

# China Economy

## The worst time is about to pass, but resumption may be slow

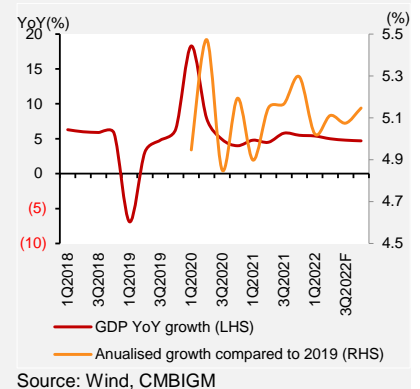
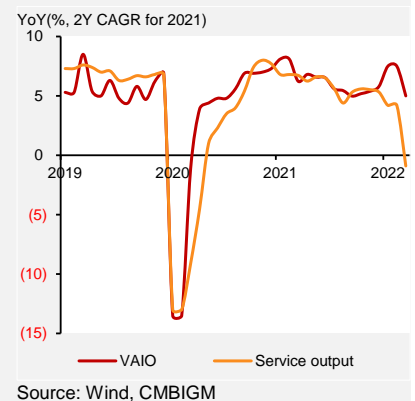
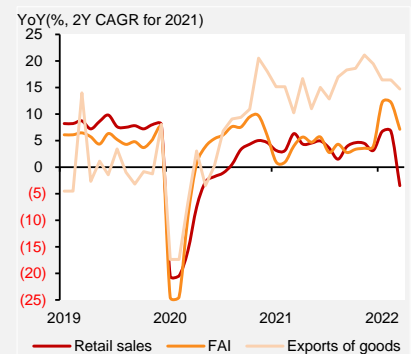
China's GDP growth in 1Q22 beat market expectations due to strong growth in 2M22. But the severe epidemic in its financial and business hub started to severely dampen the economy from March with a sharp deterioration in real estate market, retail sales and service output. The epidemic has caused the economy to rapidly slide to the bottom in April. As Shanghai may see its epidemic peak in late April, the worst time for economy seems to be over soon. But the resumption process may take a long time due to China's strict virus-control policy, reluctance about strong policy loosening, private sector's contractionary mindset of saving expenditures and probable slowdown of global economy. As China's economy starts to resume from May, consumer services and property related sectors with low valuation in the stock market have additional upside room in the short term.

- 1Q22 growth beat expectations, yet the epidemic started to hurt economy in March.** China's GDP grew 4.8% YoY in 1Q22, higher than market consensus of 4.4% and the YoY growth of 4% in 4Q21. The GDP growth in industry & construction accelerated from 2.5% in 4Q21 to 5.8% in 1Q22, thanks to low base and strong growth of exports. But GDP growth in service slowed from 4.6% in 4Q21 to 4% in 1Q22 as service activity slumped in March due to the epidemic first in Shenzhen and then in Shanghai. The epidemic started to hurt demand and supply chain in March. Retail sales dropped 3.5% YoY in March after rising 6.7% in 2M22. Meanwhile, the YoY growth of fixed asset investment (FAI) decelerated from 12.2% to 7.1%. Property market further deteriorated as the gross floor area (GFA) sold and the GFA started for commodity housing respectively dropped 17.7% and 22.2% in March after declining 9.6% and 12.2% in 2M22. Due to the epidemic, domestic demand and supply chain deterioration.
- The worst time should be over soon.** The epidemic with lockdowns in Shanghai has caused China's economy to rapidly slide to the bottom in April. The financial and business hub may see its epidemic peak in late April, paving the way for a gradual resumption of China's economy from May. We believe the worst time will be over soon for housing market, household consumption and service activity. Both supply chain and demand should gradually resume from the epidemic shock.
- But China's resumption process may take longer time than expected.** The resumption process may be in a gradual manner due to four reasons. First, China is reluctant to give up its Covid-zero strategy in the short term. Because of the extremely high spread of the Omicron virus, China still faces the risk of epidemic resurgence in some regions in future, which may continue to cause disturbances to economy. Second, the Chinese policymaker is reluctant to launch strong policy loosening in face of the monetary tightening cycle in the US. The authority aims at stabilizing real estate market and curbing financial systematic risk instead of stimulating housing market again. Therefore, it will take longer for the real estate market to return to normal in the latest cycle. Third, the epidemic has last too long with a severe impact on employment, income and confidence. Chinese enterprises and households have formed a contractionary mindset of saving expenditures. It need a long time to get rid of this mindset. Last, European

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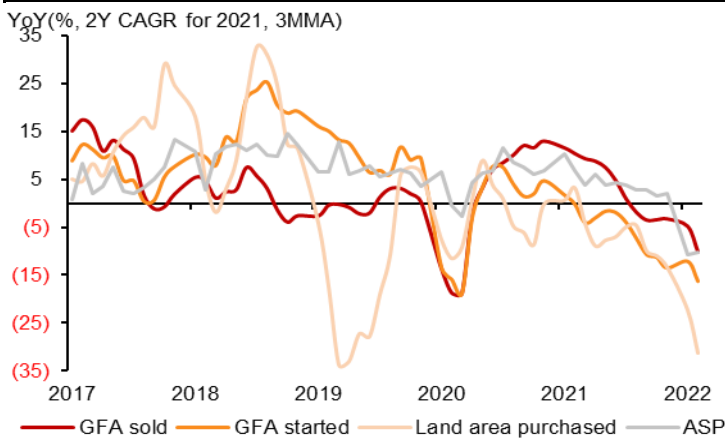
economy has significantly cooled down with some economies likely to see a recession due to the Russia-Ukraine conflict. The US economy has seen its peak and started to slow down. China will face external challenges including commodity inflation, overseas demand slowdown and geopolitical risks.

- **Consumer services and property related sectors with low valuation still have upside room in short term.** In face of the epidemic shock and the US Fed's tightening cycle, China's policy easing seems slow and weak. The strict epidemic control policy definitely restrain economic activity. Therefore, the Chinese stock market is generally in a weak rebounding from a low level. As China's economy starts to resume from May, consumer services and property related sectors with low valuation have additional upside room in the short term.

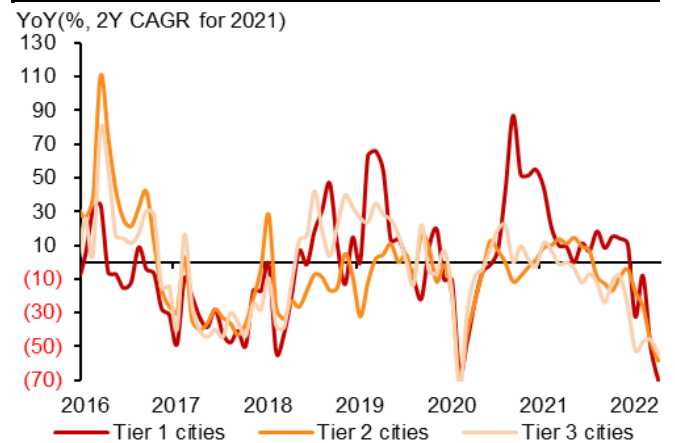
**Figure 1: China's Economic Indicators**

YoY(%)	2019	2020	2021	1Q2021	2Q2021	3Q2021	4Q2021	1Q2022	2020-2021
GDP	6.0	2.2	8.1	18.3	7.9	4.9	4.0	4.8	5.1
-Agriculture	3.1	3.1	7.1	8.1	7.6	7.1	6.4	6.0	5.1
-Industry & construction	4.9	2.5	8.2	24.4	7.5	3.6	2.5	5.8	5.3
-Service	7.2	1.9	8.2	15.6	8.3	5.4	4.6	4.0	5.0
VAIO	5.7	2.8	9.6	24.5	9.0	4.9	3.9	6.5	6.1
-Mining	5.0	0.5	5.3	10.1	2.4	2.1	6.5	10.7	2.9
-Manufacturing	6.0	3.4	9.8	27.3	9.3	4.7	3.1	6.2	6.6
-Public utility	7.0	2.0	11.4	15.9	11.0	9.7	9.8	6.1	6.6
Delivery value for exports	1.3	-0.3	17.7	30.4	16.3	14.2	13.2	14.4	8.3
Service Output	6.9	0.0	13.1	29.2	13.9	5.9	3.3	2.5	6.3
Urban FAI (YTD)	5.4	2.9	4.9	25.6	7.5	-0.4	-0.9	9.3	3.9
-Property development	9.9	7.0	4.4	25.6	9.8	-0.6	-7.8	0.7	5.7
-Manufacturing	3.1	-2.2	13.5	29.8	14.9	8.8	10.6	15.6	5.4
-Infrastructure	3.3	3.4	0.2	26.8	-0.4	-7.1	-2.8	10.5	1.8
Retail sales	8.0	-3.9	12.5	33.9	14.1	5.1	3.5	3.3	4.0
Exports of goods	0.5	3.6	29.9	48.8	30.6	24.2	23.1	15.8	16.0
Imports of goods	-2.7	-0.6	30.1	29.4	44.5	25.9	23.7	9.6	13.7

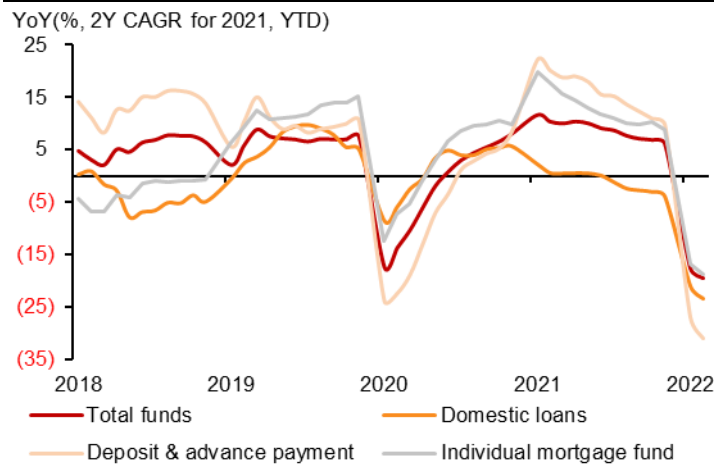
Source: Wind, CMBIGM

**Figure 2: Property Market Indicators**

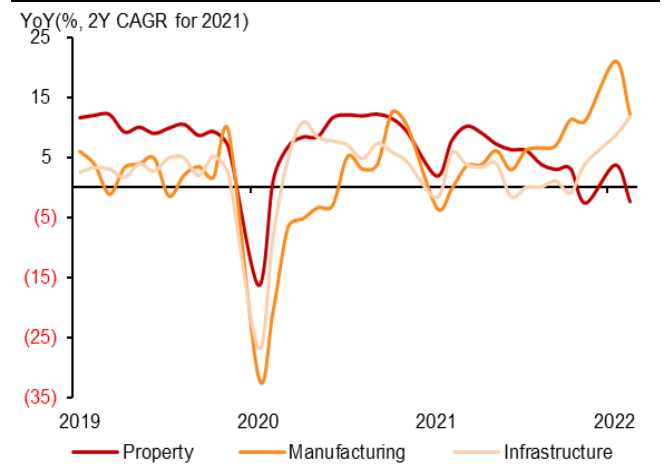
Source: WIND, CMBIGM

**Figure 3: Housing Sales by Cities**

Source: WIND, CMBIGM

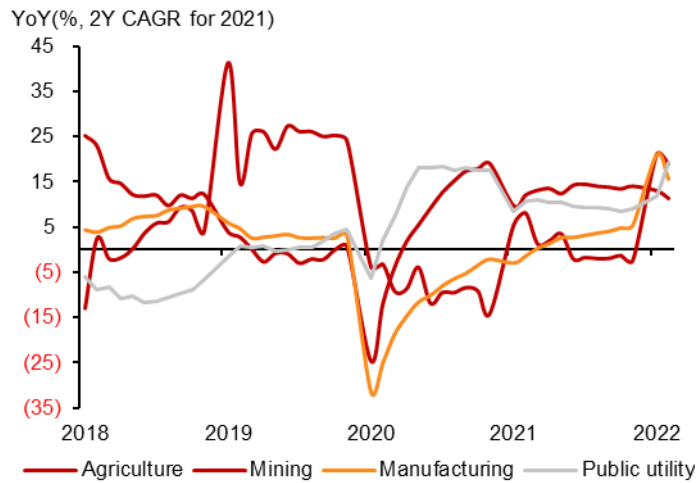
**Figure 4: Funding Source for Property Investment**

Source: WIND, CMBIGM

**Figure 5: FAI by Sector**

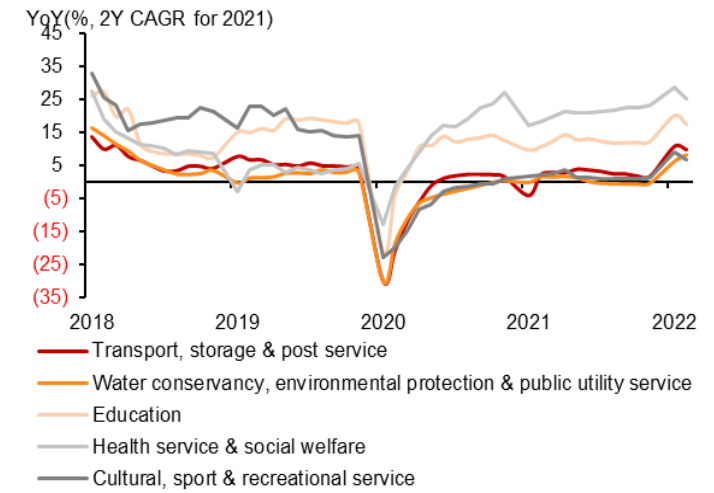
Source: WIND, CMBIGM

**Figure 6: FAI in Agriculture & Industry**



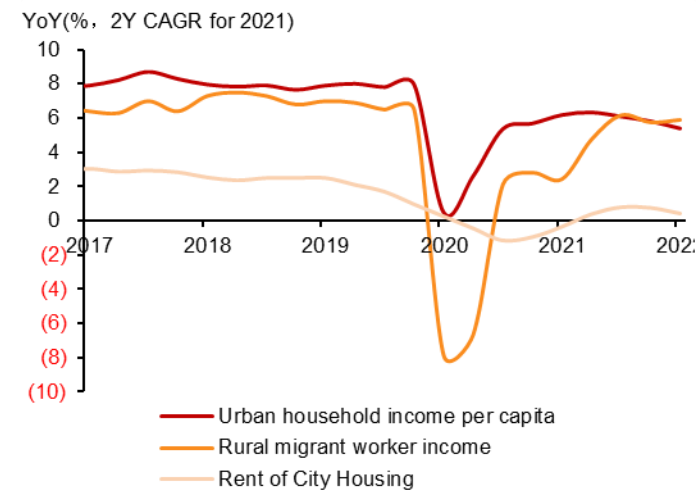
Source: WIND, CMBIGM

**Figure 7: FAI in Infrastructure & Social Service**



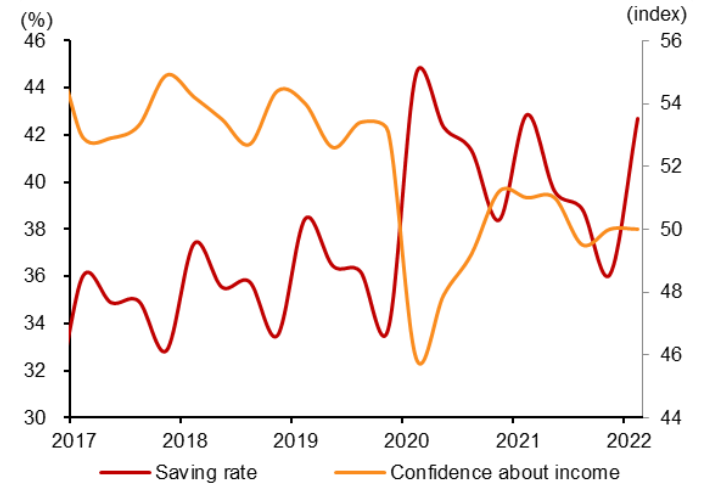
Source: WIND, CMBIGM

**Figure 8: Household Income & Urban Rent for Housing**



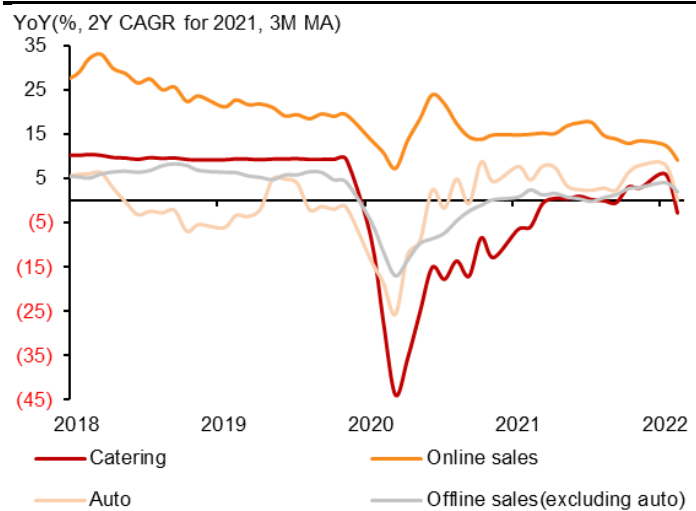
Source: WIND, CMBGM

**Figure 9: Consumer Confidence**



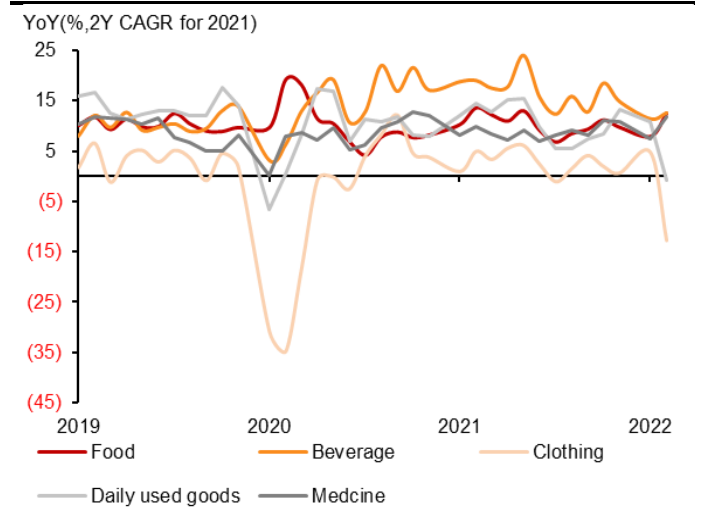
Source: WIND, CMBGM

**Figure 10: Retail Sales**



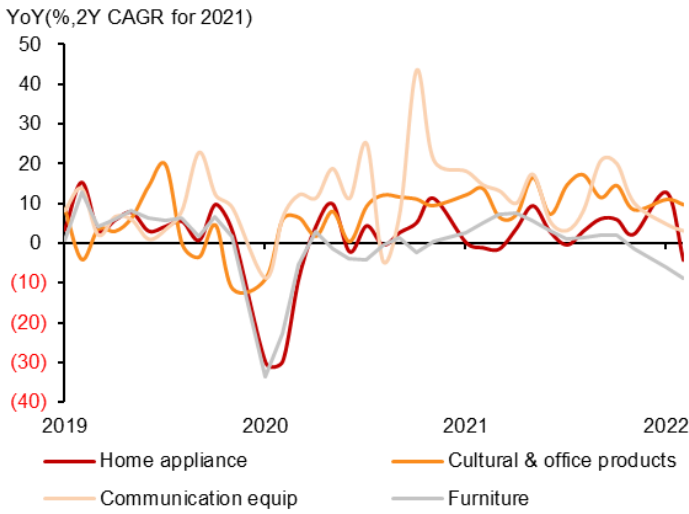
Source: WIND, CMBGM

**Figure 11: Retail Sales of Staples & Garments**



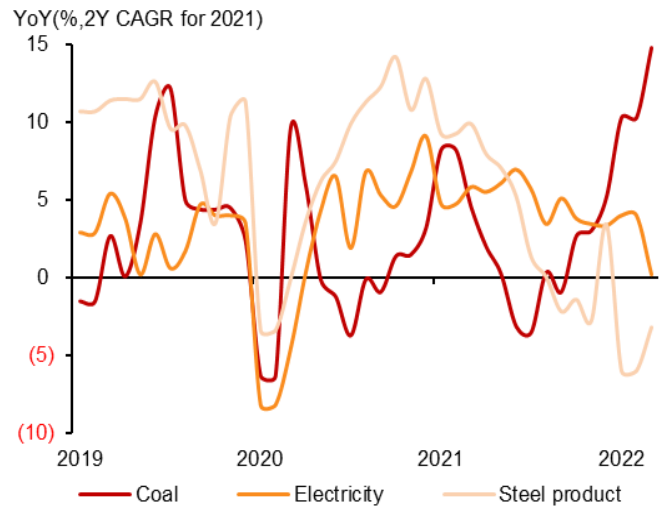
Source: WIND, CMBGM

**Figure 12: Retail Sales of Some Durables**



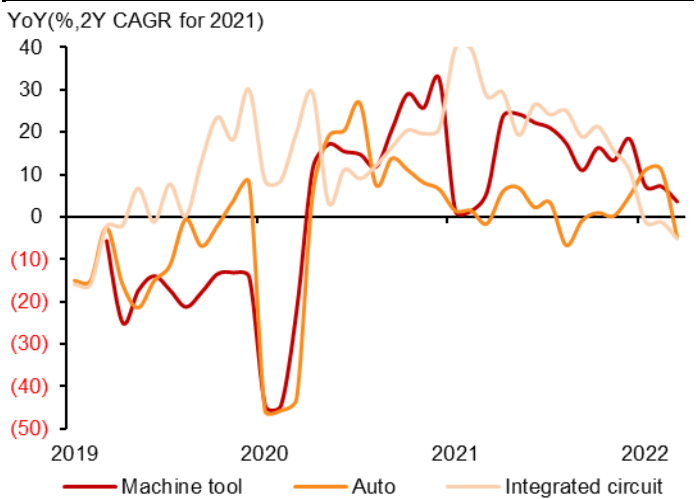
Source: WIND, CMBGM

**Figure 13: Production of Energy & Steel Product**



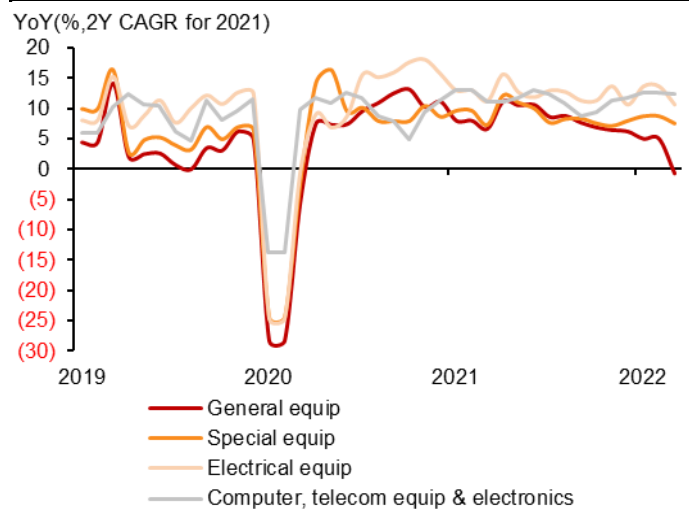
Source: WIND, CMBGM

**Figure 14: Production of Machine Tool & Auto**



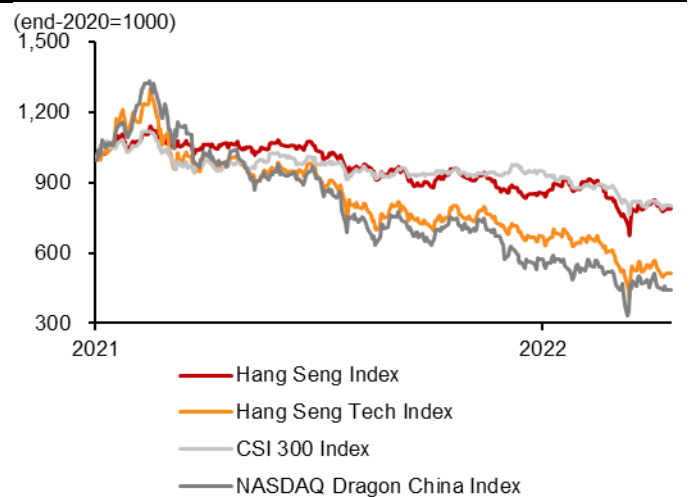
Source: WIND, CMBGM

**Figure 15: VAIO in Equipment Industries**



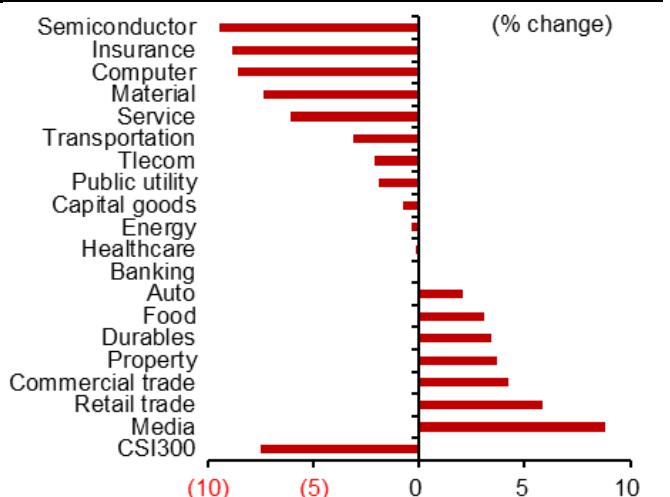
Source: WIND, CMBGM

**Figure 16: Chinese Offshore & Onshore Stocks**



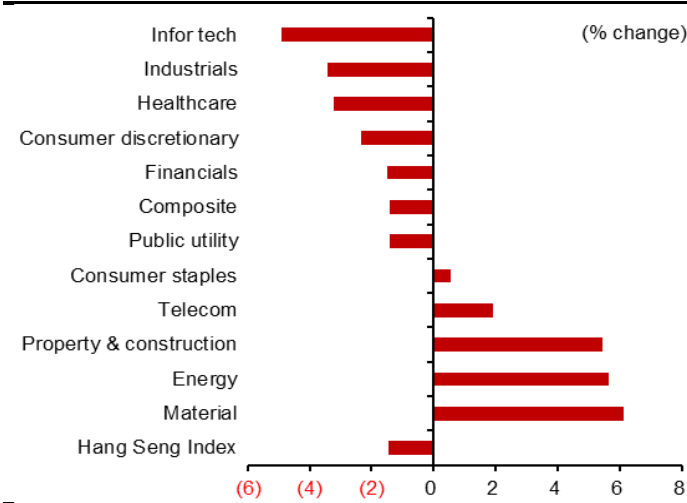
Source: WIND, CMBGM

**Figure 17: A Share Changes by Sector in April 2022**



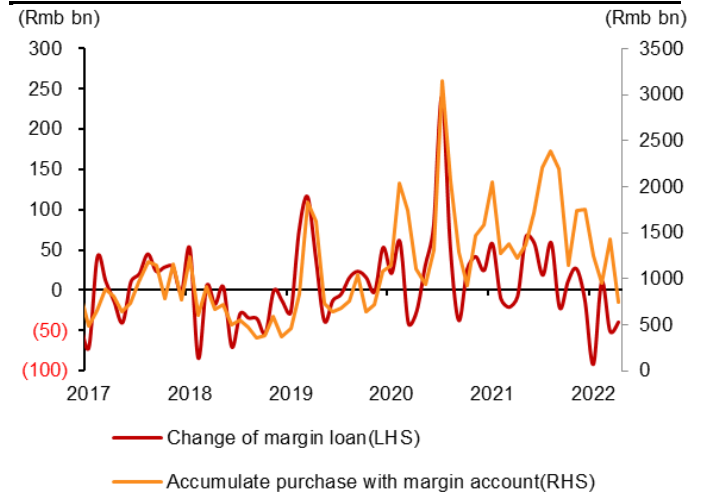
Source: WIND, CMBGM

**Figure 18: HK Stock Changes by Sector in April 2022**



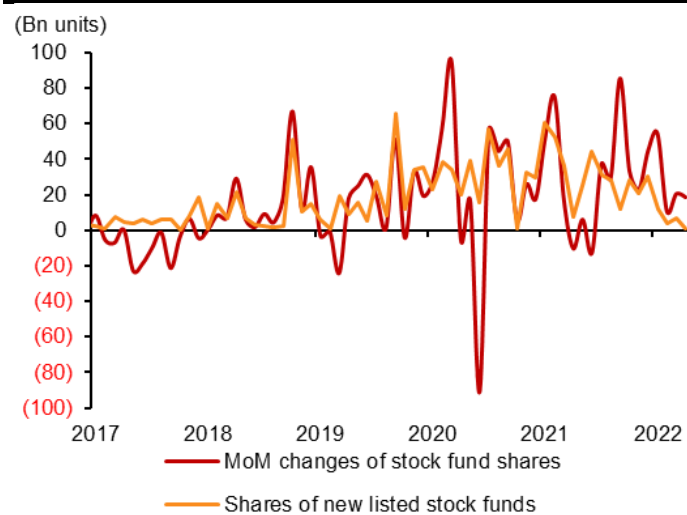
Source: WIND, CMBGM

**Figure 19: A Share Margin Account Trading**



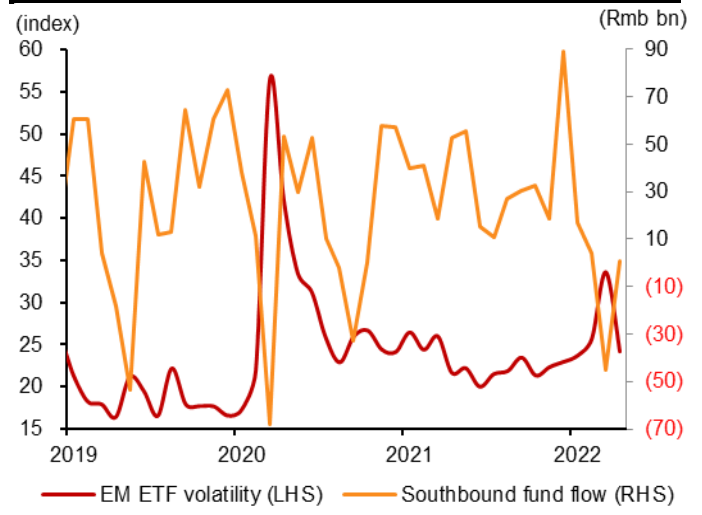
Source: WIND, CMBGM

**Figure 20: Declining Appetite for Stock Funds**



Source: WIND, CMBGM

**Figure 21: Daily Southbound Fund Flow**



Source: WIND, CMBGM

**Figure 22: Current and 15-Year Percentile Levels of PE for Global Stock Indexes**

	Hang Seng index	CSI 300 index	Chinext index	S&P 500 index	NASDAQ index	Nikkei 225 index	Germany DAX	France CAC	UK FTSE 100 index
Min	7.6	7.9	18.0	10.0	13.1	9.9	7.8	7.1	6.6
30% percentile	10.9	12.1	30.0	14.9	19.9	16.2	11.9	12.3	11.9
50% percentile	11.8	13.5	34.6	16.5	21.8	17.4	13.1	14.3	13.0
80% percentile	13.7	17.2	45.5	18.5	25.3	19.9	14.4	15.7	15.2
Current value	10.4	12.5	30.6	19.4	27.6	14.8	12.4	12.4	11.2

Source: Bloomberg, CMBGM estimates

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