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# Mizuho Economic Commentary-China

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May 2017 edition

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## ◆ Topic

### **Recent financial risk trends**

The Chinese government has positioned preventing financial risk as a key policy issue. In particular, since the start of 2017 the financial authorities have clamped down on the rapidly-expanding shadow banking sector in order to deal with issues like the increasing complexity of fund management structures and the bypass loans to industries subject to bank lending restrictions. The mood surrounding the Chinese economy is currently optimistic, but it will take time to eliminate financial risk, so caution will still be needed.

## ◆ Economic trends

### **All the major monthly indicators fell in April**

Production, exports, investment and consumption all grew at a slower year-on-year pace in April, in part due to seasonal factors, but overall growth remained high. With the authorities adopting a neutral stance, money supply growth is slowing, but the authorities are working to prevent market turmoil by providing funds as needed, for instance.

## **1. Topic: Recent financial risk trends**

**The Chinese government is worried that the shadow banking sector might trigger financial risk**

The Chinese government has been eliminating overcapacity and weeding out zombie firms as part of its program of structural reform of the economy, but the prevention of financial risk has also become a key policy issue from the latter half of 2016 onward. Of particular concern are the risks associated with the shadow banking sector. Shadow banking is the generic name given to funding channels outside the bank loan system. These channels are quite hard for the financial authorities to monitor and regulate. As such, they could potentially trigger financial risk, which is why the sector has attracted attention both within China and overseas since the start of the 2010s.

**Major issues include: the complexity of fund management structures; the use of the banking sector to raise funds in industries subject to bank lending restrictions; and liquidity risk due to maturity mismatches**

One specific problem is the complexity of fund management structures. When commercial banks manage their own capital or funds raised through wealth management products (WMPs), they do so by investing in the WMPs of other banks or by entrusting the management of funds to external financial institutions, such as securities companies. This creates multi-layered funding flows, with leverage rates rising as banks seek to maintain profit margins and so on at each layer. Furthermore, even though diversely-structured financial institutions have become involved in fund management, financial administration is carried out by the central bank, with the banking, securities and insurance sectors also regulated by separate bodies, so it is difficult for the authorities to respond in a flexible, effective manner.

Another problem lies in the way the shadow banking sector has become a financing route for industries subject to bank lending restrictions, such as the real estate sector or local government finance platforms (which shoulder the burden of infrastructure investment). A glance at the issuances of bonds (the main target for WMP investment) by industry (as of the end of 2016) shows the mining and manufacturing sectors (both of which face overcapacity issues) accounting for 18.9% of all issuances, with real estate and construction accounting for 33.7% and infrastructure (electricity, heating, gas and water, transportation, warehousing, postal services, water conservancy, the environment, and public facilities) 23.2%. It seems WMPs also invest in low-liquidity assets labelled ‘non-standard debt assets,’ such as entrusted loan assets or beneficiary interests in real estate development projects.

Liquidity risk could also flare up easily due to maturity mismatches. This is because most WMPs have maturities of less than a year, while funds raised via WMPs are invested in long-term assets like those mentioned above. Cases of WMP defaults are rare, but this may simply be because they do not come to the surface. Many banks use a management method called fund pooling. This produces rough estimates by lumping everything together rather than matching each WMP with each investment target asset. Moreover, it seems banks can make up for losses and avoid defaulting.

**The shadow banking sector is expanding at a faster pace than bank lending**

The shadow banking sector, with all these problems, has steadily grown larger these past few years. A glance at the products that constitute the shadow banking sector (based on the classifications used in the total social financing statistics) reveals that the balance of bonds (the main targets for WMP investment), entrusted loans, trust loans and bankers' acceptances is growing at a faster pace than the balance of bank lending (Fig. 1). Investment in the aforementioned non-standard debt assets (which are not counted in the total social financing statistics) is also increasing. Though some of the figures may be duplicated, a simple aggregation of these products shows the total balance ballooning to RMB 64.3 trillion by the end of 2016, close to 60% of the bank lending balance (RMB 107.8 trillion).

**The financial authorities have introduced tougher measures in 2017, but it will take more time to eliminate financial risk**

In the wake of this situation, the China Banking Regulatory Committee has released a series of notices since spring this year as it seeks to cover up the deficiencies of the existing regulatory system and clamp down on financial institution malpractice. For example, commercial banks are now required to ascertain the assets of the final investment destination of WMPs, post required reserves, and prepare means for ensuring liquidity during emergencies. Furthermore, the management of WMPs via fund pooling has been banned and limits have been placed on the scale of investment in non-standard debt assets. Commercial banks are also required to disclose more information to investors about financial products.

Furthermore, the People's Bank of China (PBOC) has strengthened its management framework. From 2017, for instance, its Macro Prudential Assessment (MPA; a program to assess the quality of financial institution assets) has newly included bank WMPs in assessments of broad credit. Under its 'prudent and neutral' monetary policy administration, meanwhile, the PBOC has sought to control credit by guiding interbank

market rates higher and curbing the unregulated expansion of the shadow banking sector.

Despite this crackdown on shadow banking, the authorities will avoid tightening policy too quickly in order not to destabilize the financial system. As a result, financial risk will continue to smolder for some years yet. The mood surrounding the Chinese economy is currently optimistic, but the risk of financial stability continues to lurk in the background, so caution will still be needed.

Yusuke Miura

**Fig. 1: The total social financing balance at the end of each year**

		2011	2012	2013	2014	2015	2016	
								2010=1
Bank lending		57.0	65.9	75.0	84.9	95.8	107.8	1.89
Funds connected to shadow banking	Bonds	5.2	7.5	9.3	11.7	14.6	17.9	3.46
	Entrusted loans	4.4	5.2	7.2	9.3	11.0	13.2	2.99
	Trust loans	1.7	3.0	4.8	5.4	5.5	6.3	3.68
	Bankers' acceptances	5.1	6.1	6.9	6.9	5.9	3.9	0.77
	Non-standard debt assets	-	-	-	11.6	16.3	23.0	1.99 (*)

Note 1: The figures for bank lending (RMB and foreign currency), bonds, entrusted loans, trust loans and bankers' acceptances are derived from the total social financing (stock) statistics. The non-standard debt asset figure is calculated using a method outlined in a Caijing article from July 1, 2016, entitled '瑞银:社会融资中“缺失”的影子信贷有多少?'

Note 2: [2014 = 1] for non-standard debt assets in the data for growth as of the end of 2016.

Source: Compiled by Mizuho Research Institute from data from the PBOC, China Trustee Association, Asset Management Association of China, and CEIC Data.

**Fig. 2: Shadow banking policies promulgated by the financial authorities in 2017 or currently under consideration**

Financial authority	Notice
PBOC	<ul style="list-style-type: none"> <li>Guiding opinions on standardizing financial institution asset management operations (internal investigation draft; released to the media on February 21)</li> </ul>
China Bank Regulatory Commission	<ul style="list-style-type: none"> <li>Notice on the implementation of a special crackdown on 'legal, regulatory or internal rule infringements' in the banking sector (March 29)</li> <li>Notice on the implementation of a special crackdown on 'supervisory administration infringements, fund idling, and obtaining profits through related parties' in the banking sector (March 29)</li> <li>Notice on the implementation of a special crackdown on 'improper innovations, transactions, performance incentives and fee collection' in the banking sector (April 7)</li> <li>Notice on the implementation of controls to prevent the banking sector from disturbing the market system (April 7)</li> <li>Guiding opinions on improving the quality and efficiency of the banking sector contribution to</li> </ul>

	<ul style="list-style-type: none"> <li>the real economy (April 7)</li> <li>Guiding opinions on initiatives to prevent and control risk in the banking sector (April 10)</li> <li>Notice on the steady implementation of moves to strengthen weaknesses and boost efficiency regarding supervisory control (April 12)</li> <li>Notice on the issuance of guidelines for commercial bank collateral management (April 26)</li> </ul>
China Banking Wealth Management Registration System	<ul style="list-style-type: none"> <li>Notice on initiatives to further standardize the thorough registration of wealth management products (May 15)</li> </ul>

Source: Compiled by Mizuho Research Institute from China Banking Regulatory Committee data, ‘整个资管行业将迎来统一监管’ (Caijing, February 22, 2017) and ‘理财产品穿透登记出新规’ (Caijing, May 16, 2017), etc.

## **2. Overview: All the major indicators fell in April**

**Growth slowed, partly because there were fewer business days in April this year**

Production, exports, investment and retail all grew at a slower year-on-year pace in April. Growth remained strong overall, despite there being fewer business days than the same month last year, and the economy continues to move strongly. However, there were also signs of the mining sector peaking out, with new orders moving sluggishly and shipment prices growing at a slower pace, for instance.

**Production growth slowed, though it remained strong**

At +6.5% y-o-y, real value-added industrial production grew at a slower pace in April (March: +7.6% y-o-y) (Fig. 3). Coal mining and other extractive industries saw production increasing for the first time in seven months, with output also rising again in the iron and steel sector after a nine-month hiatus. However, the tobacco industry suffered a hangover after previously enjoying a growth spurt in March, while growth slowed when it came to automobiles and related non-ferrous and ferrous metal parts after a tax break on small vehicles was reduced. After previously growing at a fast clip, meanwhile, the electronics and electrics sector grew at a slightly slower pace on a lull in mobile phone production, for example. This also pushed the industrial production figure down. Though output increased at a slower pace, production remained bullish, with growth topping the 2016 average of +6.0% y-o-y.

**The Manufacturing PMI dipped**

The government’s Manufacturing PMI remained high at 51.2 in April, though it fell for the first time in three months (March: 51.8) (Fig. 4). The employed person index dropped below 50, while the production and new orders indices also began sliding, though they remained above 50. The producer price index (a related indicator) dropped below 50 for the first time in ten months. The Caixin PMI (which is weighted more toward small- and medium-sized enterprises than the government’s PMI) began sliding from March to hit 50.3 in April (March: 51.2). As with the government’s PMI, this was because the production and new orders

**Export growth slowed**

figures fell.

At +8.0% y-o-y, export growth (nominal, dollar-denominated) fell sharply on March's figure of +16.4% y-o-y, though it remained strong (Fig. 5). The electrical machinery figure fell after soaring in March, with materials sectors like petroleum products and iron & steel also seeing slower growth. The export volume growth rate dipped to +7.0% (March: +16.5% y-o-y), with export growth sliding on both a cash and volume basis.

**Import growth contracted**

At +11.9% y-o-y, import growth (nominal, dollar-denominated) fell for the second successive month (March: +20.4% y-o-y). The figure was pushed down by the falling price of natural resources and so on. A wide range of sectors also saw imports falling or growing at a slower pace on a volume basis too, including iron ore, crude oil, petroleum products, iron & steel, semi-conductors and liquid crystal displays. At +4.5% y-o-y, import volume growth dipped in April (March: +11.1% y-o-y).

**The trade surplus continued to shrink on a y-o-y basis**

China recorded a trade surplus of \$38.0 billion in April (March: \$23.9 billion), with the surplus declining on a y-o-y basis for the ninth month in a row. The trade surplus with the ASEAN region and Hong Kong fell sharply, though China's surplus with the U.S. expanded for the second successive month.

**Investment slowed, particularly when it came to the mining and manufacturing sectors**

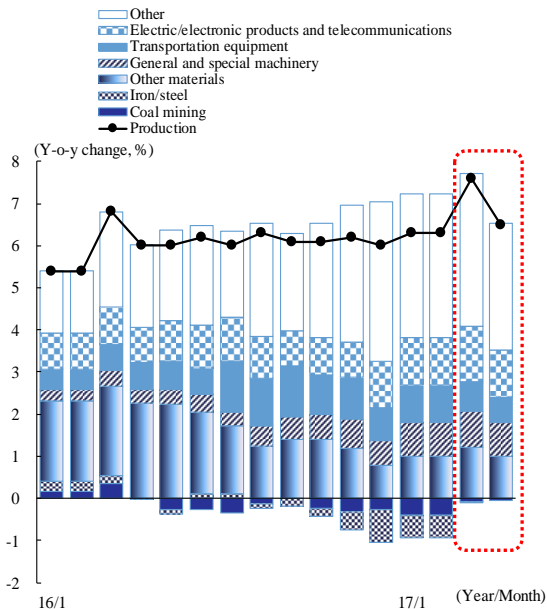
At +8.3% y-o-y, the nominal growth rate of investment in fixed assets in April was down on March's figure of +9.4% y-o-y (Fig. 6). Investment in real-estate development and infrastructure grew at a fast clip, but with mining investment continuing to fall sharply, the overall figure was also pushed down by sluggish manufacturing investment. Manufacturing in turn was pushed down by sluggish investment in the materials sector (nonmetallic mineral products, ferrous and non-ferrous metals, etc.), with the previously-firm general machinery and special purpose machinery sectors also moving bearishly. Despite lower demand, though, the automobile sector continued to see more investment, particularly when it came to electric vehicles. At +3.8% y-o-y, the real growth rate (a Mizuho Research Institute figure; hereinafter denoted by \*) fell from March's figure of +4.9% y-o-y.

**Retail growth dipped on sluggish automobile sales**

At +10.7% y-o-y, nominal total retail sales of consumer goods grew at a slower pace in April (March: +10.9% y-o-y) (Fig. 7). The breakdown for large retailers reveals this was mainly because automobile sales grew at a slower pace after a tax break was reduced, with sales of stationary and

office supplies also dropping back from last year's high levels. At +9.7% y-o-y, the real growth rate (\*) also fell on March's figure of +10.1% y-o-y.

**Fig. 3: Contribution by industry to industrial production (estimate)**

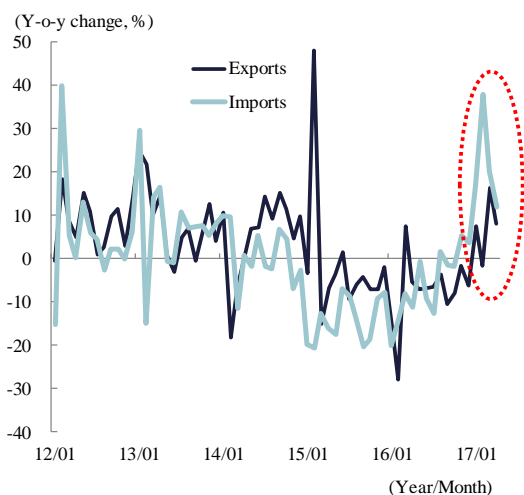


Note 1: Value-added amounts by industry from 2012 input/output tables were tabulated with production data, with the contribution rate of each industry calculated using 2015 weights derived from each value-added production growth rate.

Note 2: The figures for January and February were aggregated and compared to the same period last year.

Source: Prepared by Mizuho Research Institute based on the materials from the National Bureau of Statistics of China

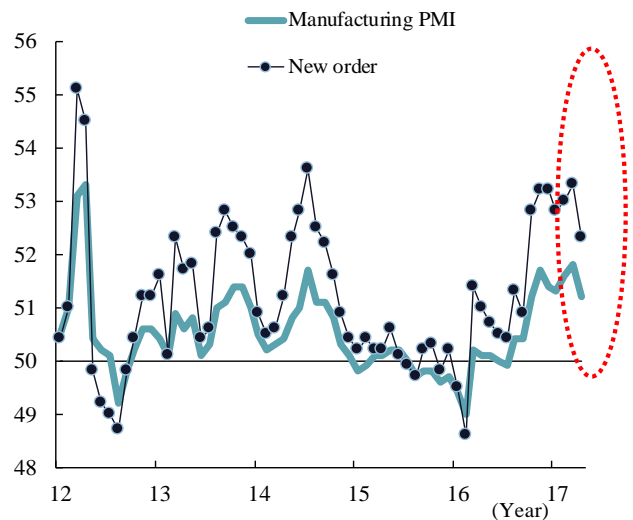
**Fig. 5: Value of Imports and Exports**



Note: Nominal, dollar-denominated

Source: Prepared by Mizuho Research Institute based on the materials

**Fig. 4: Manufacturing PMI**

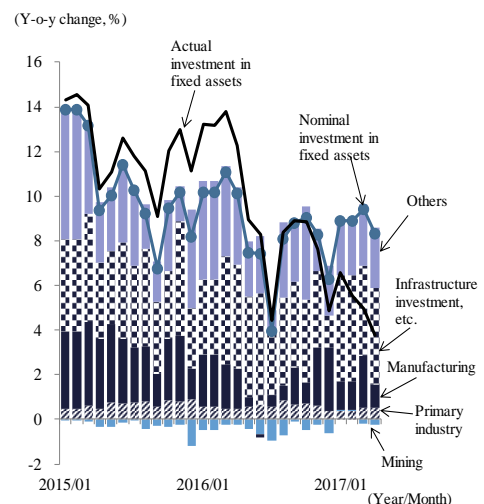


Note 1: Please note that seasonal factors, such as Chinese New Year, have not been completely eliminated from the data.

Note 2: From 2013, the number of companies sampled increased from 830 to 3,000.

Source: Prepared by Mizuho Research Institute based on the materials from the National Bureau of Statistics of China

**Fig. 6: Investment in Fixed Assets**



Note 1: The standalone monthly figures were calculated based on the

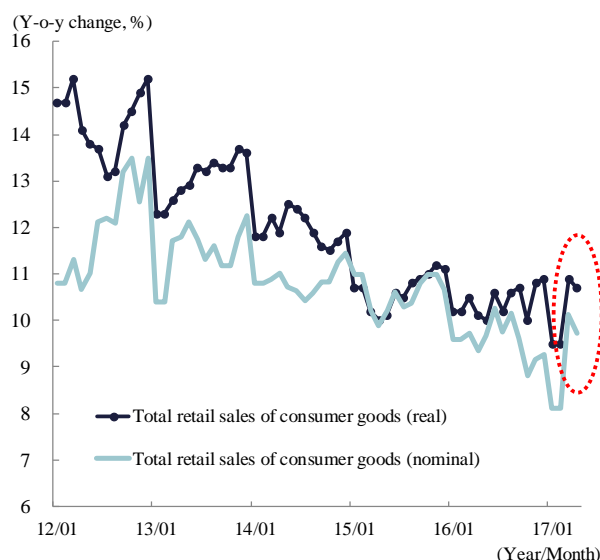
from the General Administration of Customs

cumulative investment amount

Note 2: The contribution level is calculated on a nominal basis. The fixed asset price index is converted into monthly data using spline interpolation and this data is used to calculate the real series.

Source: Prepared by Mizuho Research Institute based on the materials from the National Bureau of Statistics of China

**Fig. 7: Total Retail Sales of Consumer Goods**



Note: 1. The figures for January and February were aggregated and compared to the same period last year.

2. The total retail sales of consumer goods data has been indexed using the retail price index (The figures for January and February were publicly-released cumulative value).

Source: Prepared by Mizuho Research Institute based on the materials from the National Bureau of Statistics of China

### **3. Inflation: The CPI rose slightly but remained low; the PPI fell slightly**

#### **CPI and core CPI both grew**

At +1.2% y-o-y, consumer price index (CPI) growth in April rose to the 1% range for the first time in three months (March: +0.9% y-o-y) (Fig. 8). The fallback from last year's period of soaring food prices eased off slightly, while the price of services like healthcare and education also grew at a slightly faster pace. The core CPI data (excluding energy and food) hit +2.1% y-o-y, up on March's figure of +2.0% y-o-y.

#### **The PPI growth rate fell**

At +6.4% y-o-y, producer price index (PPI) growth in April was down on March's figure of +7.6% y-o-y (Fig. 8). At +22.3% y-o-y, this fall was particularly pronounced in the iron & steel sector (March: +36.8% y-o-y). The main reasons were probably the ongoing elimination of inventory shortages together with the sharp fall in the price of imported iron ore from March onward. Prices in the materials sector (petroleum processing, chemicals, non-ferrous metals, etc.) also grew at a slower pace. At +40.4% y-o-y, though, prices began rising again at a gentle pace when it came to coal mining and other extractive industries (March: +39.6% y-o-



**House prices continued to rise slightly on a monthly basis**

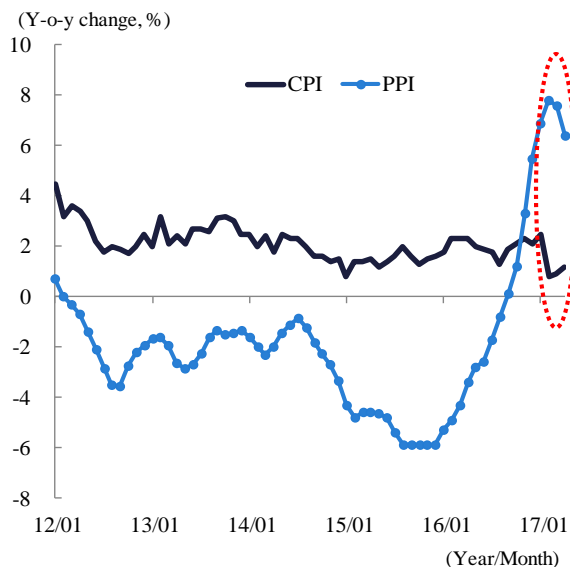
**Real estate sales in terms of floor space grew at a slower pace, though investment in development increased slightly**

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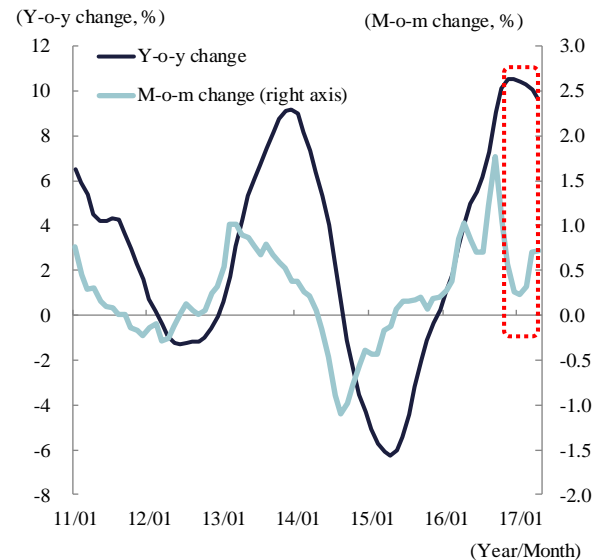
At +9.6% y-o-y, the April new-homes price index (the average of 70 major Chinese cities) was down slightly on March's figure of +10.0% y-o-y. On a monthly basis, though, it grew at a slightly faster pace for the third successive month (+0.72% m-o-m against March's figure of +0.70% m-o-m; the y-o-y and m-o-m figures are both Mizuho Research Institute estimates) (Fig. 9). Monthly home price growth dipped in first-tier and second-tier cities, though it picked up in third-tier cities. With more than 50 cities introducing rules to curb rising house prices in April, concerns are growing about speculation in some third-tier cities. Fifty-eight cities saw prices rising on a monthly basis, down from 62 in March.

At +7.7% y-o-y, real estate sales in terms of floor space continued to grow at a slower pace in April (March: 14.7% y-o-y). Housing, offices and commercial facilities all saw growth dipping. The fall in homes sales was particularly pronounced in Beijing (-33.7% y-o-y), Tianjin (-77.1% y-o-y) and Shanghai (-51.3% y-o-y). However, nominal investment in real-estate development saw a slight housing-led pick-up in growth, from +9.3% y-o-y in March to +9.8% y-o-y. Though housing investment growth slowed, investment in offices and commercial facilities increased. The total floor space of housing starts figure is a leading indicator of housing investment. It fell from +22.2% y-o-y in March to +16.6% y-o-y in April.

**Fig. 8: CPI and PPI**



**Fig. 9: The New-Homes Price Index**



Source: Prepared by Mizuho Research Institute based on the materials from the National Bureau of Statistics of China

Note: The average price indices of new homes in 70 major Chinese cities

Source: Prepared by Mizuho Research Institute based on the materials from the National Bureau of Statistics of China

#### **4. Monetary policy: With China adopting a neutral position, monetary supply growth dipped slightly**

**The money supply (M2) growth rate fell**

April's financial indicators reveal efforts by the authorities to prevent market turmoil by maintaining a neutral position while providing necessary funds and promoting foreign exchange stability, for example. At 10.5% y-o-y, money supply (M2: M1+ time, savings and other deposits) growth continued to slow (March: 10.6%) (Fig. 10). The narrow money supply (M1: cash in circulation + current deposits) fell slightly to +18.5% y-o-y (March: +18.8% y-o-y).

**Outstanding RMB loan growth picked up slightly**

New RMB loans totaled RMB 1.1 trillion in April, up on RMB1.02 trillion in March and RMB 555.6 billion in the same month last year. A year-on-year breakdown shows mid- to long-term lending to households (mainly mortgages) growing at a slower pace, though lending (particularly mid- to long-term loans) to companies and government institutions increased. The outstanding balance also grew at a slightly faster pace at +12.9% y-o-y (March: +12.4% y-o-y).

**The total social financing figure revealed an increase in trust loans**

Total social financing was up by RMB 1.39 trillion. This was slightly down on March's figure of RMB 2.1,189 trillion due to seasonal factors, but it was up on the same month last year (RMB 780.9 billion). A year-on-year breakdown shows RMB loans increasing, with off-balance-sheet items like trust loans and banker's acceptances also growing at a faster pace for the seventh successive month, though corporate bond issuances continued to slide. At +12.8% y-o-y, the total social financing balance also grew at a faster clip (March: +12.5% y-o-y), with corporate bond issuances sliding and trust loan growth expanding (Fig. 11). However, the authorities have tightening shadow banking regulations from March (see 'Topic'), so it seems bank WMP issuances underwent a month-on-month decline in April.

**In April, the PBOC pumped funds into the money markets for the first time in three months through a combination of its open-market operations, the SLF and the MLF**

In April, the People's Bank of China (PBOC) provided funds (a net RMB 210 billion) to the money markets for the first time in three months as part of its open-market operations (see Fig. 12). Though the standing lending facility (SLF) absorbed net funds, the Medium-term Lending Facility (MLF) provided net funds, with the open-market operations, the SLF and the MLF providing RMB 194.3 billion in total (as opposed to absorbing RMB 241.9 from the markets in March).

**The PBOC has provided net funds to the markets in May too**

In May, the PBOC has pumped a net RMB 20 billion into the markets via open-market operations while providing a further net RMB 229.0 billion through the MLF, with the PBOC providing funds to the markets via these two tools for the second month in a row (as of May 26).

**The RMB continued to move flatly against the dollar before appreciating from May 25. The authorities are trying to curb excessive RMB depreciation**

Though the RMB strengthened slightly against the dollar from mid-April onwards, the RMB then weakened slightly as the dollar strengthened globally on a decline in uncertainty after the centrist candidate Emmanuel Macron won the May 7 French presidential vote, as expected, with the currency pair continuing to move flatly on the whole thereafter (Fig. 13). In the face of RMB bearishness, the authorities announced they would be setting the RMB's central parity in a bullish-RMB direction from April. This was read by the markets as a signal the authorities would be curbing excessive RMB depreciation or other forms of market turmoil.

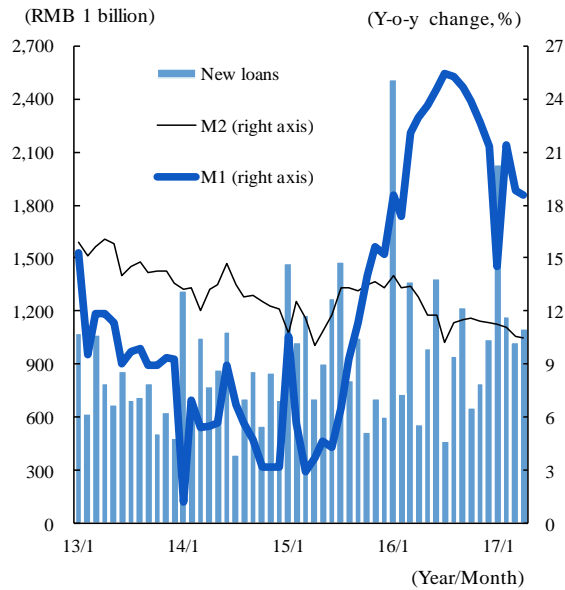
The U.S. credit rating agency Moody's downgraded China's rating one notch from Aa3 to A1 on May 24, with the RMB subsequently edging lower. The Chinese unit then appreciated on large-scale buying, apparently by the authorities, with the CNY/USD pair temporarily hitting RMB 6.855 on May 26, its highest level since February 16. May 26 also saw unofficial reports that the mechanism for setting the RMB's central parity was being adjusted to give the authorities more discretionary powers. Though this seemed counter to the trend of RMB internationalization, it seemed clear the authorities were aiming to prevent RMB depreciation in the face of rising U.S. interest rates and the impending National Congress.

**The Shanghai Stock Exchange Composite Index has continued to trend lower on tougher financial regulations**

The Shanghai Stock Exchange Composite Index has continued to trend lower since mid-April, when the authorities announced a series of measures clamping down on the banking, securities and insurance sectors (Fig. 14). The authorities then moved to prop up stock prices by announcing tougher restrictions on principal shareholders selling their own holdings (a cause of increased market volatility) on May 27, for example. Stocks moved more bearishly for a time after China's credit rating was downgraded on May 24, but closing prices on May 24 were slightly up on the previous day, so it seems the impact of the downgrade on stock prices has been limited (as of May 26).

Kaori Yamato

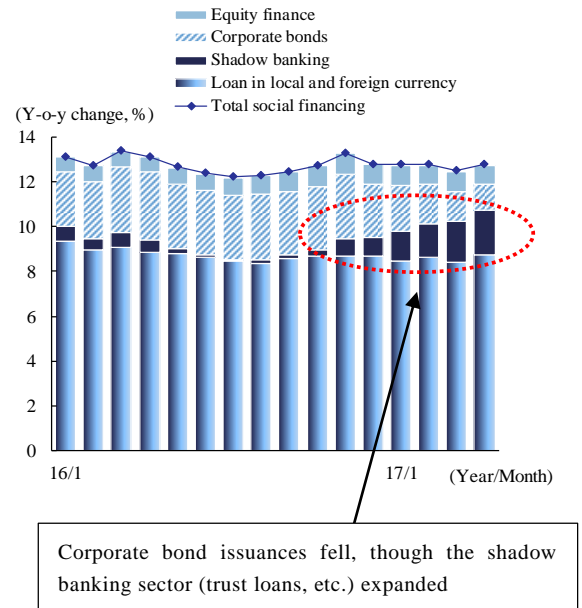
**Fig. 10: Financial Indicators**



Note: 'New loans' denotes the amount of new RMB loans.

Source: Prepared by Mizuho Research Institute based on the materials from the People's Bank of China

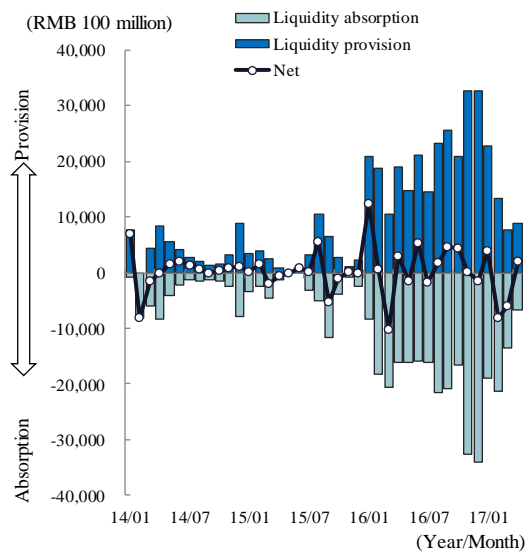
**Fig. 11: The total social financing balance (Y-o-y change)**



Note: Shadow banking is the total of entrusted loans, trust loans and banker's acceptance bills

Source: Prepared by Mizuho Research Institute based on the materials from the People's Bank of China

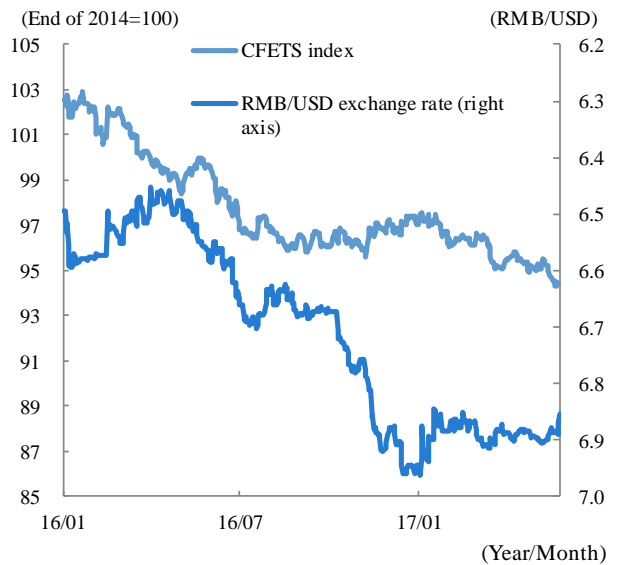
**Fig. 12: Open Market Operation**



Note: Monthly data

Source: Prepared by Mizuho Research Institute based on the materials from the People's Bank of China

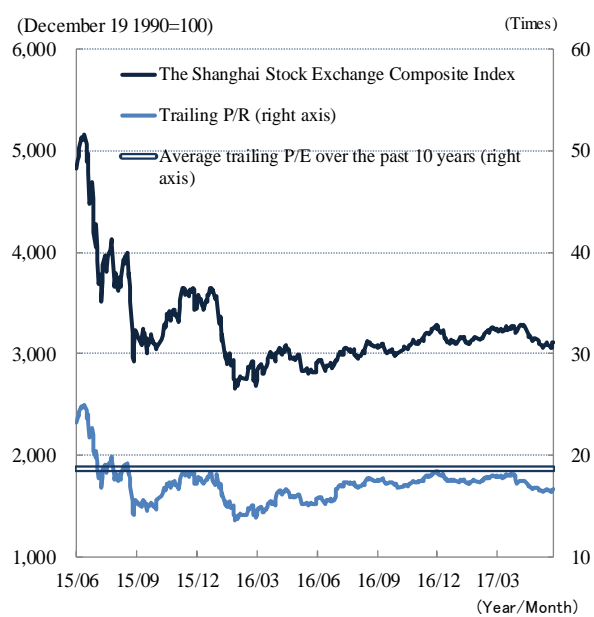
**Fig. 13: Exchange Rates**



Note: The CFETS index is a Mizuho Research Institute estimate; Daily data; The most recent day: April 26

Source: Prepared by Mizuho Research Institute based on the materials from the China Foreign Exchange Trade System (CFETS) and Bloomberg data

**Fig. 14: Stocks**



Note: Daily data; The most recent day: May 26

Source: Prepared by Mizuho Research Institute based on the materials from the People's Bank of China and CEIC data

## Appendix: China's Major Economic Indicators (1)

Headings		Unit	2015	2016	16/4Q	17/1Q	February	March	April
GDP	Real GDP	Y-o-y change (%)	6.9	6.7	6.8	6.9			
	Nominal GDP	Year-to-date (total), RMB 1 trillion	68.91	74.41	74.41	18.07			
Business Sentiment	PMI	End-of-period figure, points			51.4	51.8	51.6	51.8	51.2
	New Orders	Points			53.2	53.3	53.0	53.3	52.3
Production	Value-added Industrial Production (Real)	Y-o-y change (%)	6.1	6.0	6.1	6.0	6.8	7.6	6.5
	Light Industry	Y-o-y change (%)	6.0	4.7	5.7	4.3	6.9	8.5	7.5
	Materials	Y-o-y change (%)	8.6	6.2	3.5	8.0	4.9	4.7	3.8
	Machinery	Y-o-y change (%)	6.3	8.4	9.1	7.6	10.9	11.2	10.0
	Electric Power Generation	Y-o-y change (%)	-1.9	4.8	7.3	7.2	n.a.	7.2	5.4
	Industrial Goods Inventories	Y-o-y change (%)			1.1	6.8	6.1	8.2	0.0
	Light Industry	Y-o-y change (%)			-0.0	2.2	1.7	3.1	n.a.
	Materials	Y-o-y change (%)			-0.7	8.5	7.2	11.2	n.a.
	Machinery	Y-o-y change (%)			3.8	7.2	6.8	8.2	n.a.
	Passenger Transportation Volume	Year-to-date y-o-y change (%), passenger-kilometer	6.0	4.1	4.1	3.4	0.7	-0.5	5.4
	Freight Transportation Volume	Year-to-date y-o-y change (%), ton-kilometer	-0.5	4.0	4.0	0.7	24.9	2.8	13.7
Investment	Investment in Fixed Assets	Year-to-date (total), RMB 1 trillion	55.16	59.65	59.65	9.38	4.14	9.38	14.43
		Year-to-date y-o-y change (%)	10.0	8.1	8.1	9.2	8.9	9.2	8.9
	Real Estate	Year-to-date y-o-y change (%)	-0.2	5.4	5.4	8.5	5.6	n.a.	7.3
	Primary Industry	Year-to-date y-o-y change (%)	31.8	21.1	21.1	19.8	19.1	19.8	19.1
	Secondary Industry	Year-to-date y-o-y change (%)	8.0	3.5	3.5	4.2	2.9	4.2	3.5
	Manufacturing	Year-to-date y-o-y change (%)	8.1	4.2	4.2	5.8	4.3	5.8	4.9
	Tertiary Industry	Year-to-date y-o-y change (%)	10.6	10.9	10.9	12.2	12.2	12.2	12.1
	Actual Direct Investment	Year-to-date (total), USD 100 million	1,356	1,260	1,260	338	207	338	427
Trade		Year-to-date y-o-y change (%)	5.5	-7.1	-7.1	-4.5	-8.1	-4.5	-5.7
	Exports	USD 100 million	22,735	20,976	5,795	4,827	1,198	1,806	1,800
		Y-o-y change (%)	-2.9	-7.7	-5.3	8.2	-1.5	16.4	8.0
	To the U.S.	Y-o-y change (%)	3.5	-5.1	2.0	7.8	-4.2	19.7	11.7
	To the EU	Y-o-y change (%)	-3.9	-3.7	-3.2	4.8	-5.8	16.6	4.0
	To Japan	Y-o-y change (%)	-9.2	-4.7	-2.0	4.3	-7.8	8.5	13.3
	To NIES, ASEAN	Y-o-y change (%)	-2.8	-8.5	-11.6	1.9	8.1	4.3	-4.2
	Imports	USD 100 million	16,796	15,879	4,486	4,174	1,292	1,567	1,420
		Y-o-y change (%)	-14.3	-5.5	2.7	24.1	38.1	20.4	11.9
	From the U.S.	Y-o-y change (%)	-5.9	-9.8	-0.1	23.8	38.0	15.1	1.5
	From the EU	Y-o-y change (%)	-14.3	-0.5	5.1	15.2	33.7	9.3	2.6
	From Japan	Y-o-y change (%)	-12.3	1.7	10.6	20.1	39.4	13.6	6.9
	From NIES, ASEAN	Y-o-y change (%)	-7.7	-1.6	3.2	15.7	33.8	10.0	4.4
	Trade Balance	USD 100 million	5,939	5,097	1,309	653	-94	239	380

Note 1: Value-added Industrial Production is calculated for industrial enterprises above a designated size. In 2011, this size was adjusted to “industrial enterprises with annual revenue of RMB 20 million or more” (it was previously “industrial enterprises with annual revenue of RMB 5 million or more). The National Bureau of Statistics explains that the post-change figures and trends remain essentially the same.

Note 2: From the January-February 2015 edition of Mizuho Economic Commentary onwards, all annual figures for Value-added Industrial Production show the year-to-date y-o-y change (up until the November 2014 edition, the figures for Light Industry, Materials and Machinery were calculated as a simple average of the quarterly figures).

Note 3: The 1Q Value-added Industrial Production figure shows the year-to-date y-o-y change for the period January–March.

Note 4: The figures for Inventories show publicly-released y-o-y statistics.

Note 5: The annual y-o-y change figures in the Passenger Transportation Volume/Freight Transportation Volume show the year-to-date y-o-y change for the period from January.

Note 6: Statistics for Investment in Fixed Assets were only collected for urban areas up until 2010. Investment by enterprises or collectives in rural areas has also been included since 2011.

Note 7: The Value-added Industrial Production figures and the Investment in Fixed Assets figures for January and February show the aggregate results for the period January–February.

Note 8: The Inventory figures for January and February show the aggregate result for the period January–February.

Note 9: All figures are nominal unless denoted as “real.”

Source: Prepared by Mizuho Research Institute based on the materials from the National Bureau of Statistics of China, the General Administration of Customs, and the Ministry of Commerce of the People's Republic of China

## Appendix: China's Major Economic Indicators (2)

Headings		Unit	2015	2016	16/4Q	17/1Q	February	March	April
Consumption	Consumer Confidence Index	End-of-period figure, points			108.4	111.0	112.6	111.0	n.a.
	Consumer Expectations Index	End-of-period figure, points			111.5	114.2	116.2	114.2	n.a.
	Total Retail Sales of Consumer Goods	RMB 1 trillion	30.09	33.23	9.38	18.30	5.80	2.79	2.73
		Y-o-y change (%)	10.7	10.4	10.6	10.3	9.5	10.9	10.7
	Sales at Retailers Above a Designated Size	Y-o-y change (%)	7.8	8.1	9.2	7.5	6.8	10.1	9.3
	Automobile Sales	10,000 automobiles	2,456.3	2,793.9	864.6	700.2	193.9	254.3	208.4
		Y-o-y change (%)	3.9	13.7	14.9	8.9	22.4	4.0	- 2.2
	Nationwide Disposable Income per Capita Figure	Year-to-date y-o-y change (%)	8.9	8.4	8.4	8.5	n.a.	n.a.	n.a.
	Jobs-to-applicants Ratio	End-of-period figure, times	1.10	1.13	1.13	1.13	n.a.	n.a.	n.a.
Prices	Consumer Price Index	Y-o-y change (%)	1.4	2.0	2.2	1.4	0.8	0.9	1.2
	Core CPI (excluding foods and energy)	Y-o-y change (%)	1.6	1.6	1.9	2.0	1.8	2.0	2.1
	Foods	Y-o-y change (%)	2.3	4.6	3.4	- 2.0	- 4.3	- 4.4	- 3.5
	Producer Price Index	Y-o-y change (%)	- 5.2	- 1.3	3.3	7.4	7.8	7.6	6.4
	Producer Goods	Y-o-y change (%)	- 6.8	- 1.7	4.4	9.9	10.4	10.1	8.4
	Consumer Goods	Y-o-y change (%)	- 0.3	- 0.0	0.4	0.8	0.8	0.7	0.7
	New-home Price Index (average price of 70 major cities)	Y-o-y change (%)	- 3.8	6.2	10.4	10.2	10.3	10.0	9.6
Finance	Money Supply (M2)	End-of-period figure, RMB 1 trillion	139.23	155.01	155.01	159.96	158.29	159.96	159.63
		End-of-period figure, y-o-y change (%)	13.3	11.3	11.3	10.6	11.1	10.6	10.5
	Outstanding Loans	End-of-period figure, RMB 1 trillion	93.95	106.60	106.60	110.83	109.80	110.83	111.92
		End-of-period figure, y-o-y change (%)	14.3	13.5	13.5	12.4	13.0	12.4	12.9
	Net Increase	Mid-period increase, RMB 10 billion	1228	1265	249	422	117	102	110
	Deposits	End-of-period figure, RMB 1 trillion	135.70	150.59	150.59	155.65	154.38	155.65	155.91
		End-of-period figure, y-o-y change	12.4	11.0	11.0	10.3	11.4	10.3	9.8
	Required Reserve Ratio (Large Enterprises)	End-of-period figure, %	17.5	17.0	17.0	17.0	17.0	17.0	17.0
	1-year Benchmark Lending Rate	End-of-period figure, %	4.35	4.35	4.35	4.35	4.35	4.35	4.35
	Overnight Repo Rate	End-of-period figure, %	2.10	2.10	2.10	2.52	2.50	2.52	2.80
	Foreign Currency Reserves	End-of-period figure, USD 100 million	33,304	30,105	30,105	30,091	30,051	30,091	30,295
Exchange Rates	RMB/USD Exchange Rate	End-of-period figure, RMB/USD	6.48	6.94	6.94	6.88	6.87	6.88	6.89
	JPY/RMB Exchange Rate	End-of-period figure, JPY/RMB	18.57	16.82	16.82	16.19	16.32	16.19	16.17
Stocks	Shanghai Composite Index	End-of-period figure, December 19, 1990 = 100	3,539	3,104	3,104	3,223	3,242	3,223	3,155
	PER	End-of-period figure, times	17.6	15.9	15.9	16.9	16.9	16.9	16.7
	Market Capitalization (Shanghai, Shenzhen)	End-of-period figure, RMB 10 billion	5,313	5,077	5,077	5,396	5,382	5,396	5,275
	Turnover (Shanghai, Shenzhen)	RMB 10 billion	25,559	12,777	3,134	2,654	810	1,163	924
Public Finances	Fiscal Revenue	Year-to-date y-o-y change (%)	8.5	4.8	4.8	14.1	14.9	14.1	12.4
	Fiscal Expenditure	Year-to-date y-o-y change (%)	15.9	6.8	6.8	21.0	17.4	21.0	16.6

Note 1: The government releases both the real data and the y-o-y figures for Total Retail Sales of Consumer Goods, Sales at Retailers Above a Designated Size, and Automobile Sales. However, the y-o-y figures calculated from the real data sometimes diverge from the publicly-released y-o-y figures. This appendix uses the publicly-released y-o-y figures.

Note 2: With regards to the Total Retail Sales of Consumer Goods and Sales at Retailers Above a Certain Size, the (1) annual real data and (2) annual y-o-y figures show the (1) year-to-date sales and (2) year-to-date y-o-y change, respectively (up until the November 2014 edition, the data was calculated based on an aggregation of the standalone monthly figures).

Note 3: The Nationwide Disposable Income per Capita Figure shows the year-to-date y-o-y change from January onwards.

Note 4: The Total Retail Sales of Consumer Goods figures and the Sales at Retailers Above a Designated Size figures for January and February show the aggregate results for the period January–February.

Note 5: The quarterly CPI and PPI figures are calculated as a simple average of the monthly figures.

Note 6: Since October 2011, the Money Supply (M2) data includes deposits of housing provident fund centers and non-depository financial institutions' deposits with depository financial institutions (the margin accounts of securities companies, for example). Following this change, the y-o-y figures calculated from the real data and the publicly-released y-o-y figures have diverged from October 2011 onwards. This appendix uses the publicly-released y-o-y figures.

Note 7: The outstanding loan growth rate is a y-o-y figure released by the PBOC. However, the y-o-y figures calculated from the real data and the publicly-released y-o-y figures have diverged from November 2008 to November 2009 and from January 2011 onwards.

Note 8: The deposit growth rate is a y-o-y figure released by the PBOC. However, the y-o-y figures calculated from the real data and the publicly-released y-o-y figures have diverged from 2011 onwards.

Note 9: PER shows the prior period's actual PER (stock price divided by net income in the last fiscal year). The standards are revised each May.

Source: Prepared by Mizuho Research Institute based on the materials from the National Bureau of Statistics of China, the China Association of Automobile Manufacturers, the Ministry of Human Resources and Social Security of the People's Republic of China, the People's Bank of China, the FRB, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, and the Ministry of Finance of the People's Republic of China

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