MERICS ECONOMIC INDICATORS

Quarterly analysis of economic trends in China

Q3/2019

China's economic slowdown: Negative effects of trade conflict are increasingly measurable

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MERICS Q3 analysis

Anxiety rises as GDP growth continues to slow

China's economic slowdown continued over the third quarter of 2019, with real GDP growth falling to 6 from 6.2 percent in the previous quarter. The minor uptick in key macroeconomic indicators seen towards the end of the second quarter proved to be short-lived.

The Chinese government has continued to roll out support measures to shore up growth, but their effectiveness is questionable as they have failed to lift either business or consumer sentiment. The measures include cuts in corporate and personal taxes and fees worth around 1.35 trillion CNY in the first seven months of this year. Premier Li Keqiang has announced further tax cuts totaling 2 trillion CNY by end of the year. The People's Bank of China (PBOC) announced further reductions to the banks' required reserve ratio (RRR), effectively freeing up more liquidity. The weaker USD/CNY exchange rate has helped offset some of the negative effects of the ongoing trade war with the United States. Continuous expansion of fiscal and monetary stimulus has cushioned against the economic slowdown, but growth continues to fall.

In 2019 the negative effects of the trade war have also become increasingly measurable in the manufacturing sector. The year was, so far, also marked by a deteriorating domestic and external economic environment: it saw rising consumer inflation, falling corporate profits, softening private investment, continued risks in the financial sector - including in local government finances. The slowdown is beginning to expose regional and industrial weak spots.

Despite the increasingly evident slowdown, China's growth rate is still too high for sustainable economic development and needs to come down further to facilitate structural rebalancing of the economy with a stronger emphasis on the private sector, innovation and services. GDP growth for 2019 is still within the government's target range of between 6 and 6.5 percent. However, as growth now risks sinking below 6 percent, Beijing is concerned to prevent the deceleration from happening too fast.

China's leadership is likely to get increasingly anxious as the economy's resilience is put to the test. More stimulus measures can be expected in the coming months. It will also be a crucial and testing time for the private sector. If private market players do not respond favorably to government stimuli, there is likely to be yet further expansion of state control over the economy. It looks as if the most challenging times are yet ahead.

The MERICS China Confidence Index (MCCI)

The MERICS China Confidence Index measures household and business confidence in future income and revenues. The index is weighted between household and business indicators. It includes the following indicators: stock market turnover, future income confidence, international air travel, new manufacturing orders, new business in the service sector, urban households' house purchase plans, venture capital investments, private fixed asset investments and disposable income as a share of household consumption. All components have been tested for trends and seasonality.

The MCCI was first developed in Q1 2017.

MERICS China Confidence Index: Sentiment remains negative

Note: Q2 2018 index was calculated with one missing data point.

Focus topic: Currency depreciation

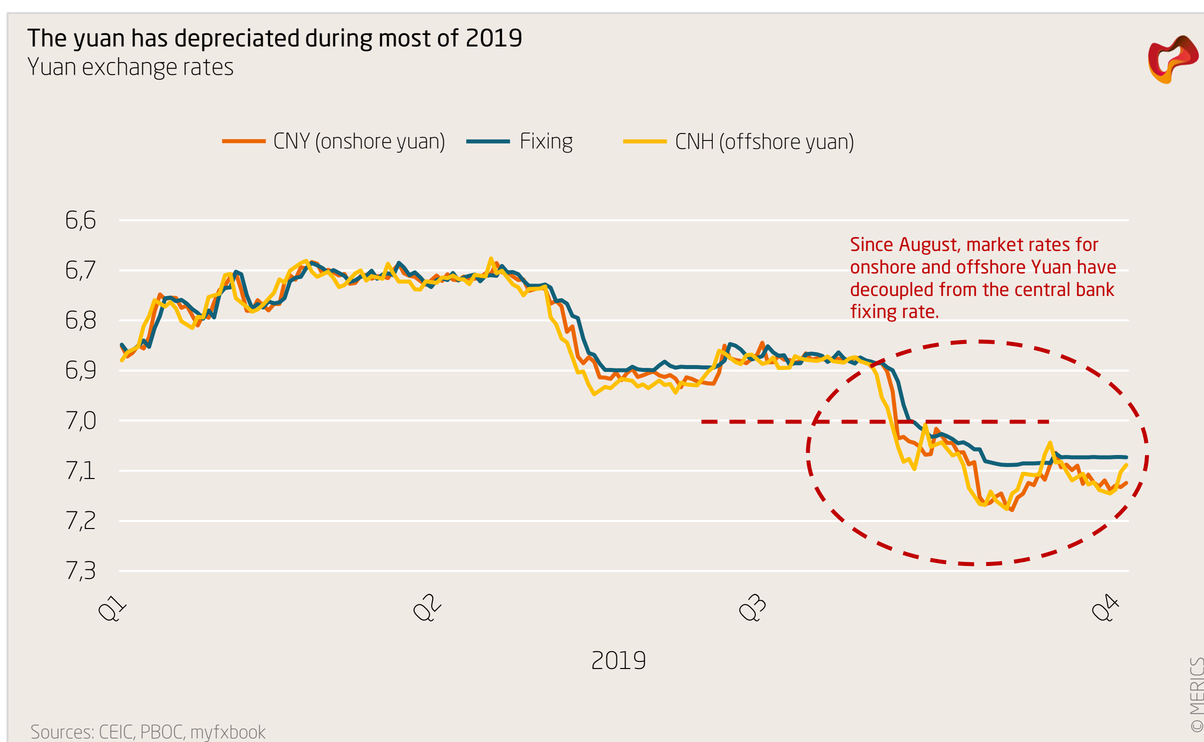
China will not be able to use yuan depreciation to shield its export sector from US tariffs

By Maximilian Kärnfelt

By allowing its currency to slide China has partially cushioned itself against the damage caused by the trade war with the United States. Letting the yuan weaken has moved the cost of tariffs away from China's exporters, though it has not removed them completely. However, it has eased the pressure on corporate profits and employment levels, two of the pillars supporting China's social stability.

The cost has been shifted onto China's external finances, making it more expensive for the country to import, invest abroad, and service foreign debt. There is not much room for further controlled yuan depreciation as the parts of the economy taking the costs have limited ability to bear them. If China's currency depreciates further, financial markets may react with large scale sell-offs of CNY-denominated assets.

The yuan has depreciated in the past year. The market has sold yuan whenever the trade war has escalated. Announcements of tariffs cause the yuan to slide, while news that trade talks are progressing sees it strengthen. Overall, there has been more escalation in trade tensions than reconciliation. The bellicose trend, combined with a slowing Chinese economy, means the downwards pressure on the yuan has been too high.



The People's Bank of China (PBOC) does not appear to have resisted the pressure. They have avoided selling foreign currency reserves, which would have been one possible response to pressure on the yuan. China's foreign currency reserves increased by more than 27 billion USD in the last year. Instead, the PBOC has been careful to move its daily dollar fixing rate gradually with the market, while carefully managing capital outflows.

The only time the PBOC appears to have lost control was in August when the USD/CNY rate breached 7 CNY per US dollar. At that point, both the onshore and offshore yuan diverged significantly from the central bank's fixing rate. At the start of the trade war in early 2018, the CNY traded at 6.5 per USD: it now trades around 7.1, a depreciation of 8.5 percent.

A weaker currency has ensured China's exports only contracted slightly. In September, China's year-to-date exports had fallen by 0.1 percent. By supporting exports, China's authorities have kept some of the negative effects from the trade war from causing instability. This was an especially important goal ahead of the 70th anniversary of the founding of the People's Republic of China (PRC), though it is a policy priority at any time.

However, as allowing the yuan to depreciate merely shifts the cost of US tariffs, the major burden is likely to be borne by:

The government. A sliding currency hurts China's external purchasing power, which means that economic foreign policy becomes more expensive. Projects such as the Belt and Road Initiative (BRI) global infrastructure network, or acquisitions of foreign tech companies, are becoming more costly. Depreciation is also a setback to the goal of internationalizing the yuan, as the market has lost some confidence in the value of the currency.

Corporates. Many will suffer due to depreciation. Chinese companies import enormous amounts of USD-denominated commodities such as oil and gas. They have also shown a large appetite for acquiring foreign businesses in recent years. All these things are becoming more expensive. Furthermore, Chinese companies have been steadily increasing their exposure to foreign currency denominated debt. Servicing these debts will be increasingly difficult as the yuan depreciates.

Consumers. They will feel the costs in two ways. First, imported goods will become more expensive. Second, currency depreciation can cause the money supply to grow, creating a greater risk of inflation. If exporting firms sell dollar earnings to the PBOC then the domestic money supply will tend to increase as the PBOC must print money. To stop this causing money supply and inflation to rise, banks were instructed to keep a large share of their assets in reserve. But this is no longer the case as reserve requirements are being reduced to support the slowing economy.

So far, there is not much room for further yuan depreciation. The government has started to backtrack on its economic foreign policy but continues to funnel considerable amounts into global infrastructure projects in the framework of its Belt & Road Initiative. Domestically, corporate debt defaults have not picked up. Rising living expenses may prove the most troublesome result: consumer price growth reached 3 percent in September, exactly at the target. Both food and housing costs are rising quickly. In September food prices grew by 8.4 percent. Earlier data from August saw the average house price in 70 cities surveyed by the National Bureau of Statistics increase by more than 9 percent. These price hikes are not so far driven by depreciation, but as time goes by, they are likely to be exacerbated by it.

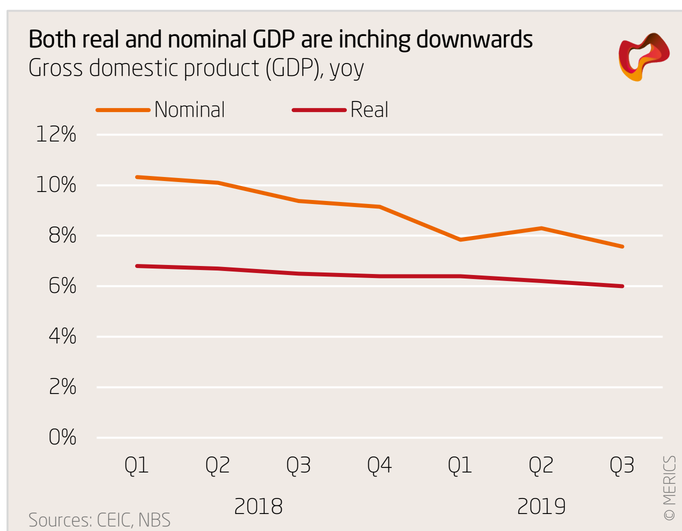
The specter of capital flight further narrows the room for yuan depreciation. If investors begin anticipating more depreciation, or if they conclude that over-large losses have already been incurred, they may begin selling off yuan denominated assets. Capital controls currently prevent this outcome, but if the pressure becomes too great, the controls might not hold without draconian enforcement. If capital flight begins, a sharp depreciation would follow. China would then again have to spend its foreign currency reserves to defend the yuan as it did in 2015.

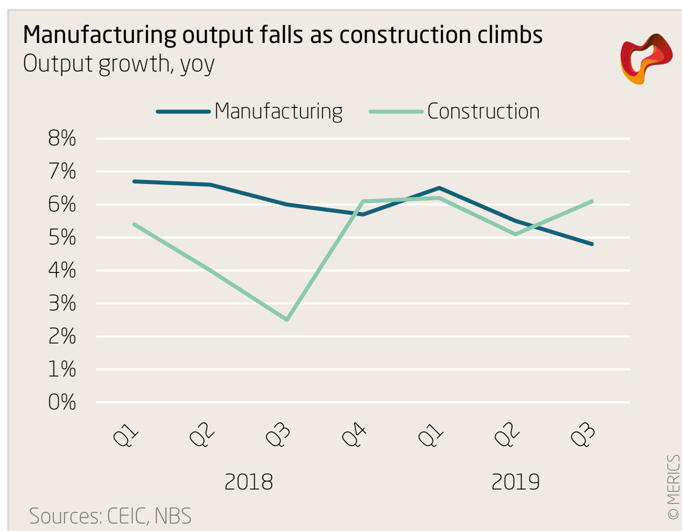
So far, the negative effects of tariffs that were imposed during the trade conflict with the US have an impact on China's economy as a whole. But some sectors may not be able to handle much more pressure as they are facing difficulties of their own. Furthermore, if the market expects more yuan depreciation, then capital outflow pressures will grow, causing difficulties in the financial sector. If tariffs are not lifted or, even worse, if more tariffs are implemented, China will not be able to use the currency to shield the export sector.

Macroeconomics

China on track to reach growth target despite fall in growth

- Weaker domestic consumption is dragging down growth
- Fall in nominal GDP growth pushes up relative debt levels



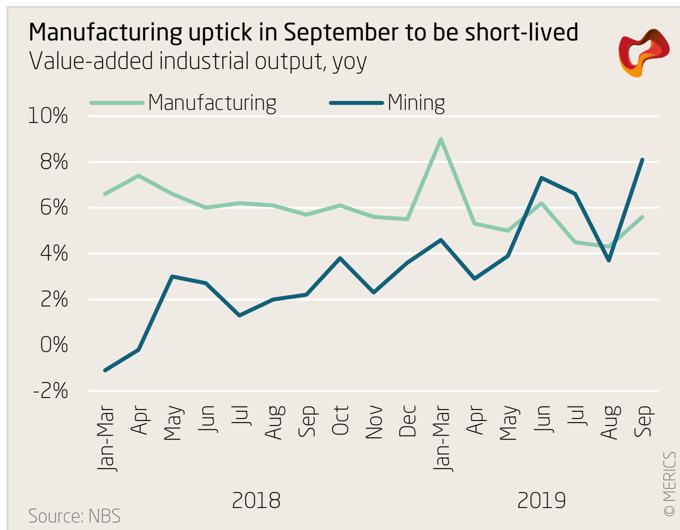


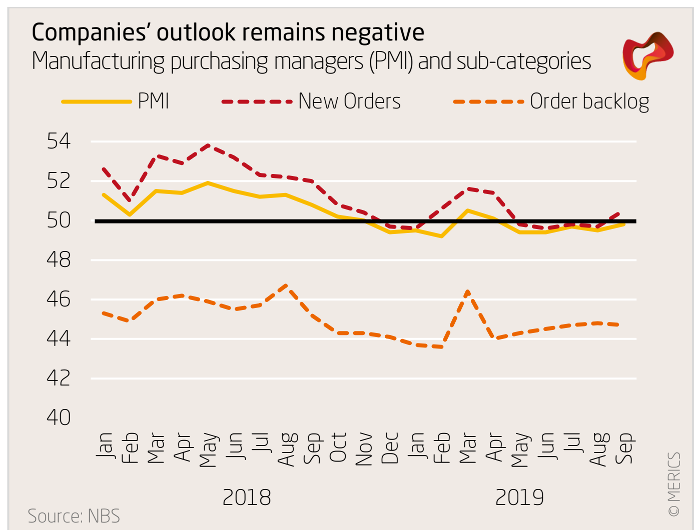
- China's GDP growth has continued to fall, mainly due to weak domestic demand. GDP growth has hit a 27-year low, though the slowdown remains a gradual one. GDP growth shed 0.2 percentage points each quarter in 2019. It is expected to fall below 6 percent in the final quarter. The government will be anxious to avoid a deeper slowdown.
- Q3 real GDP grew by 6 percent compared to the same period of last year. China's economy expanded by 6.2 percent in the first three quarters and is on track to hit the government's 2019 growth target of between 6 to 6.5 percent.
- Falling domestic consumption has been the main cause of slowing growth in 2019. Consumption has contributed 3.75 percentage points to growth year-to-date, accounting for 60 percent of growth. This is a big fall compared to the end of 2018, when consumption provided more than 75 percent of GDP growth. The fall in consumption growth is largely attributed to domestic factors. Weaker domestic demand is also reflected in falling import growth.
- Net exports' contribution to growth remained stable at 1.2 percentage points. Their growth contribution remained positive despite the drop in exports, as imports fell at a faster rate. Gross fixed capital formation contributed 1.2 percentage points, a sign of the subdued investment environment.
- The service sector expanded by 7.2 percent in Q3, slightly up from 7 percent in the first half of the year. Overall, the slight uptick was not enough to avoid a setback in China's transition towards a service economy. Year-to-date the service sector accounted for roughly 54 percent of the economy, down from 57 and 55 percent in Q1 and Q2.
- The only services that grew faster in Q3 were related to real estate (4.2 percent), accommodation and catering (6.7 percent). Other key sectors expanded by more than the service sector as a whole, e.g. IT (18 percent) and financial services intermediation (6.9 percent) and transport (7.5 percent). Growth in most sectors was slower than the previous quarters.
- Manufacturing suffered the steepest contraction in growth compared to the start of the year, dropping 1.7 percentage points to 4.8 percent. However, growth in secondary industries fell to 5.2 percent, from 6.1 percent in Q1. Meanwhile, construction growth remained fairly stable, accelerating to 6.1 percent in Q3, up from 5.1 percent in the second quarter.
- An additional signal of economic weakness came from nominal GDP growth, down by 0.7 points to 7.6 percent. This is a serious problem, because aggregate debt levels grew at a faster pace. Both total social financing (TSF) and money supply measured by M2 grew at higher levels than this. China's relative debt levels are therefore increasing. With industrial profits falling, this may present difficulties and could cause financial instability.

Business

Weak demand continues to inhibit industrial output growth

- Industrial output growth slows to 5.6 percent in first nine months
- Government tries to aid a corporate sector facing weak demand and falling profits



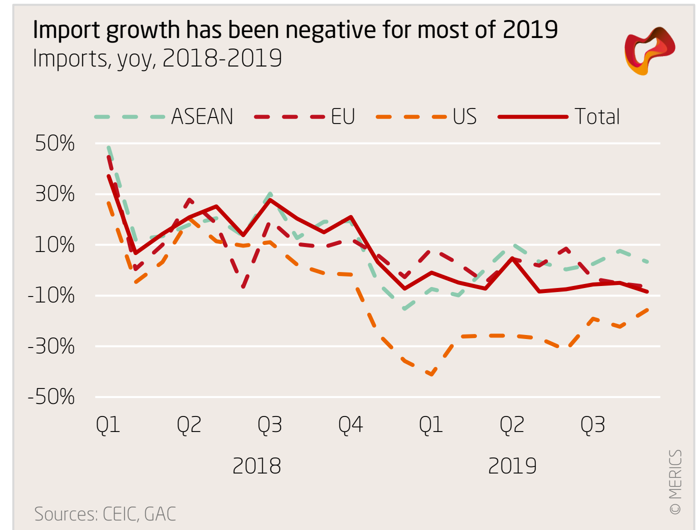


- The government continues to support the corporate sector's operating environment by cutting taxes and red tape. Company profits have been subdued in 2019, contracting throughout the year so far. Fears over potential bankruptcies were stoked in August when, in the latest data available, year-to-date profits shrank by 1.7 percent compared to the same period of 2018.
- The business environment is unlikely to improve anytime soon. Weaker demand is taking its toll, though government efforts have eased some of the pressures companies face. The manufacturing purchasing managers' index (PMI) shows new orders remain weak. Overall PMI remains below 50, indicating further contraction can be expected.
- During July and August, year-on-year growth of industrial production (which includes manufacturing, mining and utilities) bounced back to 5.9 percent in September after a slump to 4.4 in August. Falling growth followed by an uptick has been a recurring pattern for 2019. In the nine months from January to September, industrial production expanded by 5.6 percent, a slower rate of growth than the 6 percent seen in the first half of the year.
- Improved mining output has contributed to lifting overall industrial production. Growth accelerated to 8.1 percent in September and has been trending upward in 2019, after weakness in 2018. Improvements were also seen in high-tech manufacturing output. Growth accelerated to 11 percent in August year on year. However, the overall impact on the manufacturing sector was limited due to high-tech's comparatively small share.
- The latest improvement in manufacturing activity has been less pronounced than previous end of quarter upticks Manufacturing output has expanded by 5.9 percent over the year so far, dropping back from 6.4 percent in the first half. The ongoing weakening of domestic and external demand means the manufacturing sector is likely to slow further as 2019 comes to an end.
- Automobile manufacturing continues to be hard hit, with growth contracting by 12 percent over the first three quarters. Smartphone production, an important indicator for the electronics industry, contracted by 8.4 percent. Production of cement rose 6.9 percent, flat glass output was up 5.4 percent and steel expanded by 10.6 percent.
- The service sector is faring better than manufacturing. The PMI for non-manufacturing remains steadily above 50, indicating expansion. However, the index has fallen from this year's peak of 54.8 in March, to 53.7 in September.
- The third quarter has seen government pilot projects for integrating state officials into the private sector. This is consistent with broader reforms to China's governance system that have the stated aim of expanding the CCP's integration and guidance throughout society. Overall, state integration with the private sector appears to be on the rise.

International trade and investment

Downturn in foreign trade deepens

- Weak domestic demand and trade friction cause a drop in foreign trade
- Partial trade agreement with US avoids more tariff hikes but there is no major breakthrough

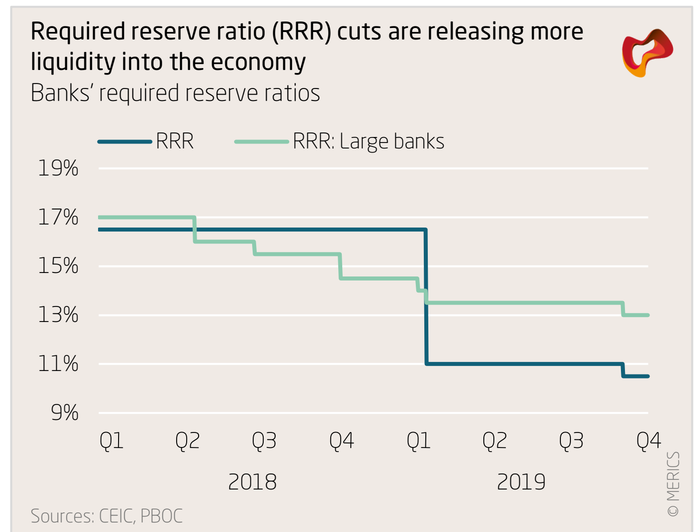


- An October 12th meeting between US President Donald Trump and China's Vice-Premier Liu He produced yet another truce in the trade war, referred to as a "phase one" deal. Under the agreement, China will purchase more US agricultural products in exchange for a pause to further tariff increases. However, hopes of a resolution have been frustrated before.
- Despite the October truce, the divide between the world's two largest economies seems larger than ever. It will be hard to resolve issues around technology transfer and subsidies. The US Commerce Department's decision to blacklist entities with ties to alleged human rights violations in Xinjiang underlines the complexity of the issues. Furthermore, the US House of Representatives vote for the Hong Kong Human Rights and Democracy Act puts the spotlight on other potential complications as relations are becoming increasingly volatile.
- In September, year-on-year export growth was negative for the second consecutive month since the trade war began in 2018, contracting by 3.2 percent in USD terms. Overall exports for the January to September period contracted by 0.1 percent. Apart from adjustments for Chinese New Year, it marks the first contraction since December 2016.
- Three factors supported export growth prior to September: 1) US tariffs had not yet been completely implemented, 2) many businesses were rushing to fulfill orders before new tariffs came into effect, and 3) the CNY depreciated considerably against most major currencies making Chinese exports relatively cheaper (as explained in the Focus topic on page 4).
- In August (latest data available), exports originating from China's two main export hubs, Guangdong and Jiangsu, contracted by 1.2 and 2.8 percent respectively, outpacing the contraction in overall exports. If orders passing through these two hubs contract further, there may be ripple effects through the economy as domestic suppliers in other areas are affected.
- Import growth has been negative every month apart from April in 2019, reflecting weaker domestic demand. Imports continued to fall in September, contracting by 8.5 percent year on year. Another contributing factor in this development has been the depreciation of the CNY, which has made foreign goods more expensive.
- Trade with the US deteriorated further over the third quarter. In September, China's exports to the US were down almost 22 percent compared to a year earlier, while imports from the US fell by 16 percent. By contrast, trade with other major countries has held up. The value of China's exports to ASEAN countries in September rose 9.7 percent on year earlier, while imports were up 7.6 percent. Exports to the EU grew by 2 percent, while imports fell by 6.5 percent.

Financial markets

Credit risks grow amid monetary stimulus

- Government responds to slowing growth with monetary policy easing
- Shadow banking revives after a crackdown intended to lessen financial risks

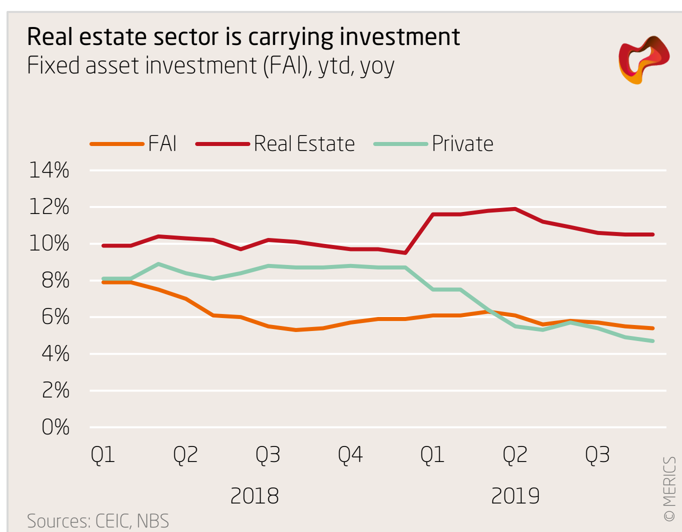


- With economic growth under pressure, the government has eased monetary policy to boost business activity. It is a risky move: industrial profits are falling, and capital is having difficulty finding its way to small private sector enterprises. Pouring liquidity into the market may create more risk to financial stability unless it is channeled into productive investment.
- In August, the large banks' required reserve ratio (RRR) was cut by half a percentage point to 13 percent from 14 percent previously. For smaller banks, RRRs were also lowered to 13 percent. The PBOC simultaneously implemented reforms to interest rates to improve monetary policy transmission mechanisms by better reflecting market demand for credit. The Loan Prime Rate, a benchmark for bank lending, was lowered by 6 basis points to 4.25 percent. PBOC Vice Governor Liu Guoqiang has since said in an interview that there is room for further cuts to interest rates and reserve requirements.
- Interest rates have responded to the support measures and fallen. Longer maturities of treasuries have been trending down since May and continued their descent into Q3;1-year treasuries remained stable, narrowing the yield spread in the market.
- A priority within the government's monetary policy drive has been to channel capital towards small and micro enterprises through "financial irrigation" which aims to improve investment conditions in a targeted way. It is not working. By the end of Q2, for which data was just released, the share of loans extended to small and micro enterprises had fallen to 24.4 percent, down from 25 percent at the same point in 2018.
- Yet, despite monetary easing, growth of new bank lending was lower than in the first half. In the whole of Q3, only 3.7 percent more loans were issued than the same period of 2018. By the end of H1, 7 percent more new loans had been issued than the previous year. The main reason for the limited increase was a fall in real estate lending of 9.3 percent.
- Despite slowing bank lending, aggregate debt (total social financing or TSF) continued to grow briskly, suggesting that though little new lending is taking place, repayment is also slow. In Q3, TSF expanded by 10.7 percent year-on-year. Money supply measured by M2 expanded by 8.2 percent year-on-year in Q3. Credit growth remains above nominal GDP, which means the credit to GDP ratio is still increasing.
- The return of shadow banking indicates that risk is increasing. Government efforts to reduce shadow banking activity by bringing lending onto banks' balance sheets seem to have slowed. It is likely that banks are once more using off balance sheet channels to finance projects that would be restricted if on balance sheet. The average contraction of three different shadow banking aggregates was 8.9 percent in Q3, up 2 percentage points compared to Q2.

Investment

Real estate prevents sharp drop in overall investment

- Private and state sector investment growth is falling
- Manufacturing growth slowest on record

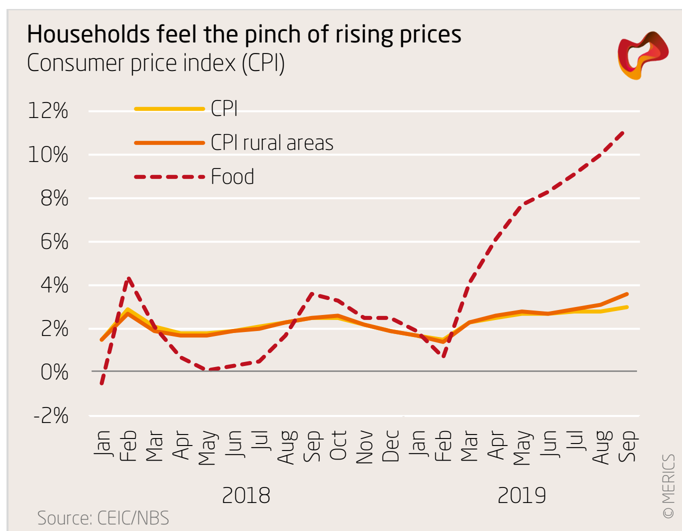


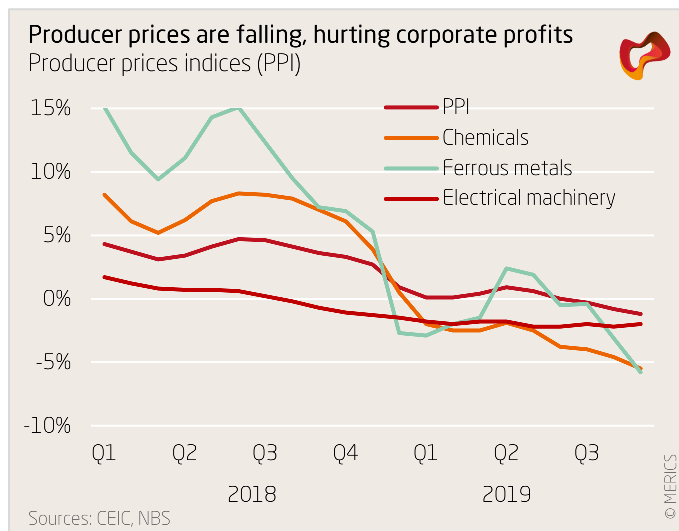
- China's economic slowdown is hurting investment. Two established trends continued in the third quarter: first, state sector investment increased at a faster pace than in the private sector; and second, real estate sector investment made up a disproportionate amount of the total. These trends demonstrate the economy's reliance on government intervention and the real estate sector to maintain growth levels.
- Fixed asset investment grew in September by 5.4 percent year-on-year, with state sector investment up, while private sector investment growth declined. State-owned enterprise (SOE) investments grew by 7.3 percent, up 0.1 percentage points. Private sector investment growth fell for the third consecutive month. Nonetheless, 59 percent of investment still came from private enterprises. This may change if current trends continue.
- Accounting for more than 21 percent of total fixed asset investment, real estate is central to investment levels and economic growth. In the first three quarters, real estate investment grew by 10.5 percent, far higher than overall fixed asset investments. Residential buildings were central to growth, accounting for around 74 percent of real estate investment. But there are signs that real estate investment will weaken. Bank lending to the sector has fallen, and the value of land sales declined more than 18 percent year-on-year. If the sector weakens, overall investment will struggle, further dragging down overall economic growth.
- Most key industries recorded slowing or unchanged investment growth. Manufacturing sector investment grew at the lowest rate ever recorded; 2.5 percent. Manufacturing was hurt by slowing domestic demand and by the trade war with the US. Service sector investment remained stable at 7.2 percent. However, IT, a previously vibrant part of the service sector, did not grow at all.
- Mining sector investment expanded robustly, up more than more than 26 percent. Mining investment was driven mainly by coal extraction. The government approved some 141 million tonnes of new coal production capacity in the first half of 2019, compared to 25 million tonnes in the whole of last year.
- Q3 Infrastructure investment picked up slightly, by 0.3 percentage points, to reach 4.5 percent. Railway and highway transportation were big contributors to infrastructure investment growth. Rail investment grew by 9.8 percent and highway construction investment by 7.9 percent. However, air transportation investment, such as new airport construction, contracted by 12.2 percent.

Prices

Households and corporates suffer in price squeeze

- Pork prices soar by 69.3 percent, widening the gap between urban and rural CPI
- Weak industrial demand continues to push down producer prices





- Consumer and producer price indices are diverging, which creates a difficult policy environment. Households face rising living costs, while companies are seeing selling prices for their goods fall. Inflation remains broadly under control, but underlying trends show that businesses and consumers are all facing an increasingly challenging time.
- The NBS's main consumer price index rose by 3 percent year-on-year in September, hitting the PBOC's inflation target ceiling. However, overall CPI was 2.5 percent for the first time in three quarters, and hence well below the target for 2019. Core consumer inflation, which excludes food and energy prices, fell by 0.1 percentage points to 1.5 percent.
- The rise in CPI was driven by food prices, which accelerated by 11.2 percent. The still-raging African Swine Fever epidemic has decimated China's pig population, pushing up pork prices by 69.3 percent. Prices of other, substitute meats rose too, with beef up 18.8 percent and mutton up 15.9 percent.
- Differential food price rises have contributed to a rare gap between urban and rural inflation. Meat shortages in rural areas appear to be greater, contributing to price growth of 51.1 percent compared to 45.1 percent in urban areas. As a result, rural inflation accelerated by 3.6 percent compared to 2.8 percent in urban areas.
- Falling housing expenses may be an indicator of slowing wage growth. In September, housing rental cost increases including utilities slowed to 1.7 percent, while rents rose only 0.7 percent. In contrast, house purchase prices remain elevated, up 9 percent year-on-year in August measured across the 70 cities for which the NBS publishes price indices. However, this was slightly down from the previous month.
- Consumer prices are trending upwards and producer prices are falling. Households may be caught between rising living costs and limited scope for wage increases, as companies struggle with price falls and a profit squeeze. At the same time, China's corporates, which are already heavily leveraged, will face increasing difficulty servicing debt.
- Producer prices for goods sold continued trending downwards, due to weak domestic and external demand. Corporate profits are likely to come under pressure, with negative impacts on employment and investment decisions. The risk of corporate debt defaults is growing. In September, year-on-year producer price growth was negative for the third consecutive month, falling by 1.2 percent. Downward pressure on producer prices is likely to continue so the government may resort to measures to suppress supply in the months ahead.
- Deflation is even more visible in input prices. The NBS's input price index was negative for the fourth consecutive month, contracting by 1.7 percent. Key price inputs such as chemicals (-7.9 percent), fuels (-4.2 percent) and rolled steel (-5.1 percent) all contracted. The price of building materials rose by 3.7 percent reflecting the strength of the real estate sector.

Labor market

Employment outlook weakens amid slowing economy

- Labor demand is showing signs of slowdown as the government rolls out more support
- Wages are rising more slowly with provinces holding off on adjusting minimum wages

Source: MOHRSS
* including Beijing, Tijianjin, Shanghai, Jiangsu, Zhejiang, Fujian, Guangdong

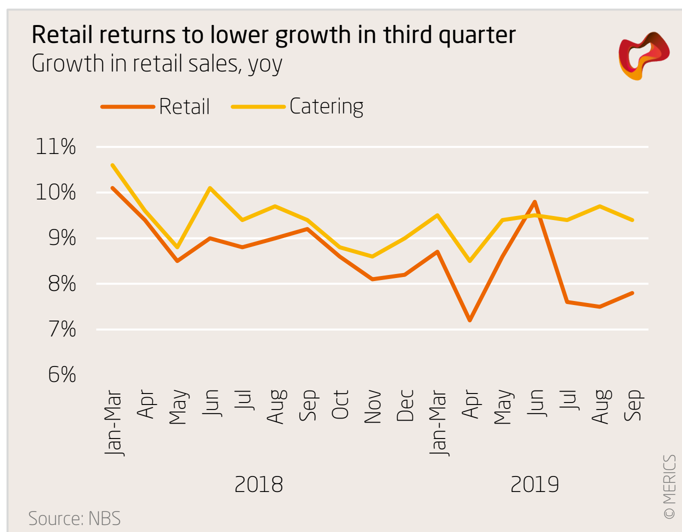
Source: local MOHRSS
* adjustment in highest minimum wage category of provinces with adjustments in 2019

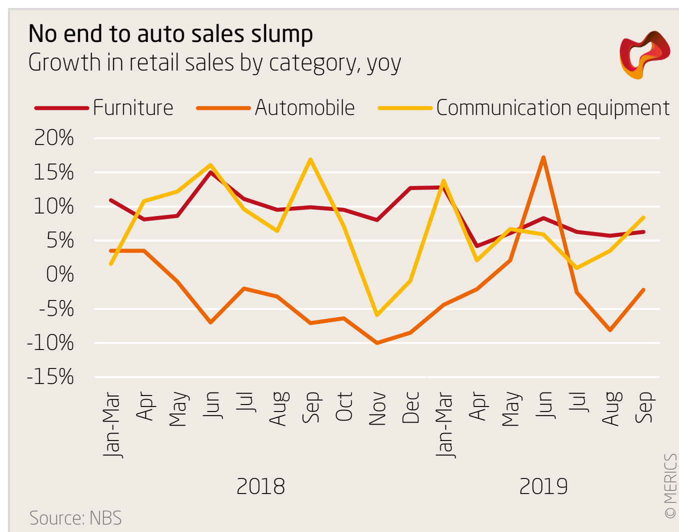
- After showing relative resilience in the economic slowdown, the Ministry of Human Resources and Social Security (MOHRSS) labor market demand-supply ratio began to drop in the second quarter (latest available data). Job vacancies still outstrips job seekers, but the ratio has fallen from its peak of 1.28 to 1.22. There is a surplus of job vacancies relative to jobs seekers.
- The ratio for eastern China, which includes the significant coastal industrial centers, recorded the steepest quarterly fall since 2008, when the global financial crisis shuttered many exporters.
- The persistent economic slowdown is likely to weaken demand for labor further over the next quarter. Companies' employment intentions continue to deteriorate through the third quarter, reflecting growing economic uncertainty. The two sub-indices for employment intentions, covering the manufacturing (47) and services sector (48.2), remain below 50, indicating contraction.
- So far only 8 provinces and municipalities have announced minimum wage adjustments in 2019 (see chart). Nominal increases have been falling, except in Liaoning, where rises are partly compensating for earlier low increases. Real wage increases for workers are even lower, once rising consumer inflation is taken into account.
- Reflecting a weaker labor market outlook, the sub-indices on employment and wage expectations measured by the National Bureau of Statistics' (NBS) Consumer Confidence Index have declined.
- A precise analysis of the labor market is significantly hindered by the lack of detailed, publicly available, high frequency employment data. However, the available indicators paired to corporate feedback all point to weakening labor demand and slower wage growth. These trends are underscored by continual announcements of labor-market supportive government policies.
- The government is particularly concerned about large-scale layoffs in the labor-intensive manufacturing sector and employment for university graduates. New policies include training programs and additional support for entrepreneurship.
- Between January and August, 9.84 million new urban jobs were created, according to the NBS. This means the government will reach its annual target of 11 million new urban jobs, but the surplus is likely to be smaller than in previous years: 13.6 million new urban jobs were created in 2018. Surveyed unemployment stood at 5.2 percent in August, down by 0.1 percentage points on the previous month.

Retail

Consumer spending growth returns to lower levels

- Weaker spending than usual during National Day holiday week reflects poor consumer sentiment
- Government unveils new measures to boost spending





- Retail spending has been hurt by a bitter cocktail of lower wage growth, higher inflation and greater economic uncertainty. The NBS's consumer confidence index fell to 122.4 in August (latest available data), its lowest level in 2019. Meanwhile the sub-index on willingness to consume fell by 7 points to 112 in August, its biggest month-on-month drop on record (the data series was launched in 2016).
- The improvement in retail growth over the second quarter has faded out. Consumer sales growth fell below 8 percent during the summer months, despite a minor improvement in September. For the year so far, nominal growth remains strong: Between January and September growth was 8.2 percent, down by only 0.2 percentage points on the first half of the year.
- Sluggish consumer spending during the "golden week" national holiday, from October 1st to October 7th, suggests weaker growth will continue into the next quarter. Golden week spending growth was down by 1 percentage point compared to last year's holiday.
- Similarly, tourism spending during the holiday grew by 7.8 percent compared to 9.4 percent last year. A slowdown in overseas travel was recorded in data from the National Immigration Administration: people crossing the border fell by 15.1 percent compared to the 2018 holiday. This was partly due to a sharp fall in visits to Hong Kong amid the current unrest but the decline could also indicate that consumers are holding back from more expensive overseas travel.
- Automobile sales shrank in every month of the quarter, resulting in a contraction of 0.7 percent for the year thus far. Some cities have responded by easing or abolishing vehicle purchase restrictions; they include Guangzhou, Shenzhen and Xi'an. The government has also introduced vehicle trade-in programs in an effort to lift demand.
- Real estate-related sales - including furniture, and construction and decoration materials - all expanded at less than the overall average: furniture sales at 6.3 percent and materials at 4.2 percent. The sectors that attracted some of the strongest spending were catering (up 9.4 percent), communication equipment (up 8.4 percent) and cosmetics (up 13.4 percent).
- Online sales continued to expand rapidly, and now account for more than 19 percent of total retail. Growth rates have eased downward, but still expanded by 16.8 percent over the third quarter, one percentage point lower than the previous quarter.
- As consumer retail growth is crucial for economic growth, the government will be highly concerned. The State Council has announced new measures to improve consumer demand, including upgrading shopping malls to pedestrian shopping areas, and boosting e-commerce in rural areas. To promote tourism, local authorities have been urged to reduce ticket prices for scenic areas.