

Insights —

China Data Getting Better... Green Shoots?

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Some of the economic indicators we track for China have started to inflect positively over the past few months. This is probably too early to start calling a major **improvement in the world's second largest economy, which continues to reel from self-imposed COVID lockdowns, a major slowdown in its real estate sector, and weakening global demand for its exports.**

However, the data are the data, and the economic lead indicators we track for China have shown a consistent positive inflection since late 2021 / early 2022. The table below is taken from our in-house economic data monitoring tools, which track **more than 100 data sets across the world's largest economies.** When data sets start to move together strongly in one direction or another, this can be a strong indication of a change coming in the headline reported economic data 3 to 6 months ahead of time.

In this case, we have seen data points for liquidity in the Chinese economy start to inflect in a positive direction from their lows in late 2021. Further, the rate of change in these data has been accelerating, again a positive lead indicator for improvements in economic performance 3 to 6 months ahead of time.

The nine data sets we track below as lead indicators for China all posted a positive (shown in green) month-on-month improvement. Again, when we see different data sets moving together in one direction, this increases the predictive strength of the data trajectory, like the improved liquidity already mentioned.

We will continue to watch these data closely. But with market sentiment toward investing in China at very low levels currently, and valuations of higher quality stocks in China at their lowest levels in many years, we are now incrementally more positive on the outlook for Chinese equities given the positive inflection we are seeing in the economic lead indicator data. This could be a mis-pricing that offers an interesting entry point for investors.



| China | | | | | | | | | | | | Change | | |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-----|--------|---------|--|
| | Sep-21 | Oct-21 | Nov-21 | Dec-21 | Jan-22 | Feb-22 | Mar-22 | Apr-22 | May-22 | Jun-22 | MoM | YoY | Δ H. 6M | |
| China Monthly M2 Money Supply YoY (%) | 8.3 | 8.7 | 8.5 | 9.0 | 9.8 | 9.2 | 9.7 | 10.5 | 11.1 | 11.4 | 5.3 | 2.8 | 0.1 | |
| China Credit Impulse Change YoY (%) | -8.5 | -8.8 | -8.5 | -7.1 | -5.6 | -6.8 | -3.1 | -2.6 | -0.4 | 1.0 | 1.3 | 5.0 | 0.2 | |
| Rate of Change in Credit Impulse % | -20% | -4% | 4% | 10% | 22% | -20% | 54% | 10% | 80% | 30% | 2.7 | 3.7 | | |
| China Electricity Consumption YoY (%) | 8.8 | 8.1 | 3.1 | -3.4 | | 16.9 | 3.5 | -1.3 | -1.3 | 4.7 | 6.6 | -5.1 | 0.8 | |
| China Freight Rail Traffic Volume YoY (%) | 8.6 | 2.5 | 15.5 | 8.6 | 8.5 | 8.8 | 13.8 | 12.5 | 11.2 | 11.4 | 9.2 | 10.5 | 0.0 | |
| China Export Trade QoQ YoY (%) | 19.7 | 20.1 | 16.3 | 17.3 | 21.0 | 4.2 | 12.9 | 1.9 | 16.3 | 22.0 | 6.7 | 2.9 | 0.6 | |
| China Export Trade USD YoY (%) | 28.0 | 26.9 | 21.7 | 20.9 | 34.1 | 6.2 | 14.5 | 3.7 | 16.7 | 17.9 | 1.2 | -14.2 | 0.1 | |
| China Li Raogang Index | 8.8 | 8.5 | 7.1 | 5.7 | 6.3 | 6.3 | 7.4 | 5.1 | 5.3 | 7.4 | 2.1 | -0.7 | 0.4 | |
| China Retail Sales % | 4.4 | 4.9 | 3.9 | 1.7 | | | -3.5 | -11.1 | -6.7 | 3.1 | 9.8 | -8.0 | 2.6 | |

Source: Bloomberg, Dominion analysis

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