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Comments on Current Economic Indicators, Policy & Events

Global Economy—China

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China's Activity Slowed Sharply in October

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China's activity missed estimates by a large margin in October across all gauges, reflecting broad weakness in the economy, exacerbated by the week-long national holiday at the beginning of the month. Fiscal support has yet to show material effect but more fiscal and monetary stimuli could be on the way.

Industrial Output slowed to 4.7% y/y after a rebound to 5.8% in September, even though the cumulative gauge held at 5.6% ytd y/y. Retail sales plunged to 7.2% y/y from 7.8%, dragging the cumulative gauge down to 8.1% ytd y/y from 8.2%. Moreover, the push in local government infrastructure investment seems ineffective so far, with **urban fixed asset investment decelerating to a record low** of 5.2% ytd y/y from 5.4%.

More Details

- Manufacturing Output slowed to 4.6% y/y from 5.8% in September, while Electricity Output jumped to 4% from 3.1%. The decline in manufacturing
- Auto sales and oil products weighed on retail sales in October, down 3.3% y/y and 4.5% y/y, respectively. Consumer discretionary products such as jewelry and clothing also declined, which could be related to the national holiday and the anticipation of promotional events in November.
- Private investment slowed again to 4.4% ytd y/y by October, compared to 4.7% in the first nine months of 2019, whereas state-owned investment edged up to 7.4% ytd y/y from 7.3%.

Bottom-Line

Continuing downward pressure on the Chinese economy seems nowhere near dwindling, which may suggest either the fiscal and monetary stimuli are falling behind the curve or they are far from enough. The government is obviously eager to ratchet up fiscal stimulus, as the State Council of China announced today before activity data releases to lower the minimum capital requirement for ports and shipping infrastructure projects from 25% to 20%. Additionally, the People's Bank of China is more likely to cut the Required Reserve Ratio by the end of 2019 given prolonged deterioration in activity, after cutting the medium term lending facility rate for the first time in three years last week.

Nevertheless, with trade outlook misty again as the U.S. and China struggle to find common ground, it is too early to say whether the Chinese economic growth will bottom out after an expected fall below 6% in the fourth quarter.

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