

# China Economy in May

## Recovery and bifurcation

Economic recovery was largely in line in May. Rebound momentum, however, may have begun to bifurcate, for example, between domestic-focused and export-oriented industries, high-tech and traditional industries, larger retailers and smaller ones, etc. While we believe the economy overall will follow “Nike Swoosh”-shaped recovery by and large, one should be prepared for the possibility of a W-shape, or a second dip in some industries. The resurgence of COVID-19 in Beijing and escalation of control measures posed another risk.

- **Industrial value added continued to expand, but rebound momentum was turning sluggish.** Growth by sector was **highlighted by** 1) equipment manufacturing +9.5% YoY. Particularly, construction machinery recorded strong output growth (+38.4% YoY in May) driven by infrastructure-related demand; 2) Automobile output rallied 12.2%/19% YoY in terms of value/volume, up 6.4/13.9ppt from growth in Apr, which was also attributable to relatively low base last year; 3) High-tech manufacturing +8.9% YoY, albeit decelerating from 10.5% YoY in Apr. Despite the above encouraging trends, momentum of industrial rebound turned weaker in May in industries with high export exposure and those related to consumption goods.
- **Solid FAI rebound. 1) Infrastructure investment** -6.3% YoY in Jan-May, narrowing decline by 5.5ppt compared to Jan-Apr. Growth in the single month of May including utilities investment exceeded 10%. Such momentum could continue, supported by strong performance of leading construction PMI, construction machinery sales and production, and etc. **2) Manufacturing investment** decline narrowed by 4.0ppt to 6.3% in Jan-May, among which high-tech manufacturing investment growth outpaced by increasing 2.7% in Jan-May. We think manufacturing investment could continue to improve on back of bank loan support and firms' investment in technological transformation. **3) Real estate investment** posted -0.3% YoY growth in Jan-May and is very likely to record positive growth in Jun on back of resuming land sales and housing construction.
- **Retail sales narrowed decline.** Since Apr, retail rebound has been more phenomenal for the above-designated-size sample, which recorded +1.3% YoY growth in retail sales whereas the overall sample narrowed decline to 2.8% YoY in May. This indicated that smaller-sized retailer are facing greater pressures returning to normal operation and therefore need more support in the form of coupon distribution, tax and fee cut, etc. Catering services recovered faster in May but may confront new uncertainties again due to the rise in new confirmed cases.

### Data Summary

YoY growth (%)	2019A	Jan-Feb 2020	Mar-20	1Q20	Apr-20	May-20
Industrial value-added	5.7	-13.5	-1.1	-8.4	3.9	4.4
Fixed asset investment, YTD	5.4	-24.5	-16.1	-16.1	-10.3	-6.3
- Manufacturing FAI	3.1	-31.5	-25.2	-25.2	-18.8	-14.8
- Real estate FAI	9.9	-16.3	-7.7	-7.7	-3.3	-0.3
- Infrastructure FAI	3.8	-31.5	-19.7	-19.7	-11.8	-6.3
Retail sales value	8.0	-20.5	-15.8	-19	-7.5	-2.8

Source: NBS, CMBIS

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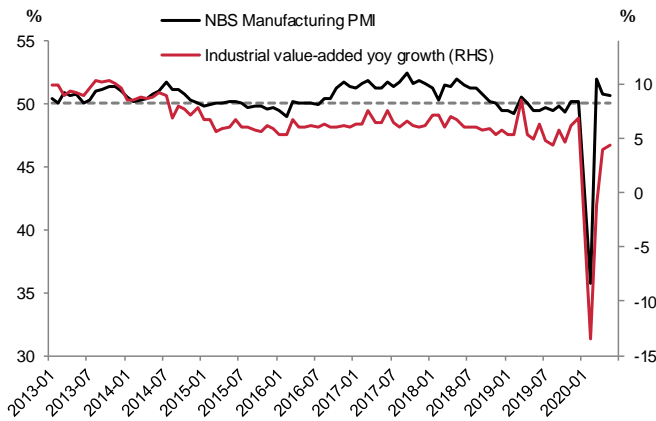
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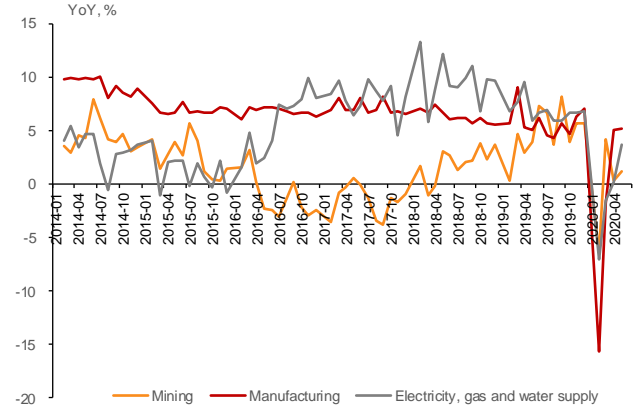
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**Figure 1: Industrial output continued to expand in May +4.4% YoY, vs. +3.9% YoY in Apr**



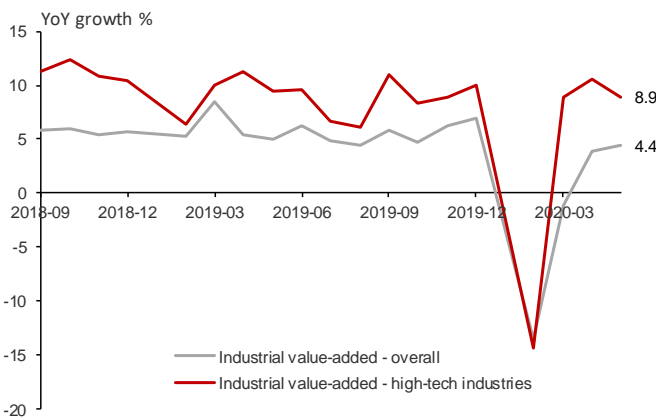
Source: NBS, Wind, CMBIS

**Figure 2: Industrial value-added growth by sector**



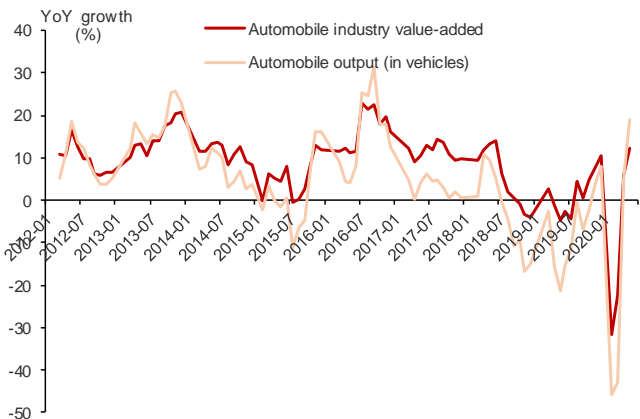
Source: NBS, Wind, CMBIS

**Figure 3: High-tech manufacturing output growth continued to outpace overall**



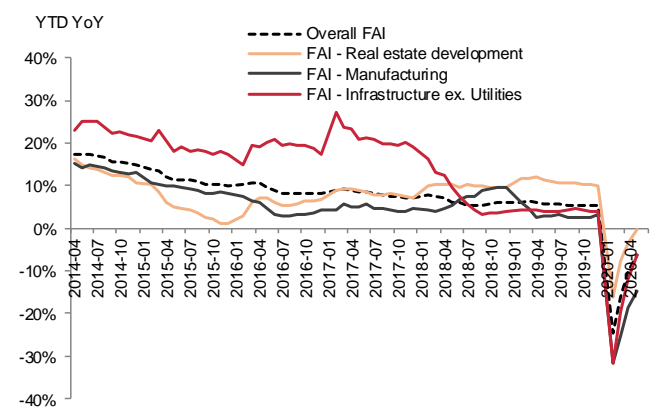
Source: NBS, Wind, CMBIS

**Figure 4: Automobile output rallied 12.2/19% YoY in value/volume in May**



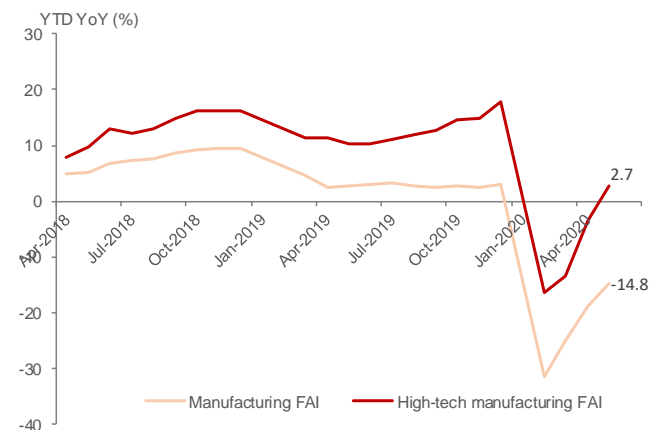
Source: NBS, Wind, CMBIS

**Figure 5: FAI growth by key components**



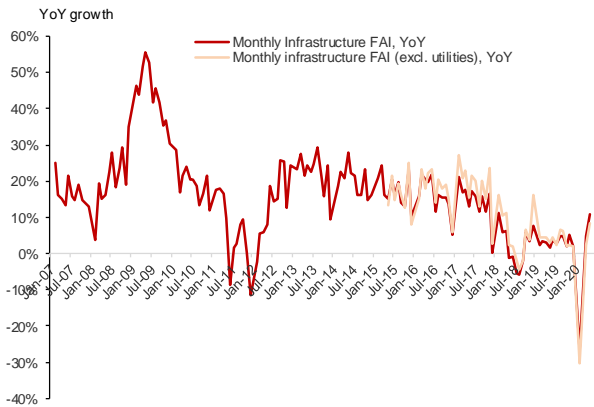
Source: NBS, Wind, CMBIS

**Figure 6: Growth of high-tech manufacturing FAI turned positive +2.7% YoY in Jan-May**



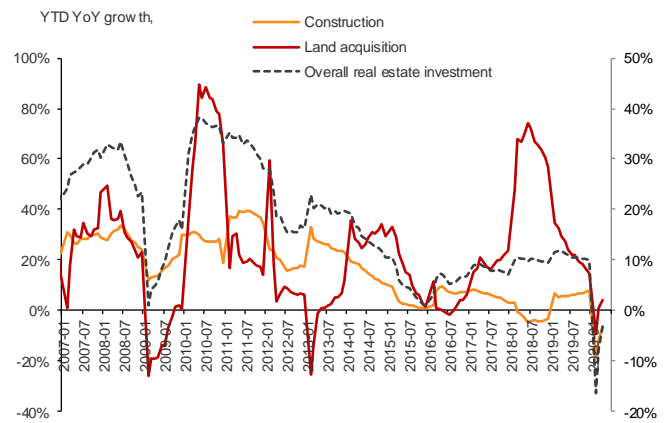
Source: NBS, Wind, CMBIS

**Figure 7: Infrastructure investment**



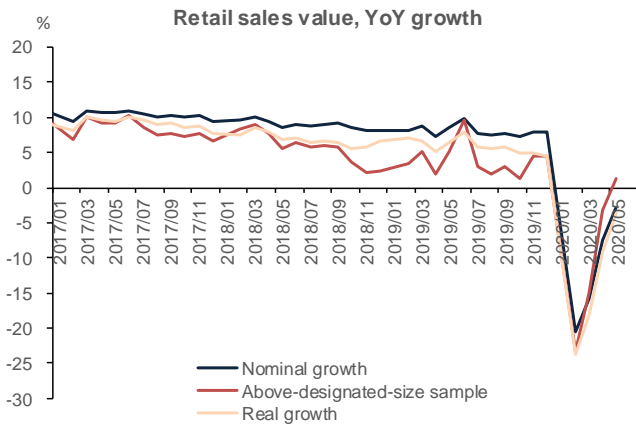
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**Figure 8: Breakdown of real estate investment**



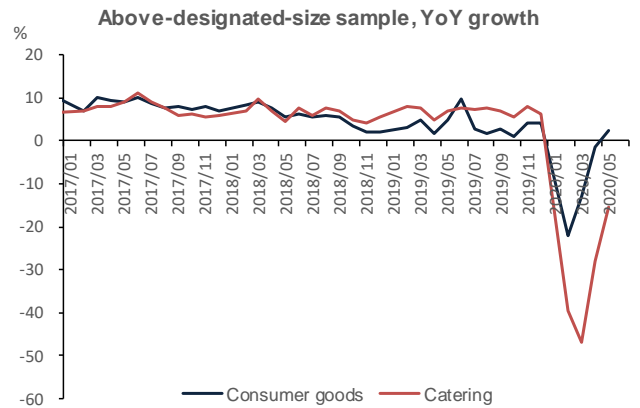
Source: NBS, Wind, CMBIS

**Figure 9: Above-designated-size sample recorded +1.3% YoY growth in May**



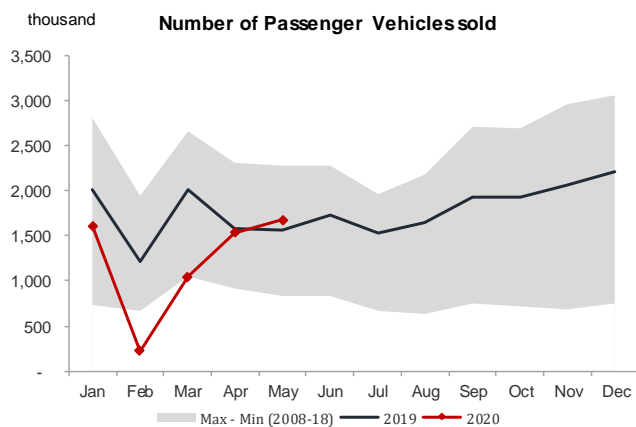
Source: NBS, Wind, CMBIS

**Figure 10: Catering services narrowed decline to 18.9% in May**



Source: Wind, CMBIS

**Figure 11: Car sales turned positive in May**



Source: China Automobile Association, Wind, CMBIS

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