CHINA BIWEEKLY

RMB Internationalization Business Promotion Office
Global Business Division

March 1st 2019

BIWEEKLY DIGEST

[Economy]

- **Manufacturing PMI shows slight improvement but still under 50 at 49.5 points in January**
- **New stimulus measures announced to promote a more sophisticated industrial structure and consumer spending mainly in the energy-saving and high-end sectors**
- **Economic development in 31 regions in 2018: Western regions maintain momentum**
- **Retail sales for Chinese New Year holidays expand 8.5% YoY**
- **CPI rises by 1.7%, PPI by 0.1% year-on-year (YoY) for January 2019**

[Trade/Investment]

- **Feedback sought on Draft Catalogue of Encouraged Foreign Investment Industries by March 2**
- **January trade statistics show 9.1% YoY increase in exports, 1.5% YoY decrease in imports**

[Finance/Exchange]

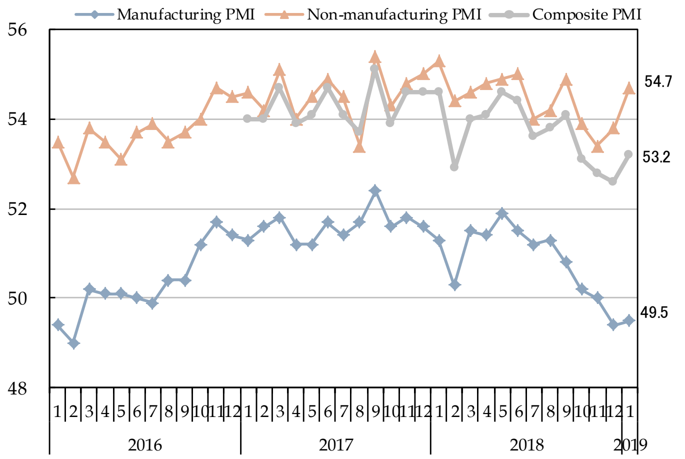
- **Foreign reserve balance in January rises by USD 15.2 billion month-on-month (MoM), showing modest increase for third consecutive month**

MUFG Bank (China), Ltd.
The Bank of Mitsubishi UFJ, Ltd.

[Economy]

◆Manufacturing PMI shows slight improvement but still under 50 at 49.5 points in January

[Fig. 1] PMI Trends



Source: Created based on data released by the NBS and the CFLP
Note: Composite PMI began being announced in 2017

On January 31, the National Bureau of Statistics (NBS) and the China Federation of Logistics & Purchasing (CFLP) announced that the January manufacturing PMI was 49.5 points, up 0.1 point month-on-month (MoM). Although the index improved from the prior month for the first time in five months, it fell below 50.0 points, the turning point in judging the economy, for the second straight month (Fig. 1).

Looking at the manufacturing PMI by component, the index for new orders deteriorated for the eighth consecutive month, recording 49.6 points (down 0.1 point MoM) and falling below 50 points as it did in December. The indexes for new export orders and imports were under 50 at 46.9 points (up 0.3 point MoM) and 47.1 points (up 1.2 points MoM) respectively, although both showed slight improvement (Fig. 2).

[Fig. 2] Trends in Major Components of the Manufacturing PMI

		Manufacturing PMI	Production	New Orders	New Export Orders	Raw Materials Prices	Imports	Employment	Expected Production and Business Activities
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
	Aug.	51.3	53.3	52.2	49.4	58.7	49.1	49.4	57.0
	Sep.	50.8	53.0	52.0	48.0	59.8	48.5	48.3	56.4
	Oct.	50.2	52.0	50.8	46.9	58.0	47.6	48.1	56.4
	Nov.	50.0	51.9	50.4	47.0	50.3	47.1	48.3	54.2
	Dec.	49.4	50.8	49.7	46.6	44.8	45.9	48.0	52.7
2019	Jan.	49.5	50.9	49.6	46.9	46.3	47.1	47.8	52.5

Source: Created based on data released by the NBS and the CFLP

The Expected Production and Business Activities index, which indicates future business confidence, dropped to 52.5 points (down 0.2 point MoM), decreasing for the third consecutive month (Fig. 2).

Looking at the PMI index by corporate size, the index for large corporations increased to 51.3 points, up 1.2 points and increasing for the first time in four months.

Meanwhile, PMI for medium-sized and small corporations fell to 47.2 points (down 1.2 points MoM) and 47.3 points (down 1.3 points MoM) respectively, showing a stark difference in business sentiment between large corporations and small and medium-sized corporations.

By contrast, the non-manufacturing PMI for January rose to 54.7 points, up 0.9 point MoM and continuing to demonstrate steady growth (Fig.1).By sector, while the service industry rose by 1.3 points MoM to 53.6 points, the construction industry declined by 1.7 points MoM to 60.9 points.

Meanwhile, the composite PMI, a weighted average of the manufacturing and non-manufacturing PMIs that reflects the overall business sentiment in China, increased by 0.6 point MoM to 53.2 points (Fig. 1).

◆New stimulus measures announced to promote a more sophisticated industrial structure and consumer spending mainly in the energy-saving and high-end sectors

On January 29, ten Chinese government agencies including the National Development and Reform Commission (NDRC) and the Ministry of Commerce (MOFCOM) announced measures to further improve the infrastructure for service provision, etc., to promote the steady growth of consumption, and to create a robust domestic market.

Amid an increasingly evident economic slowdown, the government aims to shore up economic growth by increasing consumption. The new stimulus measures distinguish themselves from previous ones that offered a large amount of subsidies to unspecified industries. To promote a more sophisticated industrial structure and consumer spending, the government is apparently trying to encourage people to spend their money on high-quality goods and services, focusing on the energy-saving and high-end sectors.

The measures consist of six objectives: (1) spur automobile consumption, (2) improve inadequate infrastructure in urban areas, (3) sophisticate rural consumption, (4) spur consumption of new home appliances, (5) increase the supply of high-quality goods and services, and (6) improve the infrastructure and systems for consumers.

Outline of Measures to Further Improve Infrastructure, Promote Steady Growth of Consumption, and Create a Robust Domestic Market

1. Spur automobile consumption	**2. Improve inadequate infrastructure in urban areas**
✓ Offer a subsidy for scrapping a China 3 (Chinese emission standards) car to buy a new car ✓ Allocate more subsidies to support sales of new energy vehicles ✓ Offer a subsidy to people in rural areas who trade in three-wheeled vehicles to buy new 3.5-ton or lighter trucks or new 1.6-liter or less passenger vehicles ✓ Ease restrictions on entry into cities by pickup trucks ✓ Completely abolish restrictions on moving the registration locations for used cars. Apply VAT tax breaks to used car sales ✓ Make adjustments to policies in cities where car purchases are restricted	✓ Install or add elevators or barrier-free equipment in aging apartment buildings, if they meet certain requirements ✓ Develop a market for public rental housing mainly to solve the shortage of housing for the inflow of people moving into cities from rural areas ✓ Encourage preferential treatment for nursery service providers from governments ✓ Build, refurbish or expand nursing homes through the use of idle land, etc. Renovate facilities in the outskirts or suburbs of large cities
3. Sophisticate rural consumption	**4. Spur consumption of new home appliances**
✓ Identify the potential of the EC market and tourism resources in rural areas ✓ Promote the sustainable development of interactive sales channels between urban and rural areas. Encourage cooperation between poor areas and EC service providers. Offer subsidies on sales of locally produced goods, if they meet requirements. Develop a chain or brand of convenience stores in rural areas. Take specific actions to enable highly efficient distribution to neighboring rural areas in some focus cities ✓ Optimize the consumer market environment in rural areas	✓ Support sales of green and smart home appliances and offer appropriate subsidies for consumers in local areas that meet requirements ✓ Encourage people in local areas that meet requirements to replace their home appliances with new ones (refrigerators, washing machines, air conditioners, televisions, range hoods, water heaters, stoves, computers) ✓ Provide active support for the livelihoods of impoverished people through preferred purchasing of goods produced in poor areas
5. Increase the supply of high-quality goods and services	**6. Improve the infrastructure and systems for consumers**
✓ Renovate or upgrade pedestrian-only zones in focus cities. Accelerate the development and construction of international consumer centers (cities). Officially recognize renowned, long-standing Chinese brands ✓ Increase and upgrade information-related consumption. Accelerate the issuance of business licenses for 5G ✓ Accelerate the promotion of consumption of ultra-high-definition visual products. Support TV stations in launching broadcasts in 4K. Support the upgrading of communications networks. Offer subsidies to people in local areas that meet requirements who purchase HD televisions, set-top boxes or VR/AR devices	✓ Continue to develop infrastructure connected to consumption. Solve the issues of insufficient roads, parking lots, energy, logistics, recharging stations for new energy vehicles, etc. Promote the toilet revolution initiative. Develop and improve the residential environment in rural areas by solving waste and sewerage problems ✓ Build a stronger quality certification system ✓ Continue to deepen income distribution reforms ✓ Place greater emphasis on protecting consumer rights

Source: Created based on announcements by the Chinese government

At a press conference held on the same day, an official stated that sluggish car sales were partly caused by the current slowdown in consumption, and indicated that the government would stimulate sales with a subsidy program designed to help people trade in their cars for or buy new cars that are more environmentally-friendly and by accelerating the development of the used car market. He pointed out that while the number of vehicles owned for every 1,000 people in China was about 170 vehicles as of 2018, there are 800 vehicles owned per 1,000 people in the U.S., and about 500 to 600 vehicles per 1,000 people in Europe or Japan. He reiterated that China therefore has the potential to increase its automobile consumption.

China is also the world's largest producer and consumer of home appliances. Its industrial base is so large that the spread of energy-saving and smart home appliances would not only help support the economy, but also improve the quality of life for Chinese people and reduce CO_2 emissions. Thus, the government official added that a subsidy will be offered for trading in home appliances for energy-saving and smart models or purchasing new ones.

As society has become increasingly information-oriented with advances in information technology, the government emphasized the need to promote information-related consumption for more efficient economic development. To that end, the commercialization of the fifth generation of cellular mobile communications (5G) will be accelerated to develop the infrastructure needed to support information consumption.

According to the government's estimates, the stimulus measures would contribute to sales of 1.5 million new energy vehicles in 2019 and 150 million energy-saving and smart home appliances over the next three years (2019–2021), with RMB 700 billion in spending and energy savings of 80 billion kilowatt hours, while 5G stands to generate GDP of RMB 10 trillion and three million new jobs within five years of its commercial deployment in China.

◆Economic development in 31 regions in 2018: Western regions maintain momentum

[Comparison of Growth Rates in 31 Regions]

Rank	Region		GDP Growth Rate for 2017 (%)		GDP Growth Rate for 2018 (%)
1	West	Tibet	10.0	→	around 10
2	West	Guizhou	10.2	↘	9.1
3	West	Yunnan	9.5	↘	8.9
4	Central	Jiangxi	8.8	↘	8.7
5	East	Fujian	8.1	↗	8.3
5	West	Shaanxi	8.0	↗	8.3
7	Central	Anhui	8.5	↘	8.0
7	West	Sichuan	8.1	↘	8.0
9	Central	Hunan	8.0	↘	7.8
9	Central	Hubei	7.8	→	7.8
11	Central	Henan	7.8	↘	7.6
12	West	Qinghai	7.3	↘	7.2
13	East	Zhejiang	7.8	↘	7.1
14	West	Ningxia	7.8	↘	7.0
15	East	Guangdong	7.5	↘	6.8
15	West	Guangxi	7.1	↘	6.8
17	East	Jiangsu	7.2	↘	6.7
17	Central	Shanxi	7.1	↘	6.7
19	East	Shanghai	6.9	↘	6.6
19	East	Hebei	6.6	→	6.6
19	East	Beijing	6.7	↘	around 6.6
22	East	Shandong	7.4	↘	6.4
23	West	Gansu	3.6	↗	6.3
24	West	Xinjiang	7.6	↘	6.1
25	West	Chongqing	9.3	↘	6.0
26	East	Hainan	7.0	↘	5.8
27	Northeast	Liaoning	4.2	↗	around 5.6
28	West	Inner Mongolia	4.0	↗	5.3
29	Northeast	Heilongjiang	6.4	↘	around 5.0
30	Northeast	Jilin	5.3	↘	4.5
31	East	Tianjin	3.6	→	3.6

[Source] National Bureau of Statistics, regional governments and other sources

The governments of 31 provinces, autonomous regions and direct-controlled municipalities recently announced the main economic indices of each region for 2018.

In terms of GDP growth rate, first-ranking Tibet Autonomous Region outstripped all others as the sole region to achieve two-digit growth in 2018, maintaining a rate of 10.0% (according to the preliminary reports, which are used for the following data as well), followed by second-ranking Guizhou Province (up 9.1%) and third-ranking Yunnan Province (up 8.9%). The top positions were all assumed by regions in Western China. The three lowest-ranking regions were Tianjin (up 3.6%), Jilin Province (up 4.5%) and Heilongjiang Province (up 5.0%).

Compared with the 2017 results, only five regions enjoyed increases in their growth rates: Fujian Province (from growth of 8.1% to 8.3%), Shaanxi Province (8.0% to 8.3%), Gansu Province (3.6% to 6.3%), Liaoning Province (4.2% to 5.6%) and Inner Mongolia Autonomous Region (4.0% to 5.3%). Gansu Province, which ranked the worst nationwide in 2017, recorded the highest growth in 2018, increasing 2.7 points.

By contrast, Chongqing showed a significant decrease, dropping 3.3 points from 2017 (going from up 9.3% to 6.0%).

The data for the low-ranking regions (Tianjin、Jilin Province、Inner Mongolia Autonomous Region、and Liaoning Province) has been corrected based on previously indicated discrepancies in the statistics.

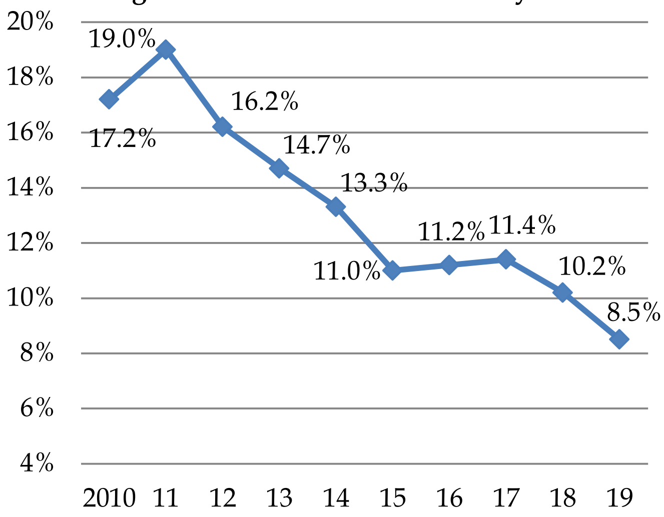
◆Retail sales for Chinese New Year holidays expand 8.5% YoY

According to an announcement made by the Ministry of Commerce on February 10, nationwide sales in the retail and restaurant sectors increased 8.5% year-on-year (YoY) to approximately RMB 1.005 trillion during the Chinese New Year holidays (February 4 through 10), surpassing the one trillion mark for the first time. However, the growth rate fell by 1.7 points YoY to a single-digit figure, slowing down for the second consecutive year.

This year saw successful sales of New Year-related items, organic foods, smart consumer electronics, and newly-introduced digital products.

According to a survey conducted by a movie website operator, box office revenue for February 4-10 increased 1.0% YoY to RMB 5.83 billion, with the number of viewers down 10.3% YoY to 130 million.

<Growth in Retail and Restaurant Sales during the Chinese New Year Holidays>



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

Although the overall revenue marked a record high due to higher ticket prices, growth slowed down significantly compared to the previous year, when it was up 68.7% YoY. The number of viewers under age 25 and those who went to the movies more than twice during the holidays were reported to have decreased. The box office top ten for the period were all Chinese movies, led by a sci-fi movie called "Liu Lang Di Qiu (The Wandering Earth)" that raked in over RMB 2 billion in revenue.

According to the Ministry of Culture and Tourism of China, revenue from domestic tourism during the Chinese New Year holidays increased 8.2% YoY to RMB 513.9 billion, and the number of tourists rose 7.6% YoY to 415 million. Data from Chinese online travel agency Ctrip indicates that popular tourist destinations included Beijing, Xiamen (Fujian), and Kunming (Yunnan). A soaring number of people visited spa facilities in Foshan (Guangdong), Tianjin, Changzhou (Jiangsu), etc.

According to the State Immigration Administration of China, 6.311 million people left the country for the holidays, up by 12.5% YoY. Popular overseas travel destinations using Ctrip services included Thailand, Japan, Hong Kong, Indonesia, and Vietnam, with the first two countries accounting for more than 30% of the total number of travelers. Ski trips to Hokkaido were popular among travelers visiting Japan.

Meanwhile, an increasing number of travelers are reportedly avoiding the peak season of Chinese New Year. One travel reservation website saw a 33% increase YoY in the number of people booking trips in March, after the Chinese New Year in February. Remote domestic and nearby overseas destinations in particular attracted more people. Package tours to overseas destinations including Thailand and Japan can be 30-50% cheaper than tours taken during the Chinese New Year holidays.

◆ CPI rises by 1.7%, PPI by 0.1% YoY for January 2019

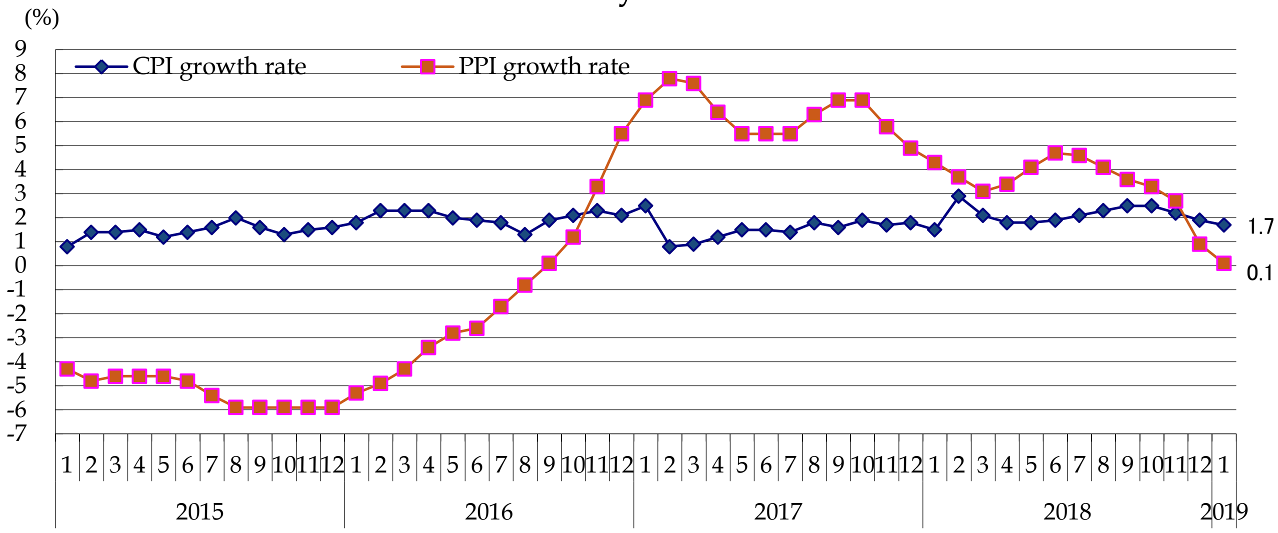
The National Bureau of Statistics (NBS) announced on February 15 that the January consumer price index (CPI) increased 1.7% YoY, the grow rate tapering off by 0.2 percentage point compared to the previous month and declining for the third consecutive month. The producer price index (PPI) for January increased by 0.1% YoY, which is a growth rate 0.8 percentage point less than the previous month, the seventh consecutive month of decline, and marking its lowest level since September 2016.

By category, CPI for food increased 1.9% YoY (up 2.5% YoY in December 2018), and non-food increased 1.7% YoY (no change from December 2018). Among food items, the CPI for pork decreased sharply, falling 1.7 percentage points from the previous month to 3.2 percentage points.

An increased number of PPIs by industry fell below the figures for the previous year. Industries which had shown positive growth are now slumping, including oil and natural gas drilling (down 5.0% YoY in January, up 4.5% YoY in December), chemical raw materials and manufacturing of chemical products (down 2.0% YoY in January, up 0.5% YoY in December), and processing of oil, coal, and other fuels (down 1.6% YoY in January, up 5.7% YoY in December). The extent by which growth decreased was larger in non-ferrous metal refining and rolling, falling 3.5% YoY (December: down 2.3% YoY), and steel refining and rolling, falling 2.9% YoY (December: down 2.7% YoY).

Slowdowns in PPI growth were largely due to price drops related to petroleum and building materials (notably iron and steel). These prices are not expected to rebound as there is pressure from the U.S. to increase crude oil production, and the cooling domestic housing market in China will reduce demand for steel. This makes it highly likely that PPI growth rates will turn negative in the future.

<Monthly Trends in CPI and PPI>



Source: Created based on data released by the NBS

[Trade/Investment]

◆Feedback sought on Draft Catalogue of Encouraged Foreign Investment Industries by March 2

On January 1, the National Development and Reform Commission (NDRC) and the Ministry of Commerce (MOFCOM) jointly released a notice, seeking feedback on the new *Catalogue of Encouraged Foreign Investment Industries*. The draft will be open for public comment until March 2. Amid a persistent economic slowdown, the NDRC said that the goal of the revision is to include more foreign industries in the catalogue and adjust the structure and regional distribution of foreign industries in order to maintain stable growth in foreign investment.

The catalogue consists of two parts: the “catalogue of encouraged foreign investment industries,” which applies to nationwide foreign investment management, and the “catalogue of priority industries for foreign investment in central and western China.” When foreign businesses invest in encouraged industries, they are eligible to receive preferential treatment including exemption from tariffs on imported production equipment and preferred offering of land. If foreign businesses invest in an industry listed in the “catalogue of priority industries for foreign investment in central and western China,” their corporate income tax (CIT) can be reduced.

The current “*Guidance Catalogue for Foreign Investment Industries*” was revised on July 28, 2017 and consists of two parts: the encouraged list and the negative list. The list in the draft catalogue has been expanded from 348 to 402 items to further promote foreign investment in modern agriculture, advanced manufacturing, high-tech industries, modern service industries, etc.

The current "catalogue of priority industries for foreign investment in central and western China" was revised on March 20, 2017 and lists encouraged foreign industries in 22 regions including the central and western regions, the three northeastern provinces and Hainan Province. The draft catalogue list has increased from 639 to 682 items and has undergone some adjustments to promote increased use of priority resources in each region, accept domestic or foreign industrial transfer, push forward opening-up along the border and enhance collaboration with the "Belt and Road Initiative" regions.

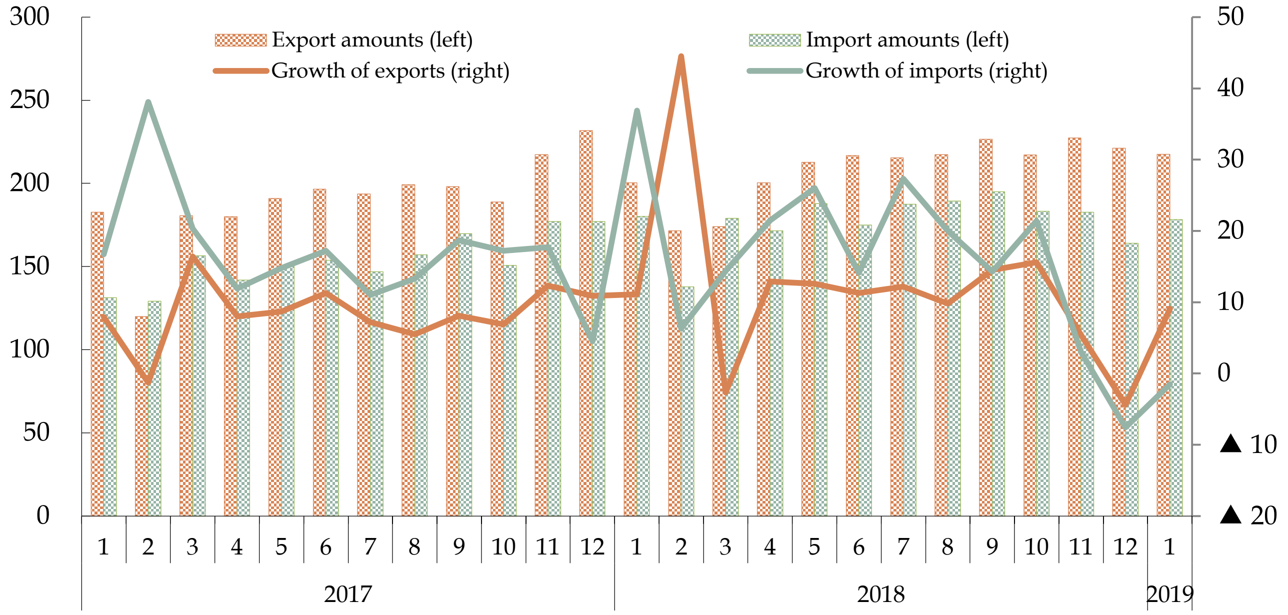
For the full text of the draft catalogue and more details regarding the feedback, please see the webpage below.

http://www.ndrc.gov.cn/yjzx/yjzx_add.jsp?SiteId=153

◆ January trade statistics show 9.1% YoY increase in exports, 1.5% YoY decrease in imports

On February 14, the General Administration of Customs (GACC) released a trade statistics bulletin (in USD) which indicated that January exports rose 9.1% YoY to USD 217.57 billion and imports fell 1.5% YoY to USD 178.41 billion. Exports were strong, buoyed by last-minute demand for shipments before Chinese New Year, while imports registered YoY decreases for the second consecutive month, seemingly reflecting weakening domestic demand amid a slowdown of the Chinese economy (Fig. 1).

[Fig. 1] Monthly Trends in Chinese Imports and Exports



Source: Created based on data released by the GACC

Exports of electronics/machinery rose 6.8% YoY (2018: up 10.6% YoY), and high-tech equipment rose 1.8% YoY (2018: up 11.9% YoY). Both maintained a positive growth rate, but with a significant slowdown in comparison to the full year of 2018. More specifically, while integrated circuits demonstrated firm growth of 24.9% YoY, mobile phones and related components fell off steeply by 19.4% YoY and LCDs dropped 9.2% YoY.

As for imports, electronics/machinery fell 5.8% YoY (2018: up 13.0% YoY), and high-tech equipment fell 5.6% YoY (2018: up 14.9% YoY), both turning negative from two-digit growth for the full year of 2018. Items with a significant YoY decrease included LCDs (down 17.8%), auto parts (down 11.2%), and integrated circuits (down 7.6%). On the other hand, agricultural products rose 16.7% YoY, expanding from a growth rate of 9.6% for 2018 as a whole. Soy beans were down 6.6% YoY, but imports of fruits and nuts jumped 43.1% YoY, contributing to overall expansion.

Statistics for trade with the U.S. showed both exports and imports decreasing, by 2.4% YoY to USD 36.54 billion and by 41.2% to USD 9.24 billion respectively. Imports have been shrinking rapidly since October 2018 (down 1.8% in October, 25.0% in November, and 35.8% in December).* Meanwhile, the trade surplus with the U.S. grew significantly, swelling by 24.7% YoY* to USD 27.3 billion, showing no improvement in the China-U.S. trade imbalance of concern to the U.S. government (Figs. 2 and 3).

*Calculated by MUFG Bank based on data released by the GACC.

As for trade with Japan for January, exports were up 5.7% YoY, while the growth rate for imports turned negative, slumping to a decrease of 1.3% YoY from the positive growth of 8.9% shown for the full year of 2018.

[Fig. 2] Jan 2019 Import and Export Amounts and Growth Rates by Country/Region

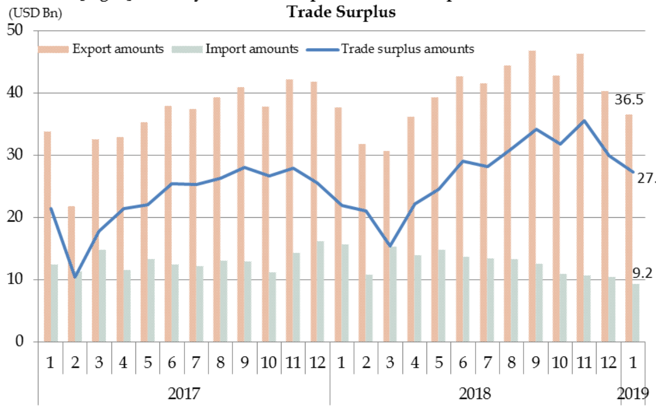
(USD Bn)

Country/Region	Exports	YoY	Imports	YoY	Trade balance	Total	YoY
U.S.	36.5	▲2.4%	9.2	▲41.2%	27.3	45.8	▲13.9%
Japan	13.1	5.7%	13.7	▲1.3%	▲ 0.6	26.9	2.0%
South Korea	9.8	14.4%	14.9	▲11.8%	▲ 5.0	24.7	▲3.0%
Hong Kong	23.5	1.8%	1.0	61.3%	22.4	24.5	3.4%
Taiwan	4.7	13.3%	14.6	▲0.5%	▲ 9.8	19.3	2.5%
Germany	7.5	18.1%	9.6	5.8%	▲ 2.1	17.1	10.9%
Australia	4.3	19.1%	10.1	7.6%	▲ 5.7	14.4	10.8%
Vietnam	7.2	▲0.2%	4.5	▲26.6%	2.7	11.7	▲12.4%
Malaysia	4.4	19.7%	5.6	8.8%	▲ 1.2	10.0	13.3%
Brazil	2.9	12.5%	7.0	47.0%	▲ 4.1	9.9	34.8%

Note: Top 10 countries/regions in total export/import amounts

Source: Created based on data released by the GACC

[Fig. 3] Monthly Trends in Imports from and Exports to the U.S. and Trade Surplus



Source: Created based on data released by the GACC

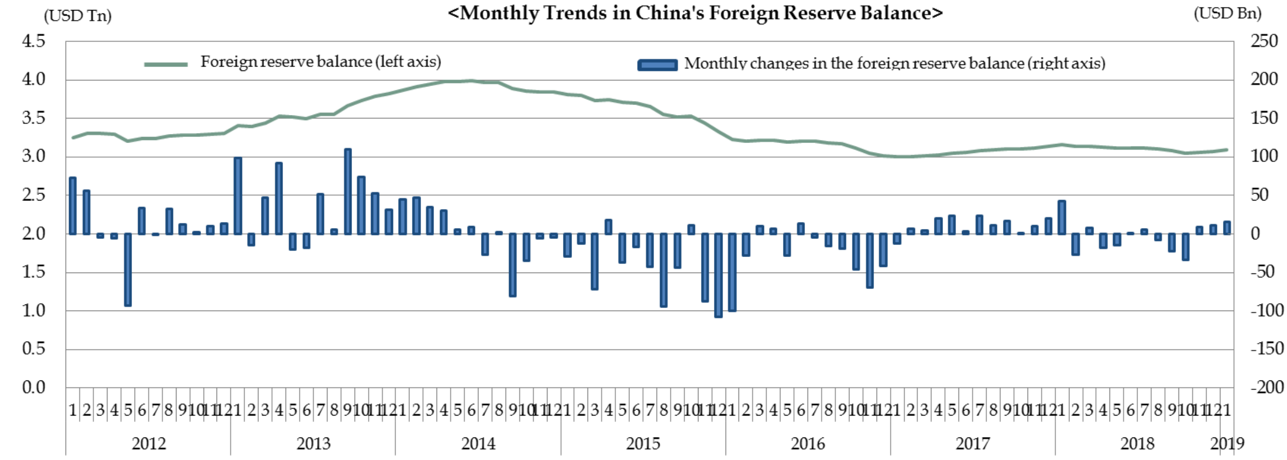
[Finance/Exchange]

◆Foreign reserve balance in January rises by USD 15.2 billion MoM, showing modest increase for third consecutive month

The People's Bank of China (PBoC) announced on February 11 that China's foreign currency reserves increased in January for the third consecutive month, rising by USD 15.2 billion month-on-month (MoM) to USD 3.0879 trillion.

According to the analysis of the State Administration of Foreign Exchange, the modest monthly increase in January was due to factors that included the appreciation of other major currencies against the U.S. dollar and the higher prices of government bonds in major countries.

<Monthly Trends in China's Foreign Reserve Balance>



Source: Created based on data released by the PBoC