Emerging Market Focus

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China: August data preview, growth stabilising at low levels with a mild inflation rise

- **In August, we anticipate a modest improvement in major growth indicators aided by base effects, a rebound in inflation readings with higher fuel and gold prices while credit and money growth could further ease.**
- **We expect that both export and import growth accelerated in August, with a wider trade surplus. IP growth likely climbed and continued outpacing domestic demand indicators. Retail sales growth could improve modestly on base effects. The YTD FAI likely further extended its decline, though we expect a slight narrowing of the contraction in August alone.**
- **Both CPI and PPI inflation likely rebounded modestly in August. Credit and M2 growth could further edge lower.**

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Likely small growth tick-up; mild inflation rise in August

After a broad-based weakening of domestic activity indicators in July, we anticipate a modest improvement in major growth indicators aided by base effects and a rebound in inflation readings with higher fuel and gold prices, while credit and money growth could further ease in August. Weather conditions remained unfavourable in August, with typhoons, storms and hotter-than-usual weather, negatively impacting business and construction activities. The July Politburo meeting pledged to strengthen countercyclical macro policy easing especially to quicken fiscal and quais-fiscal spending to support strategic infrastructure and investment project spending, while there were a slew of property easing measures introduced in late August. We expect that those measured policy supports will take a couple of more months to show a more visible positive impact on growth.

The growth divide likely remained apparent in August. The global AI capex cycle could continue to drive rapid trade growth and support related manufacturing and services activities, with limited spillover to non-tech sectors or consumer spending. We expect both export and import accelerated in August, accompanied by a wider trade surplus. Industrial production (IP) growth likely climbed and continued outpacing domestic demand indicators by a notable gap. Retail sales growth likely improved modestly as the YoY comparison base gets less unfavourable in Q3. The year-to-date (YTD) FAI (fixed asset investment) could further extend its decline, though we expect a slightly narrowing of the contraction in August alone. Meanwhile, both CPI and PPI inflation likely rebounded modestly in August, led by higher fuel and industrial commodity prices as well as gold. Credit and M2 growth likely further edged lower.

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August macro data preview

Release date	Indicators	Unit	Forecast August	Previous July
8 September	Exports	% YoY	25.0	23.9
8 September	Imports	% YoY	31.0	27.5
8 September	Trade balance	USD bn	114.7	112.5
9 September	CPI	% YoY	0.9	0.5
9 September	PPI	% YoY	3.7	3.5
9-15 September	New aggregate financing	RMB bn	2,200	1,406
9-15 September	New RMB loans	RMB bn	350	-340
9-15 September	M2	% YoY	7.5	7.7
15 September	IP	% YoY	4.8	4.5
15 September	Retail sales	% YoY	0.9	0.6
15 September	FAI YTD	% YoY	-7.0	-6.7

Source: Bloomberg, Crédit Agricole CIB

August NBS PMIs remained in contraction

In August, the official PMIs remained in contraction across manufacturing, services and construction, indicating continued sequential growth weakening in the broader economy despite strength in AI demand-related sectors.

Manufacturing PMI in August rebounded to 49.8 after a notable dip to 49.2 in July, pointing to continued sequential weakening, though the reading came in better than expectation of 49.5. By breakdown, both production and new orders bounced back above the 50 threshold, at 50.4 and 50.6 respectively compared to 49.9 and 48.5 in July. New export orders also rose back to 50.1 from 49.6. Price indicators went notably higher amidst the rebound in oil prices, with purchasing price and producer price up to 56.6 and 50.4 respectively from 53.2 and 47.8. In terms of non-manufacturing PMIs, construction PMI further edged down to 46.9 from 47.0 and services PMI remained weak at 49.3.

By industry breakdown, AI & tech-related manufacturing and services PMIs continued expanding, with electrical equipment, computer equipment manufacturing PMIs above 53.0 and telecom services and internet services readings above 55.0. However, chemicals and steel manufacturing and wholesale & retail and financial services reading were in contraction.

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High frequency data suggested continued softening in August

Consistent with the official PMI readings, high-frequency indicators showed limited sings of material growth turnaround in August. New home sales in 30 major cities declined by 6.3% (vs -1.6% in July). Auto sales fell by 19.0% YoY (vs -18.0% in July), according to CPCA. Cinema box revenue decreased by -2.6%, a notable reversal from July's 23.4% growth. Container throughput volume at major ports moderated to 0.3% YoY in August (vs 3.1% in July). Meanwhile, South Korea's trade growth remained strong in August (exports + 68.7% YoY and to China +119.3%; imports +22.5% and from China +32.6%). On the price front, the upstream Nanhua energy and non-ferrous metal index accelerated to 20.9% and 21.6% YoY in August, from 8.6% and 19.8% in July, respectively, while ferrous metal experienced a decline of -1.6% YoY after five consecutive months of positive reading.

IP and retail sales growth likely rose while FAI contracted

We forecast IP growth to rise to 4.8% YoY in August from 4.5% in July. Although weather conditions remained unfavourable in August, industrial output could be supported by sustained resilience in high-tech manufacturing, driven by robust global demand for AI infrastructure, while the YoY comparison base was lower. This would be consistent with a return of both production and new orders sub-indices under the official PMI to expansionary territory, at 50.4 and 50.6 from 49.9 and 48.5 in July, respectively.

Retail sales growth (nominal) could edge up to 0.9% YoY in August from 0.6% in July, as the YoY comparison base eased after the policy boost from consumer-trade in programme gradually faded in Q325. Additionally, rising gold prices likely improved jewellery sales, a major retail driver previously.

Headline YTD FAI is projected to contract further to -7.0% in August, following a 6.7% decline in July. On a monthly basis, however, the decline is expected to moderate to -9.0% in August from -12.8% in July. We expect fiscal and quasi-fiscal spending to quicken following the July Politburo meeting to support investment spending, though there may not be material progress yet in August.

Export and import growth could strengthen in August

We forecast China's export and import growth to accelerate to 25.0% and 31.0% YoY respectively in August, from 23.9% and 27.5% in July. Trade balance could edge up to USD114.7bn from USD112.5bn previously.

On the export side, the official PMI's new export orders subindex rebounded to 50.1 from 49.6, signalling a sequential improvement in export momentum. We expect that China's export growth could remain supported by strong tech trade as well as solid demand for China's green products as energy prices remained elevated amidst ongoing geopolitical tensions in the Middle East.

On the import front, demand semiconductor and chipmaking manufacturing could remain as the lead from import growth, while import inflation would likely continue to give the headline a major boost. The official PMI's import subindex increased to 48.6 in August from 47.5 previously, while both purchasing price and producer price subindex climbed, to 56.6 and 50.4 respectively from 53.2 and 47.8.

CPI and PPI inflation likely rebounded in August

We forecast China's CPI inflation to rebound to 0.9% YoY in August from 0.5% in July. The higher fuel price (+10.0% YoY in August vs. 0.9% in July) and gold price inflation (+23% vs 15%) could jointly contribute around 0.3ppt to the headline increase. Meanwhile, food deflation likely became smaller (at -1.0% vs -1.5%). Smartphone price reflation may continue due to upstream input price hikes. Other core price inflation could remain broadly stable with muted consumer demand recovery.

We expect PPI inflation to rise to 3.7% YoY in August from 3.5% previously. In sequential terms, the MoM PPI likely turned positive at 0.2% from -0.7% in July. The higher PPI inflation is likely driven by elevated upstream energy prices (the Nanhua Energy Index rose 20.9% YoY in August) as well as higher prices for AI-related inputs and capital goods, while PPI inflation in downstream sectors and consumer goods likely remained subdued.

Credit and M2 growth could further moderate

In August, we forecast new bank loans and AF (aggregate financing) at RMB350bn and RMB2,200bn respectively, compared to -RMB340bn and RMB1,406bn in July. The YoY growth of outstanding AF is expected to moderate slightly to 7.3% from 7.4% in July and loan growth could fall to 5.0% from 5.1%. Despite Politburo's pledge to quicken government bond issuance and fiscal spending, government bond issuance in August (net RMB1.1trn) slowed in both MoM and YoY terms. Meanwhile, M2 growth is projected to slow to 7.5% YoY from 7.7% prior.

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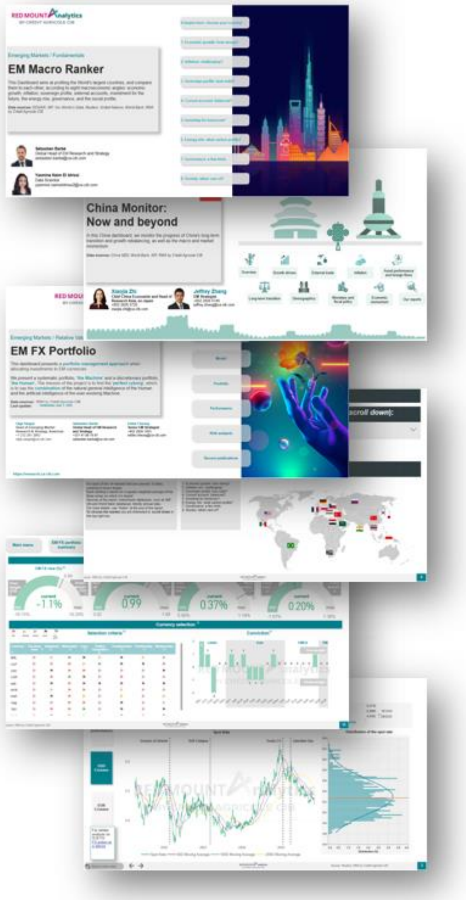

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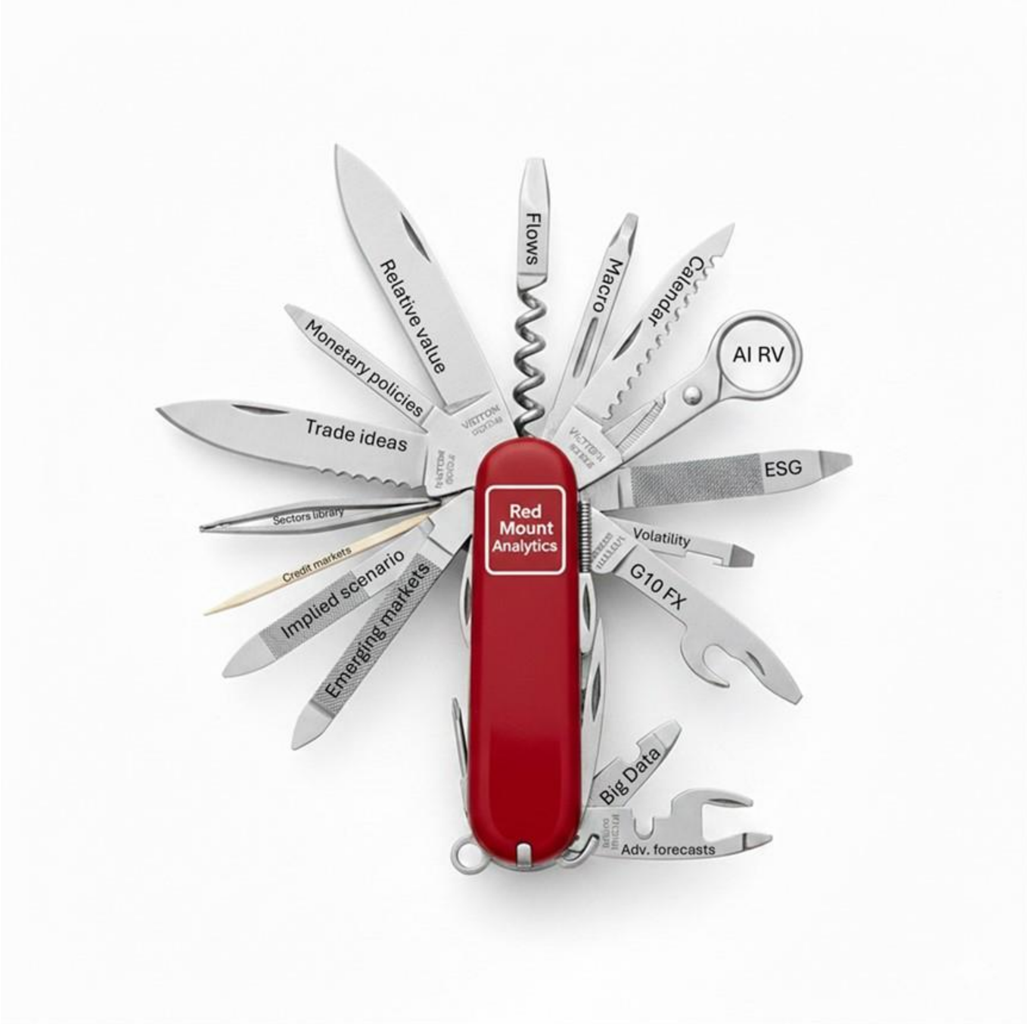

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