

China Economy in 2Q

Looking forward to more balanced recovery

China's real GDP growth recorded +3.2% YoY in 2Q20, representing a significant rebound from -6.8% YoY in 1Q20. Real GDP growth in 1H20 was -1.6% YoY. Overall speaking, supply recovery was speedier and more significant, with industrial activities and secondary industry output advancing month by month. Demand side, however, is only slowly catching up. We have observed positive signs of demand recovery in PMI, inflation and trade data in Jun, but consumption demand, weighed on by lackluster household income growth, may take a shallower trajectory of rebound after the pandemic.

- **Industrial value-added increased 4.8% YoY**, up 0.4ppt from May. Manufacturing value-added kept steady growth around 5.0% YoY since Apr, inching towards pre-pandemic levels. High-tech manufacturing and equipment manufacturing output growth continued to outpace overall, increasing 10.0%/9.7% YoY in Jun. Computers, communications & electronic equipment manufacturing and automobile manufacturing value-added increased 12.6%/13.4% in Jun, respectively.
- **Urban FAI decreased 3.1% YoY in 1H20**, narrowing 3.2ppt from the Jan-May period. Monthly growth turned positive, up 0.9%/1.1% YoY in May/Jun. 1) **Manufacturing FAI** narrowed decline to 11.7% YoY in 1H20, among which FAI of high-tech industries increased 5.8% YoY. 2) **Infrastructure FAI** decreased 2.7% YoY in 1H20. Speed of rebound decelerated a bit in Jun possibly due to stormy weather conditions and slowdown of local government special bond issuance in Jun. 3) **Real estate investment turned positive**, up 1.9% YoY in 1H20. Both land acquisition investment and construction investment have been picking up vigorously since Mar.
- **Retail sales continued to narrow its decline** in Jun to -1.8% YoY (-1.0% excluding car sales). However, speed of recovery decelerated and was a bit disappointing partly due to last year's high base. Growth of above-designated-size sample retreated to negative growth of -0.4% in Jun. Thanks to the "6.18" shopping season, home appliances, cosmetics, daily necessities, etc. recorded decent growth.
- **Our major concerns lie in 1) Employment and income growth.** Although employment situations are improving, disposable household income decreased 2.0% YoY in real terms in 1H20, lagging behind GDP growth; **2) Policy boost.** In the post-pandemic era, policy incentives should be designed with greater precaution, to avoid overdraft of future demand or causing oversupply. We also think policies should be more targeted to help SMEs, in particular SMEs in the tertiary sector.

Data Summary

YoY growth (%)	1Q20	Apr-20	May-20	Jun-20	1H20
Industrial value-added	-8.4	3.9	4.4	4.8	-1.3
Fixed asset investment, YTD	-16.1	-10.3	-6.3	-3.1	-3.1
- Manufacturing FAI	-25.2	-18.8	-14.8	-11.7	-11.7
- Real estate FAI	-7.7	-3.3	-0.3	1.9	1.9
- Infrastructure FAI	-19.7	-11.8	-6.3	-2.7	-2.7
Retail sales value	-19	-7.5	-2.8	-1.8	-11.4

Source: NBS, CMBIS

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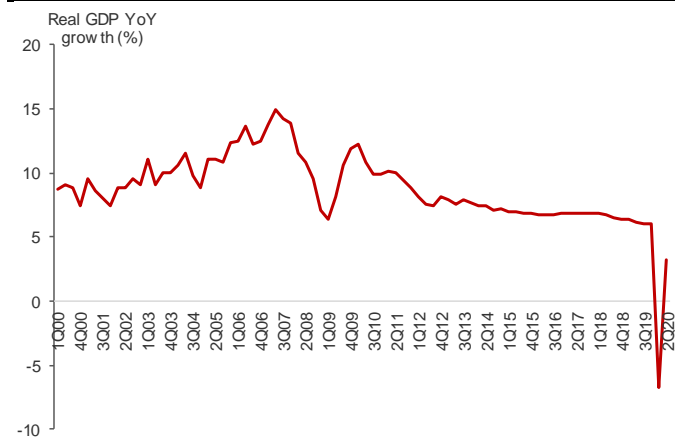
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GDP growth

China's real GDP growth recorded +3.2% YoY in 2Q20, representing a significant rebound from -6.8% YoY in 1Q20. It also exceeded our forecast at +3.0% YoY and consensus estimate at 2.4% YoY. Real GDP growth in 1H20 was -1.6% YoY.

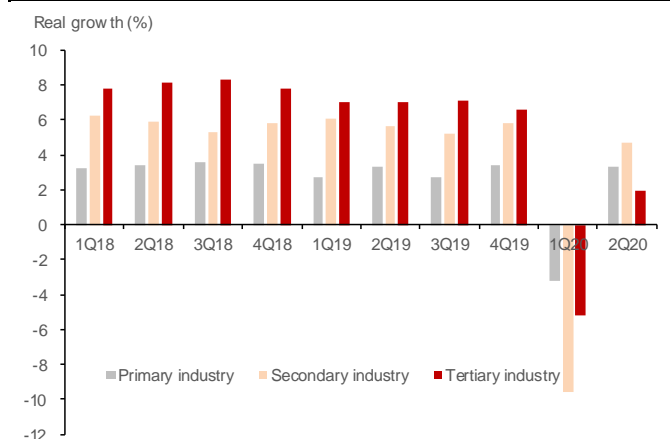
All three industries experienced rebound, although to various extents. **Recovery of secondary industry was speedier and more significant than that of the service sector.** Real growth of primary/secondary/tertiary industries was 3.3%/4.7%/1.9% YoY in 2Q20, vs. -3.2%/-9.6%/-5.2% in 1Q20.

Figure 1: Real GDP growth rebounded to +3.2% YoY in 2Q20



Source: NBS, Wind, CMBIS

Figure 2: Real growth by primary/secondary/tertiary industry

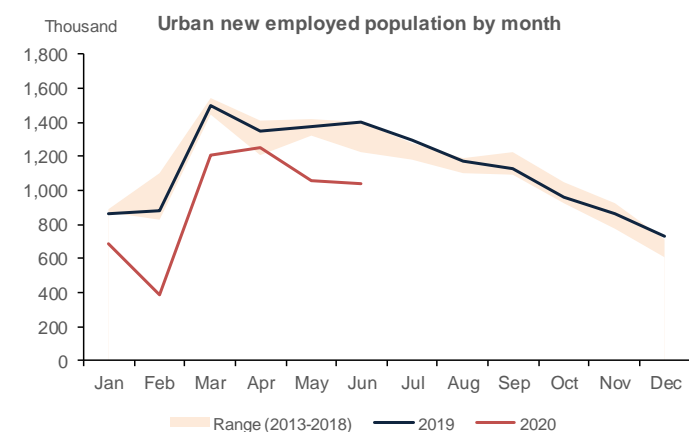


Source: NBS, Wind, CMBIS

Employment and household income

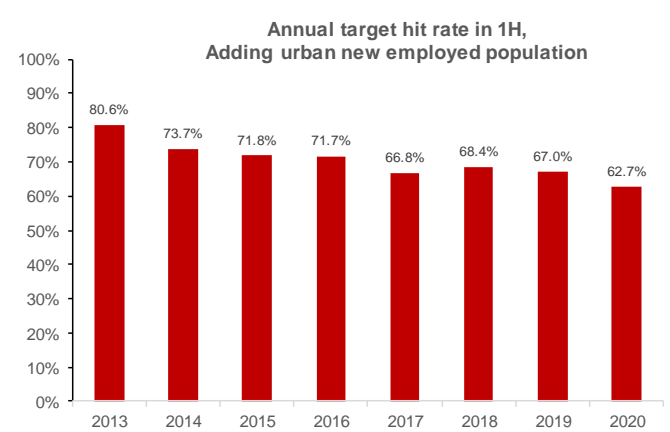
Employment situations are improving, with the help of macroeconomic rebound and government policies to ensure job opportunities. In 1H20, 5.64 million people were added to urban employed population, hitting 62.7% of the annual target at 9 million. Surveyed urban unemployment rate has been trending down since Apr, not only in the 31 large cities, but also in smaller ones.

Figure 3: In 1H20, 5.64 million people were added to urban employed population



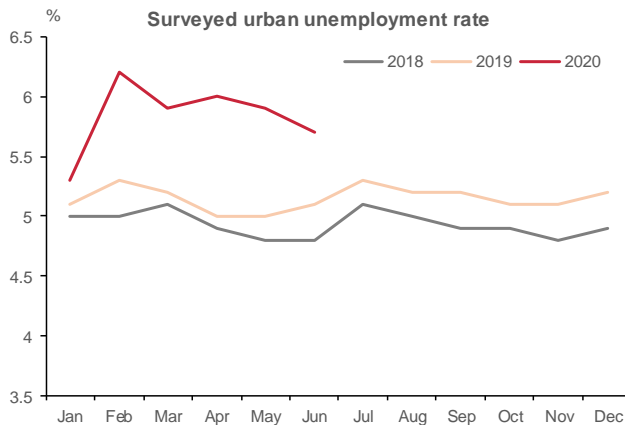
Source: NBS, Wind, CMBIS

Figure 4: ... hitting 62.7% of annual target of adding 9 million urban employed population



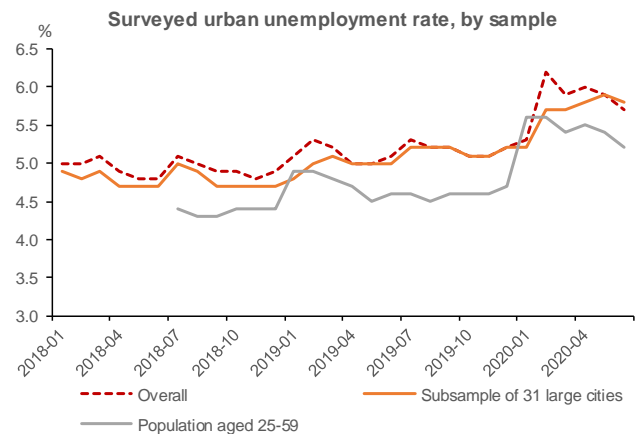
Source: NBS, Government Work Report, CMBIS

Figure 5: Surveyed urban unemployment rate has been trending down since Apr



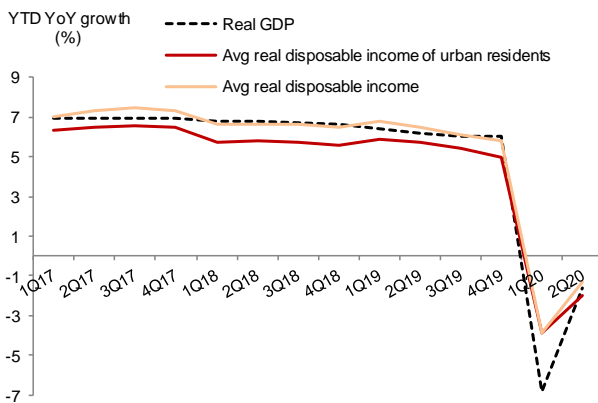
Source: NBS, Wind, CMBIS

Figure 6: ... in both large cities and smaller ones



Source: NBS, Wind, CMBIS

Figure 7: Disposable income of urban household declined 2.0% in real terms in 1H20



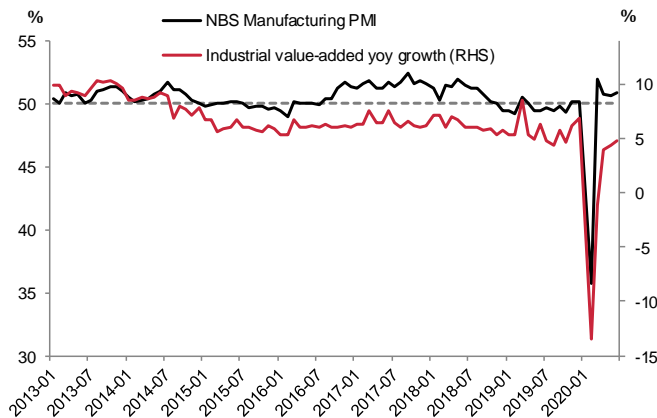
Source: NBS, Wind, CMBIS

Industrial activities picking up month after month

Industrial value-added increased 4.8% YoY, up 0.4ppt from May. Growth has been speeding up month by month. Mining and electricity, gas & water supply recorded accelerating growth in Jun. Manufacturing value-added kept steady growth around 5.0% YoY since Apr, inching towards pre-pandemic levels.

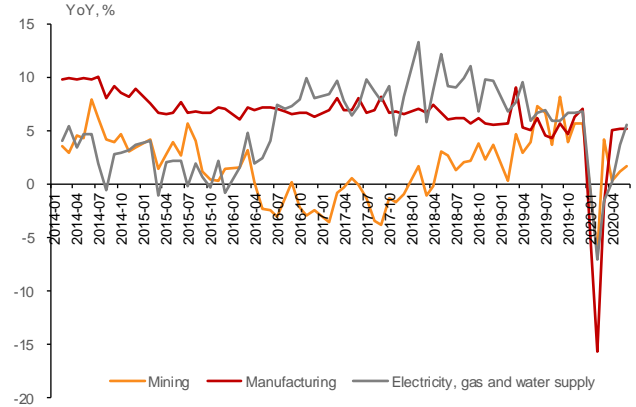
High-tech manufacturing and equipment manufacturing output growth continued to outpace overall, increasing 10.0%/9.7% YoY in Jun. For example, **Computers, communications & electronic equipment manufacturing** recorded 12.6% YoY growth in Jun, driven by 1) rising demand for remote work and learning during the COVID-19; 2) 5G technological upgrade of consumer electronics. **Automobile** value-added increased 13.4% YoY in Jun, up 1.2ppt from May.

Figure 8: Industrial value-added growth expanded to 4.8% YoY in Jun



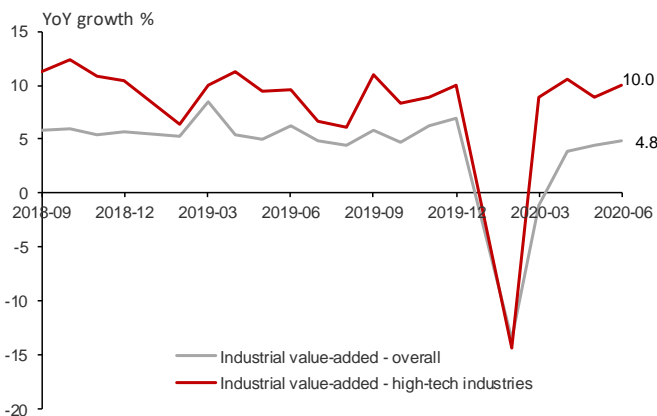
Source: NBS, Wind, CMBIS

Figure 9: Industrial value-added growth by sector



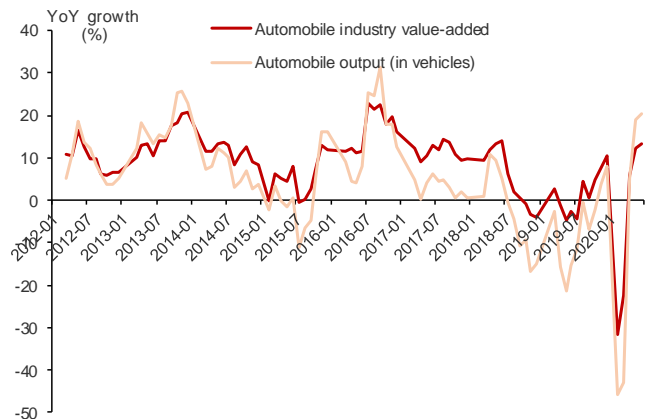
Source: NBS, Wind, CMBIS

Figure 10: High-tech manufacturing output growth continued to outpace overall



Source: NBS, Wind, CMBIS

Figure 11: Automobile value-added increased 13.4% YoY in Jun



Source: NBS, Wind, CMBIS

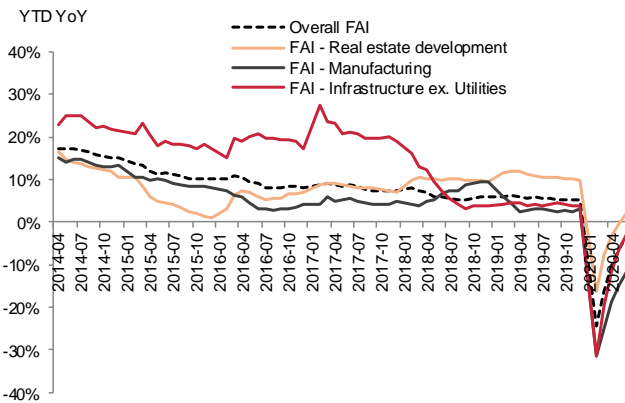
FAI

Urban FAI decreased 3.1% YoY in 1H20, narrowing 3.2ppt from the Jan-May period. Monthly growth turned positive, up 0.9%/1.1% YoY, respectively, in May/Jun.

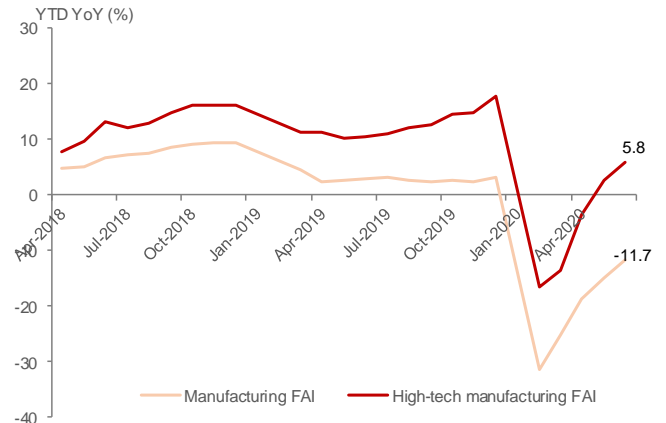
Manufacturing FAI narrowed decline to 11.7% YoY in 1H20, among which FAI of high-tech industries increased 5.8% YoY.

Infrastructure FAI decreased 2.7% YoY in 1H20. Speed of rebound decelerated a bit in Jun possibly due to stormy weather conditions and slowdown of local government special bond issuance in Jun. Nonetheless, we forecast annual infrastructure FAI to recover steadily in 2H20.

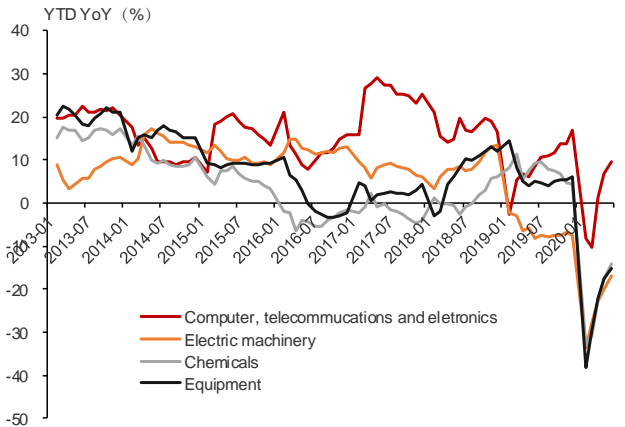
Real estate investment turned positive, up 1.9% YoY in 1H20 vs. -0.3% in the Jan-May period. Both land acquisition investment and construction investment have been picking up vigorously since Mar. Such trend is likely to continue into 2H20.

Figure 12: FAI growth by key components

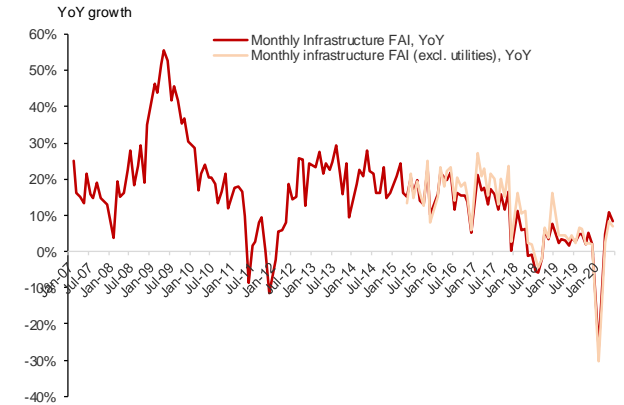
Source: NBS, Wind, CMBIS

Figure 13: Growth of high-tech manufacturing FAI strengthened to +5.8% YoY in 1H20

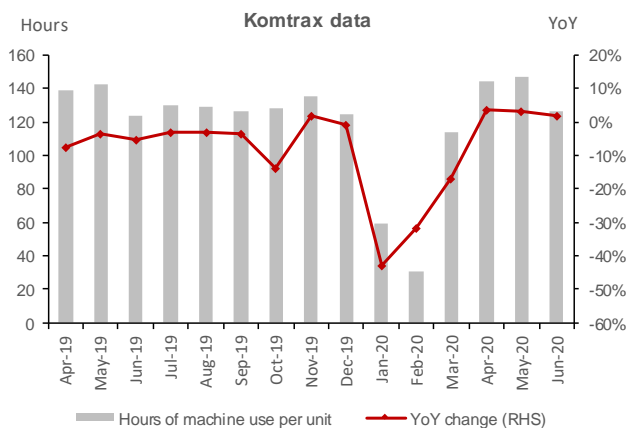
Source: NBS, Wind, CMBIS

Figure 14: Manufacturing FAI of selected industries

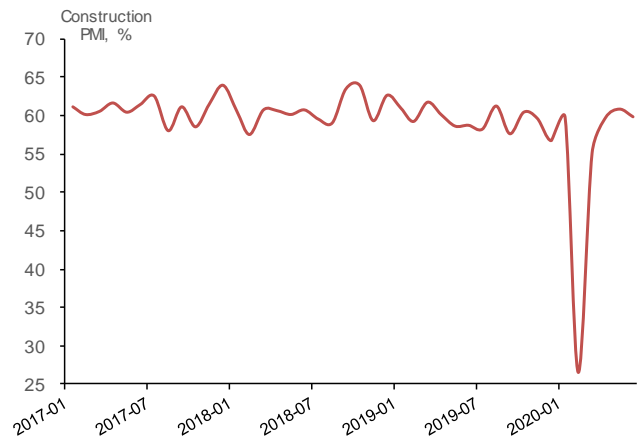
Source: NBS, Wind, CMBIS

Figure 15: Monthly growth of infrastructure FAI

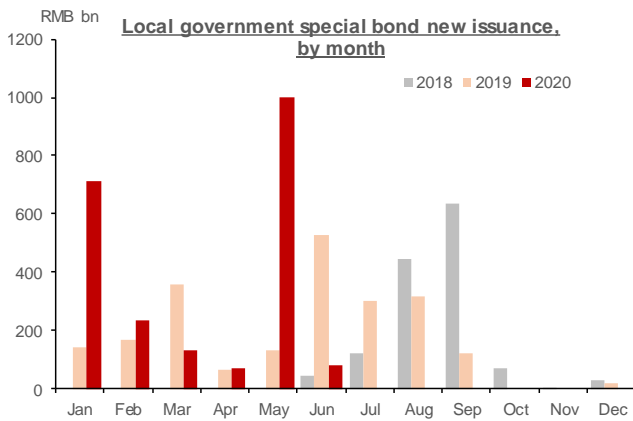
Source: NBS, Wind, CMBIS

Figure 16: Excavator usage

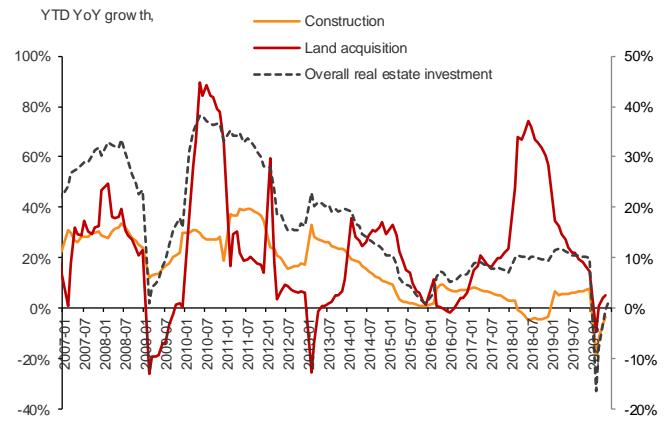
Source: Komatsu, CMBIS

Figure 17: Construction PMI

Source: NBS, Wind, CMBIS

Figure 18: Local government special bond issuance

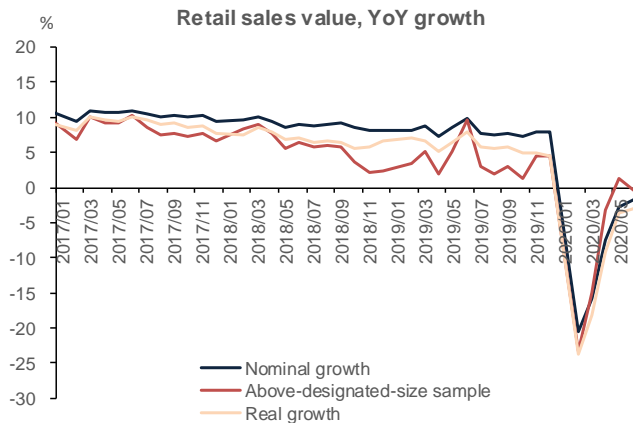
Source: NBS, Wind, CMBIS

Figure 19: Decomposition of real estate investment

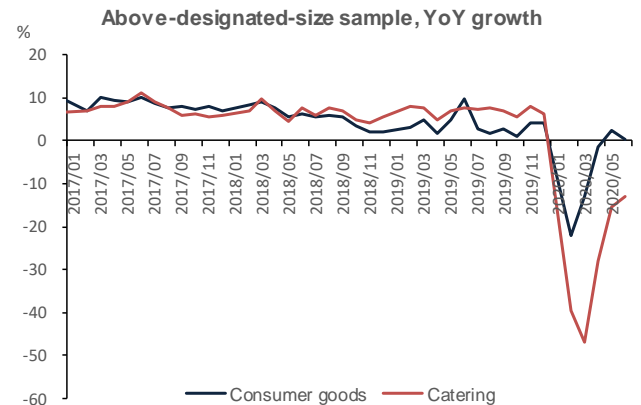
Source: NBS, Wind, CMBIS

Retail sales

Retail sales continued to narrow its decline in Jun to -1.8% YoY (-1.0% excluding car sales). However, speed of recovery decelerated and was a bit disappointing partly due to last year's high base in Jun. Growth of above-designated-size sample retreated to negative growth of -0.4% in Jun. Thanks to the "6.18" shopping season, home appliances, cosmetics, daily necessities, etc. recorded decent growth.

Figure 20: Retail sales value decreased 1.8% YoY in Jun

Source: NBS, Wind, CMBIS

Figure 21: Catering services narrowed decline to 12.9% in Jun for the above-designated-size sample

Source: Wind, CMBIS

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