CHINA BIWEEKLY

RMB Internationalization Business Promotion Office
BTMU Global Business Division

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■ BIWEEKLY DIGEST

[Economy]

- **GDP grows 6.9% in the first quarter—investment, production, and consumption growth accelerates in March**
- **The IMF revises up China's 2017 growth forecast to 6.6%**
- **State Council executive meeting decides to introduce new tax cuts**
- **The manufacturing PMI for April falls 0.6 points from March, to 51.2**
- **The Chinese Academy of Social Sciences revises their forecast for 2017 GDP growth up to around 6.6%**
- **The growth in the number of migrant workers accelerates in 2016, the first time in six years, and the growth of migrant workers working in the local regions is accelerating**

[Industry]

- **Home prices for 70 medium and large cities for March: the number of cities with month-on-month growth increases two month in a row**

[Trade/ Investment]

- **The drop in foreign direct investment, both inward and outward, shrinks in January-March**

[Finance/ Exchange]

- **January-March: cross-border RMB settlement**
- **March: 1.02 trillion recorded in new RMB loans, down 349.7 billion YoY and down 150 billion MoM**
- **Foreign reserves increase for the third consecutive month in April**
- **Private home loans increase 35.7% year-on-year in March loan statistics by area**

BIWEEKLY DIGEST

[Economy]

◆ GDP grows 6.9% in the first quarter–investment, production, and consumption growth accelerates in March

The National Bureau of Statistics (NBS) announced on April 17 that China's GDP growth rate for the first quarter of 2017 increased 0.1% from the previous quarter to 6.9%, for a second consecutive quarter. It described this achievement of exceeding the government's full-year target of around 6.5% as "getting off to a good start."

In the quarter, January-March investment in fixed assets grew 9.2% YoY (8.9% YoY for Jan-Feb), Value-added Industrial production grew 7.6% YoY (6.3% YoY for Jan-Feb), and Total retail sales of social consumables grew 10.9% (9.5% YoY in Jan-Feb).

Looking at GDP growth in the first quarter by industry, the primary industry grew 3.0% YoY (from 2.9% for 4Q), the secondary industry grew 6.4% YoY (from 5.9% for 4Q), and the tertiary industry grew 7.7% (from 7.6% for 4Q), the secondary industry's growth rate expands most comparing with 4Q result. The NBS stated that supply-side structural reform had advanced and the industry sector gained strength to prop up the economy.

<Main economic indicators for March>

Indicator		Amount		YoY (%)
GDP*		RMB Bn	18,068	6.9
Investment in fixed assets**		RMB Bn	9,378	9.2
State-owned sector		RMB Bn	3,309	13.6
Private sector		RMB Bn	5,731	7.7
By Industry	Primary industry	RMB Bn	234	19.8
	Secondary industry	RMB Bn	3,509	4.2
	Tertiary industry	RMB Bn	5,635	12.2
Value-added Industrial production***		-	-	7.6
Total retail sales of social consumables		RMB Bn	2,786	10.9
Consumer price index (CPI)		-	-	0.9
Industrial Producer price index (PPI)		-	-	7.6
Industrial Producer Purchase price index		-	-	10.0
Export		USD Bn	180.6	16.4
Import		USD Bn	156.7	20.3
Trade balance		USD Bn	23.9	-
Foreign direct investment (executed)		USD Bn	13.1	1.6

*: Total for January-March

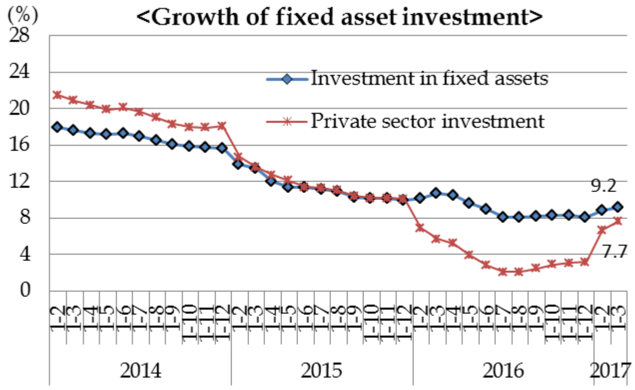
**: Total for January-March (excl. investment by rural companies)

***: Based on results of independent state-owned enterprises and non-state-owned enterprises with at least RMB 20 million in annual sales

Source: created based on data published by the NBS, etc.

Also, for contribution to GDP by demand component in the first quarter, gross fixed-capital formation contributed 18.6% (down YoY from 36.5%), final consumption expenditure contributed 77.2% (up YoY from 75.0%), and net export contributed 4.2% (up YoY from -11.5%).

Source: Created based on data published by the NBS



Source: Created based on data published by the NBS

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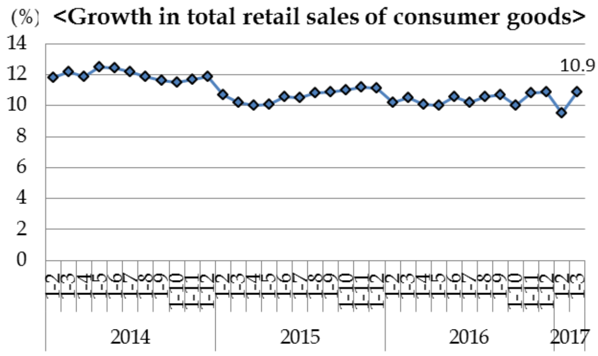


Source: Created based on data published by the NBS

◆The IMF revises up China's 2017 growth forecast to 6.6%

On April 18, the IMF announced an update of the World Economic Outlook in which they revised up their growth forecast for China to 6.6% for 2017 (up 0.1 points from the January forecast) and 6.2% for 2018 (up 0.2 points from the January forecast).Their global growth projections were revised up for 2017 to 3.5% (up 0.1%) and unchanged for 2018 at 3.6%.

They explained that the forecasts for China were revised upward in "anticipation of continued policy support in the form of strong credit growth and reliance on public investment to achieve growth targets." Meanwhile, they said that "the medium-term outlook, however, continues to be clouded by increasing resource misallocation and growing vulnerabilities associated with the reliance on near-term policy easing and credit-financed investment." As for risks in the Chinese economy, they pointed out that "a shift toward protectionism in advanced economies or domestic shocks, could lead to a broader tightening of financial conditions in China, possibly exacerbated by capital outflow pressures."

<IMF's GDP growth forecast for China and the world economy> (%)

		2017	2018
China	January 2017	6.5	6.0
	April 2017	6.6	6.2
World	January 2017	3.4	3.6
	April 2017	3.5	3.6

Source: Created based on the IMF's World Economic Outlook (April 2017)

◆State Council executive meeting decides to introduce new tax cuts

In the April 19 State Council executive meeting, Premier Li Keqiang decided on the policy to introduce new tax cuts to shore up the real economy by reducing corporate costs and boosting the overall economy. The tax cuts are expected to amount to RMB 380 billion this year.

The tax cuts are comprised of the following six measures:

(1) Simplification of the VAT rate structure (effective from July 1, 2017)

The four-tiered VAT system with tax rates of 6%, 11%, 13%, and 17% will be simplified to three levels, abolishing the 13% VAT rate. Through this change, the VAT rate applied to agricultural products and natural gas will be reduced from 13% to 11%.

(2) Expansion of tax cut incentives for small enterprises with limited profits (effective between January 1, 2017 and December 31, 2019)

The scope of the preferential tax treatment of halving the amount of income subject to tax and applying a 20% corporate tax rate will be expanded to small enterprises with RMB 500,000 or less profits from RMB 300,000 or less.

(3) Expansion of tax cut incentives for small- and medium-sized tech firms (effective between January 1, 2017 and December 31, 2019)

The proportion of pre-tax deduction for R&D costs at small- and medium-sized tech firms will be raised from 50% to 75%.

(4) Expansion of tax cut incentives for venture investment (effective from January 1, 2017)

Investors investing in ventures in the pre-start-up or start-up phase in eight pilot zones for innovation and reform in Jing-Jin-Ji (Beijing, Tianjin, and Hebei), Shanghai, Guangdong, Anhui, Sichuan, Wuhan, Xi'an, and Shenyang, and Suzhou Industrial Park are eligible to a 70% tax deduction.

(5) Nationwide expansion of pre-tax deductions for individuals' private health insurance premiums (effective from July 1, 2017)

Premiums paid by individuals for health insurance products meeting specific conditions can be deducted from their income subject to tax up to RMB 2,400 annually.

(6) Extension of part of preferential tax policies that expired at the end of 2016 (extended to December 31, 2019)

This includes the 50% reduction in tax rates on urban land use by commodity warehouses for logistics companies and the exemption of VAT on interest income earned by banks from loans to farmers.

◆The manufacturing PMI for April falls 0.6 points from March, to 51.2

According to an April 30 announcement by the National Bureau of Statistics (NBS) and the China Federation of Logistics & Purchasing (CFLP), the manufacturing PMI for April fell 0.6 points to 51.2, the first drop in three months, but has exceeded 50, the turning point for the economy, for nine consecutive months.

All major items experienced a drop, as production fell 0.4 points month-on-month (MoM) to 53.8, new orders dropped 1.0 points MoM to 52.3, new export orders fell 0.4 points MoM to 50.6 and imports fell 0.3 points MoM to 50.2.

NBS gave reasons including (1) a slowdown in the growth of both supply and demand, (2) a slowdown in the growth of energy-intensive industries, in particular iron and steel smelting and rolling industries, and (3) the impact of fluctuations in resource commodity prices as factors behind the drop in manufacturing PMI.

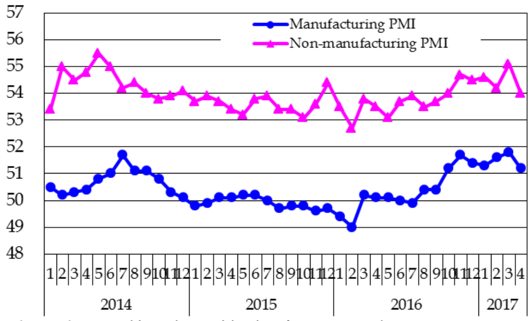
Furthermore, the April non-manufacturing PMI fell 1.1 points MoM to 54.0, the first drop in two months. While the financial industry PMI plummeted 7.1 points MoM to 56.6, the construction industry PMI continued to perform well this year, rising 1.1 points MoM to 61.6.

<Changes in major manufacturing PMI items>

		Manufacturing PMI	Production	New orders	New export orders	Import	Employment	Expected production and business activities
16'	Jan.	49.4	51.4	49.5	46.9	46.4	47.8	51.3
	Feb.	49.0	50.2	48.6	47.4	45.8	47.6	53.3
	Mar.	50.2	52.3	51.4	50.2	50.1	48.1	54.8
	Apr.	50.1	52.2	51.0	50.1	49.5	47.8	55.0
	May	50.1	52.3	50.7	50.0	49.6	48.2	55.1
	Jun.	50.0	52.5	50.5	49.6	49.1	47.9	55.2
	Jul.	49.9	52.1	50.4	49.0	49.3	48.2	55.8
	Aug.	50.4	52.6	51.3	49.7	49.5	48.4	56.4
	Sep.	50.4	52.8	50.9	50.1	50.4	48.6	57.3
	Oct.	51.2	53.3	52.8	49.2	49.9	48.8	58.2
	Nov.	51.7	53.9	53.2	50.3	50.6	49.2	59.0
	Dec.	51.4	53.3	53.2	50.1	50.3	48.9	58.2
17'	Jan.	51.3	53.1	52.8	50.3	50.7	49.2	58.5
	Feb.	51.6	53.7	53.0	50.8	51.2	49.7	60.0
	Mar.	51.8	54.2	53.3	51.0	50.5	50.0	58.3
	Apr.	51.2	53.8	52.3	50.6	50.2	49.2	56.6

Source: Created based on public data from NBS and CFLP

<Trend of PMI>



(Source) Created based on public data from NBS and CFLP

◆The Chinese Academy of Social Sciences revises their forecast for 2017 GDP growth up to around 6.6%

The Chinese Academy of Social Sciences (CASS), a government think tank, released their "Spring Economic Report: Analysis of the Outlook for the 2017 Chinese economy on April 28. They revised their previous (December 2016) forecast for the 2017 GDP growth rate upward by 0.1 points, to around 6.6%, expressing their perspective that the government's target of around 6.5% is achievable. The forecast predicted a quarterly slowdown but the continuation of a stable situation, with 6.9% for Q1, 6.7% for Q2, 6.6% for Q3 and 6.5% for Q4.

CASS pointed out that while the world economy is facing various uncertainties such as anti-globalism and protectionism, the Chinese economy is continuing stable growth, and optimization of the economic model and basic stability in employment can be expected.

CASS also indicated that out of major economic indices, the growth of investment in fixed assets would slow down from the previous year to +8.0%, and looking at the investment structure, investment in infrastructure would continue to be the main driving force, with investment in the manufacturing industry growing by 3.5%, investment in infrastructure growing by 16.5% and investment in real estate growing by 5.2%. On the other hand, while CASS predicted that private investment would be on the path to recovery, growing 4.4%, the growth would remain low due to the increase in management costs such as an increase in rent due to skyrocketing real estate prices and increases in labor costs putting pressure on the production activities and management of corporations. In addition, the consumer price index (CPI) is predicted to rise by 2.1%, falling short of the government target of 3.0%, and the growth of consumption is predicted to be stable overall, though the growth of imports and exports will slow down.

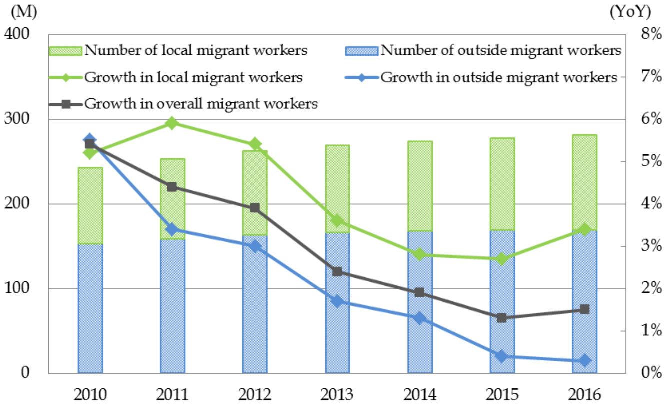
CASS also listed proactive implementation of fiscal policies, adequate expansion of the fiscal deficit, a focus on supply-side reforms and expansion of domestic demand and tax reforms as challenges to tackle going forward.

◆The growth in the number of migrant workers accelerates in 2016, the first time in six years, and the growth of migrant workers working in the local regions is accelerating

According to the Migrant Worker (workers from rural areas engaged in work other than agriculture) Monitoring Survey Report released by NBS on April 28, the nation-wide number of migrant workers increased by 1.5% year-on-year (YoY) in 2016 (a 1.3% YoY increase in 2015) to 281.71 million people, the growth accelerating for the first time since 2011.

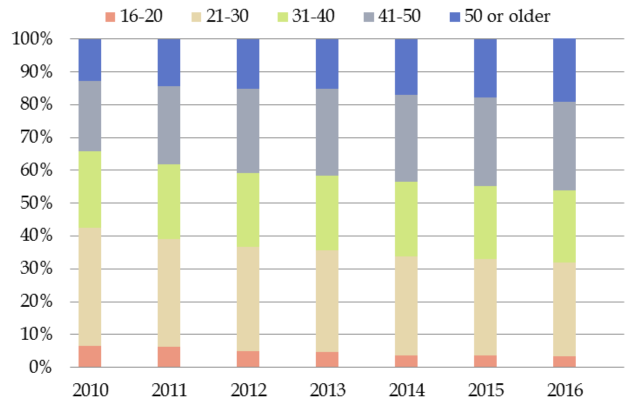
Breaking that figure down, there was a 0.3% (0.4% in the previous year) increase in "outside migrant workers" who work outside of their registered regions, to 169.34 million people, and a 3.4% increase (2.7% in the previous year) in "local migrant workers" who work within their registered regions, to 112.37 million people, showing a notable increasing trend in "local migrant workers." The report pointed out that with the government's promotion of the shift of industry from the coastal regions to inland regions and the acceleration of economic development in the mid-west regions, it has become more attractive for migrant workers, many of whom are from the inland regions, to work in their local regions, as employment has become easier to obtain, and they can care for their families.

<Number and growth of migrant workers>



Source: NBS Migrant Worker Monitoring Survey Reports from 2010-2016

<Age composition of migrant workers>



Source: NBS Migrant Worker Monitoring Survey Reports from 2010-2016

The average age of migrant workers has increased from 35.5 in 2010 to 39.0 in 2016. In particular, the percentage of migrant workers aged 50 or older has increased from 12.9% in 2010 to 17.9% in 2016, an aging trend becoming apparent. The breakdown of the other age ranges is as follows. 16-20: 3.3% (6.5% in 2010), 21-30: 28.6% (35.9% in 2010), 31-40: 22.3% (23.5% in 2010) and 41-50: 26.9% (21.2% in 2010)

The average monthly income of migrant workers increased 6.6% YoY to RMB 3,275, the rate of increase slowing for the third consecutive year, from 9.9% in 2014 and 7.2% in 2015. By region, the eastern region increased 7.4% YoY to RMB 3,454, the central region increased 7.7% YoY to RMB 3,132, the western region increased 5.2% YoY to RMB 3,117 and the northeast region decreased 1.4% YoY to RMB 3,063, the increase being the largest in the central region.

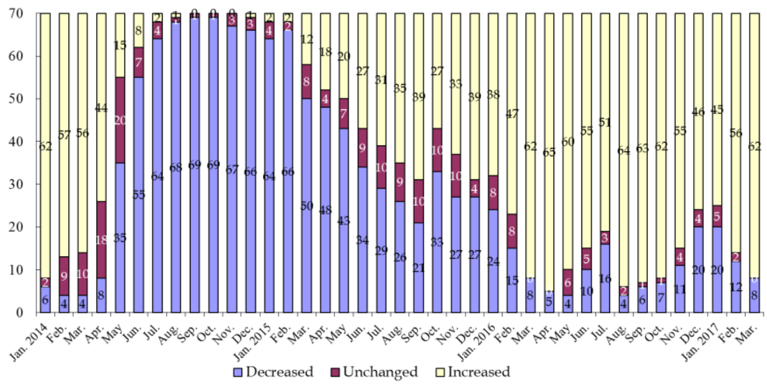
【Industry】

◆ Home prices for 70 medium and large cities for March: the number of cities with month-on-month growth increases two month in a row

On April 18, the National Bureau of Statistics (NBS) announced the home price indices for 70 medium and large cities for March.

For newly constructed homes, prices rose month-on-month in 62 cities, up six cities from the previous month, and dropped in eight cities, down 4 cities from the previous month.

<MoM change in new home prices in 70 small and medium cities>

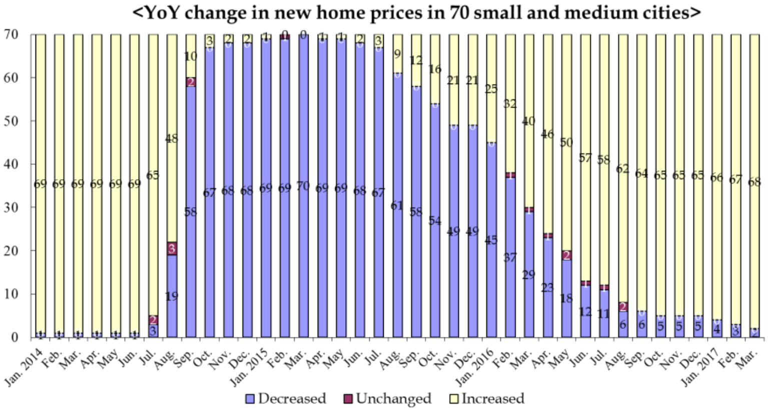


Source: Created based on data published by the NBS

The rise was steepest in Haikou City (Hainan Province), Guangzhou City (Guangdong Province), and Sanya City (Hainan Province) at 2.6%, 2.5%, and 2.3% MoM, respectively, while the fall was sharpest in Chengdu City (Sichuan Province) and Shenzhen City (Guangdong Province) at 0.7% and 0.3% MoM, respectively.

On a year-on-year basis, home prices rose in 68 cities, up one city from the previous month, and dropped in two cities, down one city from the previous month.

<YoY change in new home prices in 70 small and medium cities>



Source: Created based on data published by the NBS

Specifically, home prices rose sharply in Hefei City (Anhui Province) at 34.7% YoY, Xiamen City (Fujian Province) at 32.3% YoY, and Wuxi City (Jiangsu Province) at 31.8% YoY, and declined the most in Jinzhou City (Liaoning Province) at 1.8% YoY and Urumqi City (Xinjiang Autonomous Region) at 0.1% YoY.

The average YoY growth in home prices fell 3.4 percentage points from the previous month for first-tier cities(Note) and 0.6 percentage points for second-tier cities(Note), while increasing 0.4 percentage points for third-tier cities(Note).

Note: First-tier cities: Beijing, Shanghai, Guangzhou, and Shenzhen

Second-tier cities: 31 cities including provincial capitals and sub-provincial cities

Third-tier cities: 35 of the 70 cities excluding first- and second-tier cities

[Trade/Investment]

◆The drop in foreign direct investment, both inward and outward, shrinks in January-March

The Ministry of Commerce (MoC) announced the statistical data for March inward and outward foreign direct investment on April 18 and 19.

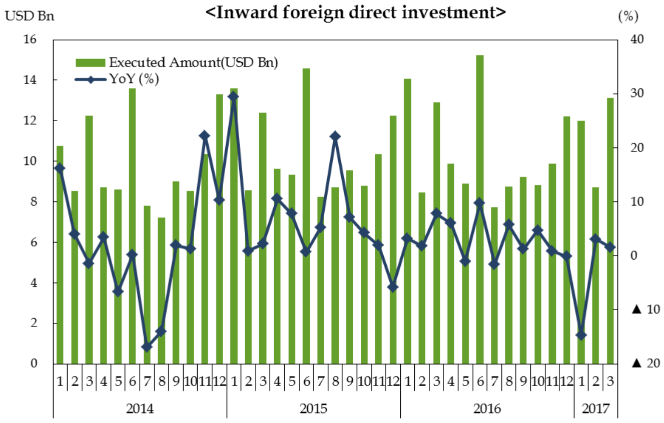
<Inward foreign direct investment>

In March inward direct investment (excluding the financial sector), newly established non-Chinese corporations decreased 1.5% MoM to 2,523 companies, and the amount of inward foreign direct investment (on an actual basis), increased 1.6% YoY to USD 13.11 billion, the growth being positive for two consecutive months. Cumulative for January-March, newly-established non-Chinese corporations increased 7.2% YoY to 6,383 companies and inward foreign direct investment (on an actual basis) decreased 4.5% YoY to USD 33.81 billion.

By country and region, direct investment from Japan continued its decrease, decreasing 6.9% YoY (*) to USD 0.94 billion, but the drop has slowed compared to January-February (-19.7% YoY). While investment from ASEAN also plummeted 34.6% YoY to USD 1.18 billion, investment from the EU made a steady climb of +4.7% YoY to USD 2.85 billion.

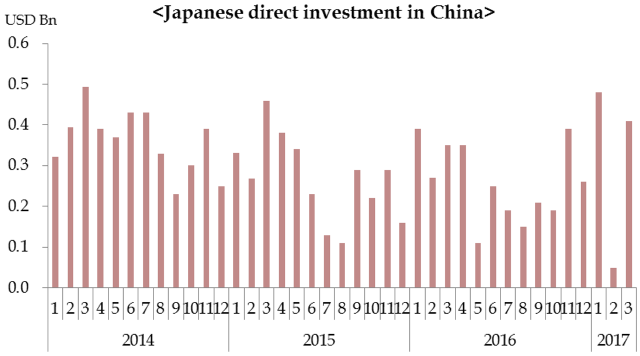
(*) Calculated by BTMU based on the MoC announcement

<Inward foreign direct investment>



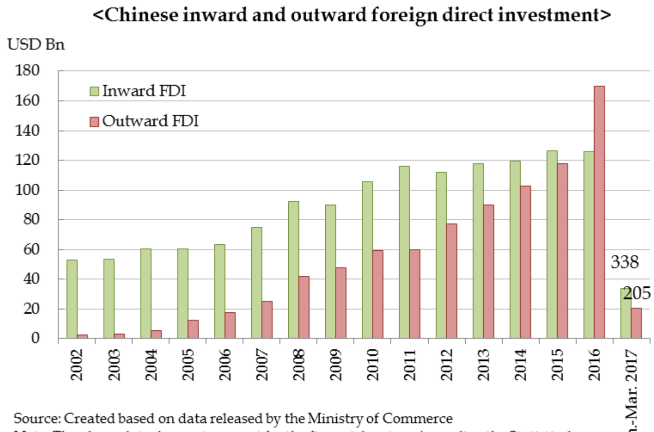
Source: Created based on data released by the Ministry of Commerce

<Japanese direct investment in China>



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

By sector, investment in the manufacturing sector declined 17.5% YoY to USD 8.84 billion, but investment in the manufacturing of telecommunications systems equipment and general equipment saw a large increase. Investment in the service sector turned around, reaching a 1.2% rise to USD 24.73 billion, and investment in the production and supply of electricity, gas and water, leases and business services, transportation, warehouses and the postal service showed strong increases.



Source: Created based on data released by the Ministry of Commerce
Note: The above data does not account for the financial sector. According the Statistical Bulletin on China's Outward Direct Investment in 2015 (including the financial sector) jointly published by the National Bureau of Statistics, the Ministry of Commerce and the State Administration of Foreign Exchange, outward FDI exceeded inward FDI in 2015.

<Outward foreign direct investment>

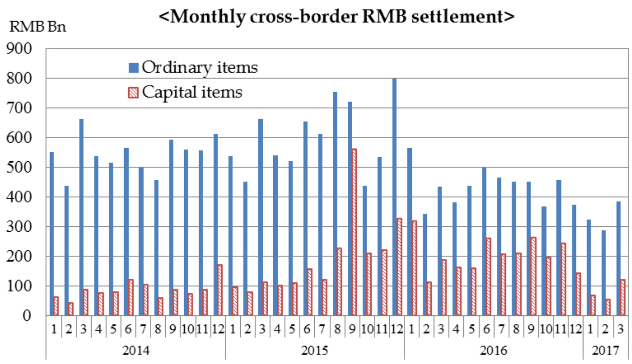
March outward foreign direct investment (excluding the financial sector) dropped 30.1% YoY to USD 7.11 billion, continuing the large decline from the previous month. On a January-March cumulative basis, outward foreign direct investment dropped 48.8% YoY to USD 20.54 billion.

The breakdown of the January-March investment amount shows a massive YoY increase from 13.5% to 24.7% in the manufacturing sector and from 4.3% to 14.3% in the ICT, software and ICT service industries.

[Finance/Exchange]

◆January-March: cross-border RMB settlement

The People's Bank of China (PBoC) announced on April 14 that the January–March cross-border RMB settlement amount was 994.2 billion for Ordinary transactions, with 795.4 billion for the trade of goods and 198.8 billon for the trade of services. For capital transactions that amounted to 241.7 billion, inward foreign direct investment was 177.6 billion and outward foreign direct investment was 64.1 billion.



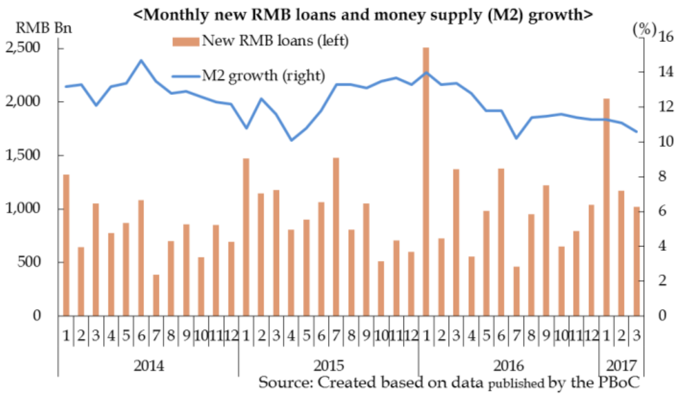
Source: Created based on data published by the PBoC

◆March: 1.02 trillion recorded in new RMB loans, down 349.7 billion YoY and down 150 billion MoM

The People's Bank of China announced on April 14 that new RMB loans in March were down 349.7 billion YoY and down 150 billion from the previous month, amounting to 1.02 trillion.

Total social financing(Note), which indicates the amount of liquidity supplied to the real economy, decreased RMB 220 billion YoY and increased 970 billion from the previous month, resulting in 2.12 trillion.

Money supply (M2) at the end of March increased 10.6% YoY to RMB 159.96 trillion, slowing down from the end of February by 0.5 percentage points.



Source: Created based on data published by the PBoC

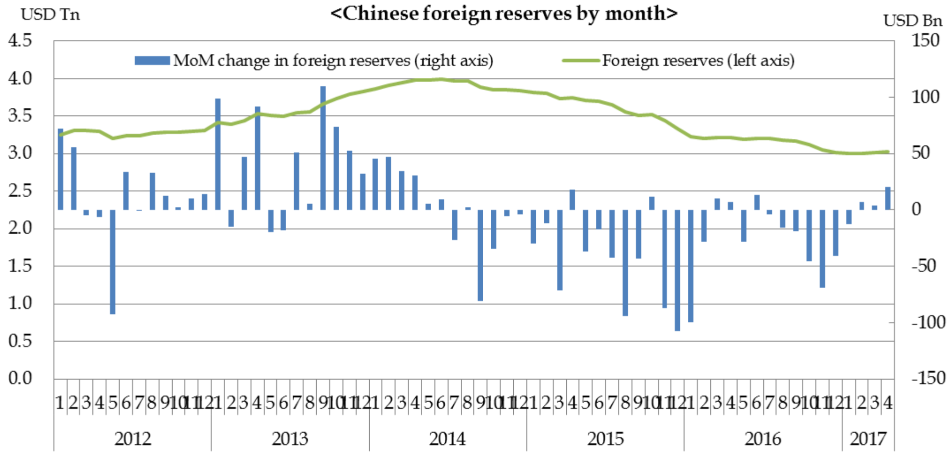
Note: Total social financing =RMB loans + Foreign currency loans + Entrusted loans + Trust loans + Bank acceptances + Corporate bonds + Stocks issued by non-financial firms + Insurance company payouts + Investment properties + Other

◆Foreign reserves increase for the third consecutive month in April

According to an announcement by the People's Bank of China (PBoC) on the 7th, foreign reserves increased by USD 20.4 billion to USD 3.0295 trillion in April, an increase for the third consecutive month.

According to the analysis by the State Administration of Foreign Exchange (SAFE), the increase in the April foreign reserve balance was due to cross-border fund transfers continuing in a balanced condition, balanced supply and demand for foreign currency and an increase in the amount of assets in other currencies converted to USD due to the weak dollar. Furthermore, SAFE expressed their viewpoint that the desire of individuals and corporations to convert assets to RMB has been somewhat increasing since the current economy is stable.

<Chinese foreign reserves by month>



Source: Created based on data released by PBoC

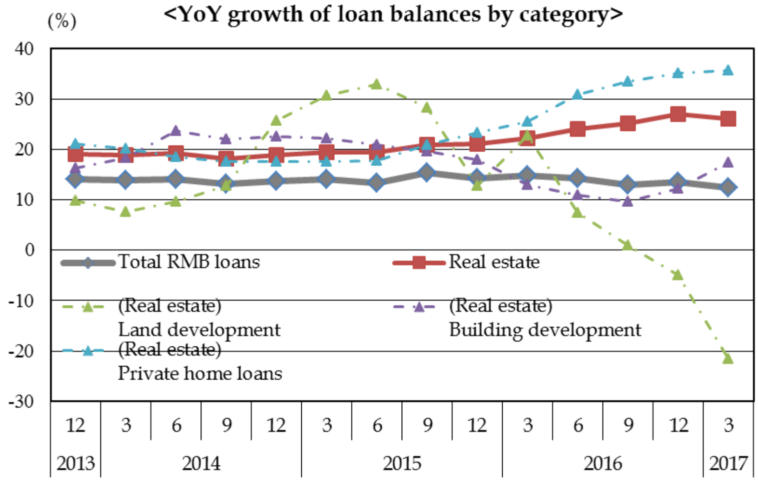
◆Private home loans increase 35.7% year-on-year in March loan statistics by area

PBoC announced the statistics for financial institution loans by area for January-March 2017 on April 25. The amount of new RMB loans in January-March dropped by RMB 385.6 billion YoY to RMB 4.22 trillion. Out of that, loans for real estate increased by RMB 197.0 billion YoY to RMB 1.7 trillion, accounting for 40.4% of total new RMB loans, a 4.5% decrease from 2016.

The RMB loan balance for the end of March 2017 increased 12.4% YoY to RMB 110.83 trillion, the rate of increase slowing by 1.1 points from the end of December 2016. Out of that, real estate loans increased by 21.6% YoY to RMB 28.39 trillion, the rate of increase slowing by 0.9 points from the end of December 2016.

Breaking down the real estate loan balance, loans for land development decreased by 21.5% YoY (-4.9% YoY at the end of December 2016) to RMB 1.41 trillion, loans for building development grew 17.3% YoY (+12.2% YoY at the end of December 2016) to RMB 6.13 trillion, and private home loans remain high, with an increase of 35.7% YoY (+35.0% YoY at the end of December 2016).

<YoY growth of loan balances by category>



Source: Created based on PBoC data