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China Economics Update: Mixed July data

中国经济评论: 7 月经济显示不平衡复苏

Li Cui
(852) 3911 8274
cuili@ccbintl.com

Huiting Yan
(852) 3911 8012
yanhuiting@ccbintl.com

July data shows growth underpinned by an unbalanced recovery. Industrial production growth was solid as the global manufacturing trend, domestic upgrades in high tech, and the green transition continued to lead the momentum. Domestic demand drivers have remained uneven, and the underlying trend for retail sales has been soft despite a small uptick in July.

Housing sales showing signs of stabilizing; supply-side changes are key to supply-demand equilibrium. Housing sales have been flat since June, with a smaller YoY decline in July. However, inventory is still large, putting pressure on prices. Policy intervention to remove the inventory overhang (including changing commercial housing to social housing) remains key to a faster housing market adjustment.

We expect macro policy to stay accommodative, though food prices could be a constraint in the near-term. As suggested at the July Politburo meeting, fiscal support could accelerate, likely with a focus on boosting consumption. While monetary conditions are likely to remain accommodative, the recent climb in food prices could pose a constraint on further easing in the near-term.

7 月经济数据继续显示不平衡的复苏。受益于全球制造业趋势、产业升级和绿色转型，工业生产增长保持稳健。有效内需尚未明显提升，特别是消费。虽然消费品零售小幅反弹，但整体消费仍显疲软。

地产销售继续底部徘徊，供给侧调整是行业再平衡的关键。过往几个月受政策支持地产销售基本持平，7 月同比跌幅收窄。但地产库存仍高，价格承压。 供给方面政策的实施（例如转变商品房用途成为保障房）有助地产行业尽快达到供需平衡。

宏观政策支持预计持续，食品价格上升可能限制近期货币的进一步宽松。7 月份召开的政治局会议强调了加大政策支持力度的必要性。我们预计下半年财政支持力度会有所加大；预计货币政策继续保持宽松，但需关注近期食品价格的反弹，或限制短期进一步货币款式的步伐。

Industrial production (IP) growth slowed to 5.1% YoY in July, slightly below the consensus expectation of a 5.2% YoY gain. Seasonally adjusted IP expanded 0.4% MoM in July, the same pace as in June.

By subcategory: Output of computer & electronic equipment remained solid, with 14.3% growth in July. Transportation equipment was also strong at 12.7%. Growth in electronic machinery, and special & general equipment maintained low single-digit growth, while upstream industries, especially non-ferrous metals, were weak.

Retail sales growth increased slightly to 2.7% YoY, led by consumer goods. The result beat the consensus expectation of a 2.6% YoY gain. Seasonally adjusted sequential growth rebounded from -0.1% MoM the previous month to 0.4% MoM in July. The recovery in retail sales was driven by higher food prices and stronger momentum behind sales of consumer goods, with the latter likely related to policy incentives to replace large-item consumer goods. Catering and auto both eased compared with the strong momentum earlier in the year. Online sales picked up 7.9% YoY in July, accounting for about a quarter of total retail sales.

Fixed-asset investment (FAI) grew 1.9% YoY in July by our estimate, one of slowest months of growth in the past five years. While manufacturing investment was solid, property investment and government-led traditional infrastructure dampened overall investment growth. More specifically,

- **Contraction in real-estate investment continued to relent to 10.8% YoY in July. Property investment is still the main drag on the results.** In view of weak property sales in recent months, we expect the contraction in real-estate investment to continue.
- **Solid manufacturing investment growth of 8.3% YoY in July.** Industrial upgrades and hi-tech related industries were the main contributors. Investment in hi-tech industries such as computers, communications, and other electronic equipment categories saw solid 10.0% YoY growth in July. Meanwhile, investment in nonferrous metals and general and special equipment grew by double-digits in July.
- **Broad infrastructure investment growth slowed to 5.6% YoY in July.** Traditional infrastructure investment (e.g. roads and railways) that rely on government finances slowed to 2.0% YoY in July, becoming the main drag on the broader infrastructure sector, while green transition-related infrastructure investment remained a robust 21.1% YoY in July.

Soft property data shows some stabilization. The year-on-year contraction in property sales eased slightly in July, but the softness continues as high frequency data indicated that property sales in 30 large Chinese cities contracted around 21% YoY in recent weeks. Seasonally adjusted new home prices fell 0.7% MoM while second-hand home prices fell 0.8% MoM, continuing the rapid price adjustment that began in 2Q24. Property new starts fell 8.9% YoY in July while completions contracted 22.3%, pointing to shrinking future supply.

Rising CPI driven by food prices. Data from last week shows a pick-up in July CPI to 0.5% YoY, compared with an average of 0.1% in 1H24, mainly reflecting rising food prices. Volatile seasonal goods during the month contributed to the higher reading. Meat prices, led by pork, also rose 0.4% YoY in July. High frequency data suggests that the rise in food prices continued into early August. Core inflation has stayed at a low level of around 0.5% YoY, as has been the case for the past two years. PPI continued to fall in July, consistent with limited demand pressure.

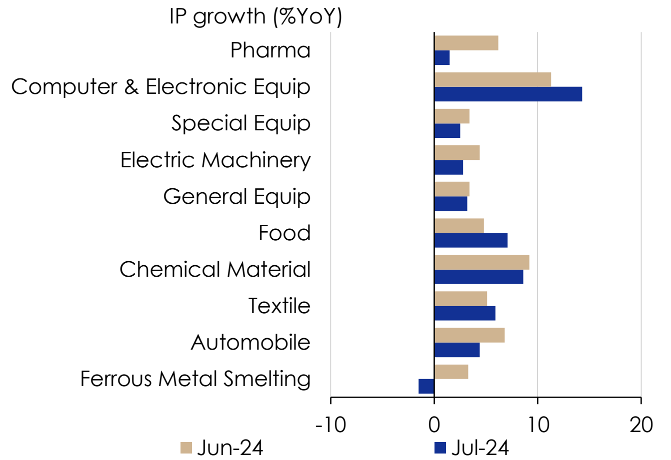
Our view:

July data indicates uneven growth featuring strong manufacturing output and soft domestic demand. Industrial production in July was solid, albeit slightly weaker than it was in 2Q24, consistent with the global manufacturing trend and the domestic manufacturing upgrade. The domestic consumption trend, however, remains soft, and tight government finances are likely behind weak infrastructure investment last month. Overall, effective domestic demand is still soft, calling for more policy steps and reforms to counter the cyclical headwinds.

Macro policy accommodation likely to continue. As the July Politburo meeting emphasized the need to accelerate macro policy support, we anticipate higher fiscal spending in 2H24, following sluggish spending momentum in 1H24. Fiscal reforms will ease financial pressure on local governments, although the formulation of these plans will take time. We look for liquidity conditions to remain accommodative in the latter half of the year, though the recent rebound in food prices could limit the scope for further easing in the near-term.

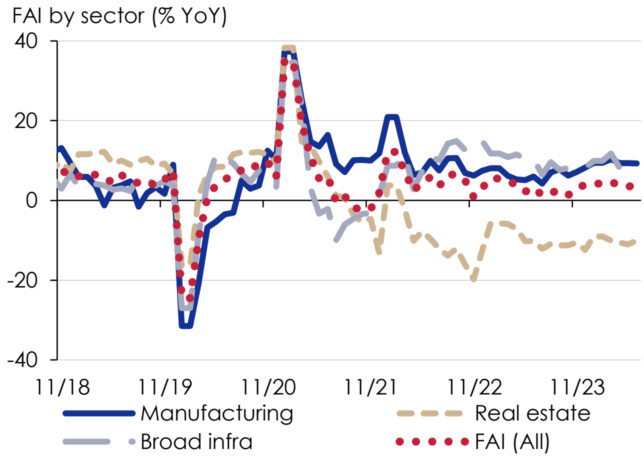
Housing sector shows some stabilization. A faster adjustment hangs on changes to supply. High frequency data on property sales indicates flat sales, albeit with a smaller YoY decline. Mortgage loans have maintained low single-digit growth since 4Q23. A slow yet positive increase in loans suggests limited balance sheet stress on households. Housing inventory remains high, however. Policy is likely to focus on the supply side of the adjustment to housing stocks, which will help to accelerate the adjustment process.

Fig 1: Output growth in key manufacturing sectors remains strong



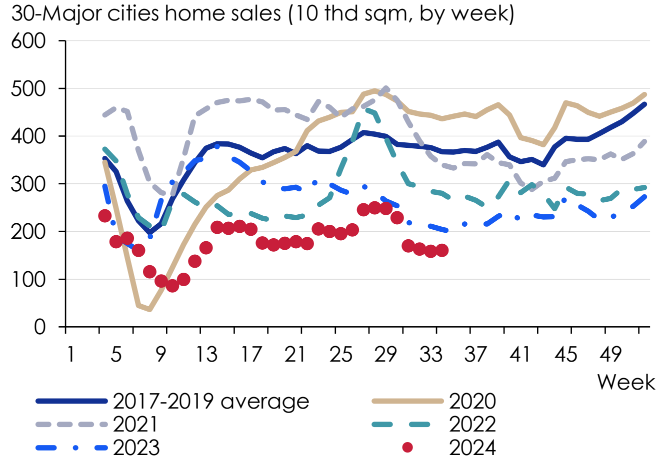
Source: NBS, CCBIS

Fig 2: Solid manufacturing investment growth



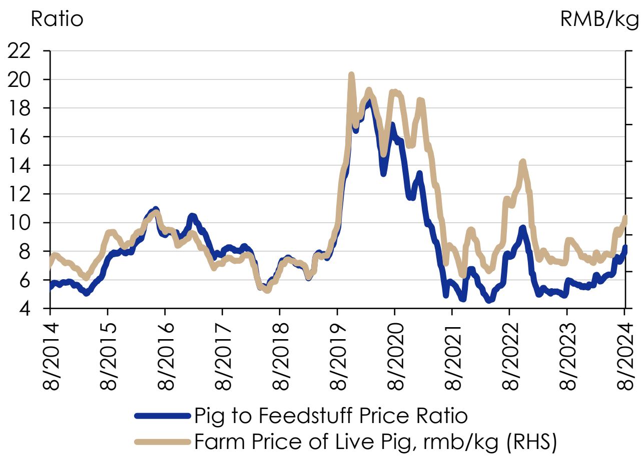
Source: NBS, CEIC, CCBIS

Fig 3: Property sales show some stabilization



Source: NBS, CCBIS

Fig 4: Pork price increased in recent weeks



Source: NBS, Wind, CCBIS

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CCB International Securities Limited
12/F, CCB Tower, 3 Connaught Road, Central, Hong Kong
Tel: (852) 3911 8000 / Fax: (852) 2537 0097s