China: Q3 GDP and Sep activity data preview: Expecting industrial production growth to accelerate and retail sales to stay subdued

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Bottom line:

China's September activity data — including industrial production (IP), fixed asset investment (FAI), and retail sales — will be released next Monday (19 October), together with Q3 GDP. We expect IP growth to rise further to 5.8% yoy in September from 5.2% yoy in August, reflecting much stronger export growth and broad-based improvement in manufacturing PMIs. We expect the year-on-year contraction in FAI to narrow to -8.0% in September from -10.8% in August on a single-month basis, thanks to more favorable weather and a low base. This would leave year-to-date FAI growth at -7.3% yoy in September (vs. -7.2% yoy in August). We expect retail sales growth to edge down to +0.3% yoy in September from +0.4% yoy in August, due mainly to weaker year-on-year growth in auto and home appliance sales. We maintain our forecast for subdued real GDP growth of 4.4% yoy in Q3, although we see risks slightly skewed to the downside. Overall, our forecasts are above market consensus for September IP, broadly in line for Q3 GDP and September FAI, but slightly below for September retail sales.

Main points:

1. September macro data released so far suggest growth momentum improved from July-August: official and unofficial PMIs broadly increased, year-on-year export growth strengthened further, and our proprietary current activity indicator (CAI)—which tracks sequential growth momentum—rebounded to around 5.1% mom annualized in September (subject to revision) from 4.0% mom annualized in August. September activity data—including industrial production (IP), fixed asset investment (FAI), and retail sales—will be released next Monday (19 October), alongside Q3 GDP. We provide our preview below (Exhibit 1):

- We expect IP growth to rise further to 5.8% yoy in September from 5.2% yoy in August (Bloomberg consensus: 5.4% yoy), reflecting much stronger export growth and broad-based improvement in manufacturing PMIs. However, a deeper year-on-year contraction in steel demand and auto output may limit the increase. Our high-frequency tracker suggests that steel demand growth declined to -4.7% yoy in September from -3.8% yoy in August, and China Passenger Car Association (CPCA) estimated that China's passenger car output growth declined to -9.1% yoy from -4.5% yoy. Adjusting for base effects, our forecast implies sequential growth of 14.2% mom annualized in September, up from 10.6% mom annualized in August and consistent with the pattern in recent years of stronger sequential IP growth in quarter-end months.
- We expect the year-on-year contraction in FAI to narrow to -8.0% in September

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from -10.8% in August on a single-month basis, thanks to more favorable weather and a low base. Our forecast implies sequential growth of +15.2% mom annualized in September (vs. +26.9% mom annualized in August), as the NBS construction PMI rebounded and our sector analysts' channel check pointed to stronger sequential commodity demand as of mid-September. This would leave year-to-date FAI growth at -7.3% yoy in September (Bloomberg consensus: -7.4% yoy), marginally weaker than -7.2% yoy in August.

- We expect retail sales growth to edge down to +0.3% yoy in September from +0.4% yoy in August (Bloomberg consensus: +0.5% yoy). Although the earlier Mid-Autumn Festival may have shifted some consumption from October into September, our high-frequency trackers point to weaker year-on-year growth in auto and home appliance sales amid fading effectiveness of the ongoing consumer goods trade-in program. Specifically, CPCA data shows that year-on-year growth in automobile sales volumes declined to -28% in September from -23.6% in August. Our sector analyst's tracking indicates that online white-goods sales fell 40% yoy in September (vs. -24% yoy in August). Our forecast implies sequential retail sales growth of -0.4% mom annualized in September (vs. from -1.1% mom annualized in August).
- We maintain our forecast for subdued real GDP growth of 4.4% yoy in Q3 (Bloomberg consensus: 4.3% yoy), marginally higher than 4.3% yoy in Q2 but still below the lower bound of this year's 4.5-5.0% growth target range. Our GDP Nowcasting model points to a slight downside risk, with our Q3 GDP tracking currently at 4.2% yoy (subject to further updates). Our forecast implies a modest pickup in seasonally adjusted sequential growth to 4.0% qoq annualized in Q3 from 3.6% qoq annualized in Q2, as weather conditions became more favorable, although fiscal policy tightening and elevated global energy prices continued to weigh on growth.

Overall, our forecasts are above market consensus for September IP, broadly in line for Q3 GDP and September FAI, but slightly below for September retail sales.

Exhibit 1: GS forecasts vs. Bloomberg consensus for Q3 GDP and September activity data

Date and Time (BJT)	Indicator	Period	GS Forecast	Bloomberg Consensus	Prior
19 Oct (Mon), 10:00	Industrial Production	Sep	5.8	5.4	5.2 (Aug)
	Fixed Asset Investment (year-to-date)	Sep	-7.3	-7.4	-7.2 (Aug)
	Retail Sales	Sep	0.3	0.5	0.4 (Aug)
	Real GDP	Q3	4.4	4.3	4.3 (Q2)

Numbers in the table refer to year-on-year growth rates in the reporting period.

Source: Goldman Sachs Global Investment Research, Bloomberg

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