

China Economy in Oct

Holiday boosted consumption spending

Economic performance in Oct was underpinned by 1) firming-up consumption spending during national holiday; 2) sustained demand recovery, which lifted manufacturing output and investment; and 3) accelerating real estate investment. As the demand side has been gradually catching up recovery pace with supply side, we think sequential improvement will continue in 4Q. Job market also reported marginal progress, lending support for consumption growth in the future.

- **Industrial value-added increased 6.9% YoY in Oct**, underpinned by improvement of traditional manufacturing sectors as well as resilient growth of high-tech industries (+6.3% YoY). Most industries, including automobile, equipment, metal products and electrical machinery, recorded accelerating output growth in 10M20 vs 9M20 thanks to resuming downstream demand and rosier export outlook. We expect industrial output will continue expanding in 4Q, lifting annual growth to 2.4%.
- **Urban FAI progressed to climb 1.8% YoY in 10M20**, after achieving the first positive YTD growth last month. **1) Manufacturing FAI narrowed decline to 5.3%**. In addition to pharmaceuticals and computers, communication & electronic equipment, which maintained double-digit growth at 22.8%/12% in 10M20, most other industries continuously narrowed FAI decline thanks to sequential demand recovery in both domestic and overseas markets. **2) Infrastructure FAI accelerated a bit to 0.7% YoY in 10M20**. Monthly growth strengthened to 7.3% YoY after a small dip in Sep. We believe infrastructure investment is likely to remain steady in 4Q and achieve 1.5% annual growth. **3) Real estate investment growth held up at 6.3% YoY**, driven by both land expenditures and construction spending. However, some leading indicators for real estate investment (namely, new housing starts and land transaction volume) may suggest deceleration in the upcoming year.
- **Consumer spending up during national holiday**. The prolonged National Holiday, which overlapped with the mid-Autumn Festival this year, set China on the move again after COVID-19. Domestic consumption witnessed rapid recovery. Retail sales increased 4.3% YoY in Oct and +7.1% for the above-designated-size sample. Car sales maintained strong growth momentum, +12% YoY in Oct. **Catering services recorded the first positive growth** since the beginning of the year, up 0.8% YoY for the entire sample and 6.1% for the above-designated-size sample. This was likely because people increased dining out during vacation trips.
- **Risks**. 1) Second wave of COVID-19 to dent global economic recovery; 2) weaker than expected domestic demand resumption.

Data Summary

YoY growth (%)	Jun-20	1H20	Jul-20	Aug-20	Sep-20	Oct-20
Industrial value-added	4.8	-1.3	4.8	5.6	6.9	6.9
FAI, YTD	-3.1	-3.1	-1.6	-0.3	0.8	1.8
- Manufacturing FAI	-11.7	-11.7	-10.2	-8.1	-6.5	-5.3
- Real estate FAI	1.9	1.9	3.4	4.6	5.6	6.3
- Infrastructure FAI	-2.7	-2.7	-1.0	-0.3	0.2	0.7
Retail sales value	-1.8	-11.4	-1.1	0.5	3.3	4.1

Source: NBS, CMBIS

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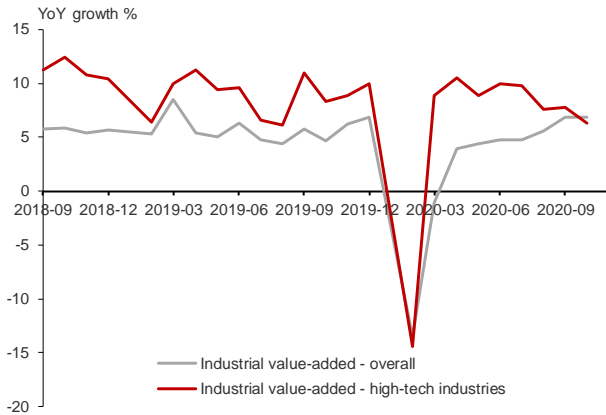
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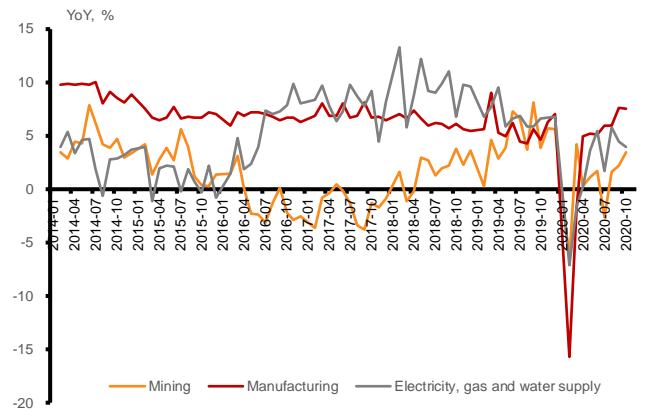
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Figure 1: Industrial value-added +6.9% YoY in Oct



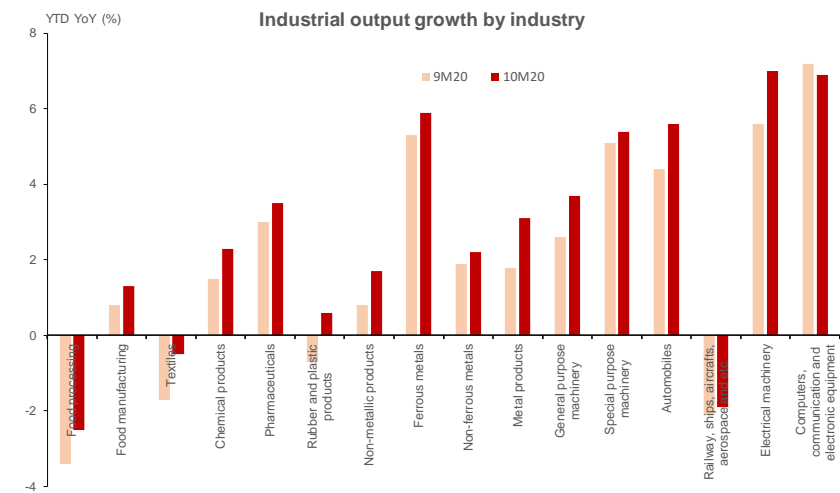
Source: NBS, Wind, CMBIS

Figure 2: Industrial value-added growth by sector



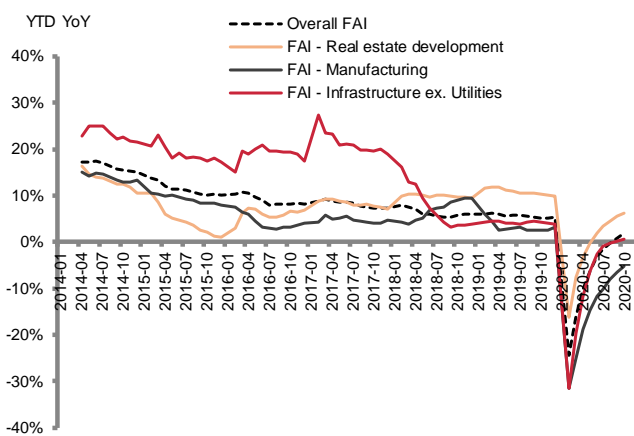
Source: NBS, Wind, CMBIS

Figure 3: Major industries posted accelerating output growth in 10M20 vs. 9M20



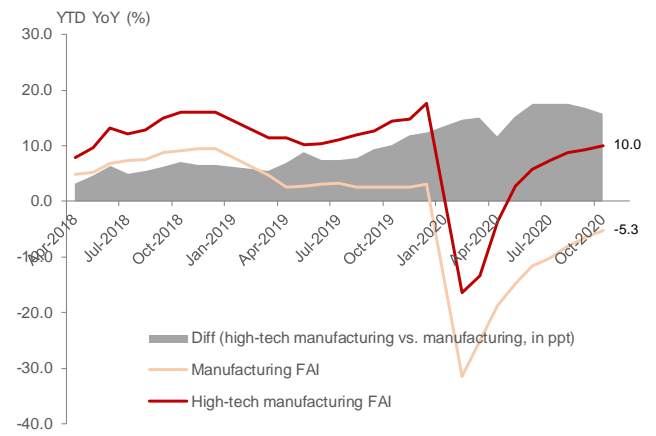
Source: NBS, Wind, CMBIS

Figure 4: FAI growth speeded up to 1.8% YoY in 10M20 vs 0.8% in 9M20



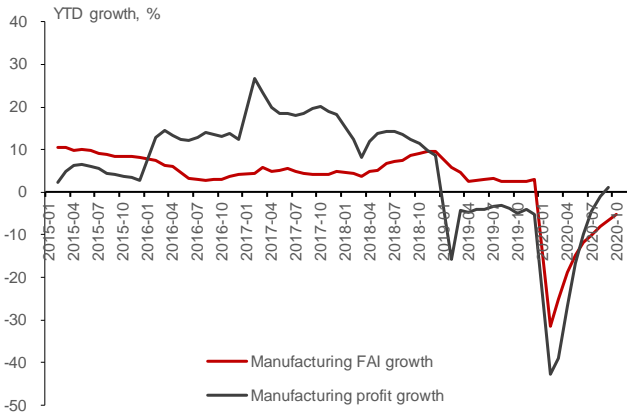
Source: NBS, Wind, CMBIS

Figure 5: High-tech manufacturing FAI +10% in 10M20



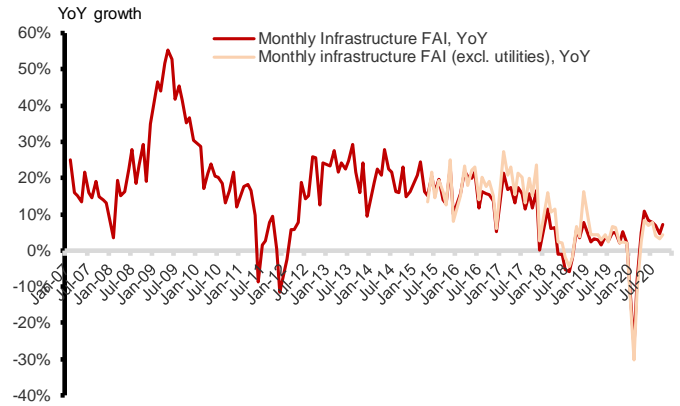
Source: NBS, Wind, CMBIS

Figure 6: Improving profit also lifted manufacturing FAI growth



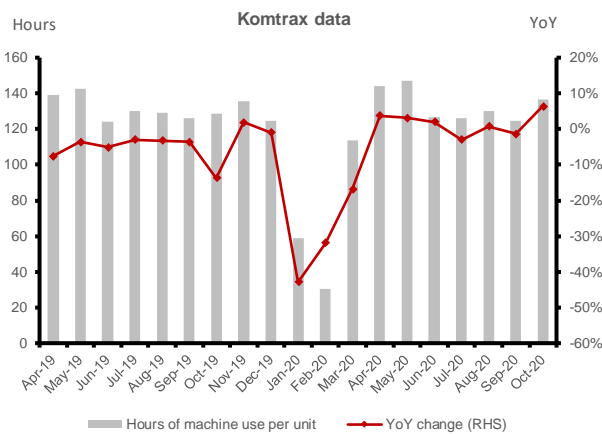
Source: NBS, Wind, CMBIS

Figure 7: Monthly infrastructure FAI growth resumed to 7.3% YoY in Oct after a small dip in Sep



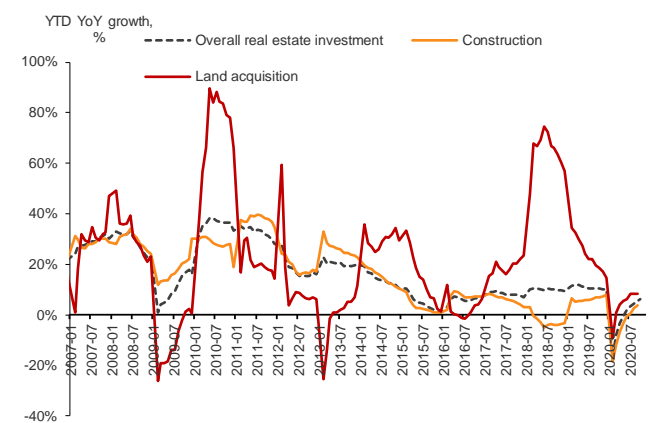
Source: NBS, Wind, CMBIS estimates

Figure 8: Komtrax – hours of machine use per unit +6.3% YoY in Oct



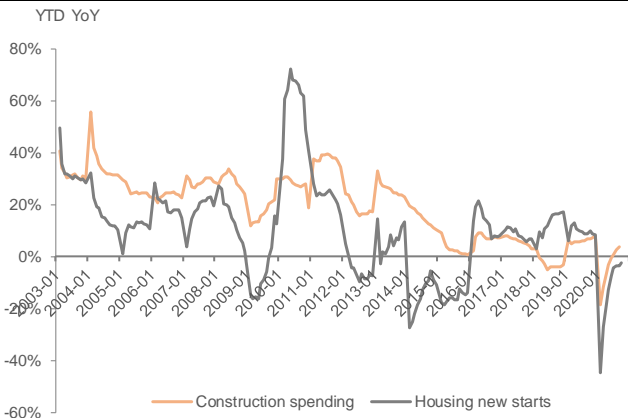
Source: Komtrax data, CMBIS

Figure 9: Strong real estate investment driven by both construction and land acquisition expenditures



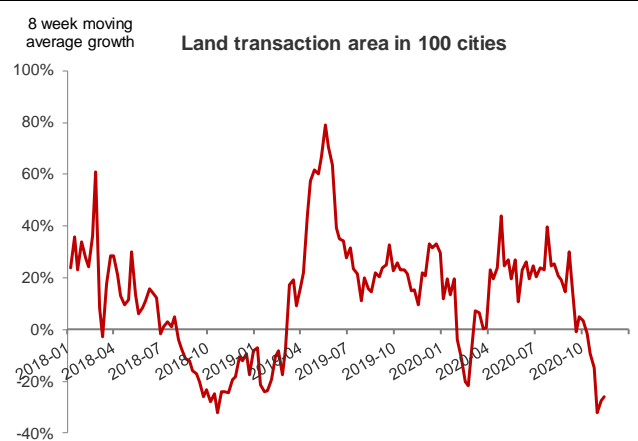
Source: NBS, Wind, CMBIS estimates

Figure 10: ... however, housing new starts slowed down in Sep and Oct



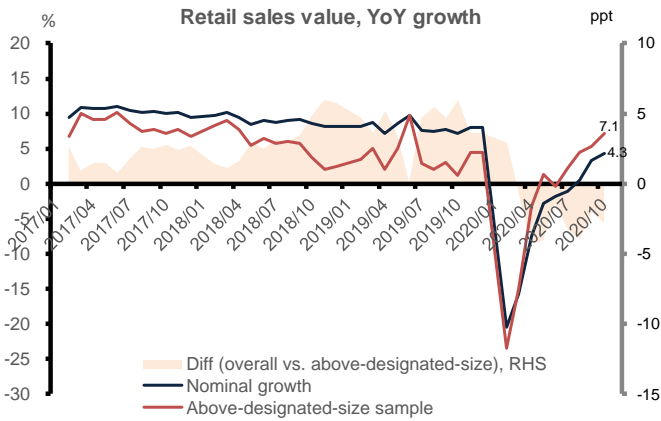
Source: NBS, Wind, CMBIS

Figure 11: Land transaction also posted weakness followed by tightening criteria for developers



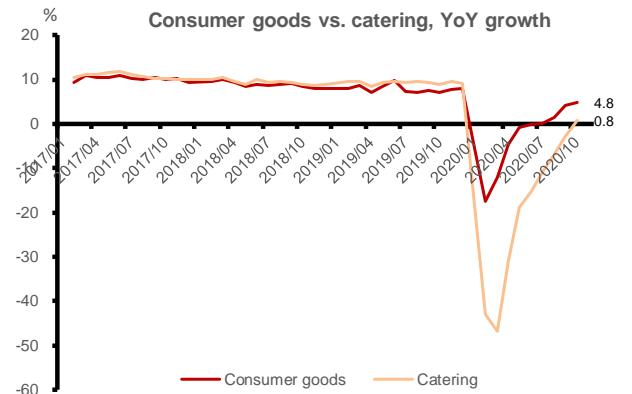
Source: NBS, Wind, CMBIS

Figure 12: Retail sales +4.3% in Oct



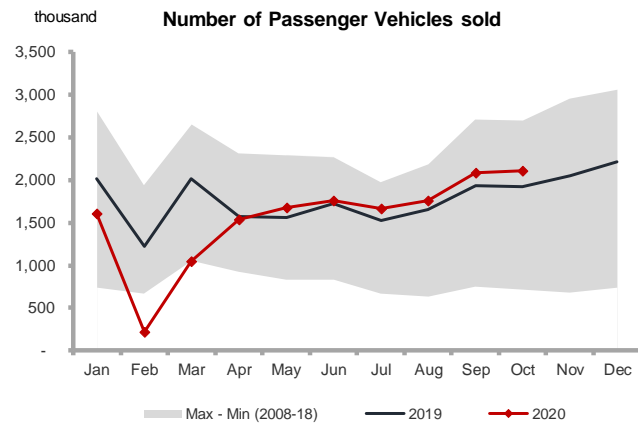
Source: NBS, Wind, CMBIS

Figure 13: Catering reported first positive growth since 2020



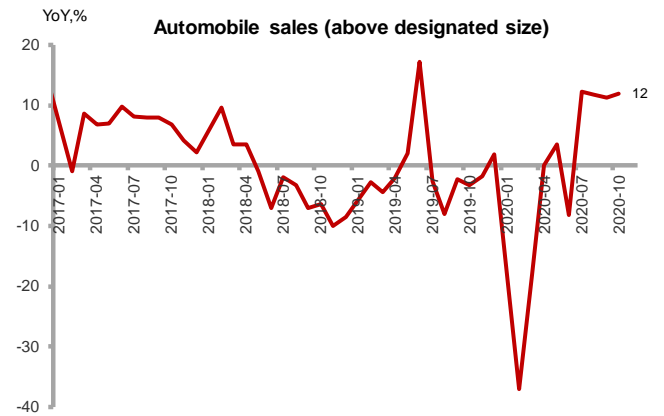
Source: NBS, Wind, CMBIS

Figure 14: Car sales continued to gain in Oct



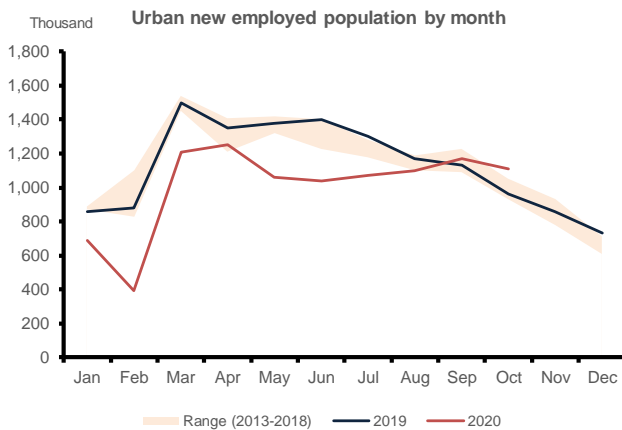
Source: China Automobile Association, Wind, CMBIS

Figure 15: Car sales value +12% YoY in Oct



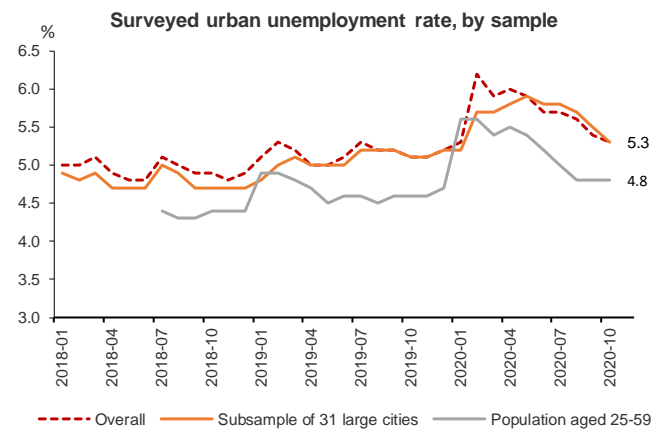
Source: NBS, Wind, CMBIS

Figure 16: In 10M20, 10.09 million people were added to the new employed population, exceeding annual target



Source: NBS, CMBIS

Figure 17: Surveyed urban unemployment rate moving down to 5.3% in Oct



Source: NBS, Wind, CMBIS

Figure 18: Forecast of major economic indicators

	2017A	2018A	2019A	2020E
Real GDP (yoy growth, %)	6.9	6.6	6.1	2.3
CPI (YoY growth, %)	1.6	2.1	2.9	2.7
PPI (YoY growth, %)	6.3	3.5	-0.3	-2.0
Value-added industrial output (YoY growth, %)	6.6	6.4	5.7	2.4
Fixed asset investment (YoY growth, %)	7.2	5.9	5.4	2.5
Infrastructure	19.0	3.8	3.8	1.5
Manufacturing	4.8	9.5	3.1	-4.5
Real estate development	7.0	9.5	9.9	5.9
Retail sales (nominal, YoY growth, %)	10.2	9.0	8.0	-3.0
Export (in USD, YoY Growth, %)	7.9	9.9	0.5	-1.0
Import (in USD, YoY Growth, %)	15.9	15.8	-2.8	-5.0
M2 (YoY growth, %)	8.2	8.4	8.7	10.4
Total social financing (TSF) balance (%)	13.4	9.8	10.7	13.0
RMB loans outstanding (%)	12.7	13.5	12.5	12.7
1-year LPR (%)	n/a	n/a	4.15	3.85
5-year LPR (%)	n/a	n/a	4.80	4.65
1-year MLF operating rate (%)	3.25	3.30	3.25	2.95
7-day reverse repo rate (%)	2.50	2.55	2.50	2.20
10-year Government bond yield (%)	3.0-4.0	3.1-4.0	3.0-3.4	3.0-3.2
USD/CNY (range)	6.46-6.96	6.26-6.97	6.68-7.18	6.70-7.10
USD/CNY (end of period)	6.51	6.88	6.96	6.80

Source: NBS, PBoC, China Customs, Wind, Bloomberg, CMBIS estimates

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