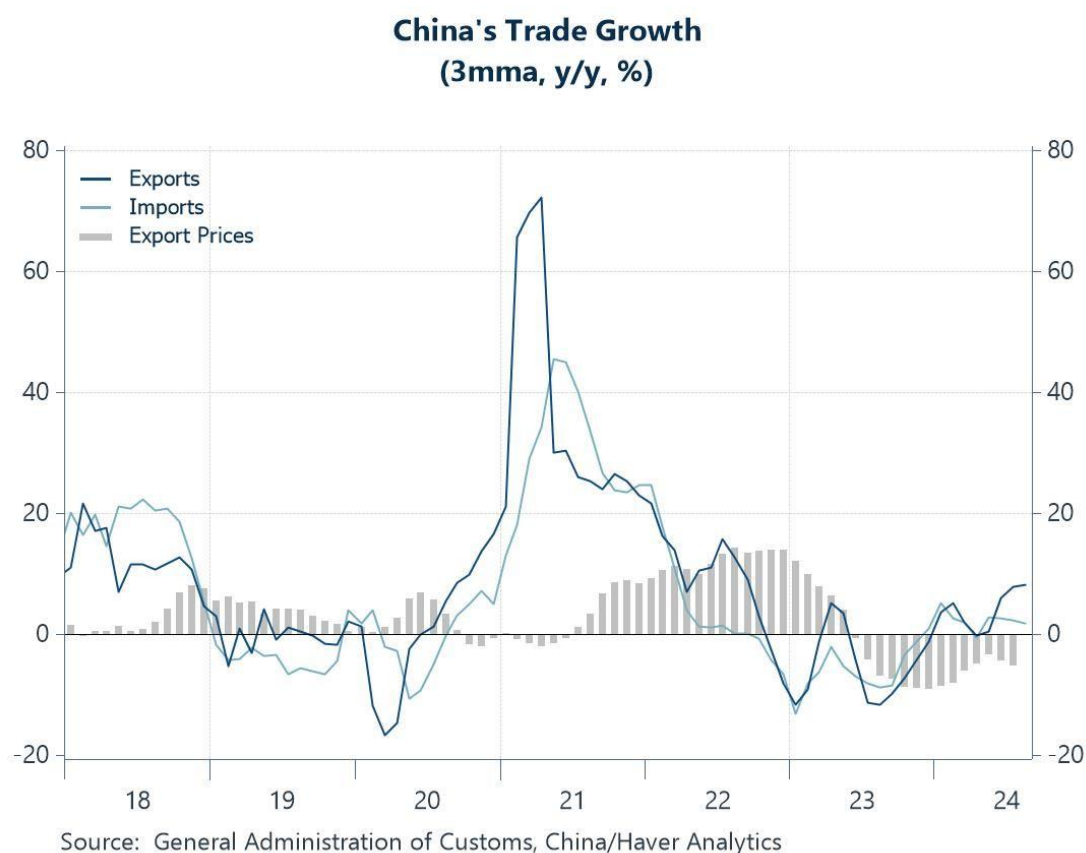
China's latest economic data have been less than reassuring, as key indicators for August have both shown declines and fallen short of expectations. As illustrated in Chart 2, the growth rates for China's industrial production and retail sales dropped more than anticipated, to 4.5% and 2.1% y/y, respectively, from 5.1% and 2.7% in July. Additionally, fixed asset investment growth eased to 3.4% ytd y/y, and the headline unemployment rate ticked up to 5.3%. In the property sector, house prices for both new and existing residential buildings have experienced even sharper y/y declines. Overall, August's data reinforces the view that China's economy is slowing, raising concerns about the feasibility of achieving the 5% growth target with only a few months remaining in the year.

Chart 2: China retail sales and industrial production growth



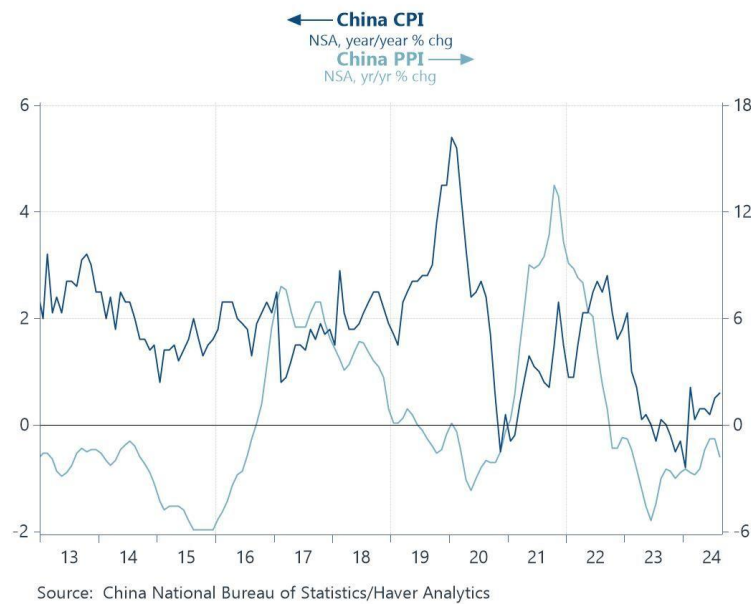
Next, we turn to the latest developments in China's trade. In August, the trade balance unexpectedly widened as exports surged beyond expectations, while import growth slowed considerably (Chart 3). Notably, the increase in exports was driven by strong growth to regions like the EU, although growth to other markets, such as the US, was more subdued. This robust export performance occurred despite declining export prices and recent trade actions against China, including those related to EV imports. Conversely, import growth showed minimal change compared to a year ago, with significant slowdowns in imports from major trading partners, including the US, the EU, and ASEAN countries. While not entirely conclusive, the slowdown in China's import growth could suggest weaker domestic demand, especially when considered alongside the recent underwhelming economic data.

Chart 3: China's trade growth



We move next to touch on latest developments in China's price dynamics. Consumer inflation in China has been gradually increasing, reaching 0.6% y/y in August (Chart 4). However, this rate remains low relative to inflation rates in other major economies, indicating very subdued price pressures in China. This persistent low inflation aligns with the broader narrative of weak domestic conditions, where insufficient demand fails to drive significant increases in prices. Moreover, China's producer prices continue to decline, with decreases accelerating to 1.8% y/y in August. This deflationary trend in producer prices is likely contributing to the low inflation in traded goods and consumer prices. Falling producer prices not only impact the local market but also affect global economies that import from China, given its significant role as a major supplier. Historically, there has been a strong positive correlation between China's producer price inflation and its export price inflation, with producer price inflation trends typically leading export price changes by a few months.

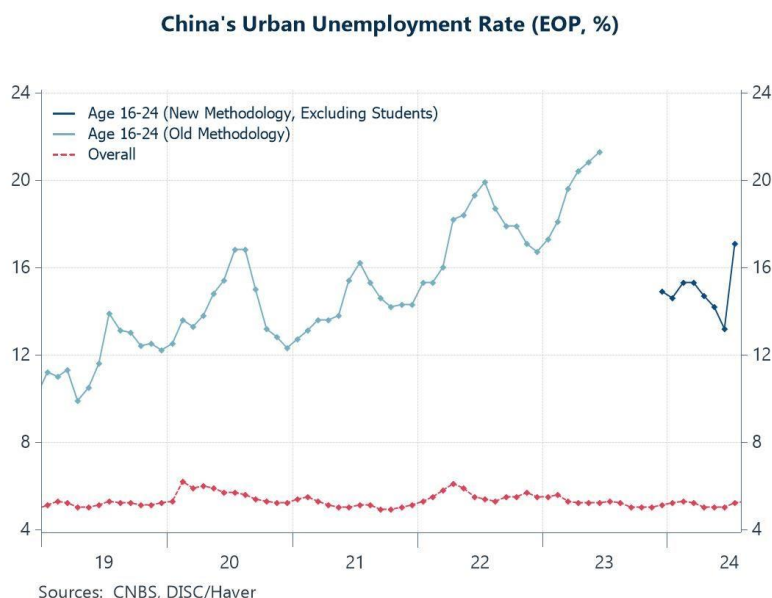
Chart 4: Price developments in China



Youth unemployment in China

Delving deeper into China's labour market situation, we focus on the segment that continues to draw significant concern from investors and economists: youth unemployment. This issue has been a persistent challenge in China, with the old measure of youth unemployment having surged to 21.3% before the publication of this statistic was halted after the June 2023 reading (Chart 5). Since then, China has introduced a new measure of youth unemployment, which excludes students, starting from December 2023. Although this new measure has reported rates significantly lower than those of the old measure, there was a notable spike to 17.1% in July this year, re-igniting prior concerns. It is worth noting that the old measure of youth unemployment typically showed a rising trend leading up to and peaking around July, suggesting that seasonality may be influencing the latest figures. Whether the July spike in the new measure reflects a deeper, underlying deterioration in the labour market for China's youth remains to be seen.

Chart 5: China's urban unemployment rate



China's portfolio flows

Lastly, we touch on developments in China's portfolio flows. Portfolio outflows have continued to affect Chinese equities in recent months, with approximately \$3.4 billion in net selloffs recorded for the three months ending in July, according to IIF data (Chart 6). Contributing to this trend are concerns about the Chinese economy, including weak consumer sentiment, a struggling property market, and overall weak demand as reflected in recent growth readings. In contrast, China's bond market has experienced strong portfolio inflows throughout the year, driven by low rate expectations, weak inflation readings, and anticipation of further rate cuts by authorities. However, recent efforts by Chinese authorities to curb excessive buying may have led to negative debt flows in July. Looking ahead, assessing the true extent of foreign investment flows into and out of Chinese equities may become more challenging. This is due to the authorities' decision to halt the publication of daily flow data effective August 18 this year.

Chart 6: China's equity market



About the author



Haver Analytics is pleased to bring [Tian Yong Woon's](#) commentaries on the state of the global economy to its clients.

Tian Yong joined Haver Analytics as an Economist in 2023. Previously, Tian Yong worked as an Economist with Deutsche Bank, covering Emerging Asian economies while also writing on thematic issues within the broader Asia region. Prior to his work with Deutsche Bank, he worked as an Economic Analyst with the International Monetary Fund, where he contributed to Article IV consultations with Singapore and Malaysia, and to the regular surveillance of financial stability issues in the Asia Pacific region. Tian Yong holds a Master of Science in Quantitative Finance from the Singapore Management University, and a Bachelor of Science in Banking and Finance from the University of London.

Data featured in this commentary:

Chart 1: Economic surprise in China and Blue Chip 2024 real GDP forecast

Series 1: [V924CSI@INTDAILY](#)

V924CSI@INTDAILY [Citigroup Economic Surprise Index: Based on CNY (%)]

Series 2: [ACND24@BLUECHIP](#)

ACND24@BLUECHIP [BCEI: Change in Real GDP: China: Consensus: 2024 Forecast (%)]

Chart 2: China retail sales and industrial production growth

Series 1: [yryr%\(N924TRS@EMERGEPR\)](#)

N924TRS@EMERGEPR [China: Retail Sales (NSA, 100 Mil.Yuan)]

Series 2: [yryr%\(N924D@EMERGEPR\)](#)

N924D@EMERGEPR [China: Index of Industrial Value Added (NSA, 2005=100)]

Chart 3: China's trade growth

Series 1: [movv\(yryr%\(N924IXD@EMERGEPR\),3\)](#)

N924IXD@EMERGEPR [China: Merchandise Exports, fob (NSA, Mil.US\$)]

Series 2: [movv\(yryr%\(N924IMD@EMERGEPR\),3\)](#)

N924IMD@EMERGEPR [China: Merchandise Imports, cif (NSA, Mil.US\$)]

Series 3: [movv\(yryr%\(N924PFXI@EMERGEPR\),3\)](#)

N924PFXI@EMERGEPR [China: Export Price Index (NSA, 2010=100)]

Chart 4: Price developments in China

Series 1: [N924PCY@EMERGEPR](#)

N924PCY@EMERGEPR [China: Consumer Price Index (NSA, year/year % chg)]

Series 2: [N924PY@EMERGEPR](#)

N924PY@EMERGEPR [China: Producer Prices: All Industry Products (NSA, yr/yr % chg)]

Chart 5: China's urban unemployment rate

Series 1: [N924EUR1@EMERGEPR](#)

N924EUR1@EMERGEPR [China: Urban Unemployment Rate: Age 16-24(EOP, NSA, %)]

Series 2: [R924EUR1@EMERGEPR](#)

R924EUR1@EMERGEPR [China: Urban Unemployment Rate: Age 16-24 [DISC](EOP, NSA, %)]

Series 3: [N924EURU@EMERGEPR](#)

N924EURU@EMERGEPR [China: Urban Unemployment Rate (EOP, NSA, %)]

Chart 6: China's equity market

Series 1: [S924SH3@INTDAILY](#)

S924SH3@INTDAILY [China: China Security Index: Shanghai-Shenzhen-300 (Dec-31-04=1000)]

Series 2: M924PEF@IIFDATA

M924PEF@IIFDATA [China: Portfolio Equity Flows (Mil.US\$)]

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