16 August 2024

China in Focus

Economics
China

China's green transition plan

- Consumption recovered a touch in July, manufacturing stayed buoyant, but property market woes deepened
- On the trade front, imports saw a sharp recovery, although exports softened due to fading global discretionary demand
- Meanwhile, China recently issued a centrally-led green transition plan, outlining bold decarbonisation targets

China data review (Jul 2024)[1]

- **Fixed asset investment** slowed to 1.9% y-o-y in July, down from 3.6% in June. The fall of property-related investment was a contributing factor, falling deeper by 10.8% y-o-y, after some improvement in June. Other monthly data showed ongoing pressure in the property sector: primary residential sales volumes fell 14.5% y-o-y, while floor space starts dropped 24.4% y-o-y.
- **Infrastructure** investment growth slowed to 5.6% y-o-y in July, down from 9.4% in June. Extreme weather may have weighed on infrastructure activity while the pace of government bond issuance has been relatively slower this year compared to past years. Government bond issuance started to pick up in May, though it may also take time for this to filter through to investment.
- **Manufacturing** investment was relatively more buoyant, rising 8.3% y-o-y. Relatedly, industrial production also held up at 5.1% y-o-y, despite softer-than-expected exports. The industrial sector has likely benefited from expanded equipment upgrading programs, with higher-tech industrial production (10% y-o-y) and higher-end manufacturing investment (9.7%) outpacing overall levels.
- **Retail sales** saw some recovery, rising 2.7% y-o-y in July, from 2% in June, on the back of holiday demand and a low base. Services-related retail sales continued to climb at double the pace of overall retail sales (7.2% year-to-date y-o-y and 3.5%, respectively), though saw some pull back from June (7.5% in the first half). Meanwhile, catering sales growth slowed 3.0% y-o-y in July.
- **Exports** slowed to 7.0% y-o-y in July, from 8.6% in June, as a decline in manufacturing PMIs in the US, eurozone and Japan reflected weaker final demand. The implementation of some additional tariffs also may have affected sentiment. **Imports**, however, rose by 7.2%, from -2.3% in June, on frontloading of electronics imports as well as improved domestic demand from fiscal policy.
- **CPI inflation** rose 0.5% y-o-y in July on the back of higher food prices, particularly pork (up 20.4% y-o-y) and travel demand during summer holidays. However, core CPI edged down to 0.4% on a higher base. **PPI** saw its pace of deflation stayed at 0.8% as prices of both ferrous and non-ferrous metals underperformed in both sequential and annual terms.

[1] Source: Wind, HSBC

HSBC

China's green transition plan

On 11 August, China announced a 33-point plan aimed at achieving a comprehensive green transition across the nation's economy and society over the next decade. This is the first time that the central government has systematically deployed policies to move toward green and low-carbon goals (Xinhua, 11 August). This is also in line with the recent decision of the Third Plenum to support the promotion of a green, low-carbon and circular economy.

Facing challenges

China aims to produce 25% of its energy from non-fossil fuels by 2030

China's green transition still faces many difficult challenges, such as the coal-dominated energy structure, the heavy industrial structure and rising protectionism worldwide. The guideline reiterated the existing **goal of increasing the share of non-fossil energy consumption to 25% by 2030 and gradually reducing coal consumption over the next five years**. From 2013 to 2023, China's share of coal consumption dropped to 55.3% from 67.4%, while the share of non-fossil energy consumption increased to 17.9% from 10.2% (CCTV, 20 June). Assuming a similar pace of progress to 2030, this would only put the non-fossil energy share at c23%, which means a policy acceleration would be needed to reach these transition goals.

Decarbonising industry

To achieve this, it needs to decarbonise its industry…

The guideline particularly emphasised expanding green development in the **industrial sector as well as lifting green consumption**. For industry, this includes developing low-carbon industries, upgrading traditional industries, incorporating green development into urban construction, and curbing high-emission projects. The guideline set a new goal that, **by 2030, the scale of the energy-saving and environmental protection industry will reach about RMB15trn**. The National Energy Administration said that more than 10% of China's production capacity in the steel, non-ferrous metals, petrochemical, chemical, and building materials industries are still below the benchmark level for energy efficiency (Xinhua, 31 July).

Promoting green consumption

…and boost green consumption

To promote green consumption, the guideline emphasised expanding the scope and scale of green products in government procurement, increasing the supply of green commercial products and supporting measures such as issuing consumer coupons and trade-ins. In terms of transportation, the green guideline proposed **promoting new energy vehicles (NEVs) and electrifying urban public service vehicles**. By 2035, the goal will be to have NEVs become the driver of new vehicle sales, although this may already have been achieved. According to the China Passenger Car Association (CPCA), new energy vehicles as a share of total new vehicle purchases reached 51.1% in July, exceeding 50% for the first time, up 15ppt from last July (CPCA, 7 August).

Utilising policy tools

Policy support will assist with decarbonising efforts

A variety of policy tools will also be used to support the green transition both from **fiscal and tax incentives as well as credit support**. The implementation period for carbon emission reduction credit support tools will be extended to the end of 2027 and financial tools such as green equity financing, green leasing, and green trusts will be developed. In terms of investment mechanisms, direct fiscal support from the central government budget will also be used to support key green projects. The government will also further guide and regulate social capital to participate in green and low-carbon projects and promote the development of the national carbon market and voluntary emission reduction trading market.

Key upcoming China economic data

Date	Indicator	Prior
20 Aug	Loan Prime Rate 1Y	3.35%
20 Aug	Loan Prime Rate 5Y	3.85%
31 Aug	NBS Manufacturing PMI	49.4
2 Sep	Caixin Manufacturing PMI Final	49.8
4 Sep	Caixin Services PMI	52.1
9 Sep	Producer Price Index (PPI) y-o-y	-0.8%
9 Sep	Consumer Price Index (CPI) y-o-y	0.5%
10 Sep	Exports y-o-y	7.0%
10 Sep	Imports y-o-y	7.2%
14 Sep	Retail Sales y-o-y	2.7%

Source: Refinitiv Eikon

Performance of key A-share indexes*

	Current	Year-to-Date	Last 1yr
Shanghai Composite	2,877	-3.28%	-9.41%
Shenzhen Composite	1,554	-15.47%	-21.79%
CSI 300	3,342	-2.60%	-13.12%

* Past performance is not an indication of future returns

Source: Refinitiv Eikon. As of 15 Aug 2024 market close

Disclosure appendix

Important disclosures

Additional disclosures

1 This report is dated as at 16 August 2024.

2 All market data included in this report are dated as at close 15 August 2024, unless a different date and/or a specific time of day is indicated in the report.

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