PANTHEON ASIAN DATA WRAP

- China: Retail sales growth slowed to 10.0% y/y in October from 10.3% in September, below the consensus for an increase to 10.5%.
- China: Industrial production growth slowed to 6.2% y/y in October from 6.6% in September, below the consensus, 6.3%.
- China: Fixed asset investment in the year to October rose 7.3% from the same period a year earlier, slowing from the rate of 7.5% in the year to September and hitting the consensus.

Chinese consumers maintaining stable real spending for now

Retail sales growth slowed to 10.0% y/y in October from 10.3% in September, below the consensus for an increase to 10.5%. For most Chinese data, we compile our own indices to cross check the message from the headlines. In the case of retail sales, this is difficult as there are more than the normal amount of missing values in the underlying series. On our estimates, retail sales growth *strengthened* in October. But CPI inflation also picked up so the increase in volumes growth was minimal. Momentum appears to have been maintained from Q3 though, with volumes rising at an annualised rate of 8.1% in the three months to October compared with the previous three months, seasonally adjusted, matching the rate in September.

The services PMI has trended down significantly in recent months and has been reflective of the broad moves in retail sales in recent years. In this case, we think retail sales will revert down to the PMI reading rather than vice versa. Household incomes are still facing a squeeze as industry attempts to shore up productivity and repair balance sheets, with CPI inflation likely to head higher in coming months as pipeline pressures from PPI feed through.

Chinese production growth should weaken in coming months

Industrial production growth slowed to 6.2% y/y in October from 6.6% in September, below the consensus, 6.3%. On our adjusted index, growth was higher and trivially changed from the previous month. But we think growth likely is slowing or is soon set to slow.

The full breakdowns are not provided with the initial print but for those available, the picture has weakened. Motor vehicle production has been a point of strength but increased at an annualised rate of 8.5% in the three months to October compared with the previous three months, seasonally adjusted, down from 9.1% in September.

The decline in cement production deepened in October, pointing to further construction weakness ahead. Iron ore production also continued to fall but at a slower rate.

Northern cities are set for wide spread production and construction shutdowns over the winter in an effort to prevent a pollution spike. This should drag the headline down in Q4 and Q1, though Q2 should rebound as the curbs are lifted.

Chinese fixed asset investment is surprisingly weak

Fixed asset investment in the year to October rose 7.3% from the same period a year earlier, slowing from the rate of 7.5% in the year to September and hitting the consensus. These data are presented by the authorities in year-to-date terms as they do not trust the monthly reporting from firms. But the headline is a worse than useless statistic so we calculate the monthly values, seasonally adjust and take the outcome with a pinch of salt. That said, FAI growth has trended down sharply since the beginning of the year, to just 4.4% y/y in October, compared with 6.0% in September.

The recent trend is even weaker, with FAI rising at an annualised rate of just 2.8% in the three months to October compared with the previous three months, down from 3.5% in September. That is shockingly low for China and we suspect these data are understating growth somewhat. Nevertheless, the ongoing attempt to shore up balance sheets has led corporations to attempt to improve their financial balances. For the upstream firms, PPI inflation has been an aid in this. For the downstream firms, the commodity-driven inflation has been a drag, squeezing cash flow and damaging investment.

These data also indicate that the public-private partnership projects continue to gather momentum, with FAI growth by firms labelled as public weakening, yet the increase in infrastructure investment has stabilised. The implication is that government is roping in private sector firms to do the