

# China's key growth indicators continue to present a case for further policy easing

Data came in generally in line or slightly weaker than forecasts, as weak confidence continued to depress investment and consumption



Shanghai, China

## Property prices continued to decline in July as the bottom remains elusive

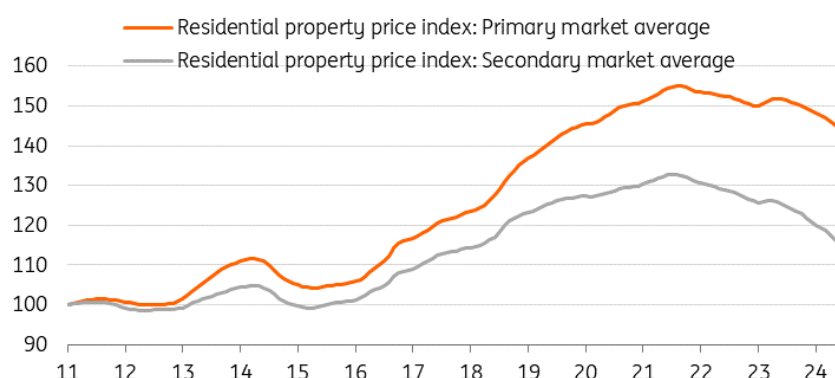
The National Bureau of Statistics published the 70-city housing prices for July, which showed home prices continued to decline at around the same pace as the previous month. New home prices fell by -0.65% MoM in July, compared to a -0.67% MoM drop in June. Secondary market prices fell by -0.80% MoM versus a -0.85% MoM move in June. Compared to the peak of the cycle, new home prices are now down -7.6% while secondary market prices are down -13.7%.

In the 70-city sample, 66 out of 70 cities continued to see falling new home prices, while 2 cities showed prices unchanged and 2 cities (Shanghai and Xi'an) showed a slight price increase. In the secondary market, 67 cities saw price declines, with 2 cities (Beijing and Kunming) seeing prices unchanged and Shanghai as the lone city seeing a price uptick.

Construction activity unsurprisingly remained weak. New home starts fell by -23.2% YoY ytd, and housing completions fell -21.8% YoY ytd.

This month's data is a bit of a mixed bag - while we did technically see some silver linings, the positive developments remain very incremental and overall momentum has yet to reach a turning point. We saw a smaller sequential decline in prices in July compared to June, but the difference was very marginal. We did continue to see signs of stabilisation in some of the tier 1 cities, with Shanghai in particular seeing an uptick in prices in both the primary and secondary markets. It is increasingly looking like the property market will continue to need more policy support to establish a bottom.

## Property prices have yet to establish a bottom as the decline continues



## Fixed Asset investment (FAI) came in softer than expected amid tepid private sector appetite

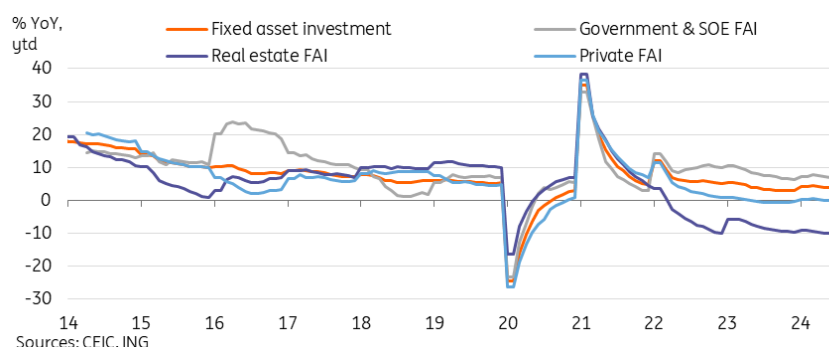
Fixed asset investment (FAI) was probably the biggest disappointment in the July data dump, falling to 3.6% YoY ytd, compared to consensus forecasts which expected it to stabilise at 3.9% YoY.

Unsurprisingly, property investment remained by far the biggest drag with a 10.2% YoY ytd decline. We expect property investment will remain a drag for some time yet, as prices have yet to confirm a bottom, and housing inventories remain elevated. The overall data continue to be dragged by weak private investment which is now stagnant on the year-to-date at 0.0% YoY ytd. Public investment also slowed more than expected to 6.3% YoY ytd.

The limited bright spots remain in manufacturing FAI, which grew at 9.3% YoY. Rail, ship, and aeroplane manufacturing investments saw very strong 30.1% YoY ytd growth amid recent positive developments in those sectors. There was also continued investment into the computers, communications and other electronic equipment category which saw a solid 14.5% YoY ytd growth due to China's technology self-sufficiency drive.

We have argued that real interest rates have acted as a dampener on investment, and consequently we will look to see if there is any sign of improvement in next month's data following the July rate cuts. However, interest rates are only part of the equation. Overall, confidence is likely a larger inhibitor of investment against a backdrop of widespread pessimism.

## Weak property and private sector investment continue to depress FAI



## Retail sales recovery is mostly a base effect story

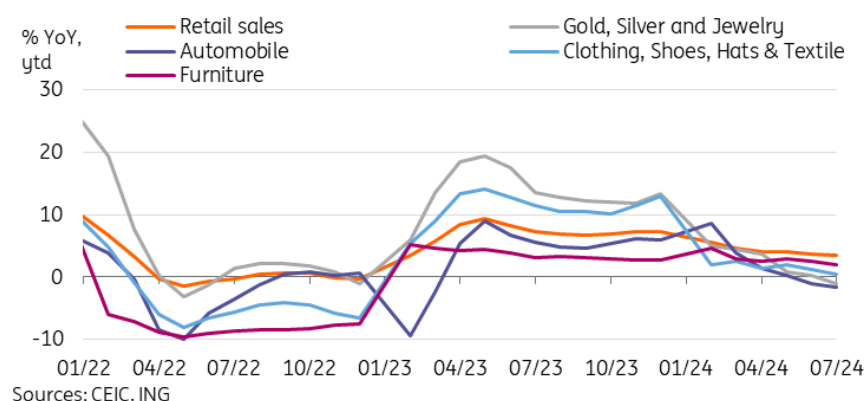
Retail sales rebounded in July to 2.7% YoY, up from the post-pandemic low of 2.0% YoY in June. This growth was in line with our and the consensus forecasts for 2.6% YoY.

Despite the slight beat of expectations, there was not too much to cheer in this month's data.

We continued to see a general outperformance of the "eat, drink, and play" theme. After a surprise YoY contraction last month, the sports & recreation category recovered to 10.7% YoY in July. Catering growth slowed to just 3.0% YoY in July, barely outperforming the headline, but the grains, oil, and food category continued solid outperformance with a 9.9% YoY growth. We saw an unexpected contraction of tobacco and liquor sales in July, which dipped to -0.1% YoY. While it softened in the past several months, this may also be blip.

Other categories continued to broadly reflect weak consumer confidence. Auto (-4.9%), gold and jewellery (-10.4%), clothing and apparel (-5.2%), and cosmetics (-6.1%) all saw negative year-on-year growth in July. Households appear to be cutting back on discretionary consumption, and a general environment of cost-cutting is likely impacting spending decisions; July's uptick in the surveyed unemployment rate to 5.2% and generally weak wage growth nationwide are likely leading to more caution.

## Discretionary consumption categories have dragged on retail sales growth this year



## Value added of industry slowed as expected

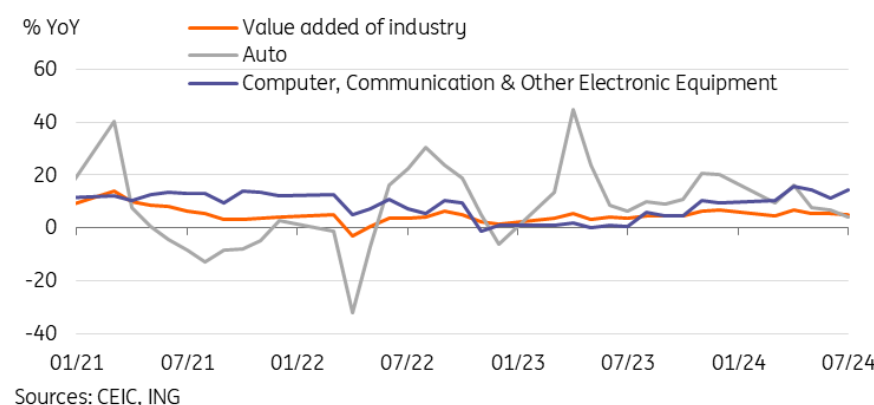
The value added of industry growth moderated to 5.1% YoY in July, down from 5.3% YoY in June, and broadly in line with our expectations. This slowdown was foreseeable given the last few months of weak PMI data. As export demand starts to slow and tariffs come into effect, the momentum may moderate further.

Hi-tech manufacturing continued to outpace broader industry growth rates, with growth accelerating to 10% YoY in July. There was also a continuation of strong growth in computer, communications, and electric equipment manufacturing (14.3%) and rail, ships, and aeroplanes (12.7%). We expect to see these categories continue to outperform due to solid demand driven by the national development strategy.

The auto sector, which has been a strong outperformer in past years, is seeing signs of a slowdown, however. Auto manufacturing growth slowed to just 4.4% YoY in July, well below the 9.0% YoY growth in the year to date let alone the strong double-digit growth of previous years. Auto manufacturing growth was lower than the overall value added of industry growth for the first time since May 2022.

Industrial production has been one of the key drivers for growth in 1H24, but momentum looks to be softening in the second half of the year. Combined with a more challenging base effect, we expect that policies to boost other areas of the economy will be needed if China is to achieve the 5% growth target for the year.

## Auto manufacturing tailwind looks to be fading as growth shifts to hi-tech manufacturing



## Recent data releases continue to favour further policy support

While it is worth monitoring how the rate cuts from July will begin to affect key macro indicators starting from next month's data, we believe that there remains a solid case for further easing later this year. Weak credit, low inflation, and soft growth should provide plentiful reasons for easing, and if RMB depreciation pressures wane after US rate cuts kick-off, there should be little holding the PBOC back from further cuts.

As last month's case illustrated, holding the MLF unchanged at the scheduled monthly update does not necessarily preclude the PBOC from easing policy at a later time, but it seems

more likely that they wait at least another month for the Fed to kick off its rate cuts before making a further move. We continue to expect at least one more rate cut this year, with a fairly high probability to see two more cuts if the Fed cuts proceed along our ING baseline scenario as outlined in [this report](#) by James Knightley and Chris Turner.

The slowdown of investment and weak private sector and household confidence also present a strong case for stepping up fiscal stimulus. Many market participants would favour demand-side policy support. However, it is uncertain if policymakers have found a suitable fit in terms of specific policies to implement on this front yet. At the least, ramping up investment in strategic sectors could be a stopgap to support growth. Without further policy support, it will be very difficult to achieve the 5% growth target for the year.

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