CHINA BIWEEKLY

RMB Internationalization Business Promotion Office
Global Business Division

September 27th 2019

■ **BIWEEKLY DIGEST**

[Economy]

- **Main Economic Indicators for August: Slumps in Production, Consumption, and Investment Continue**

[Industry]

- **Efforts to Further Promote Parallel Import of Complete Automobiles and Increase Pilot Zones**
- **August Auto Sales Fall 6.9% Year-on-Year (YoY), 14th Consecutive Month of YoY Decline**

[Trade/Investment]

- **August: Exports Down 1.0%, Imports Down 5.6% YoY (Year-on-Year)**
- **First–Third Rounds of U.S. Punitive Tariffs on China: U.S. President Trump Postpones Additional Tariff Rate Increase to October 15**
- **Chinese Retaliatory Tariffs on the U.S.: 16 Product Categories Exempted**

[Finance/Exchange]

- **Foreign Reserves in August Show Slight Increase for First Time in Two Months**
- **Total Social Financing (TSF) in August Up Both Month-on-Month (MoM) and YoY**

[Economy]

◆Main Economic Indicators for August: Slumps in Production, Consumption, and Investment Continue

On September 16, the National Bureau of Statistics (NBS) announced the main economic indicators for August. Slumps are continuing across the board in production, consumption, and investment.

Industrial production in August (value-added) increased 4.4% YoY, a further 0.4 point decrease from the previous month's YoY figure of 4.8%(Figs. 1 and 2). The NBS explained that in addition to increasing downward pressure on the economy, the slowdown could also be explained by having one fewer working day in August compared to last year and typhoons hitting the eastern region impacting production. Looking at each industry, some industries saw improvement; auto manufacturing saw a YoY increase of 4.3% (down 4.4% in July) and electronic machinery saw a YoY increase of 10% (up 7.6% in July). Despite this, many industries saw their growth diminish, including rail, sea, aerospace, and other transportation manufacturing which rose only 7.8% YoY (compared to a 15.7% increase in July); and computers, communications, and other electric equipment manufacturing which increased by 4.7% YoY (compared to 6.1% in July).

Retail sales of consumer goods in August increased 7.5% YoY, a decline of 0.1 point from the 7.6% YoY figure in the previous month (Figs. 1 and 2). Improvements were seen in certain product categories, such as communications devices rising 3.5% YoY (July: up 1.0%) and apparel 5.2% YoY (July: up 2.9%). Other categories, however, dropped down even further: automobiles decreased 8.1% YoY (July: down 2.6%) and fashion accessories 7.0% YoY (July: down 1.6%). In spite of all this, strong growth was seen in some areas. Consumer retail spending excluding automobiles increased 9.3% YoY, online retail increased 17.7% YoY*, and food service increased 9.7% YoY.

* Calculated by MUFG bank based on cumulative totals from NBS releases.

Meanwhile, YoY growth in investments in fixed assets decreased to 5.5% for January-August, a drop of 0.2 point from the 5.7% figure seen for January-July. Investment in manufacturing increased 2.6% YoY and investment in real estate increased 10.5% YoY, also showing slowdowns compared to the January-July figures. On the other hand, investment in infrastructure increased 4.2% YoY, the first acceleration in two months. The NBS expressed that the boost in infrastructure investment growth could be attributed to central government support for issuing of special bonds by local governments to fund infrastructure projects (Figs. 1, 2, and 3).

In terms of employment, the urban unemployment rate in August decreased 0.1 point from the previous month to 5.2%.

[Fig. 1] Main Economic Indicators for August

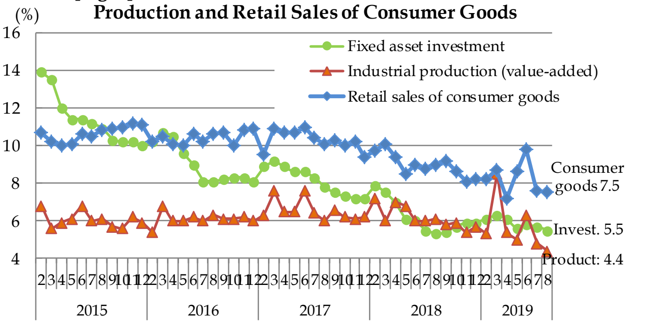
Item	July 2019			August 2019			
	Amount		YoY (%)	Growth rate MoM	Amount		YoY (%)
Investment in fixed assets (excl. by rural companies)*	(RMB Bn)	34,889.2	5.7	↘	(RMB Bn)	40,062.8	5.5
(State-owned sector)	(RMB Bn)	(Undisclosed)	7.1	→	(RMB Bn)	(Undisclosed)	7.1
(Private sector)	(RMB Bn)	21,026.7	5.4	↘	(RMB Bn)	23,696.3	4.9
By industry: Primary	(RMB Bn)	978.4	▲1.2	↘	(RMB Bn)	1,100.5	▲ 3.4
By industry: Secondary	(RMB Bn)	11,774.9	3.4	↘	(RMB Bn)	13,182.4	2.1
By industry: Tertiary	(RMB Bn)	22,135.9	7.0	↗	(RMB Bn)	25,779.9	7.3
Industrial production (value-added)**	-	-	4.8	↘	-	-	4.4
Total retail sales of consumer goods	(RMB Bn)	3,307.3	7.6	↘	(RMB Bn)	3,389.6	7.5
Consumer price index (CPI)	-	-	2.8	→	-	-	2.8
Industrial producer price index (PPI)	-	-	▲0.3	↘	-	-	▲ 0.8
Industrial producer purchase price	-	-	▲ 0.6	↘	-	-	▲ 1.3
Exports	(USD Bn)	221.53	3.3	↘	(USD Bn)	214.80	▲ 1.0
Imports	(USD Bn)	176.48	▲5.6	→	(USD Bn)	179.97	▲ 5.6
Trade balance	(USD Bn)	45.05	-	-	(USD Bn)	34.83	-
Inward foreign direct investment (executed basis)	(USD Bn)	8.07	4.1	↘	(USD Bn)	10.46	0.3

*: Year-to-date total from January

**: Independently-accounted state-run companies and non-state-run companies with annual sales of RMB20Mn or more

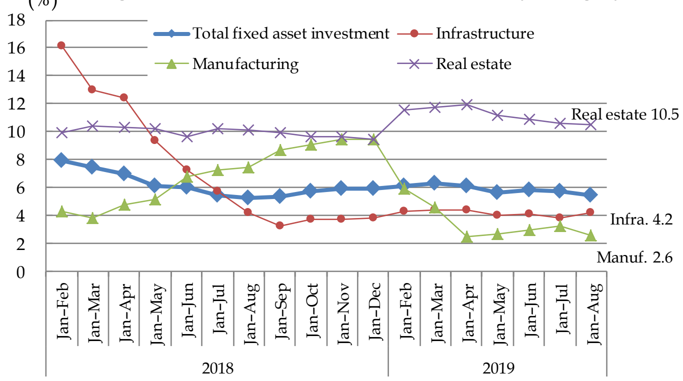
Source: Created based on data released by the NBS

[Fig. 2] Growth in Fixed Asset Investment, Industrial Production and Retail Sales of Consumer Goods



Notes: Fixed asset investment figures are year-to-date totals from January.
Industrial production and consumer goods figures use cumulative Jan-Feb total for Feb. only.
Source: Created based on data released by the NBS.

[Fig. 3] Growth in Fixed Asset Investment by Category

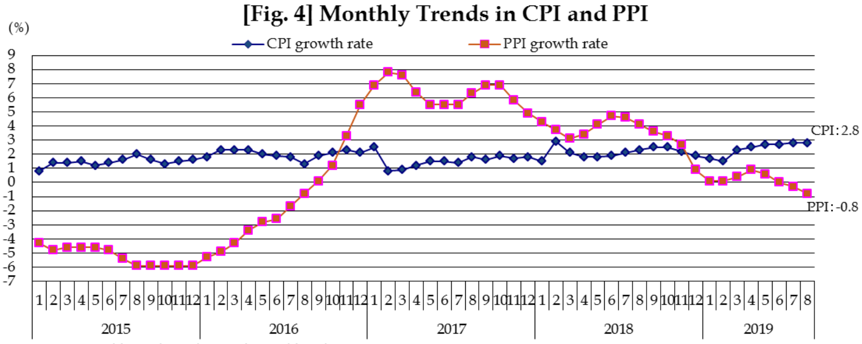


Source: Created based on data released by the NBS.

The consumer price index (CPI) for August increased 2.8% YoY, unchanged from the previous month (Fig. 4). Prices of foods increased 10.0% YoY, while non-foods increased 1.1%. Within foods, prices of pork (up 46.7% YoY) and fruit (up 24.9% YoY) saw the most remarkable rises.

The producer price index (PPI) decreased 0.5 point to shrink 0.8% YoY, continuing the falling trend (Fig. 4). There were large plunges in industries including petroleum/natural gas drilling (down 9.1% YoY) and synthetic fiber manufacturing (down 8.9% YoY).

[Fig. 4] Monthly Trends in CPI and PPI



Source: Created based on data released by the NBS

[Industry]

◆Efforts to Further Promote Parallel Import of Complete Automobiles and Increase Pilot Zones

On August 30, seven Chinese central government departments including the Ministry of Commerce issued the "Opinions on Further Promoting the Development of Parallel Import of Automobiles" (Shangjianhan [2019] No. 462), which are intended to facilitate the parallel import of complete automobiles by expanding pilot zones for parallel import, etc. It seems that the departments are trying to satisfy diverse consumer needs and to energize the sluggish automobile market and boost consumption.

Since first introduced in China in October 2014, parallel import has allowed complete automobiles to be purchased directly from overseas sellers without going through an authorized importer or auto dealer. Initially, the pilot zones were limited to four Free Trade Zones in Shanghai, Tianjin, Fujian and Guangdong, but they were later increased to 17 locations across the country.* Today, the number of pilot zones has been further increased, adding new ports (seaports, airports, train terminals, etc.) that import over 1,000 automobiles a year.

* First implemented in four locations: China (Shanghai) Pilot Free Trade Zone (SFTZ), Tianjin Free Trade Zone, Fujian Free Trade Zone, and Guangdong Free Trade Zone

Second implemented in five locations: Dalian Free Trade Zone in Liaoning Province, the international railway terminal in Chengdu, Sichuan Province, the Alataw Pass port in Xinjiang Uygur Autonomous Region, the Korgas Pass port in Xinjiang Uygur Autonomous Region, and Meishan Free Trade Port in Ningbo

Third implemented in eight locations: International railway terminal in Manzhouli, Inner Mongolia Autonomous Region, Zhangjiagang Free Trade Port in Jiangsu Province, international railway terminal in Zhengzhou, Henan Province, Port of Chenglingji in Yueyang, Hunan Province, Qinzhou Free Trade Port in Guangxi Zhuang Autonomous Region, Port of Haikou in Hainan Province, international railway terminal in Chongqing, and the Qingdao Qianwan Free Trade Port in Shandong Province

Moreover, the departments have decided to establish work areas inside the special customs supervision zones to modify parallel imported automobiles to conform to domestic standards in terms of meter display, seats, signalling, descriptions, etc. as an improvement measure based on actions taken so far in the pilot program. They also stated that they would issue digital certificates for importers and make customs procedures more convenient to reduce the workload for pilot companies.

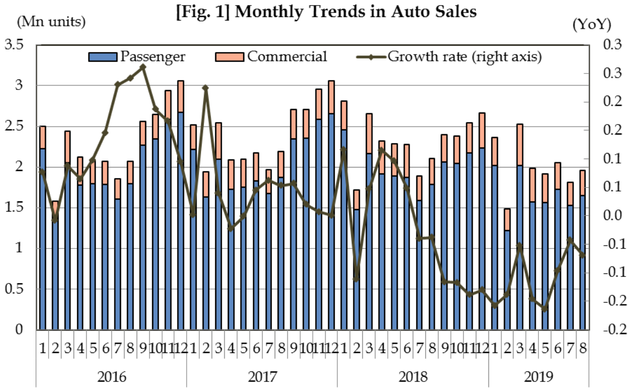
To enhance quality control for parallel imported automobiles, the departments have decided to ban the import of automobiles that do not meet Chinese safety and gas emission standards and require pilot companies to record visual data of important parts of the automobiles before they are sold to customers.

According to an announcement by the Ministry of Commerce, 418,000 automobiles have been parallel imported from the launch of the pilot program to July 2019. These numbers include over 200 different auto models, about 50 of which were sold in China for the first time.

◆August Auto Sales Fall 6.9% YoY, 14th Consecutive Month of YoY Decline

According to an announcement made by the China Association of Automobile Manufacturers (CAAM) on September 11, August auto sales fell 6.9% YoY to 1.958 million units, a further decline from the previous month's YoY figure of 4.3%, and marking the 14th consecutive month of decreasing YoY sales. The year-to-date total for January–August decreased 11.0% YoY to 16.104 million units (Figs. 1 and 2).

[Fig. 1] Monthly Trends in Auto Sales



Source: Created based on data released by the CAAM

[Fig. 2] August 2019 Auto Sales and Growth Rates

	August 2019		Jan-Aug 2019	
	Units sold (Mn)	YoY	Units sold (Mn)	YoY
Auto sales	**1.958**	**▲6.9%**	**16.104**	**▲11.0%**
Passenger vehicles	1.653	▲7.7%	13.322	▲12.3%
Commercial vehicles	0.305	▲2.8%	2.782	▲4.2%
New energy vehicles	0.085	**▲15.8%**	0.793	+32.0%
Electric vehicles (EVs)	0.069	**▲6.0%**	0.629	+40.8%
Plug-in hybrid vehicles (PHVs)	0.016	**▲41.3%**	0.163	+5.7%
Fuel cell electric vehicles	-	-	1,125 units	x7.3

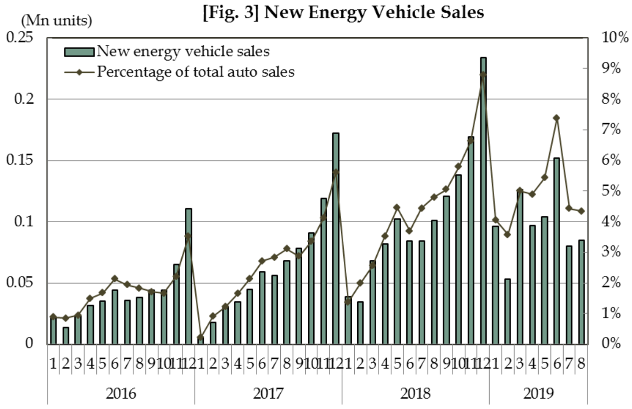
Source: Created based on data by the CAAM

By type of automobile, sales of passenger vehicles for August decreased 7.7% YoY to 1.653 million units while sales of commercial vehicles also decreased by 2.8% YoY to 305,000 units. Similarly, year-to-date totals for January–August saw decreases in passenger vehicle sales of 12.3% to 13.322 million vehicles and decreases in commercial vehicle sales of 4.2% to 2.782 million units (Fig. 2).

Sales of Chinese-owned brands of passenger vehicles decreased 10.2% YoY to 614,000 units, an even greater YoY decline than that of the industry in general. Sales of such vehicles made up 37.2% of all passenger vehicles domestically. This is a 1.0 point increase in the market share over the previous month; however, Chinese passenger vehicles have not held a share greater than 40% in four months. Year-to-date totals for January–August fell 19.5% YoY to 5.178 million units.

Regarding new energy vehicles, the postponement of subsidy cuts ending in June continued to make an impact, and August sales decreased 15.8% YoY to 85,000 units, an even greater drop than the 4.7% YoY decline seen in July. The year-to-date total maintained strong growth, increasing 32.0% YoY to 793,000 units for January–August.

[Fig. 3] New Energy Vehicle Sales



Source: Created based on data released by the CAAM.

CAAM stated that despite the significant downward pressure on the auto market, they expected policy measures would be introduced that would aim to ease the pressure, citing the opinions announced by the State Council in August on "accelerating the development of distribution systems and promoting commercial consumption." These opinions include measures that would ease and remove restrictions on automobile purchases to explore untapped potential consumption needs for automobile production.

[Trade/Investment]

◆August: Exports Down 1.0%, Imports Down 5.6% YoY (Year-on-Year)

According to the trade statistics bulletin (in USD) released by the General Administration of Customs (GACC) on September 8, August exports decreased 1.0% YoY (up 3.3% YoY in July) to USD 214.80 billion, entering a downward trend again. Imports also decreased 5.6% YoY (down 5.6% YoY in July) to USD 179.97 billion, marking a fourth straight month of YoY decline (Figs. 1 and 2), despite recording the highest import amount in 2019 for a single month.

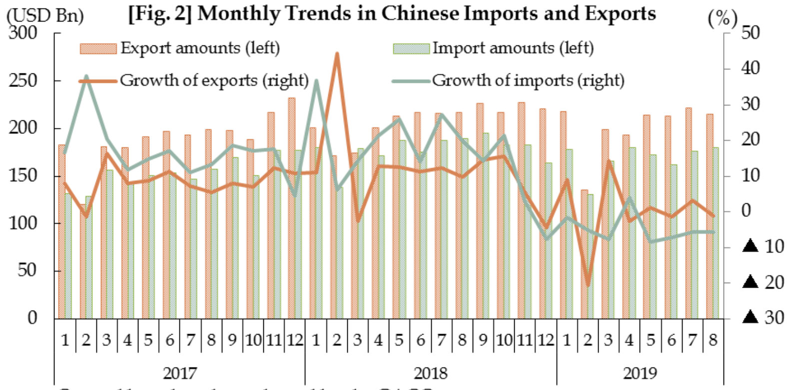
The cumulative numbers from January to August show that exports are up 0.4% YoY (Jan.-Jul.: up 0.6% YoY) to USD 1.60704 trillion, while imports are down 4.6% YoY (Jan.-Jul.: down 4.5% YoY) to USD 1.34777 trillion (Fig. 1).

[Fig. 1] Overview of Trade Statistics for August

August 2019 Trade Statistics (USD Bn)		
	Amount	YoY
Exports	214.80	▲1.0%
Imports	179.97	▲5.6%
Trade Surplus	34.83	-
Jan-Aug 2019 Trade Statistics (USD Bn)		
	Amount	YoY
Exports	1,607.04	0.4%
Imports	1,347.77	▲4.6%
Trade Surplus	259.27	-

Source: Created based on data released by the GACC

[Fig. 2] Monthly Trends in Chinese Imports and Exports



Source: Created based on data released by the GACC

Taking a closer look at exports by product between January and August, there was a significant decrease in mobile devices and components, down 15.1% YoY. Apparel also saw a decline of 4.3%. By contrast, toy exports went up by 26.4% YoY. Integrated circuits showed a YoY decline of 6.8% in export volume, but a YoY increase of 20.6% in export amount. Soy bean imports plunged by 15.7%.

By country, trade with the United States between January and August showed further declines with exports falling 8.9% YoY (Jan.-Jul.: down 7.8% YoY) to USD 275.53 billion. Although imports from the U.S. improved slightly, shrinking 27.5% YoY (Jan.-Jul.: down 28.3% YoY) to USD 80.08 billion, their significant declining trend YoY remains the same. The trade surplus increased by 1.5% YoY* (Jan.-Jul.: up 4.2% YoY*) to USD 195.45 billion (Jan.-Jul.: USD 168.50 billion) (Figs. 3 and 4).

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

Trade with Japan between January and August saw a 1.0% decrease in exports YoY (Jan.-Jul.: down 1.5% YoY) to USD 93.35 billion, as well as a 7.7% decrease in imports YoY (Jan.-Jul.: down 7.5% YoY) to USD 110.52 billion. Both exports and imports showed a YoY decline for the fifth and eighth consecutive month respectively (Fig. 3).

Meanwhile, exports to ASEAN countries between January and August showed steady growth, increasing 9.4% YoY (Jan.-Jul.: up 9.1% YoY) to USD 224.98 billion. Imports bounced back with a 1.2% increase YoY (Jan.-Jul.: down 0.1% YoY) to USD 176.69 billion. In particular, Vietnam, the Philippines and Malaysia made remarkable contributions to the increase in trade, recording growth rates of 16.5%, 12.6% and 12.3% respectively.

Exports to EU countries between January and August increased 5.7% YoY (Jan.-Jul.: up 6.1% YoY) to USD 279.27 billion. Imports also rose 1.2% YoY (Jan.-Jul.: up 2.3% YoY) to USD 182.65 billion. Although the growth rates for both exports and imports declined from the previous month, they are maintaining an upward trend.

[Fig. 3] Jan-Aug 2019 Import and Export Amounts and Growth Rates by Country/Region

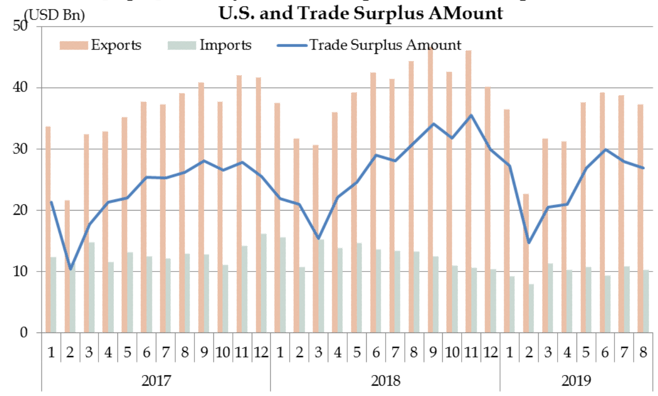
(USD Bn)

Country / Region	Exports	YoY	Imports	YoY	Trade Balance	Total Export / Import	YoY
United States	275.53	▲8.9%	80.08	▲27.5%	195.5	355.61	▲13.9%
Japan	93.35	▲1.0%	110.52	▲7.7%	▲ 17.2	203.87	▲4.8%
South Korea	73.06	3.3%	113.49	▲16.3%	▲ 40.4	186.55	▲9.6%
Hong Kong	175.62	▲7.7%	6.06	22.0%	169.6	181.68	▲6.9%
Taiwan	34.90	12.5%	109.51	▲6.3%	▲ 74.6	144.41	▲2.3%
Germany	52.74	5.2%	70.16	▲0.9%	▲ 17.4	122.89	1.6%
Australia	29.77	▲0.9%	80.65	13.1%	▲ 50.9	110.41	9.0%
Vietnam	61.65	16.5%	36.51	▲4.1%	25.1	98.16	7.9%
Malaysia	33.08	12.3%	45.22	9.6%	▲ 12.1	78.30	10.7%
Brazil	21.94	▲3.2%	51.49	6.0%	▲ 29.6	73.43	3.1%

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

Source: Created based on data released by the GACC

[Fig. 4] Monthly Trends in Imports from and Exports to the U.S. and Trade Surplus AMount



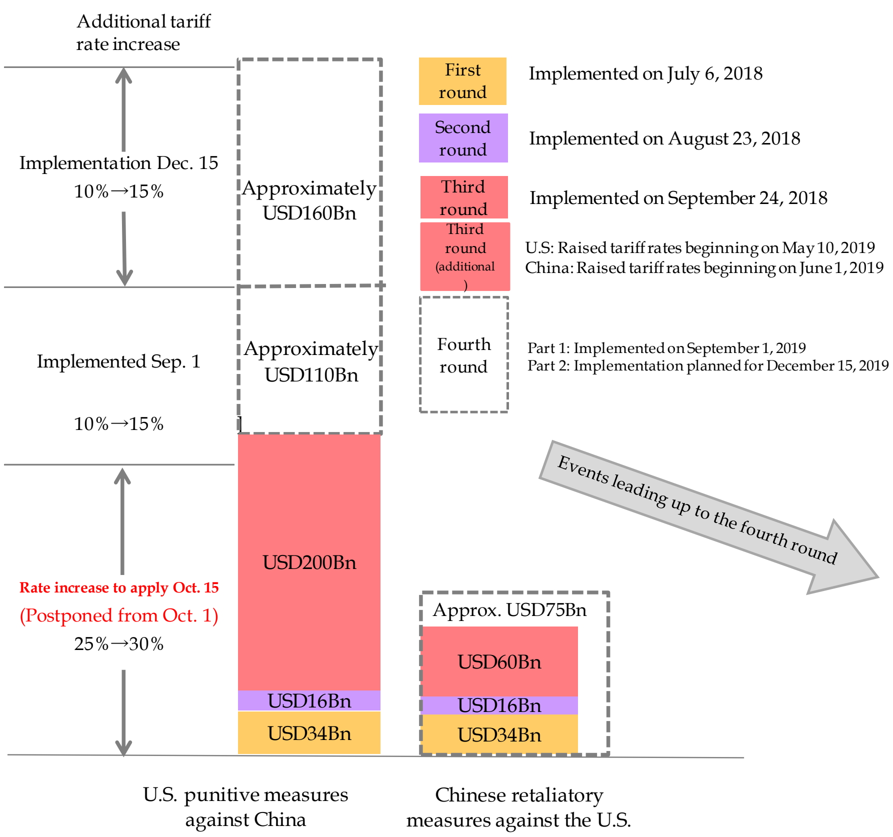
Source: Created based on date released by the GACC

◆First–Third Rounds of U.S. Punitive Tariffs on China: U.S. President Trump Postpones Additional Tariff Rate Increase to October 15

On September 11, U.S. President Trump announced on his Twitter that the effective date of the additional tariff rate increase from 25% to 30% on USD 250 billion of Chinese goods would be deferred from October 1 to October 15. Trump explained that this was a request from Chinese Vice Premier Liu He, which Trump accepted as a gesture of goodwill as the People's Republic of China celebrates its 70th anniversary on October 1.

The additional tariff rate increase on the punitive tariffs implemented in the first to third rounds are a retaliatory measure announced on August 23 in response to China's fourth round of retaliatory tariffs against the U.S. Public hearings will continue to be conducted on the matter until September 20.

Additional Tariffs Levied by the U.S. and China



・**USTR (May 13, 2019)**
Announces proposed fourth round of punitive tariffs on China.
Additional 25% tariff on approximately USD300Bn of Chinese goods.

・**U.S.-China Summit Talks (Jun. 29, 2019)**
U.S. agrees to shelve fourth round of tariffs against China.

・**U.S. President Trump (Aug. 1, 2019)**
Announces fourth round of tariffs at rate of 10% to enter effect from Sep. 1.

・**USTR (Aug. 13, 2019)**
Announces exemption of certain goods and a delay in enforcement for certain goods in the fourth round of tariffs on China.

・**Chinese State Council (Aug. 23, 2019)**
Announces fourth round of retaliatory sanctions against U.S. Additional tariff of 5% or 10% to apply to approx. USD75Bn of additional goods from Sep. 1 or Dec. 15, 2019.

・**USTR (Aug. 23, 2019)**
Announces, in retaliation against the Chinese retaliatory tariffs, a directive to raise the additional tariff rate by 5% on all tariffs that have been or will be enforced. (See chart on left for details.)

・**U.S. President Trump (Sep. 11, 2019)**
Announces the enforcement of the additional tariff rate increase for the first to third round of sanctions (from 25% to 30%) will be delayed from Oct. 1 to Oct. 15.

Source: Created based on respective announcements by the U.S. and Chinese governments.

◆Chinese Retaliatory Tariffs on the U.S.: 16 Product Categories Exempted

On September 11, the Customs Tariff Commission of the Chinese State Council announced that 16 product categories which had been subject to tariffs in the first and second rounds of retaliatory tariffs against the United States (a 25% additional tariff levied on USD 50 billion of American products) would be classified as exempt[1] for one year starting September 17, 2019. The Commission announced that this announcement of exemptions was a first step and additional exemptions would be announced based on an evaluation in accordance with a system for making such exemptions.

Of the 16 product categories, 12 categories including shrimp, various lubricants, nonionic organic surfactants, and medical linear accelerators[2] are eligible for full refunds on customs duties paid since the tariff hikes were implemented in summer last year. Duties on U.S. products in the other four categories—whey, release agents, isoparaffin solvents, and lubricating base oil[3]—will not be refunded.

Furthermore, according to a report in the Chinese state-run media agency Xinhua on September 13, the National Development and Reform Commission and the Ministry of Commerce had stated, in response to President Trump's announcement that the additional tariff rate increase would be delayed (see the above article), that Chinese companies would be supported in buying a certain quantity of some agricultural products including soybeans and pork, and that there are plans to exempt these products from additional tariffs in the future.

The next cabinet-level trade talks between the U.S. and China are scheduled to be held in Washington at the start of October.

[1] Announcement of the Customs Tariff Commission of the Chinese State Council

http://gss.mof.gov.cn/zhengwuxinxi/zhengcefabu/201909/t20190911_3384638.html

[2] List of the 12 exempt product categories (eligible for refund)

http://gss.mof.gov.cn/zhengwuxinxi/zhengcefabu/201909/P020190911467873521723.pdf

[3] List of the 4 exempt product categories (not eligible for refund)

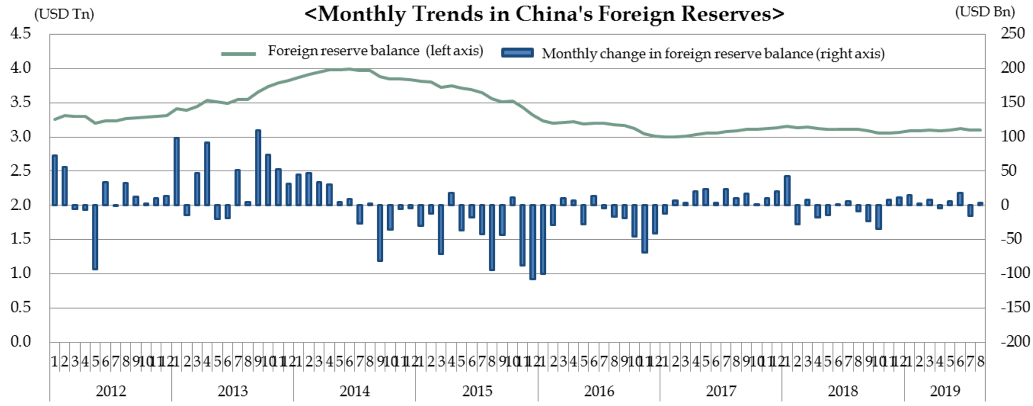
http://gss.mof.gov.cn/zhengwuxinxi/zhengcefabu/201909/P020190911467873838893.pdf

[Finance/Exchange]

◆Foreign Reserves in August Show Slight Increase for First Time in Two Months

According to an announcement by the People's Bank of China made on September 7, foreign reserves in August rose by USD 3.5 billion to USD 3.1072 trillion, increasing for the first time in two months.

Authorities state that the increase in August was the result of factors including an increase in the prices of bonds from other major countries held by the Chinese government due to decreasing interest rates. They forecast that the government will maintain a steady scale of foreign reserves against the backdrop of the stable growth of the domestic economy, despite the presence of growing uncertainties concerning the external environment. Foreign reserves in August have risen 1.1% and by USD 34.5 billion compared with the beginning of 2019.



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

◆Total Social Financing (TSF) in August Up Both Month-on-Month (MoM) and YoY

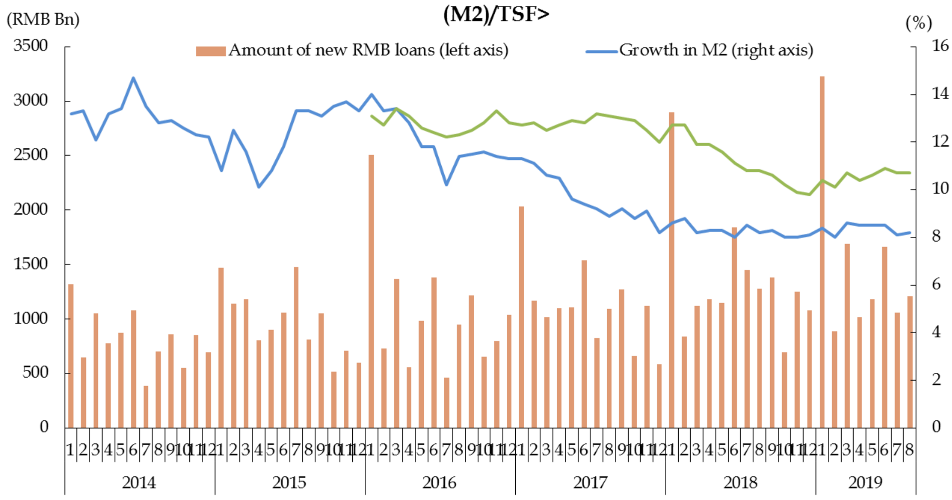
According to an announcement by the People's Bank of China on September 11, new RMB loans for August totaled RMB 1.21 trillion, down RMB 66.5 billion YoY yet up RMB 150.0 billion MoM. Money supply (M2) at the end of August also grew 8.2% YoY, a 0.1 point increase over last month.

TSF, or total social financing,* which shows the amount of liquidity supplied to the real economy, increased in August in both YoY (up RMB 37.6 billion) and MoM (RMB 970.0 billion) terms to RMB 1.98 trillion. The TSF balance at the end of August rose 10.7% YoY. Although this is an overall decline in MoM growth of 0.1 point, local government special bonds skyrocketed by 43.1% MoM. In the midst of increasing downward pressure on the economy, the Chinese government is boosting infrastructure investments, which is reflected in the expedited issuance of special bonds by local governments as the source of funding.

* Total social financing (TSF) = RMB loans + Foreign currency loans + Entrusted loans + Bank acceptance bills + Corporate bonds + Local government special bonds + Non-financial companies' equity financing + Compensations made by insurance companies + Investment properties + Other

In related news, the PBOC cut the reserve ratio for all banks by 0.5 point on September 16, supplying an extra RMB 800 billion of funds to the market. In addition, the urban commercial banks that are run exclusively by provincial-level governments will receive an additional two cuts of 0.5 point on October 15 and 1.0 point on November 15, which is expected to release another RMB 100 billion into the market.

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



Source: Created based on data released by the PBoC
Note: Growth rates for TSF appear on the graph starting from January 2016 when the announcement of these statistics started.