China's annual investment growth hits record low

Chinese economic activity data

- **Fixed-asset investment**: rose by 5.2 per cent in the 10 months to October on a year earlier (consensus: +5.4 per cent), down from 5.4 per cent growth in the nine months to September. It was the weakest annual growth rate since records began in 1998.

- **Industrial production**: rose at a 4.7 per cent annual rate in October (consensus: +5.4 per cent). Production had risen by 5.8 per cent in the year to September.

- **Retail sales**: rose at a 7.2 per cent annual rate in the year to October (consensus: +7.8 per cent), down from the 7.8 per cent annual rate in the year to September.

- **Property investment**: rose by 10.3 per cent in the 10 months to October on a year earlier, down from the 10.5 per cent annual growth rate in September.

- **The unemployment rate**: fell to 5.1 per cent in October from 5.2 per cent in September.

The Chinese data is important for exporters, especially rural producers, consumer goods, mining and energy companies.

What does it all mean?

- Could China miss its full-year economic growth (GDP) target of 6-6.5 per cent? Possibly. But National Bureau of Statistics spokesman Liu pointed to the fall in the jobless rate as a potential catalyst for additional consumer spending. And if China e-commerce giant Alibaba’s record-breaking 24-hour ‘Singles Day’ online sales - US$38.3 billion on Monday - are any indication, China’s authorities could be right!

- But with the annual GDP growth rate already at 6 per cent - the slowest rate in 27 years – in the September quarter, the pressure is building on Chinese policymakers to mount a stimulus rearguard action. Curiously, however, there was no explicit mention of policy easing in today’s National Bureau of Statistics’ briefing.

- China's fixed asset investment – or infrastructure spending – continues to weaken. In fact, in the 10 months to October from a year ago, the growth rate slowed to 5.2 per cent – the slowest rate since data records began in 1998.

- Why? China’s policymakers remain hamstrung by elevated debt and an ongoing determination to clamp down on the activities of non-bank financial institutions – otherwise known as ‘shadow banks’. With shadow banks facing tighter regulatory scrutiny, Chinese private sector firms are finding it difficult to obtain funding for investment in major projects. So it’s little surprise that private sector annual investment growth slowed to near 3-year lows in October to be up just 4.4 per cent from the year before.

- Chinese authorities have responded quickly, however, with China Central Television (according to Bloomberg) today announcing that capital requirements for some infrastructure projects will be “improved to accelerate...”

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**Graph:**

**China investment growth slows**

Source: National Bureau of Statistics, CommSec

**Social stability**

China urban unemployment rate, per cent

Source: China National Bureau of Statistics, CommSec

Target of “around 5.5%”

2-year high

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*effective investment.* In fact, the minimum capital requirement for ports and shipping projects will be lowered by 5 per cent to 20 per cent. The 5 per cent cuts will also be extended to road, rail and ecological projects.

- How does this benefit Australia? Well, China is our largest trading partner. Combined with likely winter curbs to local steel production to counter air pollution, demand for higher-quality seaborne iron ore from major Aussie producers - BHP, Rio Tinto and Fortescue Metals – may increase, boosting export incomes and hopefully hiring of miners.

**What do the figures show?**

**Chinese economic data - October**

- **Retail sales** rose at a 7.2 per cent annual rate in the year to October (consensus: +7.8 per cent), down from the 7.8 per cent annual rate in the year to September. Over the year to October, urban retail spending was up by 7.0 per cent (up 7.8 per cent in September) and rural spending lifted by 8.6 per cent (up 9.0 per cent in September).
- By category over the year to October, spending on communication appliances (up 22.9 per cent) rose most, followed by daily-used items (up 12.0 per cent) and beverages (up 9.5 per cent). Spending fell most for jewellery (down 4.5 per cent), petroleum (down 4.5 per cent), office supplies (down 3.4 per cent) and automobiles (down 3.3 per cent).
- **Industrial production** rose at a 4.7 per cent annual rate in October (consensus: +5.4 per cent). Production had risen by 5.8 per cent in the year to September. Over the year to October, electricity output rose by 6.6 per cent (up 5.9 per cent in September), manufacturing output lifted by 4.6 per cent (up 5.6 per cent in September) and mining output rose by 3.9 per cent (up 8.1 per cent in September).
- By industry over the year to October, production of machineries (up 10.7 per cent) lifted the most, followed by non-ferrous smelting (up 9.1 per cent) and telecommunications/computers (up 8.2 per cent). Production fell most for agricultural food processing (down 2.7 per cent) and textiles (down 1.3 per cent).
- **Fixed-asset investment** rose by 5.2 per cent in the 10 months to October on a year earlier (consensus: +5.4 per cent), down from 5.4 per cent growth in the nine months to September. It was the weakest annual growth rate since records began in 1998. In the 10 months to October on a year earlier, state-owned enterprise investment growth rose by 7.4 per cent (up 7.3 per cent in September) and private sector investment growth lifted by 4.4 per cent (up 4.7 per cent in September). Investment growth in the primary sector was down by 2.4 per cent.
- By industry over the 10 months to October on a year earlier, investment growth was strongest for mining (up 25.1 per cent), education (up 18.0 per cent), and sports & recreation (up 13.8 per cent). Investment growth was weakest for textiles (down 8.5 per cent), machineries (down 7.5 per cent) and railways (down 5.9 per cent).
- **Property investment** rose by 10.3 per cent in the 10 months to October on a year earlier, down from the 10.5 per cent annual growth rate in September.
- **The unemployment rate** (nationwide survey-based jobless rate) fell to 5.1 per cent in October from 5.2 per cent in September.

**What is the importance of the economic data?**

- **China’s National Bureau of Statistics** releases its monthly economic statistics around mid-month. Quarterly GDP data is released around the 19th of January, April, July and October. China’s Customs Office releases trade data, and the People’s Bank of China releases financial statistics, around the 10th of each month. China is Australia’s largest trading partner and changes in the Chinese economy have major implications for the Aussie economy.

**What are the implications for interest rates and investors?**

- China’s economy remains under pressure. Export incomes from the US are down, industrial profits are declining, a swine flu epidemic is driving up pork prices and the ongoing struggle to deleverage the economy is weighing on private sector investment. Hong Kong political unrest is also unhelpful for consumer and market sentiment on the mainland.
- But China appears set to turn the fiscal taps on again to help stabilise growth into year-end. It’s very rare for the annual
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GDP growth target to be missed, so China’s State Council has announced today an easing in capital requirements and may also increase issuance of special government bonds to boost spending on infrastructure projects.

- The hope is that the ‘Phase 1’ trade deal with the US will proceed, reducing trade policy uncertainty, given the loss of momentum in the Chinese economy. But combined monetary and fiscal policy action from the government appears necessary to engineer a ‘landing’ for the economy.

- From an Aussie perspective, more policy stimulus focusing on infrastructure spending will be welcomed. Iron ore is our largest export. And Australia’s education, tourism and agricultural-focused sectors continue to benefit from spending by China’s growing and wealthier middle class. If ‘Singles Day’ is any guide, the Chinese consumer is still ‘alive and kicking’ and has veracious appetite for Aussie vitamins, cosmetics, wine and baby infant milk formula.

- CommBank Group economists expect a further easing in policy by the People’s Bank of China. However, concerns over financial stability and rising inflation suggests more aggressive easing may be unlikely.

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