

China Economy in 2019

Bottom-up stabilization in 4Q

Economic growth stabilized at 6.0% in 4Q19, locking 2019 annual growth at 6.1%. Both figures fell short of our forecast by 0.1ppt mainly because of weaker-than-expected contribution from net export. Nonetheless, manufacturing activities and retail sales showed trends of recovery, boosted by certain industries in 4Q19. Over the year, consumption and investment contributed to 57.8%/31.2% of GDP growth, respectively, while net export to the rest. In 2020, we expect policy stimulation may kick in earlier than expected, represented in particular by fiscal expansion, i.e. speedier government bond issuance in 1Q.

■ Industrial value-added advanced 6.9% in Dec 2019 and 5.7% in 2019.

The rebound in Dec was mainly driven by the manufacturing sector. Among the major industries, automobile manufacturing strengthened, enlarging value-added growth to 10.4% YoY in Dec 2019 (overall growth in 2019 was 1.8% YoY). High-tech manufacturing continued to outperform, of which output growth was 8.8% in 2019. We believe the recovery cycle for certain industries, driven by 5G launch and related technological capex increase, has just started and will continue into 2020.

■ FAI growth accelerated thanks to manufacturing. FAI advanced 5.4% YoY in 2019, up 0.2ppt from Jan-Nov 2019. Manufacturing FAI accelerated 0.6ppt to 3.1% YoY in 2019. Growth was primarily led by computer, telecommunications and electronic manufacturing. Such trend may continue into the future along with 5G commercialization. Infrastructure FAI slid a bit to 3.8% in 2019 possibly due to decelerated construction in Dec. Real estate FAI advanced 9.9% YoY in 2019, among which construction expenditure was robust while land acquisition decline was gentler.

■ Stable consumption in Dec. Retail sales growth maintained at 8.0% in Dec 2019, flat when compared to Nov 2019. Over the year, nominal/real growth was 8.0%/6.0%, respectively, and nominal growth was stable at 9.0% excluding car sales. Stabilization of retail sales growth in Nov and Dec was attributable to 1) robust demand before the CNY, stimulated further by “11.11” and “12.12” discounts; 2) recovering automobile sales – sales volume decline shrank gradually since Sep 2019 to 0.9% in Dec (annual figure declined 8-9% YoY). Online channel maintained high growth at 19.5% in 2019 thanks in part to higher penetration into lower-tier cities, boosting its share of overall goods sales to 20.7%.

Data Summary

YoY growth (%)	1H19	Oct-19	Nov-19	Dec-19	2019A	2019E
Industrial value-added	6.0	4.7	6.2	6.9	5.7	5.6
Fixed asset investment	5.8	5.2	5.2	5.4	5.4	5.2
- Manufacturing FAI	3.00	2.6	2.5	3.1	3.1	2.6
- Real estate FAI	10.9	10.3	10.2	9.9	9.9	9.6
- Infrastructure FAI	4.1	4.2	4.0	3.8	3.8	4.2
Retail sales value	8.4	7.2	8.0	8.0	8.0	8.0

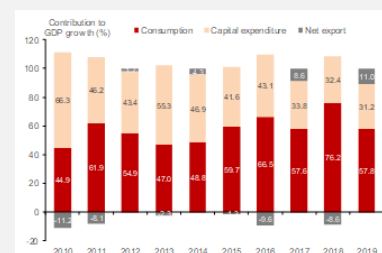
Source: NBS, CMBIS

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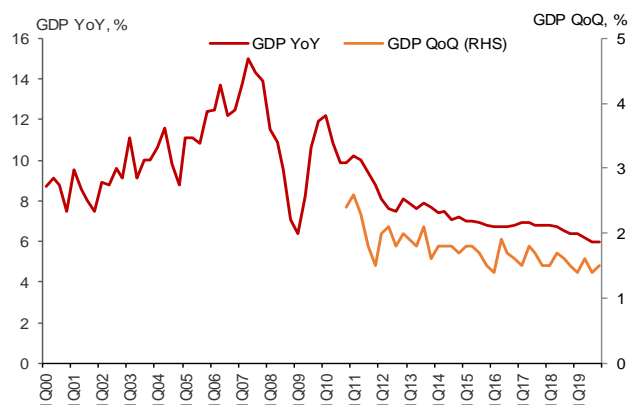
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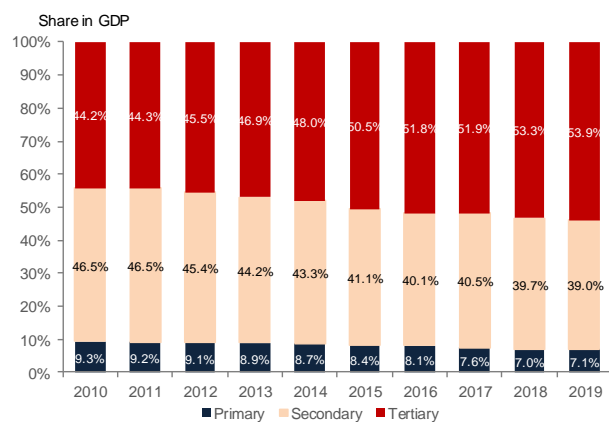
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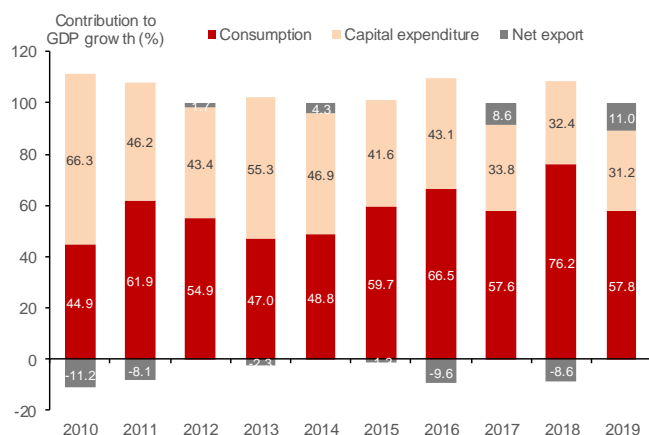
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Figure 1: GDP increased 6.0% YoY and 1.5% QoQ in 4Q19

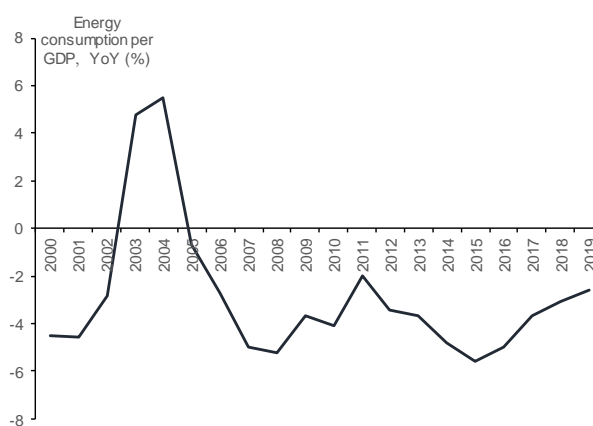
Source: NBS, Wind, CMBIS

Figure 2: Tertiary sector accounted for 54% of GDP in 2019

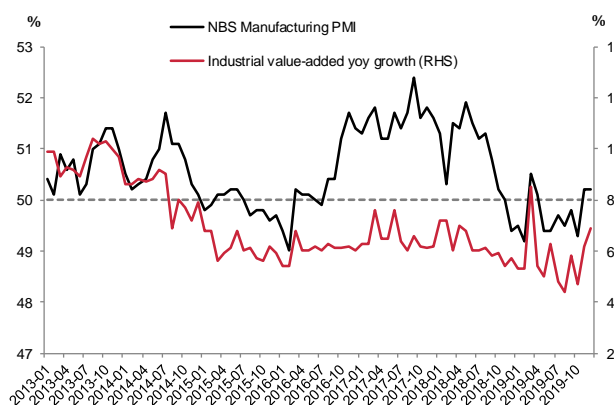
Source: NBS, Wind, CMBIS

Figure 3: Consumption and investment contributed to 57.8%/31.2% of GDP growth in 2019

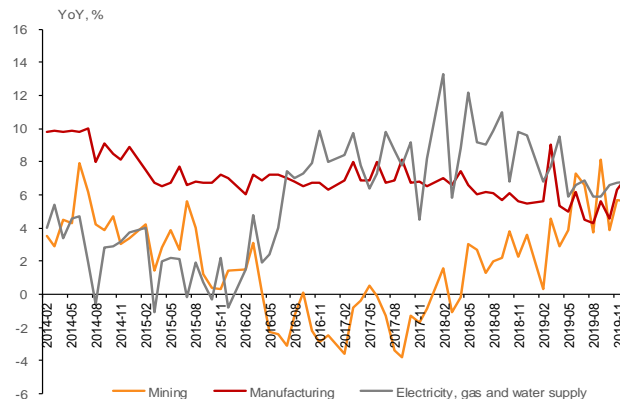
Source: NBS, Wind, CMBIS

Figure 4: Energy consumption per GDP declined 2.6% YoY, underpinning quality growth

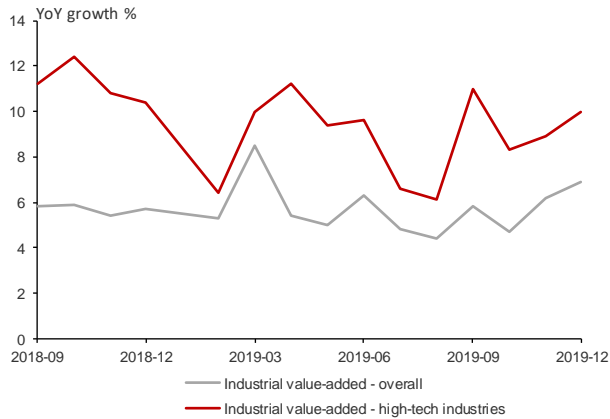
Source: NBS, Wind, CMBIS

Figure 5: Industrial value-added advanced 6.9% in Dec 2019

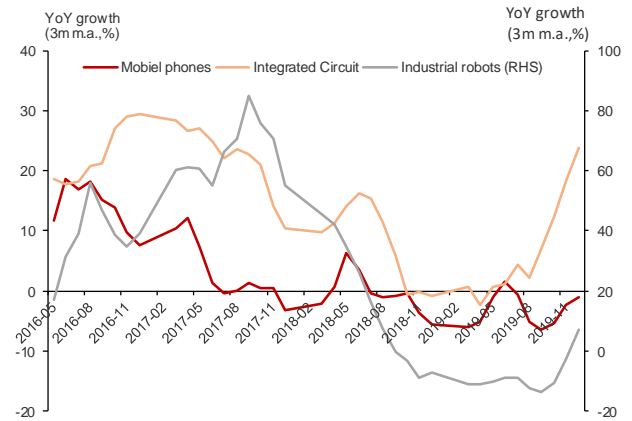
Source: NBS, Wind, CMBIS.

Figure 6: Manufacturing value-added growth continued to pick up

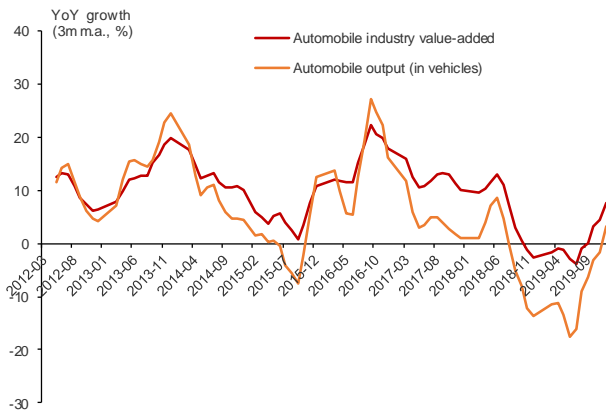
Source: NBS, Wind, CMBIS

Figure 7: High-tech manufacturing outperformed overall manufacturing output growth

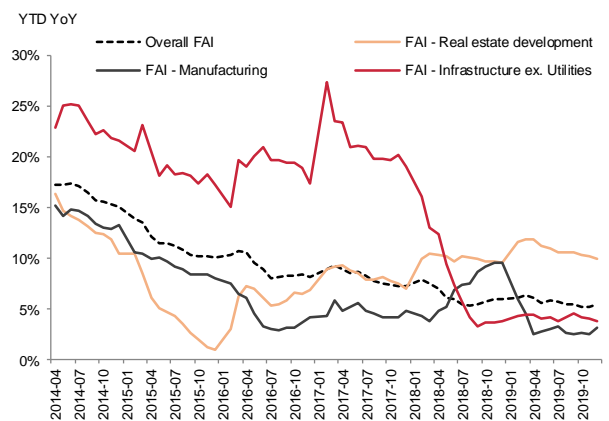
Source: NBS, Wind, CMBIS.

Figure 8: Output growth for selected industries (in volume)

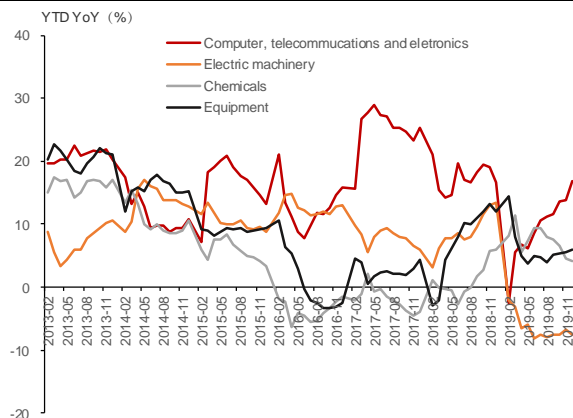
Source: NBS, Wind, CMBIS

Figure 9: Automobile output trending up

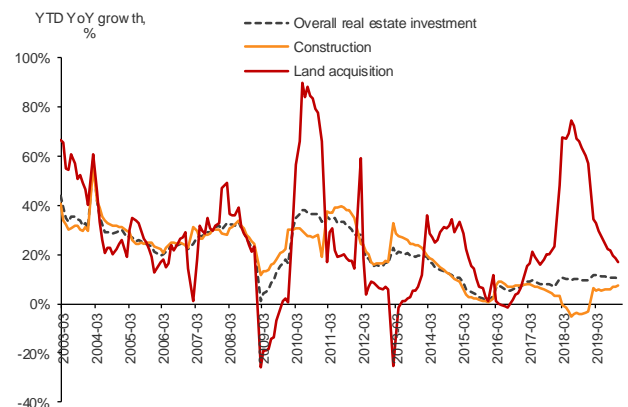
Source: NBS, Wind, CMBIS

Figure 10: Manufacturing FAI beat in Dec 2019

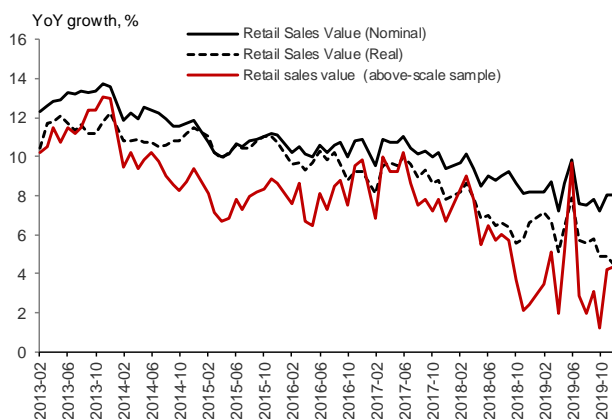
Source: NBS, Wind, CMBIS estimates

Figure 11: Computers, telecommunications and electronic manufacturing were leading FAI growth

Source: NBS, Wind, CMBIS

Figure 12: Real estate FAI increased 9.9% YoY in 2019, among which construction expenditure was robust

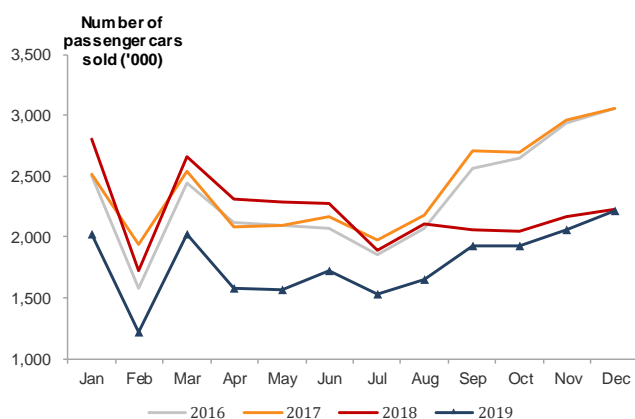
Source: NBS, Wind, CMBIS

Figure 13: Retail sales increased 8.0% in Dec 2019

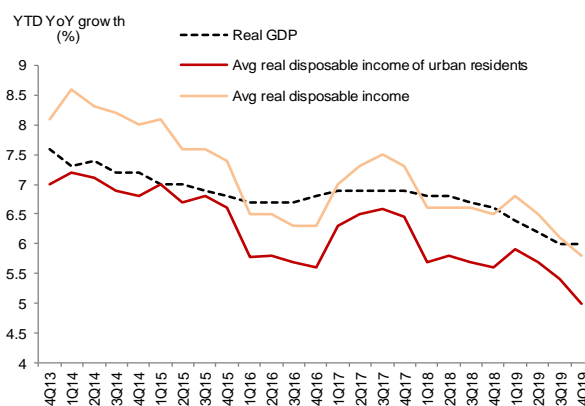
Source: NBS, Wind, CMBIS

Figure 14: Online channel contributed to 20.7% of goods sales

Source: NBS, Wind, CMBIS

Figure 15: Automobile sales decline had been shrinking since Sep 2019

Source: NBS, Wind, CMBIS

Figure 16: Disposable income growth was one of the concerns regarding future consumption growth

Source: NBS, Wind, CMBIS

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