

—The macroeconomy—

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Summary

China's real GDP growth rate in April–June stood at +6.9% y-o-y, up on the government's 2017 government target of 'around +6.5%.' June's economic indicators improved on the previous month. The National Financial Work Conference discussed 'economic deleveraging.'

1. June's economic indicators improved on the previous month.

- **Growth hit +6.9% in April–June too**
- **Production, investment and consumption all accelerated**
- **Real estate price growth continued to slow in first-tier and second-tier cities**
- **Imports and exports both improved**
- **The CPI and PPI grew at the same rate as the previous month**
- **Net new loans and total social financing both increased**
- **Outward direct investment fell sharply**

2. Topics: The National Financial Work Conference

- **'Economic deleveraging'**

1. June's economic indicators improved on the previous month

•Growth hit +6.9% in April–June too

On July 17, the National Bureau of Statistics (NBS) announced that China's real GDP growth rate in both January–June and April–June was up +6.9% on the same periods last year (from here on, all figures refer to 'same-period previous-year' growth unless otherwise specified)¹. This was the same as January–March's figure of +6.9% and higher than the 2017 government target of 'around +6.5%.' The economy grew by +1.7% on a quarter-on-quarter basis (see Fig.1).

A glance at contribution levels by demand item over January–June shows the contribution of total fixed capital formation hitting +2.3%Pt, up on January–March's figure of 1.3%Pt. This compensated for a slide in the contribution of final consumption expenditure (from +5.3%Pt in January–March to 4.4%Pt over January–June). However, this +4.4%Pt result marked an improvement on 2016's result of +4.3%Pt. The contribution of net exports stood at +0.3%Pt, the same as January–March (Fig. 2).

Fig. 1: GDP and major economic indicators (quarterly)

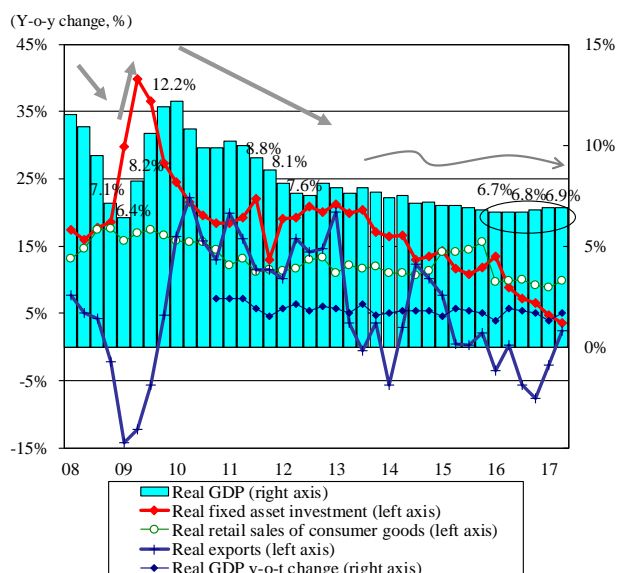
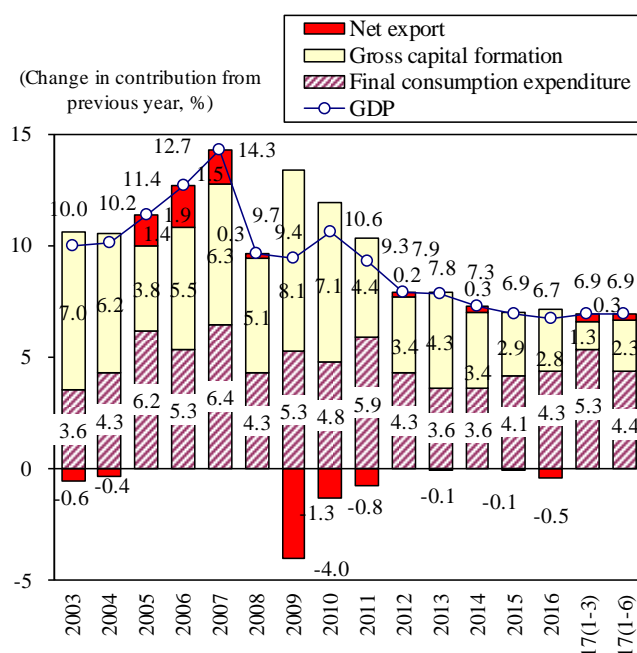


Fig. 2: Breakdown of GDP by demand item



Note: The real RMB value of exports is indexed using the production price index (PPI) ; the real value of fixed asset investments is indexed using the price index of investment in fixed assets; and the real value of retail sales of consumer goods is indexed using the retail price index (RPI) .

Source: National Bureau of Statistics of China, CEIC

Source: National Bureau of Statistics of China, CEIC

¹ NBS, July 17 2017, 上半年国民经济稳中向好态势更趋明显 (Steady and Sound Development Momentum of National Economy was More Visible in the First Half Year) http://www.stats.gov.cn/tjsj/zxfb/201707/t20170717_1513520.html

•Production, investment and consumption all accelerated

June’s economic indicators improved on the previous month. At +7.6%, June’s value-added industrial production figure was up on May’s +6.5% (the m-o-m figure was +0.8%) (Fig. 3). At +6.9%, the aggregate figure for January–June was up on 2016’s figure of +6.0%.

The NBS pointed to three factors behind this trend: (1) growth in the equipment manufacturing industry accelerated by 2%Pt to hit 11.5%, with electronic equipment, motor vehicles, measuring instruments, special-purpose equipment, and general equipment all continuing to enjoy double-digit growth; (2) the consumer goods manufacturing industry saw growth jumping by 2.3%Pt on 2016 to hit +7.1%; (3) traditional industries (general machinery, cement, plastic processing, food, etc.) began growing again².

Nominal fixed asset investment grew by +8.8%³ in June (January–June: +8.6%), up on May’s figure of +7.8% (the m-o-m figure was +0.7%). Investment in real-estate development grew by a cumulative +8.5% up until June, down on January–May’s figure of +8.8% (Fig. 4). At +16.8%, though, investment in infrastructure construction in January–June was up on 2016’s figure of +15.8%, with manufacturing investment hitting +5.5% over the same period, up on 2016’s +4.1%. The technology upgrading and manufacturing industry grew by +11.8% and the equipment manufacturing industry by +9.4%, but the energy and consumables manufacturing sector continued to contract at -1.0%⁴.

Fig. 3: Value-added industrial production

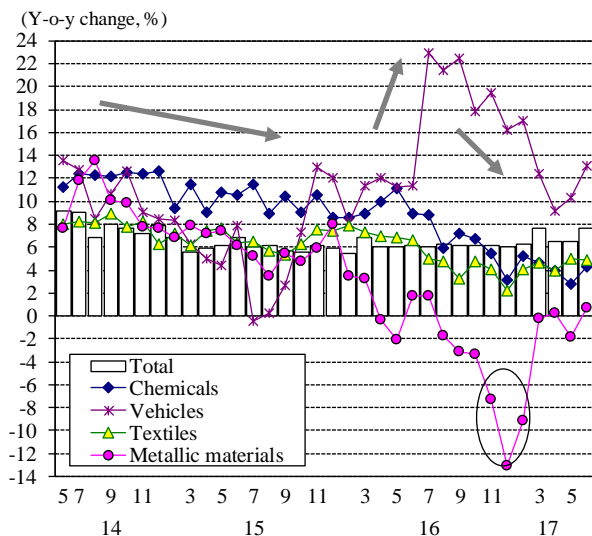
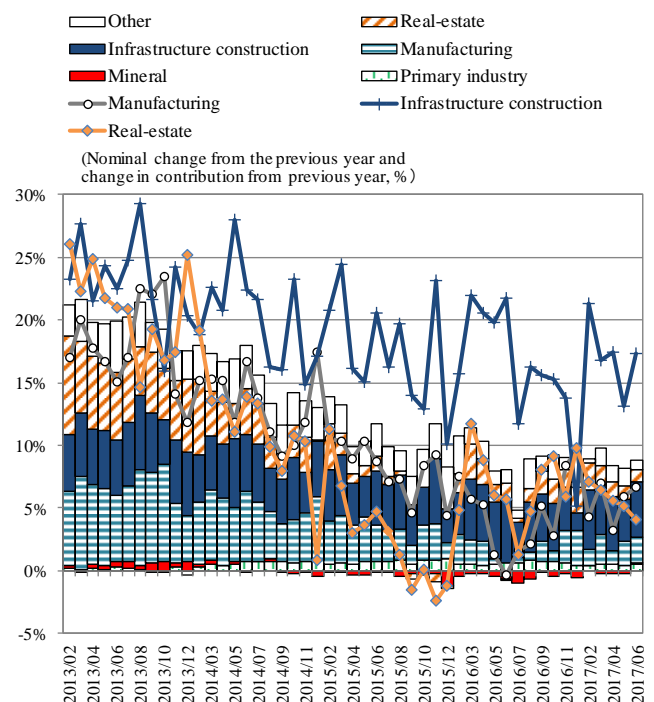


Fig. 4: Fixed asset investment by sector



² NBS, July 18, 2017: 赵云城:上半年新动能助推工业经济稳定向好 (Zhao Yuncheng: In the first half year, the industrial economy developed in a steady and sound manner on new dynamism).

Zhao Yuncheng is Director-General of the NBS’s Department of Industry. http://www.stats.gov.cn/tjsj/sjjd/201707/t20170718_1514071.html

³ Calculated by the author from the cumulative data.

⁴ NBS, July 18, 2017: 赵培亚:上半年固定资产投资平稳增长 结构更趋优化 (Zhao Peiya: Fixed asset investment grew in an even more stable manner in the first half year Structure is more improved).

Zhao Peiya is an inspector with Department of Investment of the NBS http://www.stats.gov.cn/tjsj/sjjd/201707/t20170718_1514074.html

Note: The value-added industrial production amount. The figure for January shows the aggregate year-on-year change for the period January–February.

Source: National Bureau of Statistics of China, CEIC

Source: CEIC

Nominal retail sales of consumer goods grew by +11.0% in June, up on the +10.7% recorded in May, with the real figure (discounting inflationary factors) also hitting +10.0%, up on May's +9.5% (the m-o-m figure was +0.9%) (Fig 5). At 10.4%, the cumulative figure for January–June was the same as 2016's +10.4%. In January–June, internet retail sales of goods and services grew by 33.4% to hit RMB 3,107.3 billion (goods: RMB 2,374.7 billion; services: RMB 732.6 billion), with net shopping accounting for 18.0% of total retail sales of consumer goods (RMB 17,236.9 billion). Goods related to 'consumption upgrading' grew at a fast clip, up on the same period last year (education and entertainment goods (+17.1%), cultural and office appliances (+11.8%), and communication equipments (+10.1%), for example)⁵.

2.172 million new vehicles were sold in June (+4.9%), an improvement on May's figure of 2.096 million (+0.2%) (Fig. 6). The cumulative figure for January–June was 13.354 million (+4.3%), with growth slowing on 2016's figure of 27.939 million (+13.7%). Sales had been boosted by a tax break on purchases of small vehicles, instituted in October 2015. This slowdown seems to be a reaction to the flurry of buying that occurred before the government announced it would be extending the program⁶ on December 15, 2016.

Fig. 5: Retail sales of consumer goods; retail sales by item; floor space of residential building sold

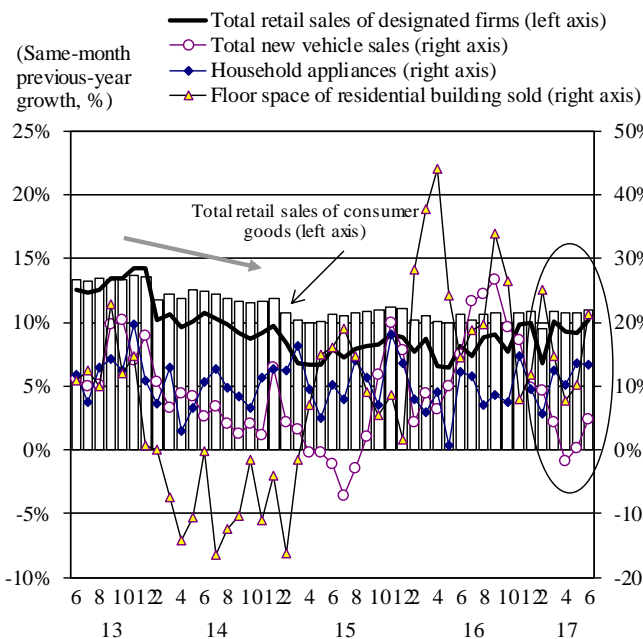
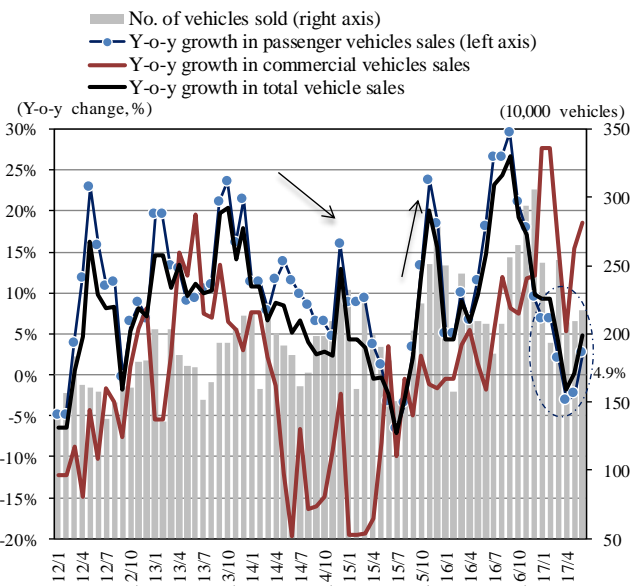


Fig. 6: Number of vehicles sold (by passenger vehicles and commercial vehicles)



⁵ NBS, July 18, 2017: 孟庆欣:上半年消费品市场稳健发展 (Meng Qingxin: The consumer goods market moved calmly in the first half year). Meng Qingxin is the Director-General of the Department of Trade and External Economic Relations Statistics of NBS. http://www.stats.gov.cn/tjsj/sjjd/201707/t20170718_1514078.html

⁶ On December 15, the Finance Ministry and the State Administration of Taxation announced that the tax cut on purchases of new vehicles with low emissions would be extended one year to the end of 2017. However, the tax rate will rise from 5% to 7.5%, so the size of the cut (compared to the normal tax rate) will be halved in 2017 (2.5%).

Finance Ministry: 关于减征1.6升及以下排量乘用车车辆购置税的通知 (Circular on the Lowering of the Purchase Tax on Passenger Vehicles with Emissions of 1,600cc or Less)

http://szs.mof.gov.cn/zhengwuxinxi/zhengcefabu/201612/t20161215_2483048.html

On September 29, 2015, the State Administration of Taxation issued Notice No. 104 [2015]. This announced that the purchase tax on passenger vehicles with emissions of 1,600cc or less would be lowered from 10% to 5% from October 1, 2015 to the end of 2016.

<http://www.chinatax.gov.cn/n810341/n810755/c1827947/content.html>

Note: Designated firms: firms with an annual turnover of RMB 5 million or over; the household appliance data also refers to sales by these designated companies; February = the cumulative results for January–February.
Source: CEIC

Note: The figure for January and February shows cumulative y-o-y growth for the period January–February.
Source: China Association of Automobile Manufacturers, CEIC

• **Real estate price growth continued to slow in first-tier and second-tier cities**

The floor space of residential buildings sold grew by 16.1% (7,466.2 million m²) in January–June. This was down on 2016's figure of +22.5% but up January–May's figure of +14.3%. Housing sales bottomed out and began recovering in April 2015 following measures by the authorities to prop up the real-estate market. The People's Bank of China (PBOC) lowered deposit and lending rates six times from November 2014, for instance, while the (lowest) down payment rate for second homebuyers was cut from 60% to 40% (March 30, 2015) and the down payment rate for first-time homebuyers was also lowered to 25% (September 30, 2015). Thereafter, buying restrictions pioneering in Shanghai and Shenzhen⁷ subsequently spread to other cities with surging house prices⁸. These restrictions are now being tightened further⁹.

In June, 70 cities saw the price of new homes rising on the previous year, up from 69 cities in May. However, prices in Shanghai and Shenzhen only grew by +8.6% and +2.7% respectively in June, down from the April 2016 peak of +28.0% and +62.4% respectively. This reflected a policy shift in these cities away from stimulus measures to tightening measures. At +9.9%, the growth rate in second-tier cities continued to slide from the +13.8% peak recorded in November 2016, though the figure for third-tier cities was up from +8.3% in May to +8.8% in June¹⁰. Price growth has peaked out in first-tier and second-tier cities following the introduction of tighter purchasing rules, but growth remains buoyant in third-tier cities with plenty of housing stock (Fig. 7).

On a monthly basis, 60 of the 70 cities surveyed saw the price of new homes rising, up four cities on May. Four cities saw prices moving flatly on the previous month, down from five in May, while six cities saw prices falling on the previous month, down from nine in May (Fig. 8)¹¹.

⁷ On March 25, 2016, the down payment rate for second homebuyers was lifted from 40% to 50–70% in Shanghai. Shenzhen has lifted the down payment rate for second homebuyers from 30% to 40%. Both moves represent a tightening of restrictions on purchases by non-resident buyers.

⁸ Similar tightening measures have also spread to cities with conspicuous house price inflation, with Xiamen, Nanjing and Hefei introducing similar regulations from the end of April to mid-July 2016, for example. Source: Economic Information Daily, July 14, 2016 - *房地产现严重分化因城施策将是下半年楼市政策主线* (China's acute property price bifurcation problem: Metropolitan real-estate measures in 2H influenced by the regional policies)

http://www.china.com.cn/shehui/2016-07/14/content_38877726.htm

According to an article in the People's Daily on October 11 2016 entitled *限购、限贷，近期已有20城市推出新举措楼市调控因城施策* (Restrictions on housing purchases and loans recently introduced in 20 cities: Restrictions geared to meet the circumstances of each city), restrictions on housing purchases were introduced in 20 cities at the time the article was written.

<http://www.fangchan.com/news/6/2016-10-11/6191397283909931925.htm>

⁹ According to an article in the 21st Century Business Herald on March 20, 2017, entitled *北京最严楼市调控“认房又认贷” 下半年全国楼市降温可期* ('Checks on housing and loan records': Beijing's strictest real estate controls set to chill housing markets nationwide in 2H), Beijing has introduced 'the toughest controls in history'. It lifted the down payment rate for second home purchases to at least 60 percent on March 17, for instance, with the rate lifted to at least 80% for buyers who will not be living at the property.

Furthermore, the city has also suspended issuances of mortgage loans for individuals with maturities of 25 years or more, while homes bought by companies cannot be resold for at least three years.

http://epaper.21jingji.com/html/2017-03/20/content_58356.htm

¹⁰ Examples of home prices rising in second-tier cities: Zhengzhou +19.9%, Changsha +18.1%. Jinan +15.9% (June). The breakdown for second-tier cities and third-tier cities has been revised from this addition based on the references listed below (see the note on Fig. 7).

NBS, January 13, 2015: *问：请问“一二三线城市”的定义及“划分范围”？* (What is the definition and classification scope for first, second and third-tier cities?) http://www.stats.gov.cn/tjsz/cjwtd/201308/t20130829_74324.html

¹¹ NBS, July 18, 2017: *2017年6月份70个大中城市住宅销售价格变动情况* (Sales Prices of Residential Buildings in 70 Medium and Large-sized Cities in June 2017)

http://www.stats.gov.cn/tjsj/zxfb/201707/t20170718_1513941.html

Fig. 7: New-homes prices (Y-o-y)

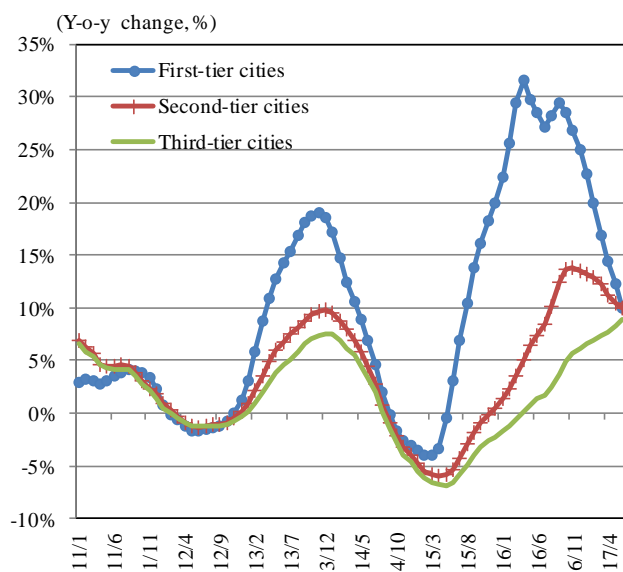
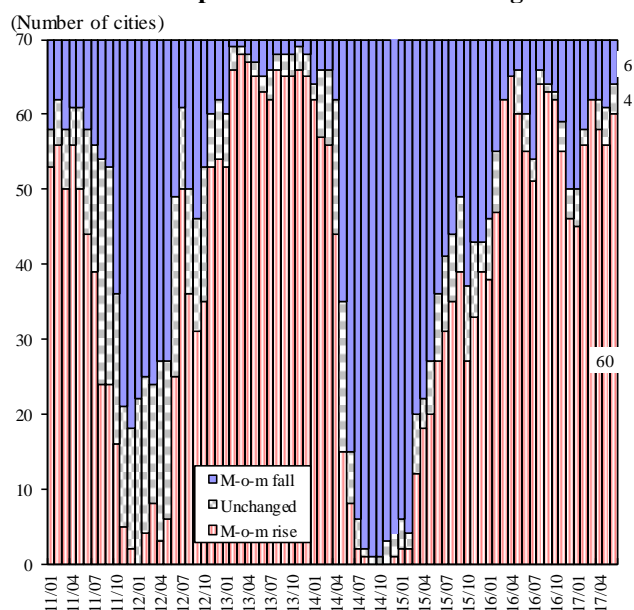


Fig. 8: Number of cities recording m-o-m changes in sales prices of residential buildings



Note: First-tier cities: Beijing, Shanghai, Guangzhou and Shenzhen
 Second-tier cities: Capitals other than first-tier cities (municipality), capitals of autonomous regions, Dalian, Qingdao, Ningbo, and Xiamen.
 Third-tier cities: Cities other than first-tier and second-tier cities (35 of the 70 cities surveyed)
 Source: CEIC

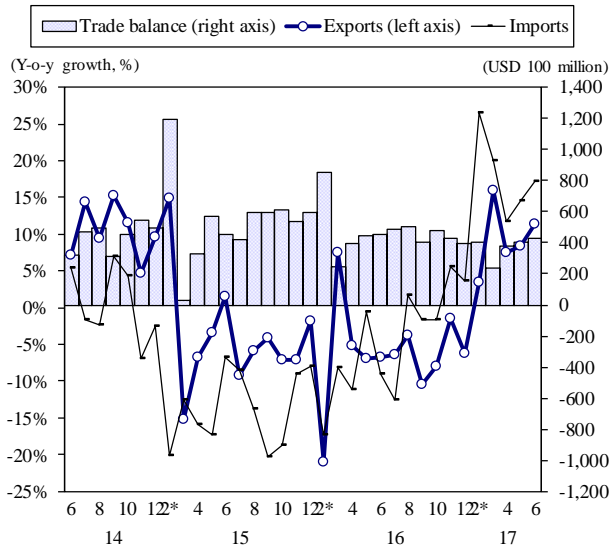
Source: National Bureau of Statistics of China, CEIC

• Imports and exports both improved

Exports were up +11.3% in June (\$196.59 billion), while imports rose by +17.2% (\$153.83 billion), with the trade surplus hitting \$42.76 billion (Figs. 9, 11 and 12). In January–June, exports increased by +8.5% and imports by +18.9% (trade surplus: \$185.06 billion), with the total amount of trade hitting \$1,909.48 billion, up +13.0% (January–May: +13.0%). The authorities said the buoyant trade data was due to rising import and export prices on the firmness of demand in Europe and the U.S. together with a commodity market recovery¹².

¹² China Net, July 13, 2017: 新闻办就 2017 年上半年进出口情况举行发布会 (The State Council Information Office holds a press conference on import and export movements in the first half of 2017.)
http://www.gov.cn/xinwen/2017-07/13/content_5210128.htm#allContent

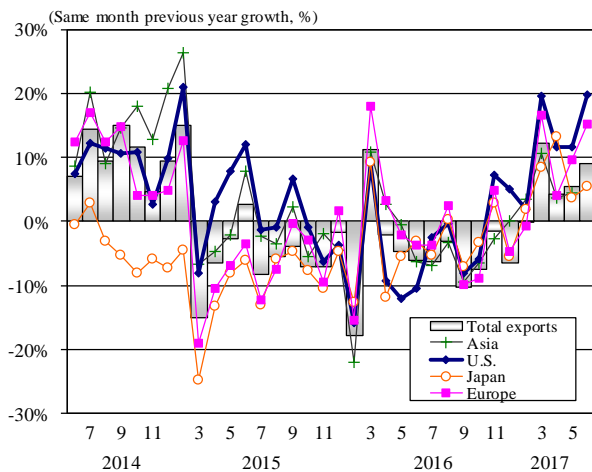
Fig. 9: Imports/exports; trade balance



Note: * Same-period previous-year growth and cumulative figures for January–February.

Source: China Customs Statistics

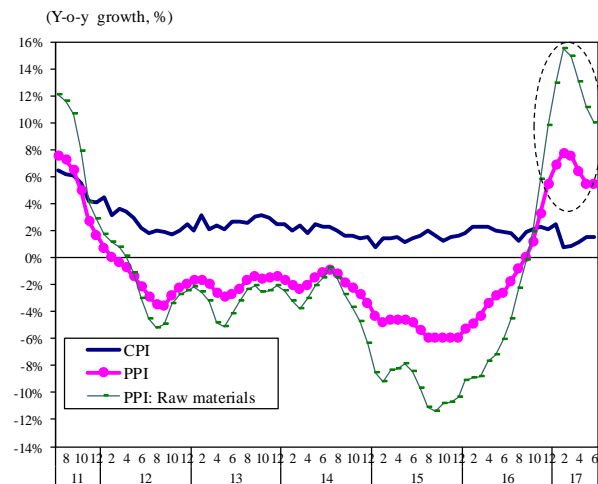
Fig. 11: Exports by major region



Note: The figure for February shows a same-period previous-year comparison of the cumulative results for January–February.

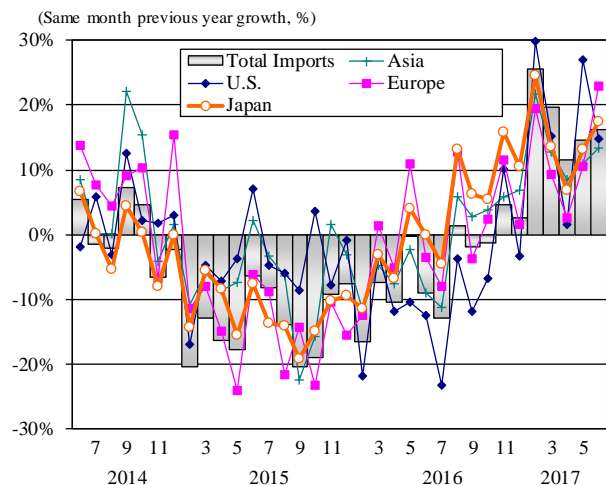
Source: China Customs Statistics, CEIC

Fig. 10: CPI, PPI



Source: National Bureau of Statistics of China, CEIC

Fig. 12: Imports by major region



Note: The figure for February shows a same-period previous-year comparison of the cumulative results for January–February.

Source: China Customs Statistics, CEIC

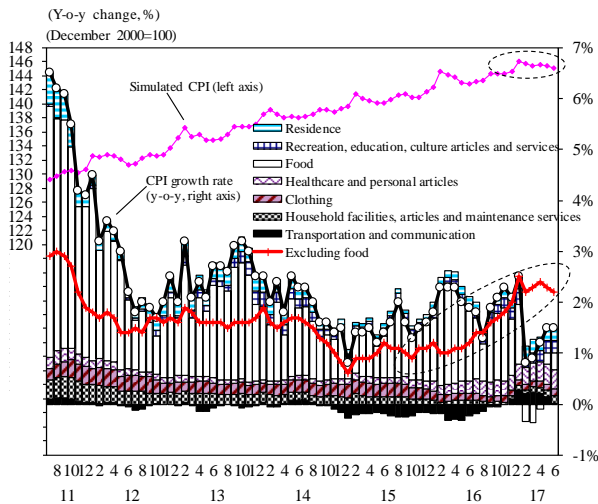
• The CPI and PPI grew at the same rate as the previous month

In June, CPI (Consumer Price Index) growth stood at +1.5% (May: +1.5%) (Fig. 10). At -0.2%, CPI growth remained in negative territories on a monthly basis (May: -0.1%). At +1.4%, the average figure for January–June was significantly below the government’s target of +3.0%.

A breakdown of the CPI data shows food price inflation remaining in negative territories in June at -1.2% (May: -1.6%) (Fig. 13). This dip was particularly pronounced when it came to pork prices, which slid from -12.8% in May to -16.7% in June (Fig. 14). At 52.99 million tons, pork output dipped by -3.4% in 2016. This followed on

from similar dips in 2007, 2011 and 2015, though the impact of the pork cycle¹³ has continued to wane since a peak in May 2016. At +5.8%, vegetable prices returning to positive growth (May: -6.3%). Non-food prices grew by +2.2% in June, down slightly on May's figure of +2.3%.

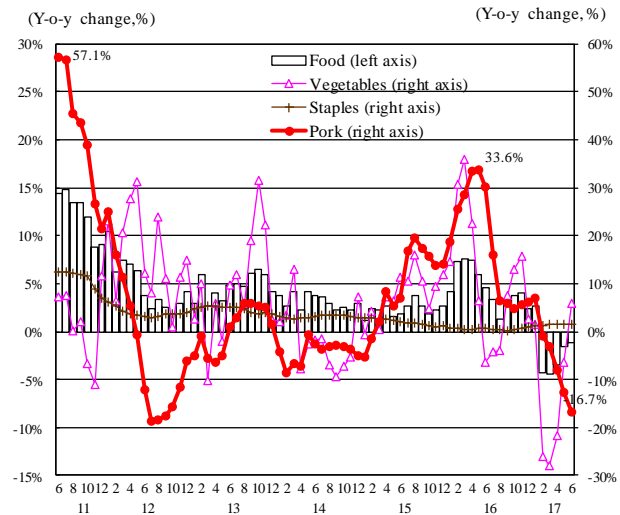
Fig. 13: CPI; Growth contribution by item



Note: The contribution rate by item is calculated by Mizuho Bank (China) based on the y-o-y growth rate and consumption expenditure statistics for each item. The simulated CPI data is calculated by Mizuho Bank (China) based on the m-o-m growth rate for each month, with December 2000 as the base month.

Source: National Bureau of Statistics of China, CEIC

Fig. 14: Food prices



Source: National Bureau of Statistics of China, CEIC

In June, PPI (Producer Price Index) growth stood at +5.5% (May: +5.5%) (Fig. 10). On a year-on-year basis, in June prices rose by +33.2% in the Mining and Washing of Coal sector, by 14.9% in the Processing of Petroleum sector, by +13.8% in the Extraction of Petroleum and Natural Gas sector, by +24.5% in the Manufacture and Processing of Ferrous Metals sector, by +13.9% in the Manufacture and Processing of Non-Ferrous Metals sector, and by 7.7% in the Nonmetallic Mineral Products sector. The contribution of these six sectors to PPI growth grew by +4.4%Pt (NBS)¹⁴. Growth accelerated on the previous month in the Manufacture and Processing of Ferrous Metals sector, the Manufacture and Processing of Non-Ferrous Metals sector, and the Nonmetallic Mineral Products sector.

• Net new loans and total social financing both increased

According to the PBOC, new bank loans increased by a net RMB 1,540.0 billion in June, up on May's figure of RMB 1,110.0 billion. However, M2 money supply growth continued to slide in June to hit +9.4% (May: +9.6%), down on the government's target for 2017 of +12.0% (Fig. 15). Ruan Jianhong, head of the Survey and Statistics

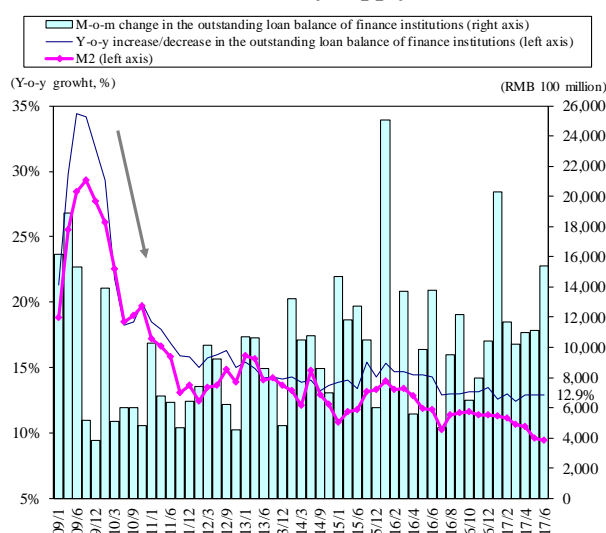
¹³ This is a cycle whereby: farmers respond to lower pork prices by raising fewer pigs→supply falls and prices rise→farmers increase output→supply increases and prices stabilize→farmers raise fewer pigs.

¹⁴ NBS, July 10, 2017: 国家统计局城市司高级统计师绳国庆解读2017年6月份CPI、PPI数据 (NBS senior statistician Sheng Guoqing deciphers the June 2017 CPI and PPI data) http://www.stats.gov.cn/tjsj/sjjd/201707/t20170710_1511342.html

Department of PBOC, said the steady implementation of a ‘prudent and neutral’ monetary policy and the impact of tougher financial supervision and regulation had led to a slowdown in wealth management by some commercial banks using off-balance-sheet financial products, with derived deposits funds and M2 growth decreasing accordingly. Ruan added this was an objective result of internal deleveraging in the financial system¹⁵.

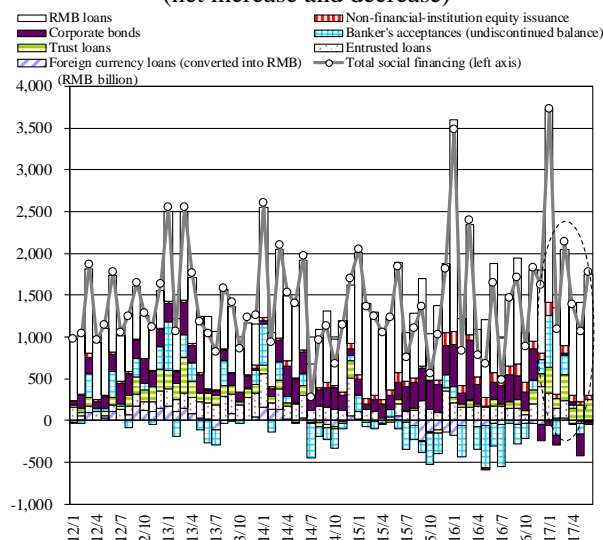
Total social financing, which includes funds procured from non-bank sources, increased by a net RMB 1,776.2 billion in June, up on May’s figure of RMB 1,065.9 billion. A glance at the details reveals that: RMB loans and trust loans grew at a faster pace; non-financial-institution equity grew at a slower pace; entrusted loans, bankers’ acceptances and corporate bonds continued to contract, though at a slower pace; and foreign currency loans switched from contraction to expansion (Fig. 16).

Fig. 15: Financial institution lending; the money supply



Note: The graph shows January and end-of-quarter figures up until 2015. The figure in the graph shows the y-o-y change in the outstanding loan balance for the most recent month.
Source: PBOC, CEIC

Fig. 16: Total social financing (net increase and decrease)



Source: PBOC, CEIC

• Outward direct investment fell sharply

Foreign exchange reserves stood at \$3,056.8 billion at the end of June, up \$3.2 billion on May, with the figure rising on the previous month for the fifth successive month (Fig. 17). At its regular press conference on July 13, the Ministry of Commerce announced that outward direct investment in January–June had fallen by -45.8% on the same period last year to hit \$48.19 billion. This figure had previously soared by +40.1% to \$170.1 billion in 2016, with the situation regarding Chinese outward direct investment shifting sharply¹⁶. Gao Feng, a spokesman for China’s Ministry of Commerce, explained at the press conference that outward direct investment in real-estate, hotels, movie

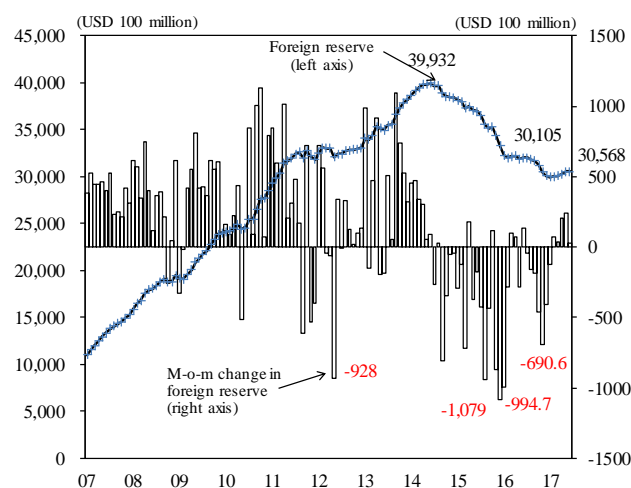
¹⁵ Financial News, July 13, 2017: *M2 增速放缓 存量货币周转效率提高 金融对实体经济的支持力度稳固 (M2 growth slowed, money stock rotation grew more efficient and finance provided more support to the real economy)*
http://www.financialnews.com.cn/pl/cj/201707/t20170713_120868.html

¹⁶ China Net, July 13, 2017: *商务部就 2017 年上半年我国对外投资合作情况等问答 (The Ministry of Commerce replies to press questions about the cooperative situation regarding Chinese outward investment in the first half of 2017)*
However, investment in ‘One Belt One Road’ states rose by over +6%Pt on the same period last year to hit \$6.61 billion.
http://www.gov.cn/xinwen/2017-07/13/content_5210137.htm#allContent

theaters, entertainment and sports clubs had fallen sharply from the end of 2016 due to tougher supervision.

At its regular press conference on July 18, the National Development and Reform Commission (NDRC) said it would also continue to monitor outward investment by Chinese firms. It commented that the relevant departments continued to pay close attention to irrational outward investment in areas such as real-estate, hotels, movie theaters, entertainment and sports clubs, with the NDRC moving to prevent outward investment risk in an effective manner while proposing cautious investment decisions to related companies¹⁷.

Fig. 17: Foreign exchange reserves



Note: The foreign reserve data shows the June 2014 peak, end of 2016, and the latest monthly figure.

Source: People's Bank of China, CEIC

2. Topics: The National Financial Work Conference

The Chinese economy topped the government's growth target by expanding by +6.9% over the first half of the year. This bullish phase began in the latter half of 2016, though, while monetary policy is also moving in a tightening (prudent and neutral) direction, so the economy is expected to slow slightly over the latter half of 2017. Specific factors behind this slowdown are likely to be tighter purchasing rules in the housing/real-estate market and a fall in automobile sales on reduced tax breaks.

• 'Economic deleveraging'

The Chinese economic and financial environment is now being shaped in large part by 'deleveraging.' The July 14–15 National Financial Work Conference¹⁸ also talked about 'promoting economic deleveraging,' with the disposal of zombie firms being prioritized as the Conference positioned 'state-owned enterprise deleveraging' as a priority among priorities.

With President Xi Jinping presenting four priorities for the Work Conference to steadily follow (Fig. 18), the

¹⁷ China Net, July 18, 2017: 国家发改委就宏观经济运行情况举行新闻发布会 (The NDRC holds a press conference about macro-economic operations) – response to a question from Phoenix Television. http://www.gov.cn/xinwen/2017-07/18/content_5211513.htm#allContent

¹⁸ China Net, July 15, 2017: 全国金融工作会议在京召开 (The National Financial Work Conference is convened in Beijing) http://www.gov.cn/xinwen/2017-07/15/content_5210774.htm

The National Financial Work Conference has been held every five years (in the same year as the National Congress) since 1997.

Conference announced that a Financial Stability and Development Committee would be set up under the State Council, with the PBOC playing a stronger role when it comes to macro-prudential management and guarding against systemic risks.

The Conference also discussed: ‘the final word’ (life-long accountability even after retirement) for local officials as a way to strictly control the increase in regional debt; correcting behavior that disrupts financial market order; promoting the stable internationalization of the RMB; ensuring the convertibility of capital transactions; opening up the financial market to foreign business; protecting consumer interests in the financial sector; ensuring national financial stability; and developing human resources with financial knowledge.

Fig. 18: National Financial Work Conference - The ‘Four Priorities’

(1) Return to basics	Devotion and striving toward the development of the economic society
(2) Structural improvements	Improvement of financial markets, financial institutions and financial products
(3) Strengthening supervision and control	Prevention of financial risk and improvement of resolution capacity
(4) Market orientation	Promoting the decisive role of the markets in allocating financial resources

China Net, July 15 2017: *金融工作会议在京召开* (The National Financial Work Conference is held in Beijing)
http://www.gov.cn/xinwen/2017-07/15/content_5210774.htm

Mihoko Hosokawa, Research Executive; Corporate Banking Coordination Division, Mizuho Bank (China), Ltd.

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