

China Economy in Jul

Mild pace of recovery

China's checkmark-shaped recovery entered a stabilizing period, where the economy is improving but the rebound becomes less vigorous whether in terms of industrial activities, FAI or consumption. Employment situations also stabilized, with 1.07 million people added to urban employed population and unemployment ratio stayed unchanged at 5.7%. We expect mild pace of recovery to continue in the upcoming months. High-tech industries and infrastructure investment will remain the primary contributors to economic growth.

- **Industrial value-added maintained expansion pace at 4.8% YoY in Jul.** Manufacturing sector output increased 6.0% YoY, up 0.9ppt from Jun, whereas growth of mining and utilities supply decelerated. Equipment and high-tech manufacturing output expanded 13%/9.8% in Jul, vs. 9.7%/10.0% in Jun and continued to outpace overall manufacturing output growth. Boosted by recovering downstream demand, production of automobiles, construction machinery, industrial robots, smart phones and computers reported double-digit expansion.
- **Urban FAI declined 1.6% in Jan-Jul, narrowing 1.5ppt from 1H20.** Among the major component, **1) manufacturing FAI declined 10.2%** in Jan-Jul, narrowing 1.5ppt from 1H20. FAI of high-tech manufacturing increased 7.4% YoY, among which computer, tele-communications and electronic equipment industry documented 10.7% YoY FAI growth. **2) Infrastructure FAI declined 1.0%** in Jan-Jul, narrowing 1.7ppt from 1H20. Its rebound was impeded to some extent by the flooding and stormy weather in summer. We forecast annual growth for infrastructure FAI to be around 5.0%. **3) Real estate FAI growth accelerated 1.5ppt** from 1H20 to 3.4% YoY in Jan-Jul on back of both construction and land acquisition expenditures. We think this firming-up trend may continue into 3Q.
- **Consumption decline narrowed, though at a decelerating pace.** Retail sales decreased 1.1% in Jul, vs. 1.8% in Jun. The Jul data was underpinned by 1) stronger car sales, +12.3% YoY in the above-designated sample; 2) accelerated recovery of catering and restaurant services – catering revenue narrowed decline to 8.2% YoY for the above-designated sample; 3) strong momentum of online goods sales +15.7% YoY in Jan-Jul. However, excluding car sales, retail sales decline enlarged to 2.4% in Jul from 1.0% in Jun, indicating that overall consumption recovery may still remain lackluster. Moreover, there still exist gap between large retailers and smaller retailers, indicating unbalanced recovery.

Data Summary

YoY growth (%)	1Q20	Apr-20	May-20	Jun-20	1H20	Jul-20
Industrial value-added	-8.4	3.9	4.4	4.8	-1.3	4.8
Fixed asset investment, YTD	-16.1	-10.3	-6.3	-3.1	-3.1	-1.6
- Manufacturing FAI	-25.2	-18.8	-14.8	-11.7	-11.7	-10.2
- Real estate FAI	-7.7	-3.3	-0.3	1.9	1.9	3.4
- Infrastructure FAI	-19.7	-11.8	-6.3	-2.7	-2.7	-1.0
Retail sales value	-19	-7.5	-2.8	-1.8	-11.4	-1.1

Source: NBS, CMBIS

Ding Wenjie, PhD

(852) 3900 0856 /

(86) 755 2367 5597

dingwenjie@cmbi.com.hk

Related Reports

Thematic reports

1. Revisiting China-US Phase One Deal – How much of the trade target has been achieved? - 14 Aug 2020
2. The return of street vendors – 8 Jun 2020
3. Takeaways of 2020 Government Work Report – 25 May 2020
4. Employment situations in light of COVID-19 – 5 May 2020
5. Policy support and demand boost – 30 Mar 2020
6. China New Infrastructure: What, why, how and where – 12 Mar 2020
7. Charting the Hubei Economy – 20 Feb 2020
8. Returned to work? Observations from travel data – 10 Feb 2020
9. Looking for silver linings of the virus outbreak – 3 Feb 2020
10. Embracing new relationship in the new decade: on China-US Phase One Deal – 17 Jan 2020

On monthly China economy

11. China Economy in 2Q: Looking forward to more balanced recovery – 17 Jul 2020
12. China Economy in May: Recovery and bifurcation – 16 Jun 2020
13. China Economy in Apr: Recovery on track – 18 May 2020
14. China Economy in 1Q20: Simultaneous freefall, asynchronous recovery – 20 Apr 2020
15. China Economy in Jan-Feb: Worst data, best hope – 17 Mar 2020

On inflation/PMI monitors

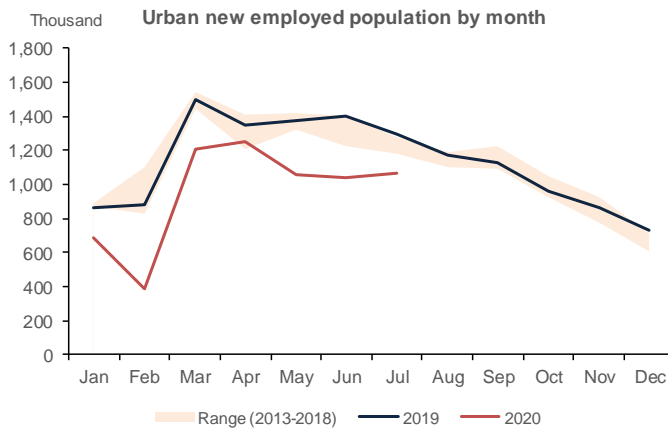
16. China inflation in Jul – PPI decline continued to narrow – 10 Aug 2020
17. China inflation in Jun – PPI contraction pressure alleviated further, 9 Jul 2020

Please cast your valuable vote for CMBIS research team in the 2020 Asiamoney Brokers Poll:

<https://euromoney.com/brokers>

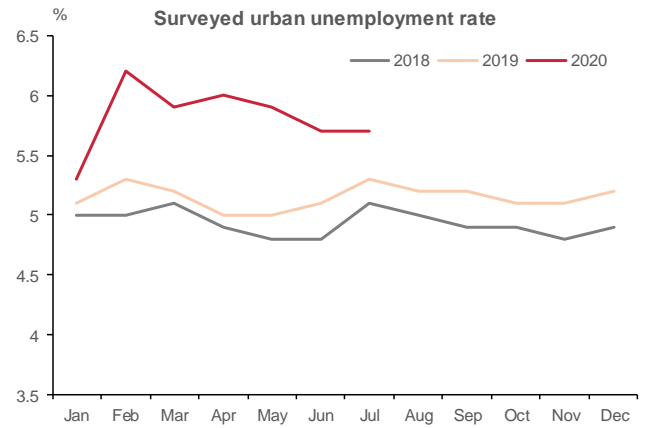
■ Employment situations

Figure 1: In Jul, 1.07 million people were added to urban employed population



Source: NBS, Wind, CMBIS

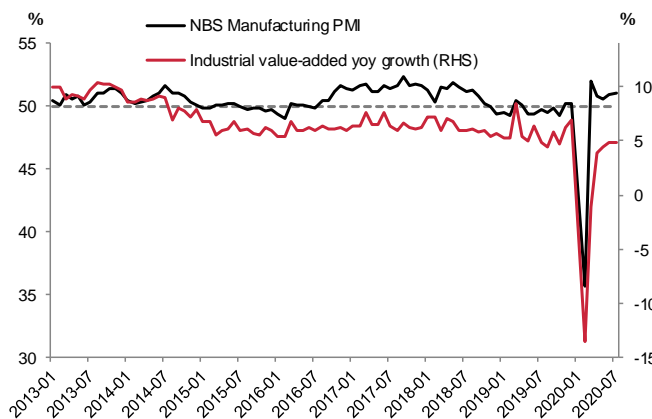
Figure 2: Surveyed urban unemployment rate stayed flat at 5.7% in Jul



Source: NBS, Wind, CMBIS

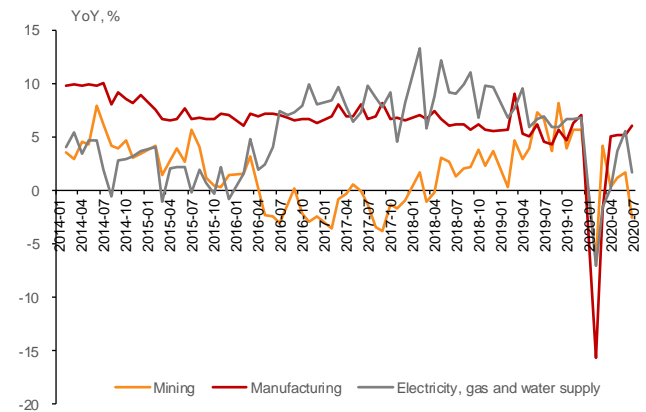
■ Industrial production

Figure 3: Industrial value-added growth maintained pace at 4.8% YoY in Jul



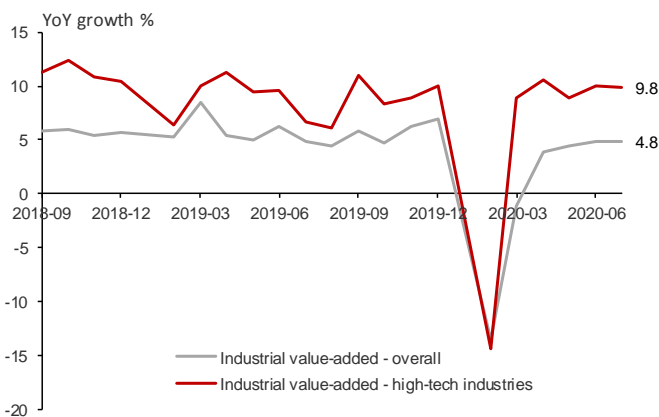
Source: NBS, Wind, CMBIS

Figure 4: Industrial value-added growth by sector



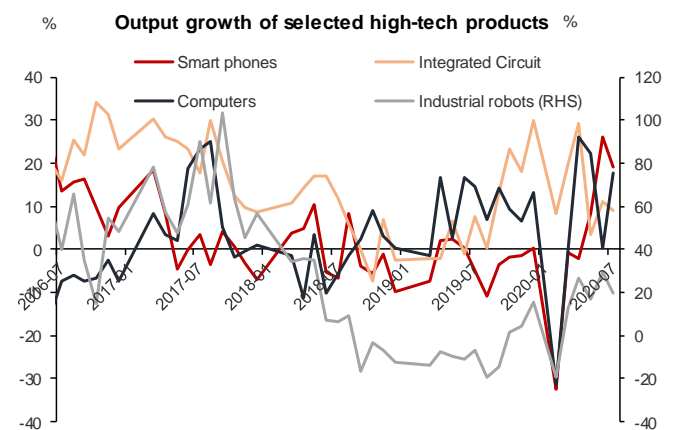
Source: NBS, Wind, CMBIS

Figure 5: High-tech manufacturing output

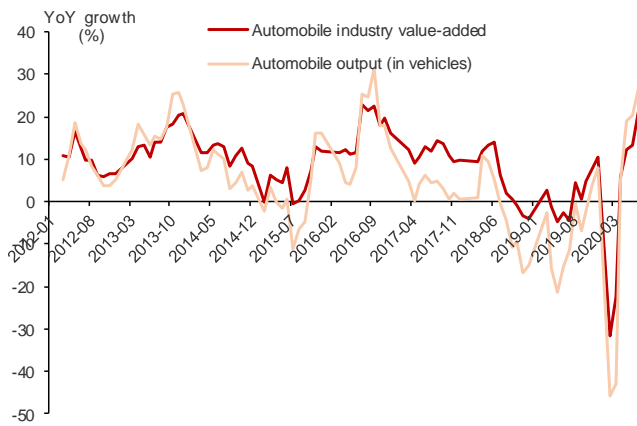


Source: NBS, Wind, CMBIS

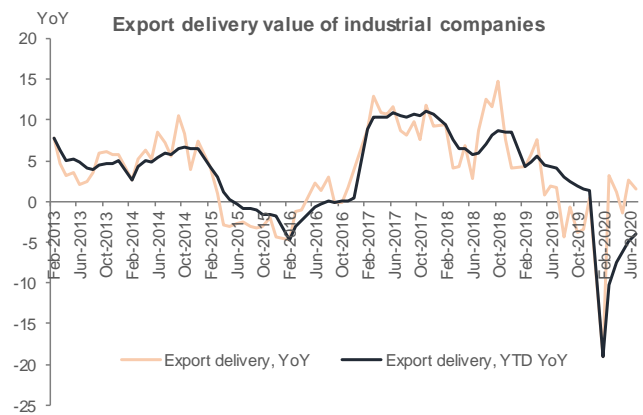
Figure 6: Strong output of high-tech products



Source: NBS, Wind, CMBIS

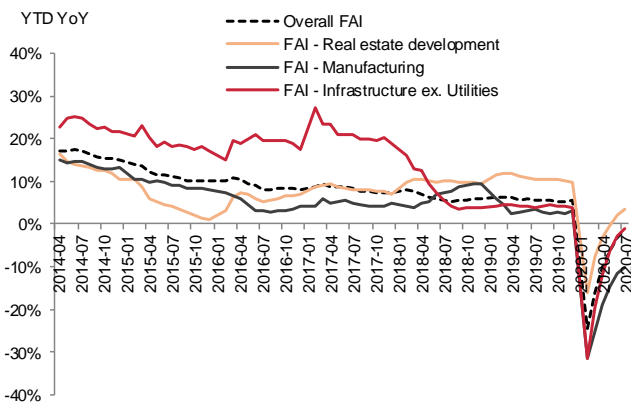
Figure 7: Automobile output

Source: NBS, Wind, CMBIS

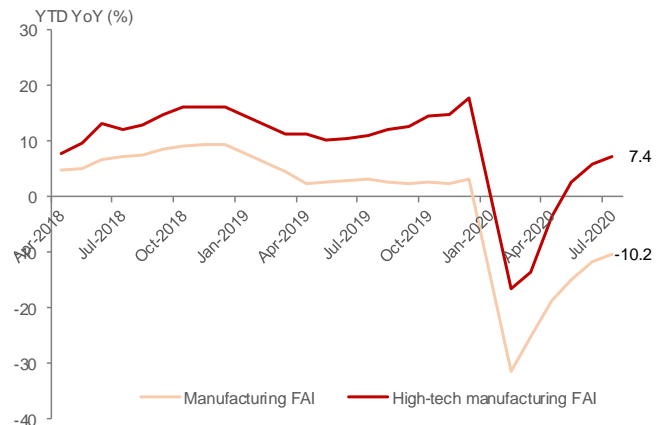
Figure 8: Export delivery of industrial companies

Source: NBS, Wind, CMBIS

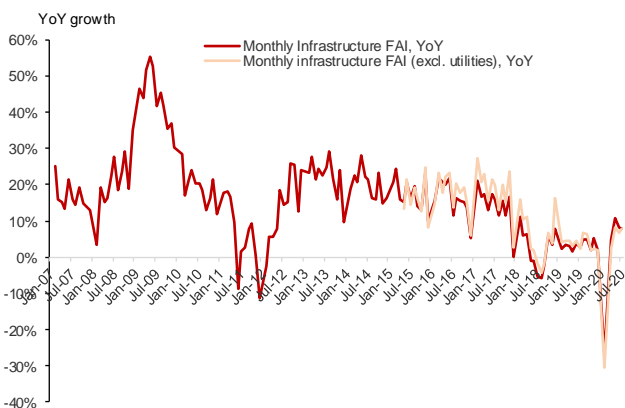
FAI

Figure 9: FAI growth by key components

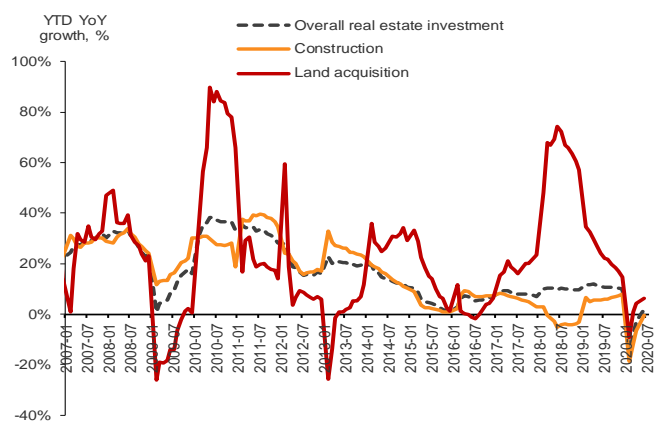
Source: NBS, Wind, CMBIS

Figure 10: Manufacturing FAI

Source: NBS, Wind, CMBIS

Figure 11: Monthly growth of infrastructure FAI

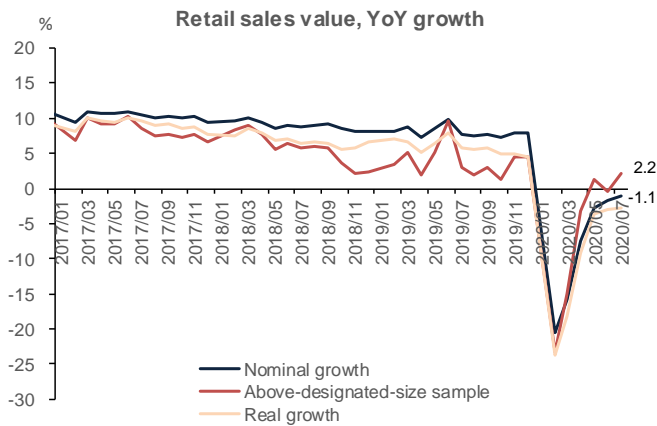
Source: NBS, Wind, CMBIS

Figure 12: Real estate FAI boosted by both construction and land acquisition expenditures

Source: NBS, Wind, CMBIS

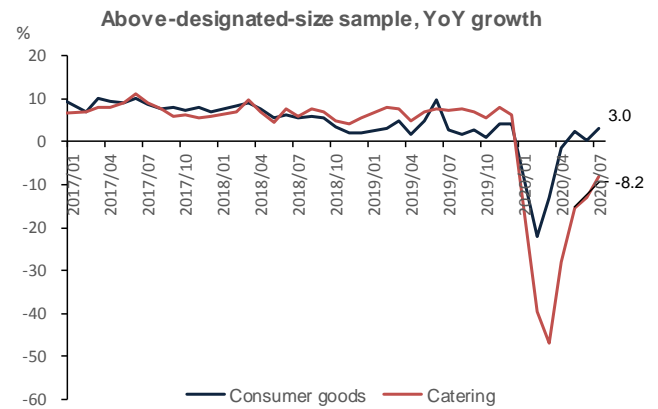
Retail sales

Figure 13: Retail sales value decreased 1.1% YoY in Jul



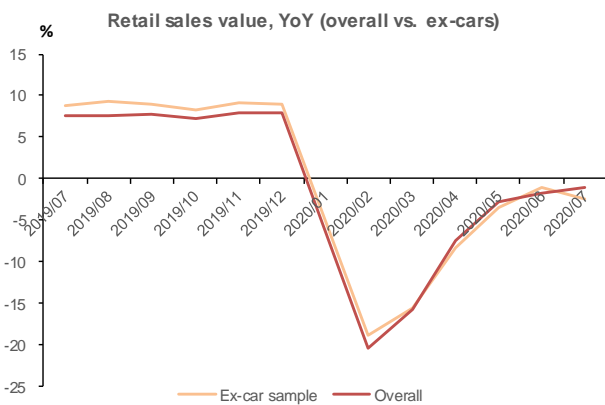
Source: NBS, Wind, CMBIS

Figure 14: Catering services narrowed decline to 8.2% in Jul for the above-designated-size sample



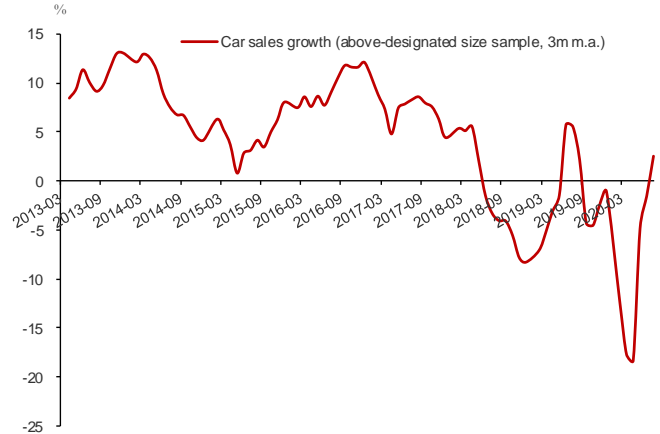
Source: Wind, CMBIS

Figure 15: Retail sales were boosted by stronger car sales in Jul



Source: NBS, Wind, CMBIS

Figure 16: Car sales for the above-designated sample turned positive in Jul



Source: Wind, CMBIS

Figure 17: Accelerating online goods sales



Source: NBS, Wind, CMBIS

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIS Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIS

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US, institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.