

**CLIFF TAN**

East Asian Head of Global Markets  
Research  
Global Markets Division for Asia  
T: +852 2862 7005  
E: [cliff\\_tan@hk.mufg.jp](mailto:cliff_tan@hk.mufg.jp)

**MUFG Bank**

A member of MUFG, a global financial group

**China's Economy: This Runner Will Get Tired Again**

24 April 2019

**Key Points:**

- **Our latest macro roll-up of China finds the government at near-max stimulus but tentative about taking its foot off the accelerator**
- **After all this stimulus, it would have been unreasonable not to expect indicators to lift their heads up from the desk and sit up straighter**
- **But the economy keeps carrying a heavier and heavier load of debt**
- **At some stage later this year, this runner will get tired again**
- **At which stage, expect even more stimulus**
- **1Q19 real growth was helped by much less GDP inflation, a merchandise trade surplus 71% larger than last year and a curious pick up in export growth almost unique in all of Asia**
- **We don't think all the gremlins have been shaken out of the consumption closet**

*[Production Note: We took a marketing trip last week and had no ability to publish from the road by our lonesome.]*

---

China Inc. may be near max stimulus

While on the road, though, one client asked us what else China could do to prop up its economy? On aggregate demand, we told our client we thought China may be doing as much as it can. Total Social Financing in 1Q19 was 47% higher than the 1Q18 total, even as PBOC, under pressure to ease since about May last year we think, keeps a straight face to maintain all they're doing is easing prudently. If this is prudently we'd hate to see what happens if they weren't so prudent. With fiscal policy having also swung into action (corporate tax cuts, which will partially come out of the pockets of local governments this year; and, of course, infrastructure spending), it's hard to imagine what else the government can do.

---

But stimulus seems needed for the stock market to Austin Power on

Meanwhile, the commentariat seemed to all scream, "Yeah, baby!" as some of the press proclaimed the Chinese economy all sorted out now. It may be our congenital weakness as a contrarian but we do tend to discount asset market rallies which are signaled in advance, which everyone knows is true, and which rolls ever onward and upward never to price in all the good news (because they will just keep dribbling out). Well, not for longer than two weeks anyway. Even a whiff of the government tapping on its brakes this week was enough to bring the Shanghai equity rally to a full stop.

---

Our (late) roll-up of previous posts, with more analysis

This note is a (late) roll-up of the instantaneous reactions we posted on 1Q19 GDP internally to colleagues and clients on chat, rewritten to make them clearer. We make up for our unavoidable tardiness with a little more analysis. But first, let's make the main points up front.

---

Unreasonable not to expect some pick up after all the stimulus

With the degree of stimulus Chinese authorities are throwing at their economy, it would be not only miserly but unreasonable to not expect that at junctures during this year, economic indicators will lift up their heads from the desk and sit up straighter. The multiplier effects of Chinese stimulus are not zero. [Though we really can't be sure given that China does not release the expenditure components of GDP - the consumption, investment, government spending and net exports you learn about in high school - an outrageous omission more worthy of a least developed country than a G-20 nation.]

---

But SA and nominal growth *slowed*

We don't expect the Chinese government to let up on stimulus though official real growth showed stabilization just as had been hoped for: 1Q19 6.43%YoY > 4Q18 6.35% (though on seasonally adjusted terms, China slowed to 1.4%SAQQ in 1Q19 < 4Q18 1.5%, a fact we have yet to see in a news story). In %SAQQ terms, this was the fourth quarterly slowing in a row. In addition, *nominal* growth in China slowed again (we are grateful to our US Rates Strategist John Herrmann for pointing this out to us), from 9.15%YoY in 4Q18 to 7.84%. The implied deflator inflation is now < 2% and has seemingly collapsed in recent quarters compared with a fairly steady pace of CPI inflation, so that the 131bp drop in %YoY inflation from 4Q18 to 1Q19 contributed importantly to the "beat" in real GDP. (Other potential reasons are given below.)

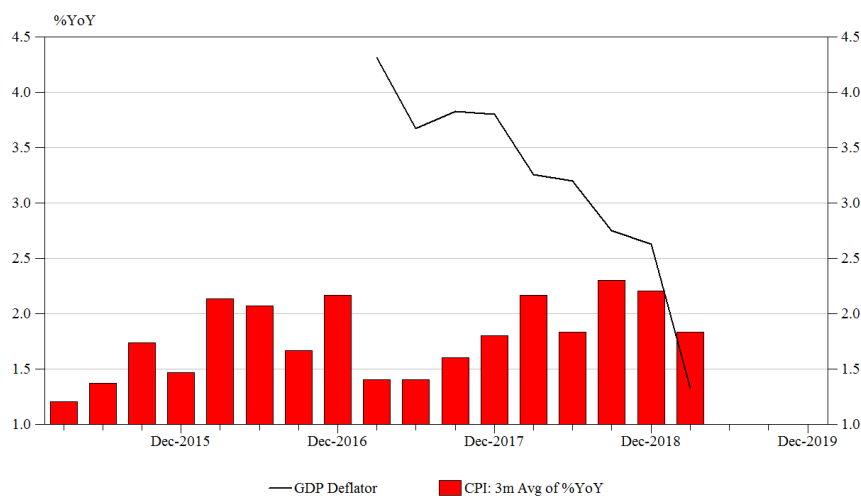
---

A 131bp fall in GDP inflation helped to secure the "beat"

---

#### CHINA: ECONOMY-WIDE PRICES SEEM TO BE HEADING TO DEFLATION

China: GDP vs. CPI Inflation



Source: CEIC

Last Data 2019Q1

Source: CEIC, MUFG Bank

---

We expect China's economic runner to tire again before the year ends

The picture we have in our mind of China's 2019 economy is that of a runner, a runner who is carrying a sack on his back which currently weighs about 120kg (a few years ago, it was 90kg). It's not that this runner couldn't, from time to time, straighten up and run faster (like soldiers do on a battlefield), but as the debt burden gets heavier, at some point (within this year) **this runner will get tired again**. Hence, enter renewed government stimulus. If we're right this will tell you that whatever the official pronouncements at press conferences, Chinese authorities agree with us that stabilization is not yet in the bag (in our April 2019 *MUFG Foreign Exchange Outlook*, we thought a better expectation might be stabilization in 1H19 – instead of 1Q19 – with the pace and, more importantly, sustainability and quality of a rebound in 2H19 to be monitored).

---

Some categories of consumption still look iffy, though residential housing is clearly recovering

Officially, consumption led the 1Q19 stabilization. The cyclical story for consumption in 2H18 for China had been mass households delaying purchase decisions for big-ticket durable items. This was most obvious in the drop-off in auto sales (still - 4.4%YoY in March 2019, which was itself coming off a weak # one year earlier) but also in categories like jewelry sales (whose headline pace of growth - now shrinkage - continued to slow in 1Q19 after last year's slowdown). **Not all is doom and gloom.** *Laobaixing* continue to go out to eat; and we have become less worried about tourism than last Autumn as we think trips internally and abroad continue to grow (albeit at a more measured pace). And there is little doubt residential housing is

recovering (what do you expect after all that credit?), with prices rising, forcing some who had been waiting into the market and reported sales rising in major cities like Beijing. That led to what appeared to be pickups in housing-related items like furniture, construction materials and household electronic goods.

---

China seemed almost unique within Asia for how its exports zoomed

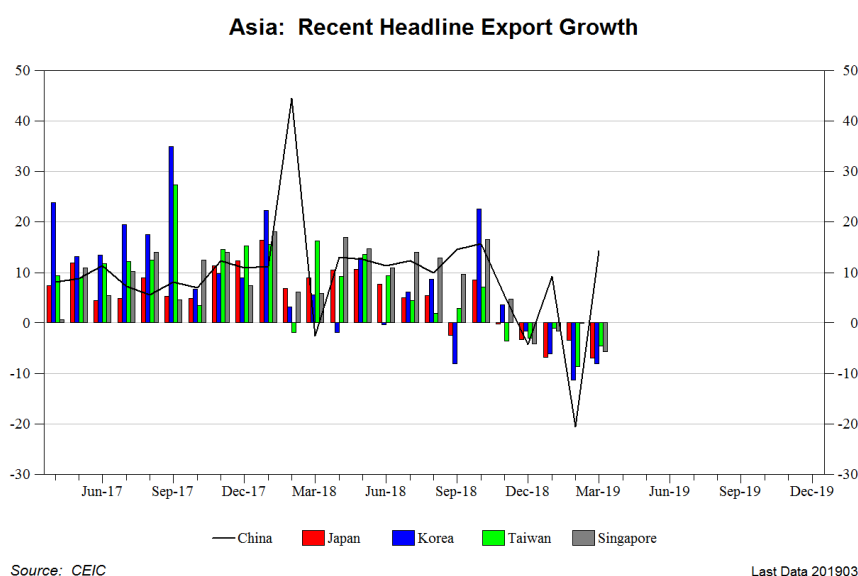
As we had originally reported in internal chats, we do have some reservation about the vigor of the reported 1Q19 growth #. The first had to do with the March merchandise export surge China reported, almost unique in all of Asia. Since China's trade figures came out, first 20-day exports in Korea fell -8.7%YoY, with semiconductors down by -24.7%. Taiwan export orders in March, the month China's export growth surged, fell -9.0%. Similar export figures for Singapore and Thailand continued to suggest that Emerging Asia is far from emerging out of its trade woods yet.

---

Nobody else seems to be recovering in exports

---

### EXPORTS: CHINA ZIGS WHILE THE REST OF ASIA ZAGS



Source: CEIC, MUFG Bank

---

USD32bn of extra trade surplus in 1Q19 may have helped the “beat”

In addition to exports, China saw a large import collapse in March (-7.6%YoY) that left its 1Q19 USD trade surplus at USD76.3bn, some USD32bn larger than the 1Q18 measure. We cannot know for certain (again, remember expenditure components are not reported for Chinese GDP) but we suspect the delta is big enough to boost by a tick or two the final measured pace of GDP growth, enough for a “beat.”

---

China's reported export price resilience boosted export growth

Aside from trade value, we also find some of China's trade prices, which helped contribute to the trade surplus and hence, possibly to the GDP “beat,” curious. Now the science and art of estimating the price level for an economy as large as China's is beyond the scope and ability of this short note to address. But in our internal previews and instantaneous reviews, we noted some price level estimates in China which seemed at odds with those of regional neighbors. Being partly affected by external conditions and largely affected by exchange rates, we can always compare China's external trade prices with those of these other nearby nations.

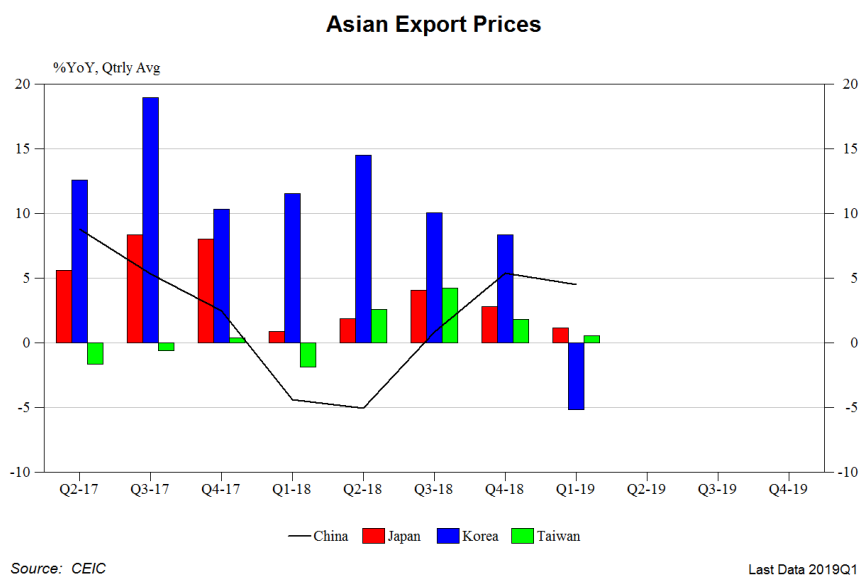
---

But, again, no one else seemed to have been able to keep export prices up

When China's March trade figures were released, its Customs Administration noted that 2/3 of 1Q19 export value growth had been due to export prices expanding by a +4.4%YoY pace for the quarter. In our preview, when we had looked at export price measures in China's nearby neighbors - Japan, South Korea and Taiwan - we saw

no such phenomena.

## CHINA EXPORT PRICES HOLD UP EVEN WITH A STRONGER CURRENCY



Source: CEIC, MUFG Bank

Export price estimates can be very crude

A standard warning always come when it comes to trade prices. The measurement of such prices can be very crude. Value is decomposed into volume and prices, and sometimes in some countries volume estimates are based on only the aggregate weight of exports. In other words, export prices could go up because the price of iPhones rose or because iPhones got lighter.

## Disclaimer

This document has been prepared by MUFG Bank, Ltd. (the "Bank") for general distribution. It is only available for distribution under such circumstances as may be permitted by applicable law and is not intended for use by any person in any jurisdiction which restricts the distribution of this document. The Bank and/or any person connected with it may make use of or may act upon the information contained in this document prior to the publication of this document to its customers.

Neither the information nor the opinions expressed in this document constitute or are to be construed as, an offer, solicitation, or inducement or recommendation to buy, sell or hold deposits, securities, futures, options or any other derivative products or any other financial products. This document has been prepared solely for informational purposes and does not attempt to address the specific needs, financial situation or investment objectives of any specific recipient. This document is based on information from sources deemed to be reliable but is not guaranteed to be accurate and should not be regarded as a substitute for the exercise of the recipient's own judgment and research. Historical performance does not guarantee future performance.

All views in this document (including any statements and forecasts) are subject to change without notice and none of the Bank, its head office, branches, subsidiaries and affiliates is under any obligation to update this document.

The information contained in this document has been obtained from sources the Bank believed to be reliable but the Bank does not make any representation or warranty nor accepts any responsibility or liability as to its accuracy, timeliness, suitability, completeness or correctness. The Bank, its head office, branches, subsidiaries and affiliates and the information providers accept no liability whatsoever for any loss or damage of any kind arising out of the use of or reliance upon all or any part of this document.

The Bank retains copyright to this document and no part of this document may be reproduced or re-distributed without the written permission of the Bank. The Bank expressly prohibits the distribution or re-distribution of this document to private or retail clients, via the Internet or otherwise, and the Bank, its head office, branches, subsidiaries and affiliates accept no liability whatsoever to any third parties resulting from such distribution or re-distribution.

Disclosure applicable to MUFG Bank, Ltd.'s London branch only: MUFG Bank, Ltd. ("MUFG Bank") is a limited liability stock company incorporated in Japan and registered in the Tokyo Legal Affairs Bureau (company no. 0100-01-008846). MUFG Bank's head office is at 7-1 Marunouchi 2-Chome, Chiyoda-Ku, Tokyo 100-8388, Japan. MUFG Bank's London branch is registered as a UK establishment in the UK register of companies (registered no. BR002013).

MUFG Bank is authorized and regulated by the Japanese Financial Services Agency. MUFG Bank's London branch is authorized by the Prudential Regulation Authority (FCA/PRA no. 139189) and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of MUFG Bank's London branch's regulation by the Prudential Regulation Authority are available from us on request.