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China's Economy Shows Signs of Recovery as Stimulus Ramps Up

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(Bloomberg) -- China's economy showed signs of recovery in August as Beijing rolled out stimulus measures to counter a slowdown, although a property market slump and Covid outbreaks continue to weigh on the outlook.

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Industrial production, retail sales and fixed-asset investment all grew faster than economists expected last month. The urban jobless rate slid to 5.3%, while the youth unemployment rate fell from a record high.

The boost to retail sales was partly due to a lower base of comparison from a year earlier and a surge in car sales after Beijing gave buyers subsidies on electric vehicles. Industrial output was also supported by a big spike in electricity production during August's heatwave, a rebound that's unlikely to be sustained.

Despite signs of improvement, the recovery remains fragile as Covid outbreaks spread to more parts of the country and the government tightens curbs to

contain infections in the run-up to the Communist Party's twice-in-a-decade leadership congress next month. A property market slump also shows no sign of easing, with separate data on Friday showing home prices have now declined every month in the past year, with the contraction in August bigger than in July.

"While today's data are better than expected, it's unlikely to change the prevailing pessimism toward China, given the multiple headwinds underway including zero-Covid, property rout and the lack of decisive policy moves before the Party Congress," said Larry Hu, chief China economist at Macquarie Group Inc.

Investors were unmoved by the data, with the yuan's breaching of the key level of 7 to the dollar on Thursday weighing on sentiment. The CSI 300 Index of stocks fell 1.6% as of 1:43 p.m. in Shanghai, with the weekly loss of 3.2% in line for the worst performance in two months. The yuan weakened 0.2% to 7.0257 per dollar in the offshore market, while the yield on 10-year government bonds rose 2 basis points to 2.68%.

The NBS said the data showed "the economy withstood the impacts of multiple unexpected factors and sustained the momentum of recovery." Even so, the economy faces a more complex and grim situation this year than in 2020, given the difficulty in controlling Covid outbreaks and a slowdown in the global economy, Fu Linghui, a spokesman NBS, told reporters in Beijing.

Helen Qiao, chief economist for Greater China at BofA Global Research, said the data suggest annual growth may still be able to reach 3.5% this year, although domestic demand remains weak.

"We need to see more policy action to help," she said in an interview on Bloomberg TV. "In our view, the only policy that will help is to relax the Covid controls."

The government and central bank took several steps recently to support the housing and construction industries, seeking to bolster an economy that's

slowed sharply this year. Government spending on infrastructure has also been ramped up and the central bank has cut interest rates to spur growth.

The People's Bank of China refrained from another interest rate cut this week as the currency comes under pressure. The offshore yuan weakened past the key 7 per dollar level for the first time in more than two years on Thursday.

What Bloomberg Economics Says...

The upside surprise in China's August headline activity data buried bad news. The month-on-month changes in industrial output and retail sales pointed to weaker momentum in the recovery. This suggests even stronger stimulus failed to counter impact from power shortages, Covid lockdowns and the property slump.

We expect policy makers to strengthen support -- increasing leeway for local governments to issue more special bonds and cutting interest rates further by year end.

Chang Shu and Eric Zhu

For the full report, [click here](#).

Economists have been downgrading their growth forecasts steadily this year to 3.5%, which would be the second-weakest annual reading in more than four decades and is well below the official target of "around 5.5%" announced in March.

"Looking ahead, we believe the policy support to the economy will continue," said Zhou Hao, chief economist at Guotai Junan International Holdings Ltd. He expects the loan prime rates to be lowered further "as the mortgage loans remain soft."

The auto industry was a key driver for August's pickup in both industrial output and retail sales after the government halved the tax on some new passenger cars from June 1, fueling demand. The production of new energy vehicles soared 117% on year last month.

Power generation was another main contributor with coal-based production of electricity jumping 14.8% last month from a year earlier to address shortages in mainly the country's southwest that was hit by a heatwave and a drought.

Output of construction-related materials continued to fall, reflecting protracted weakness in the real-estate sector. The production of cement fell 13.1% year-on-year in August, deepening from a drop of 7% in the previous month.

However aluminum output hit a record last month despite power shortages, up almost 10% after exports rose in recent months to to make up for production losses caused by the spike in energy costs in the wake of Russia's invasion of Ukraine.

Beijing's Covid Zero strategy remains a major threat to growth, with key cities like Chengdu only recently emerging from lockdowns. Tourism has been decimated and travel during the upcoming National Day holidays in October is being discouraged.

(Updates with economist's comment, more details)

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