CHINA BIWEEKLY

RMB Internationalization Business Promotion Office
Global Business Division

August 13th 2018

■ **BIWEEKLY DIGEST**

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- **Policies set to bolster the economy**

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- **June home prices in 70 medium- and large-sized cities: cities with MoM growth rise by 2 while cities with YoY growth decrease by 1**

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- **Inward foreign direct investment for January-June rises 4.1% YoY while outward gains 18.7% YoY**
- **Jiangsu and Henan provinces announce minimum wage hikes**

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- **January-June cross-border RMB settlements**
- **New RMB loans for June increase RMB 305.4 billion YoY, RMB 690.0 billion MoM**

[Economy]

◆ IMF estimates the impact of trade friction on the global economy

On July 18, the IMF released estimates for the global economic impact of trade friction triggered by U.S. policies in its reference materials for the G20 Meeting of Finance and Central Bank Deputies held in Argentina on July 21 and 22. The IMF simulated the impact on the world and on particular regions based on four scenarios* corresponding to the stages of tariffs imposed by the U.S. and counter-tariffs from its counterparts. If the entire sequence of additional tariffs imposed by the U.S. in scenario 3 were to go into effect, global output would be reduced by 0.1 percent until 2020.

As for the impact by region, the U.S. economy is especially vulnerable because the high volume of U.S. trade worldwide would be impacted on an equivalent scale, and the U.S. is expected to take the heaviest damage from trade friction. Meanwhile, according to the IMF analysis, other countries will be affected less because they may benefit from the substitution away from Chinese and U.S. export products.

In particular, the growth rate of the U.S. economy is expected to fall by 0.6% until 2019 under scenario 3, significantly damaging the U.S. in the short term, followed by a gradual recovery.

According to the IMF, if the U.S. raises tariffs on automobiles, Japan would take the hardest direct hit due to the high ratio of automobiles (29%) in its total exports to the U.S. However, Japan's damage from automobile tariffs would be offset by the substitution for Chinese export products subject to additional tariffs. Therefore, the impact on Japan under scenario 3 is limited and expected to gradually start tapering off in 2020 or 2021.

However, under scenario 4, where investor confidence is shaken by tariffs and financial markets are in a state of confusion, the effects on the economy of the world and of each country will be far more serious due to slowdowns in investment, consumption and production. The expected rates of economic slowdown will drop by 0.5% for the world in 2020, 0.8% for the U.S. in 2019, 0.7% for emerging regions in Asia including China in 2020, 0.6% for Latin America in 2020, 0.6% for Japan in 2021 and 0.3% for the Euro zone in 2021, with the damage to the U.S. expected to be the most severe and the earliest to hit (please refer to the figure on the right).

<Economic Growth Rate by Region under Scenario 4>

	2018	2019	2020	2021
	Economic growth projection	Difference from baseline	Difference from baseline	Difference from baseline
World	3.9%		▲0.5%	
United States	2.9%	▲0.8%		
Japan	1.0%			▲0.6%
Emerging Asia	6.5%		▲0.7%	
Euro Area	2.2%			▲0.3%
Latin America	1.6%		▲0.6%	

Source: Created based on the IMF July 16, 2018 "World Economic Outlook" update (2018 numbers) and "G20 Surveillance Note" (2019-2021)

In the G20 meeting, the IMF suggested moving past self-defeating retaliatory tariffs and instead developing multilateral solutions to improve the global trading system. Also, in preparation for future economic development, IMF underlined that modernizing trade rules to address intellectual property rights and adopting innovative agreements on matters including e-commerce, digital services, etc. should be at the center of trade discussions.

In the World Economic Outlook Update released on July 16, IMF kept its forecast for global economic growth for both 2018 and 2019 at 3.9%.

* The 4 trade scenarios hypothesized by the IMF:

・Scenario 1: incorporates already implemented (i) higher tariffs on U.S. imports of steel (25%) and aluminum (10%) under Section 232 of the Trade Act; (ii) a 25% tariff on USD 50 billion worth of U.S. imports from China by claiming the infringement of intellectual property right under Section 301 of the Trade Act; and (iii) assumes retaliation from all affected regions, consisting of an increase in tariffs on an equivalent amount of U.S. exports

・Scenario 2: adds to scenario 1 an additional 10% tariff on USD 200 billion worth of U.S. imports from China under Section 301 of the Trade Act, with retaliation of equivalent size.

・Scenario 3: adds to scenario 2 (i) a 25% increase in tariffs on U.S. imports of vehicles under Section 232 of the Trade Act; and (ii) retaliation from all affected regions on an equivalent amount of U.S. exports.

・Scenario 4: introduces a global shock to investors' confidence on top of scenario 3

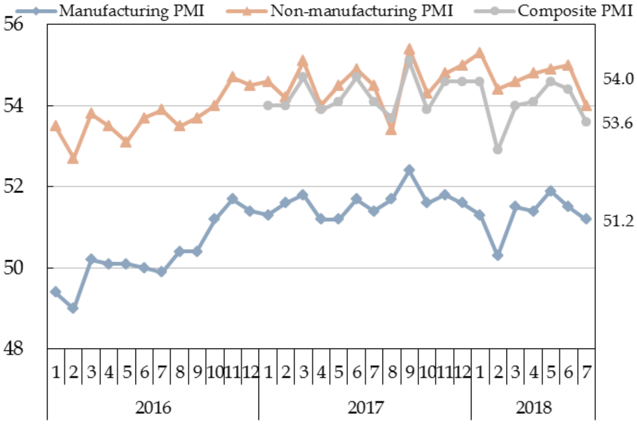
◆ Manufacturing PMI for July falls for the second consecutive month to 51.2

The National Bureau of Statistics (NBS) and the China Federation of Logistics & Purchasing (CFLP) announced the July manufacturing and non-manufacturing PMIs on July 31.

The July manufacturing PMI was down 0.3 point month-on-month (MoM) to 51.2, decreasing for the second consecutive month, but it surpassed 50 points, which is the turning point in judging the economy, for the 24th consecutive month.

The NBS commented that while the indices fell slightly due to frequent heavy rains, typhoons and high temperatures, the intensifying trade dispute between the U.S. and China, and some sectors having entered the slow season for production, the Chinese economy's growth trend is continuing.

<PMI Trends>



Source: Created based on data released by NBS and CFLP
Note: The composite PMI started being announced in 2017

Looking at the manufacturing PMI by component, production declined 0.6 point MoM to 53.0 and new orders dropped 0.9 point MoM to 52.3. New export orders remained at 49.8 and imports fell 0.4 point MoM to 49.6. Both fell below 50 points, which is the turning point in judging the economy.

By sector, production of consumables rose 0.6 point MoM to 52.6, exceeding the average index of 51.2 and making it more apparent that consumption is supporting the economy. Equipment manufacturing decreased 0.4 point MoM to 52.0 and high-technology industry fell 1.6 points MoM to 52.6. Both remained higher than the average.

The July non-manufacturing PMI fell 1.0 point MoM to 54.0. The composite PMI, a weighted average of the manufacturing and non-manufacturing PMIs that reflects the overall business sentiment in China, dropped 0.8 point MoM to 53.6.

<Trends in Major Components of the Manufacturing PMI>

		Manufacturing PMI	Production	New Orders	New Export Orders	Raw Materials Price	Imports	Employment	Expected Production and Business Activities
2017	Jan.	51.3	53.1	52.8	50.3	64.5	50.7	49.2	58.5
	Feb.	51.6	53.7	53.0	50.8	64.2	51.2	49.7	60.0
	Mar.	51.8	54.2	53.3	51.0	59.3	50.5	50.0	58.3
	Apr.	51.2	53.8	52.3	50.6	51.8	50.2	49.2	56.6
	May	51.2	53.4	52.3	50.7	49.5	50.0	49.4	56.8
	Jun.	51.7	54.4	53.1	52.0	50.4	51.2	49.0	58.7
	Jul.	51.4	53.5	52.8	50.9	57.9	51.1	49.2	59.1
	Aug.	51.7	54.1	53.1	50.4	65.3	51.4	49.1	59.5
	Sep.	52.4	54.7	54.8	51.3	68.4	51.1	49.0	59.4
	Oct.	51.6	53.4	52.9	50.1	63.4	50.3	49.0	57.0
	Nov.	51.8	54.3	53.6	50.8	59.8	51.0	48.8	57.9
	Dec.	51.6	54.0	53.4	51.9	62.2	51.2	48.5	58.7
2018	Jan.	51.3	53.5	52.6	49.5	59.7	50.4	48.3	56.8
	Feb.	50.3	50.7	51.0	49.0	53.4	49.8	48.1	58.2
	Mar.	51.5	53.1	53.3	51.3	53.4	51.3	49.1	58.7
	Apr.	51.4	53.1	52.9	50.7	53.0	50.2	49.0	58.4
	May	51.9	54.1	53.8	51.2	56.7	50.9	49.1	58.7
	Jun.	51.5	53.6	53.2	49.8	57.7	50.0	49.0	57.9
	Jul.	51.2	53.0	52.3	49.8	54.3	49.6	49.2	56.6

Source: Created based on data released by NBS and CFLP

Note: Historical data for Expected Production and Business Activities has been revised, as the calculation method was changed in Jan. 2017.

◆ Policies set to bolster the economy

In the State Council Executive Meeting held on July 23, Premier Li Keqiang announced his intention to strengthen measures to shore up the economy. He expressed that China will refrain from any strong economic stimulus spending, and will implement a more proactive fiscal policy and prudent monetary policy along with promoting effective investment in order to adapt to an uncertain external environment and maintain a rational approach to economic management.

<Economic Support Measures Announced at the July 23 State Council Executive Meeting>

Financial and Monetary Policies
✓Tax and cost cuts (the tax burden on market entities will be reduced RMB 1.1 trillion or more annually.)
・Corporate tax: The 75% tax credit currently available for science and technology SME spending on R&D will be extended to all other corporations between 2018 and 2020. RMB 65 billion in taxes will be saved.
・ Value-added tax (VAT): The amount not deducted from the VAT on purchase will be refunded to advanced manufacturing and modern services companies by the end of September. RMB 113 billion will be refunded in total.
✓Issue of special bonds for local governments (RMB 1.35 trillion to be issued in 2018), promotion of investment in infrastructure development
✓ Maintaining an appropriate scale of social financing and a reasonable and sufficient level of liquidity
✓Support for small and micro businesses by encouraging financial institutions to use cash reserves, which are increasing as the deposit reserve rate is lowered
✓Launch of the state financing guarantee fund
・It aims to provide RMB 140 billion in new loans for 150,000 or more small and micro companies every year
✓Phase out "zombie" companies
Measures to Promote Investment
✓ Promotion of private investment through a deeper reform of administrative services
・Promotion of the fields of transportation, oil and gas, and telecommunications that are mainly invested in by the private sector and have a clear investment recovery system as well as commercial potential
✓ Efforts to meet funding needs for ongoing construction projects by using funds unused in local finance
✓ Promotion of important construction projects that will meet both development purposes and public demand

The Political Bureau of the CPC Central Committee held a meeting and set its economic management policy on July 31. The bureau also pointed out that China is facing new problems and challenges in economic management and that the external environment is obviously changing, and stated that China needs to take measures to solve those issues. It emphasized that China aims to boost domestic demand and adjust the structure with its proactive fiscal policy, secure a reasonable and sufficient level of liquidity with its prudent monetary policy, and improve policies in terms of foresight, flexibility and effectiveness to maintain stable and robust economic growth.

[Industry]

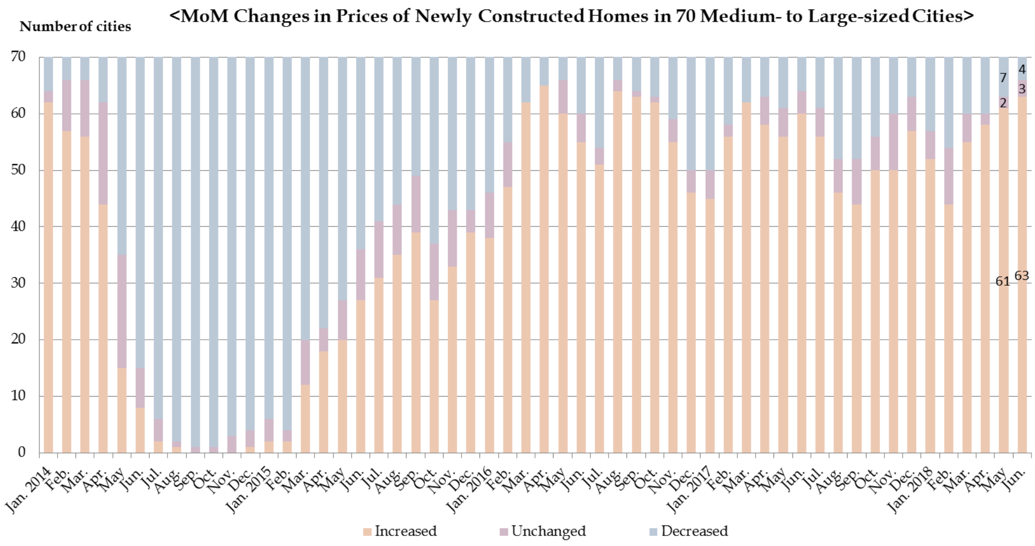
◆ June home prices for 70 large- and medium-sized cities: cities with MoM growth rise by 2 while cities with YoY growth decrease by 1

On July 17, the National Bureau of Statistics (NBS) announced the June home price indices for 70 large- and medium-sized cities.

Sale prices of newly constructed commercial residential buildings rose in 63 cities MoM in June, marking the fourth consecutive monthly increase and 2 more cities than in May, while prices fell in 4 cities, 3 less than in May.

The cities with a large MoM increment include Haikou (Hainan), up 3.9%, Jinan (Shandong), up 3.6% and Dandong (Liaoning), up 3.3%. Prices fell substantially MoM in Pindingshan (Henan) and Bengbu (Anhui), both down 0.3%, and in Nanjing (Jiangsu), down 0.2%.

The average rate of MoM increase in housing prices expanded for first-tier cities*, up 0.6% (May: up 0.3%) and second-tier cities*, up 1.2% (May: up 0.9%), both showing a larger increase than in the month before. The third-tier cities* remained unchanged from May at 0.7%.

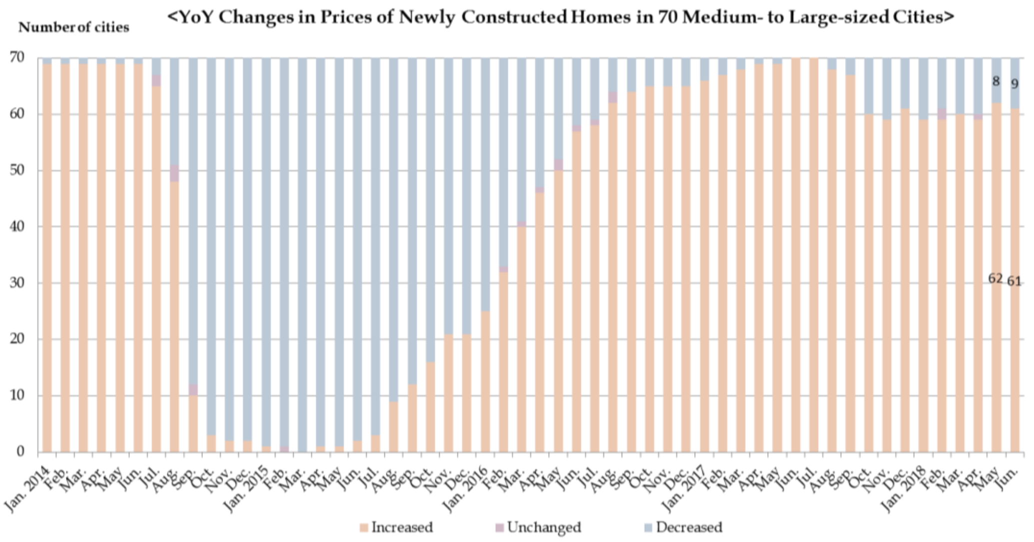


Source: Created based on data released by the National Bureau of Statistics

On a year-on-year (YoY) basis, house prices rose in 61 cities, down 1 city from the previous month, and dropped in 9 cities, up 1 city from the previous month.

Prices increased significantly YoY in Dandong (Liaoning), up 15.0%, Haikou (Hainan), up 13.1% and Dalian (Liaoning), up 13.0%. Prices fell substantially YoY in Wuxi (Jiangsu), down 2.2%, Nanjing (Jiangsu), down 1.8% and Shenzhen (Guangdong), down 1.3%.

The average rate of price increase remained unchanged from the previous month for first-tier cities, increased 6.3% YoY (May: up 5.4% YoY) for second-tier cities, and increased 6.0% YoY for third-tier cities, unchanged from May.



Source: Created based on data released by the National Bureau of Statistics

* First-tier cities: the four cities of Beijing, Shanghai, Guangzhou and Shenzhen
Second-tier cities: 31 cities including provincial capitals and sub-provincial cities
Third-tier cities: 35 cities remaining of the 70 after excluding the first- and second-tier cities

[Trade/Investment]

◆ Inward foreign direct investment for January-June rises 4.1% YoY while outward gains 18.7% YoY

The Ministry of Commerce announced the statistical data for inward and outward foreign direct investment on July 17 and 19.

<Inward foreign direct investment>

In terms of inward foreign direct investment for June (excluding the financial sector), the number of newly-established foreign corporations increased 92.3% YoY to 5,565 companies, whereas the number in May grew YoY by 106.5%, and the amount of inward foreign direct investment (executed amount) grew 5.8% YoY (May: up 11.7%) to USD 15.66 billion.

Cumulatively for January-June, the number of newly-established foreign corporations increased 96.6% YoY to 29,591 companies and inward foreign direct investment (executed amount) grew 4.1% to USD 68.32 billion.

By country or region, the amount of direct investment from Japan rose 5.2%* YoY (January-May: up 8.6%* YoY) to USD 1.82 billion, and investment from ASEAN countries and the US also increased, up 29.8% YoY (January-May: up 44.4% YoY) to USD 3.46 billion and 34.5%* YoY (January-May: up 19.8%* YoY) to USD 1.95 billion respectively. Meanwhile, investment from the EU continued to decline by 13.3% YoY (January-May: down 16.5% YoY) to USD 4.34 billion.

*Calculated by MUFG Bank based on the amount of inward direct investment announced by the MOFCOM

By industry, investments in the manufacturing sector rose 8.9% YoY (January-May: up 16.0% YoY) to USD 20.69 billion, with the rate of growth declining, while investments in the service sector rose 1.2% YoY (January-May: down 1.9% YoY) to USD 46.47 billion, the first YoY increase since December 2017.

<Outward foreign direct investment>

Outward foreign direct investment (excluding the financial sector) fell 31.7%* YoY (May: up 49.8%* YoY) to USD 9.29 billion*, showing a YoY decrease for the first time in eight months.

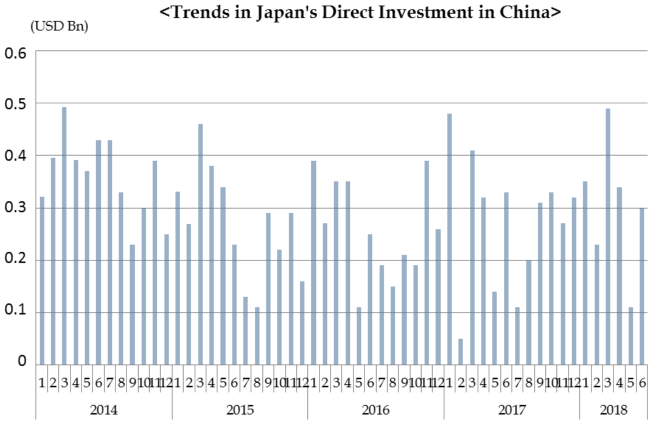
*Calculated by MUFG Bank based on the amount of outward foreign direct investment announced by the MOFCOM

By country or region, the amount of direct investment in the Belt and Road Initiative region rose 12.0% YoY (January-May: up 8.2% YoY) to USD 7.40 billion. The breakdown by industry shows that the major industries for outward investment are leasing/commercial services accounting for 32.6%, manufacturing for 15.8%, mining for 11.5% and wholesale/retail for 9.5%.

<Trends in China's Inward Foreign Direct Investment>

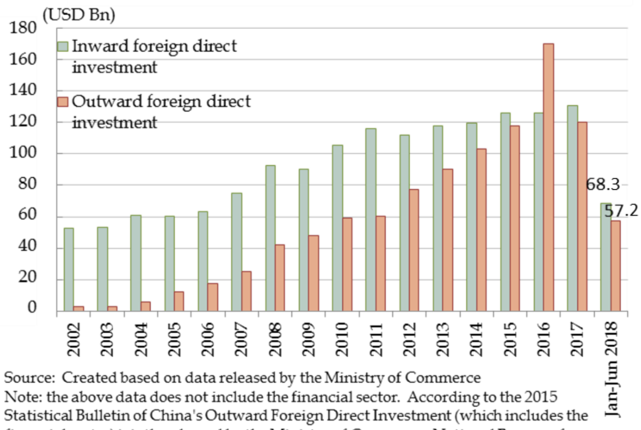
Source: Created based on data released by the Ministry of Commerce

<Trends in Japan's Direct Investment in China>



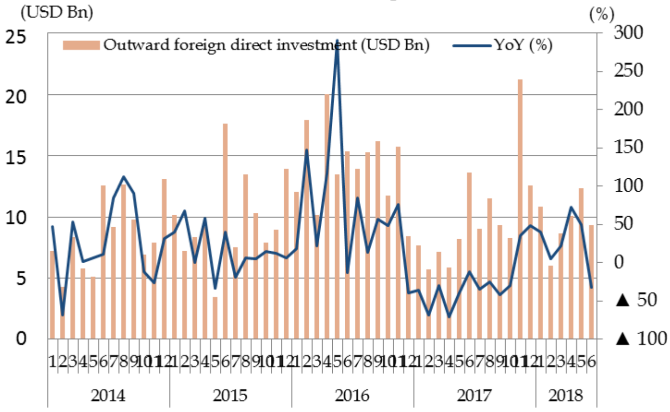
Source: Created based on data released by the Ministry of Commerce

<Trends in China's Inward and Outward Direct Investment>



Source: Created based on data released by the Ministry of Commerce
Note: the above data does not include the financial sector. According to the 2015 Statistical Bulletin of China's Outward Foreign Direct Investment (which includes the financial sector) jointly released by the Ministry of Commerce, National Bureau of Statistics, and SAFE, outward foreign direct investment surpassed inward foreign direct investment in 2015.

<Trends in China's Outward Foreign Direct Investment>



Source: Created based on data released by the Ministry of Commerce
Note: YoY comparison calculated in-house based on Ministry of Commerce data on outward foreign direct investment

◆ Jiangsu and Henan provinces announce minimum wage hikes

The governments of Jiangsu and Henan provinces have announced minimum wage hikes.

Jiangsu province raised its minimum wage from RMB 1,890 (RMB 1,940 in the city of Suzhou) to RMB 2,020 as of August 1, 2018.

Henan province will raise its minimum wage from RMB 1,720 to RMB 1,900 on October 1, 2018.

This year, a total of 13 regions including those two have raised minimum wages or announced minimum wage hikes.

<Minimum Wage Hikes in Jiangsu Province and Henan Province>

Region		Previous Rate	Revised Rate	Rate of Increase
Jiangsu Province		RMB 1,890 (effective in July 2017)	RMB 2,020 (effective in August 2018)	6.8%
	Suzhou City	RMB 1,940 (effective in July 2017)	RMB 2,020 (effective in August 2018)	4.1%
Henan Province		RMB 1,720 (effective in October 2017)	RMB 1,900 (effective in October 2018)	10.4%
◇ Regions that have raised minimum wages or announced minimum wage hikes since the start of 2018: Jiangxi Province, Liaoning Province, Shanghai City, Guangxi Zhuang Autonomous Region, Xinjiang Uyghur Autonomous Region, Yunnan Province, Tibet Autonomous Region, Shandong Province, Guangdong Province, Sichuan Province, Beijing City, Jiangsu Province, Henan Province (total of 13 regions)				

Source: Created based on regional government announcements

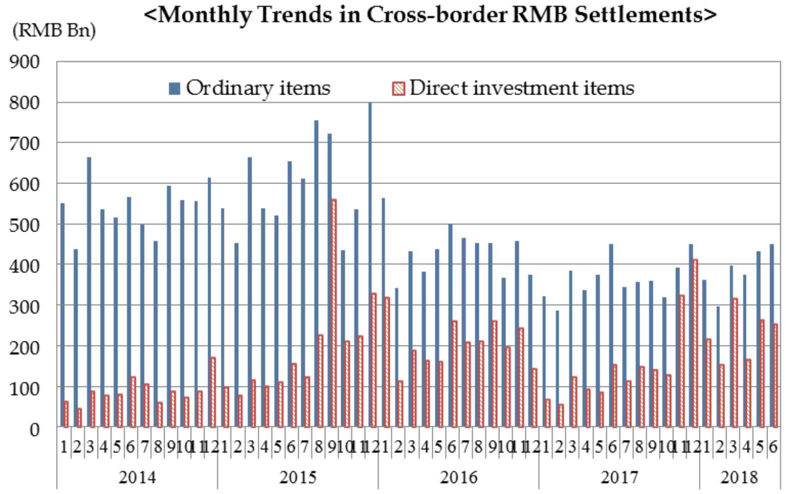
Note: Rates of increase are calculated by MUFG Bank

[Finance/Exchange]

◆ January-June: cross-border RMB settlements

The People's Bank of China (PBoC) announced on July 13 that the amount of cross-border RMB settlements for January-June stood at RMB 2.3174 trillion for ordinary items, of which RMB 1.6562 trillion came from trade of goods and RMB 661.2 billion from trade in services. RMB 1.3676 trillion was recorded for direct investment capital items, of which RMB 905 billion came from inward foreign direct investment and RMB 462.6 billion from outward foreign direct investment.

<Monthly Trends in Cross-border RMB Settlements>



Source: Created based on data released by The People's Bank of China

◆ New RMB loans for June increase RMB 305.4 billion YoY and RMB 690.0 billion MoM

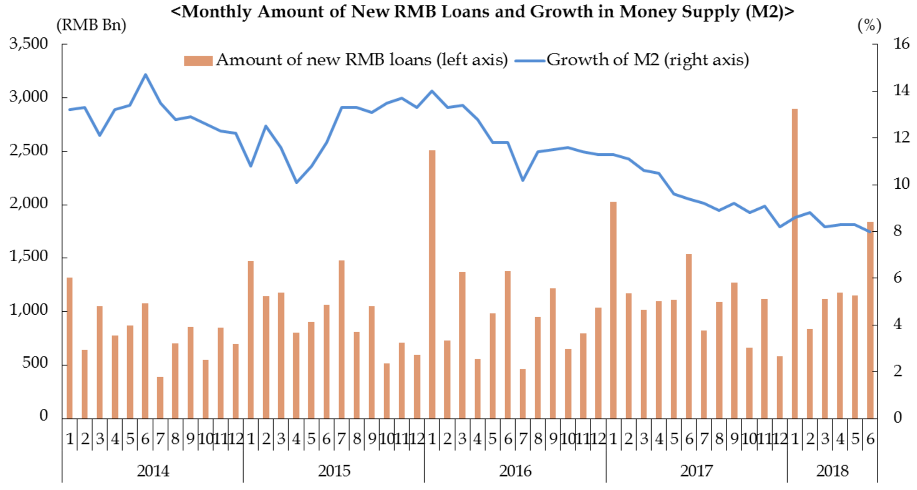
The PBoC announced on July 13 that new RMB loans for June increased RMB 305.4 billion YoY to RMB 1.84 trillion, up RMB 690.0 billion from the previous month.

Total social financing*, which shows the amount of liquidity supplied to the real economy, fell RMB 590.2 billion YoY to RMB 1.18 trillion, up RMB 419.2 billion from the previous month.

Money supply (M2) as of the end of July rose 8.0% YoY to RMB 177.02 trillion. The rate of increase declined 0.3 point from end-May.

* Total social financing = RMB loans + foreign currency loans + entrusted loans+ trust loans + bank acceptances + corporate bonds + stocks issued by non-financial firms + insurance company payouts + investment properties + others

<Monthly Amount of New RMB Loans and Growth in Money Supply (M2)>



Source: Created based on data released by The People's Bank of China