

# China Economy

## The worst is over, but takes time for resumption

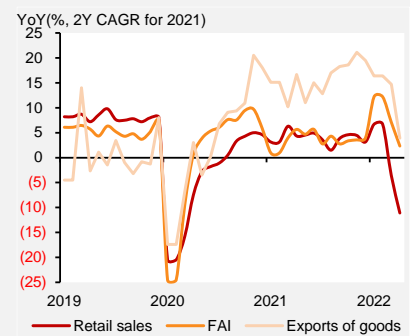
China's economy sharply contracted in April amid the epidemic and lockdowns in Shanghai and some other cities. As the epidemic condition gradually improved and the macro policy further eased, the worst time for the economy has been over. But it takes some time for resumption as the Covid-zero policy, insufficient policy easing and weak confidence may continue to restrain supply chain and aggregate demand. We expect that economic activities may start to recover from mid-May with a gradual resumption in 2H22-2023.

- A severe contraction amid the epidemic and lockdowns.** After the lockdown in Shanghai, local governments became more aggressive in executing the Covid-zero policy. We notice the national freight traffic flow index dropped by 26.6% YoY in April after rising 2.7% YoY in 1Q22. The lockdowns in one city after another caused a severe contraction of China economy. The value added industrial output (VAIO) and service output declined 2.9% YoY and 6.1% YoY in April after rising 6.5% YoY and 2.5% YoY in 1Q22. Yangtze River Delta region and Northeast region with the most severe epidemics and lockdowns saw their VAIO respectively down 14.1% YoY and 16.9% YoY in April. With long supply chain and important production bases in Shanghai, the auto industry was hit the hardest as its output dropped by 31.8% YoY in April.
- Household consumption hit severely by the lockdowns.** The epidemic and lockdowns hurt employment, income, confidence and outdoor activities. Household consumption especially for consumer discretionary contracted sharply. In April, retail sales dropped by 11.1% YoY with the catering operation income down 22.7% YoY. For Yangtze River Delta region and Northeast region, retail sales of the above designated size enterprises respectively declined over 30% roiled by the epidemic and lockdowns. By items, retail sales of garments, cosmetics, furniture, communication equipment and auto respectively dropped 22.8%, 22.3%, 14%, 21.8% and 31.6%. Only a few staples like food, beverage and medicine maintained positive YoY growth rates at 10%, 6% and 7.9%.
- Property & land market further deteriorated.** Gross floor area (GFA) sold for commodity buildings further dropped 39% YoY in April after declining 13.8% YoY in 1Q22. GFA started for buildings and land area purchased respectively plummeted 44.2% YoY and 57.3% YoY in April, compared to the YoY declines of 17.5% and 41.8% in 1Q22. Average sales price for commodity buildings dropped 12.6% YoY in April after declining 10.4% YoY in 1Q22. Total funding source for property development investment dropped 35.6% YoY in April after decreasing 19.6% YoY in 1Q22. Property development investment dropped 10.1% YoY in April after rising 0.7% YoY in 1Q22.
- Mining, some infrastructure & health service investments remained strong.** Total urban fixed asset investment (FAI) rose 2.3% YoY in April, down from the YoY growth of 9.3% in 1Q22. The YoY growth of FAI in manufacturing sharply decelerated from 15.6% in 1Q22 to 6.4% in April. FAI in other sectors also sharply slowed in April due to the lockdowns and confidence shock. But FAI in mining, water conservancy management and

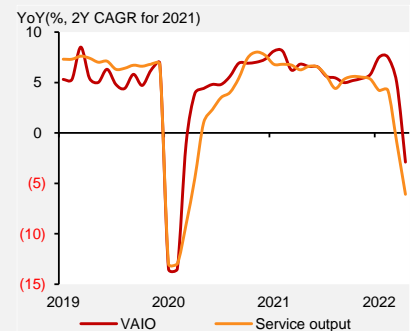
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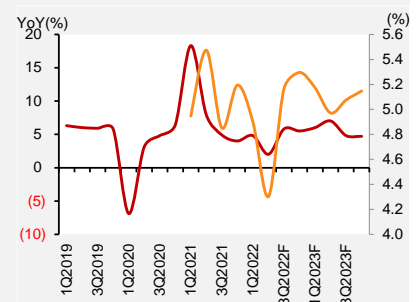
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Source: Wind, CMBIGM



Source: Wind, CMBIGM



Source: Wind, CMBIGM

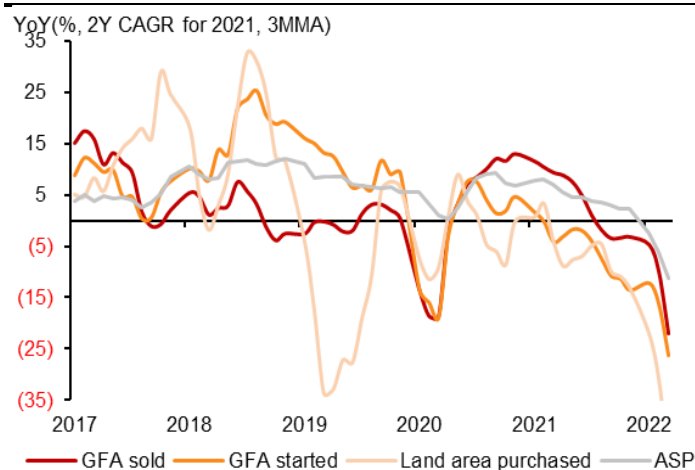
health & social welfare services remained strong, with YoY growth rates at 18.2%, 18% and 30.9% in April, compared to the YoY increases of 19%, 10% and 24.9% in 1Q22.

- **The worst time has been over, but takes some time for resumption.** We believe the worst time for China's economy has been over as the epidemic condition has gradually improved and the policymakers further eased the macro policy. But it takes some time for resumption owing to three reasons. First, China will maintain its Covid-zero policy at least in the short term, which will continue to restrain supply chain and consumption demand. Second, the Fed's monetary tightening will restrain the room of China's monetary policy as the PBOC seems quite cautious in the policy rate cut. Third, property market has experienced a hard landing and both consumer and business confidence have been very weak. We expect economic activities to recover from mid-May with a gradual resumption in 2H22-2023.

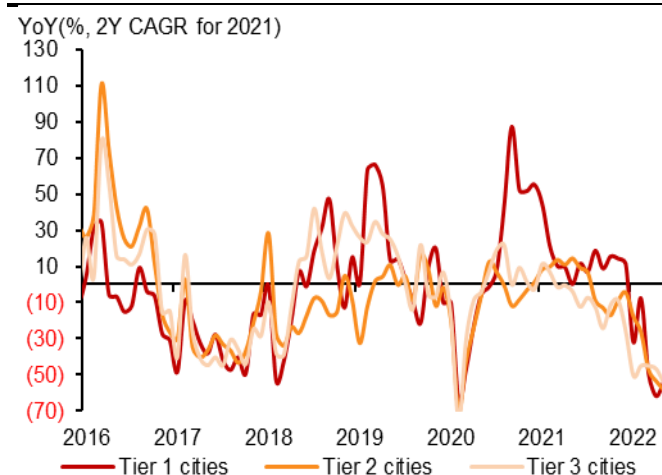
**Figure 1: China's economic indicators**

YoY(%)	2019	2020	2021	1Q21	2Q21	3Q21	4Q21	1Q22	Apr 2022	2020-2021
VAIO	5.7	2.8	9.6	24.5	9.0	4.9	3.9	6.5	(2.9)	6.1
-Mining	5.0	0.5	5.3	10.1	2.4	2.1	6.5	10.7	9.5	2.9
-Manufacturing	6.0	3.4	9.8	27.3	9.3	4.7	3.1	6.2	(4.6)	6.6
-Public utility	7.0	2.0	11.4	15.9	11.0	9.7	9.8	6.1	1.5	6.6
Delivery value for exports	1.3	(0.3)	17.7	30.4	16.3	14.2	13.2	14.4	(1.9)	8.3
Service Output	6.9	0.0	13.1	29.2	13.9	5.9	3.3	2.5	(6.1)	6.3
Urban FAI (YTD)	5.4	2.9	4.9	25.6	7.5	(0.4)	(0.9)	9.3	6.8	3.9
-Property development	9.9	7.0	4.4	25.6	9.8	(0.6)	(7.8)	0.7	(2.7)	5.7
-Manufacturing	3.1	(2.2)	13.5	29.8	14.9	8.8	10.6	15.6	12.2	5.4
-Infrastructure	3.3	3.4	0.2	26.8	(0.4)	(7.1)	(2.8)	10.5	8.3	1.8
Retail sales	8.0	(3.9)	12.5	33.9	14.1	5.1	3.5	3.3	(11.1)	4.0
Exports of goods	0.5	3.6	29.9	48.8	30.6	24.2	23.1	15.8	3.9	16.0
Imports of goods	(2.7)	(0.6)	30.1	29.4	44.5	25.9	23.7	9.6	0.0	13.7

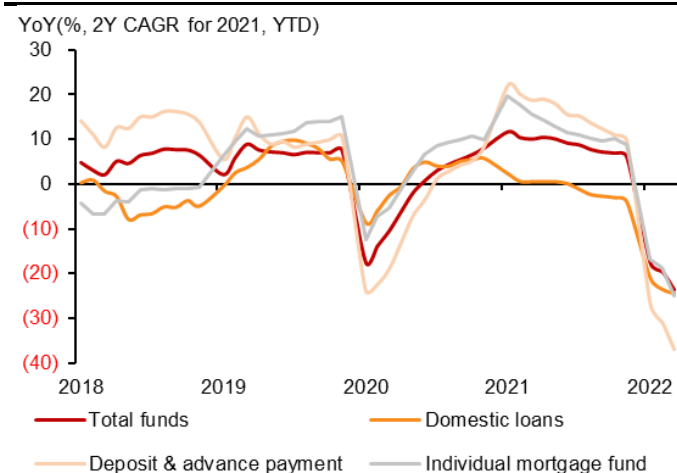
Source: Wind, CMBIGM

**Figure 2: Property market indicators**

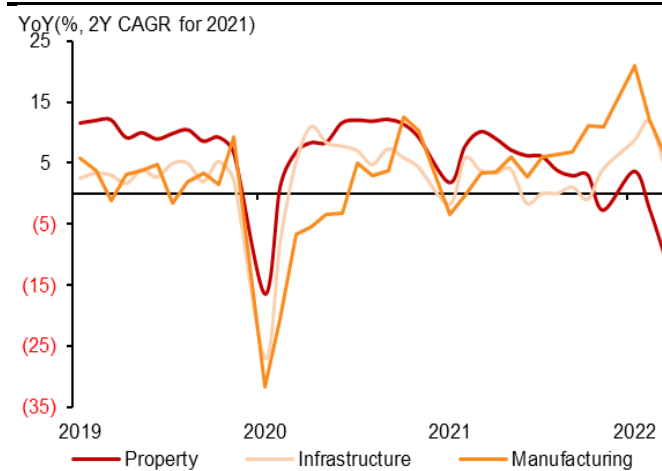
Source: WIND, CMBIGM

**Figure 3: Housing sales by Cities**

Source: WIND, CMBIGM

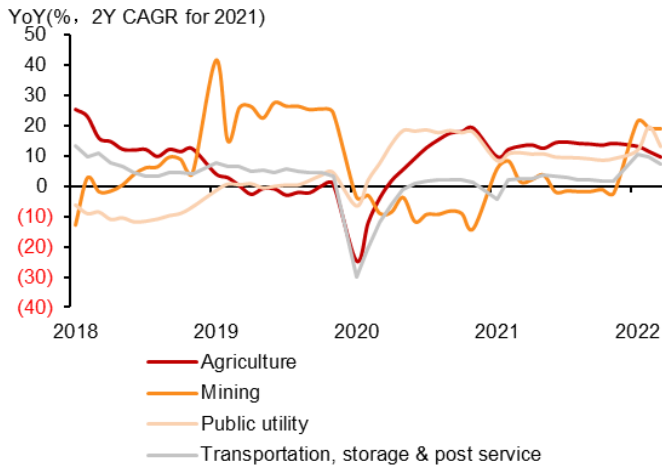
**Figure 4: Funding source for property investment**

Source: WIND, CMBIGM

**Figure 5: FAI by sector**

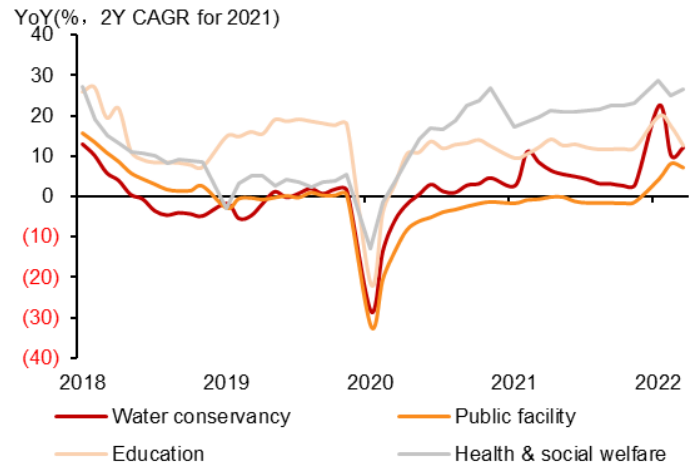
Source: WIND, CMBIGM

**Figure 6: FAI in agriculture & infrastructure sectors**



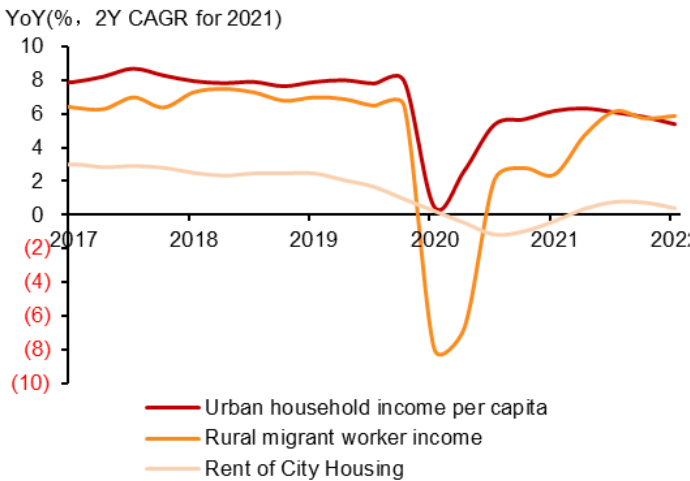
Source: WIND, CMBIGM

**Figure 7: FAI in infrastructure & social service**



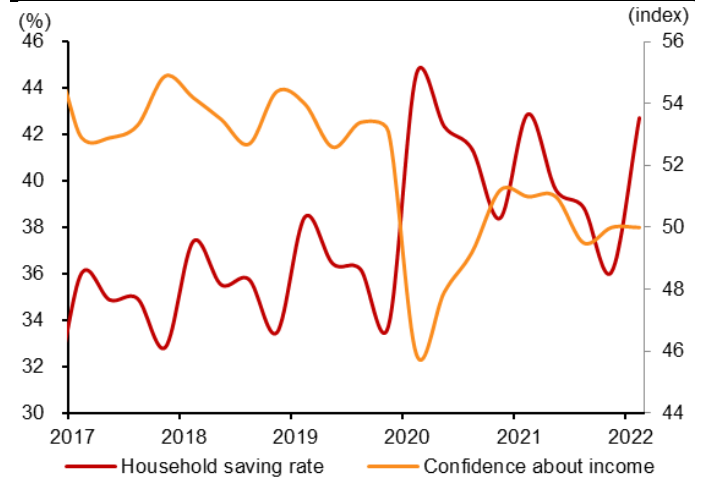
Source: WIND, CMBIGM

**Figure 8: Household income & rent for housing**



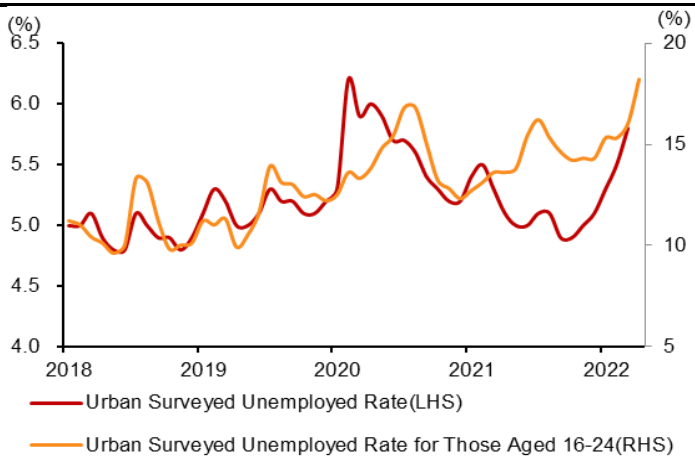
Source: WIND, CMBGM

**Figure 9: Consumer confidence**



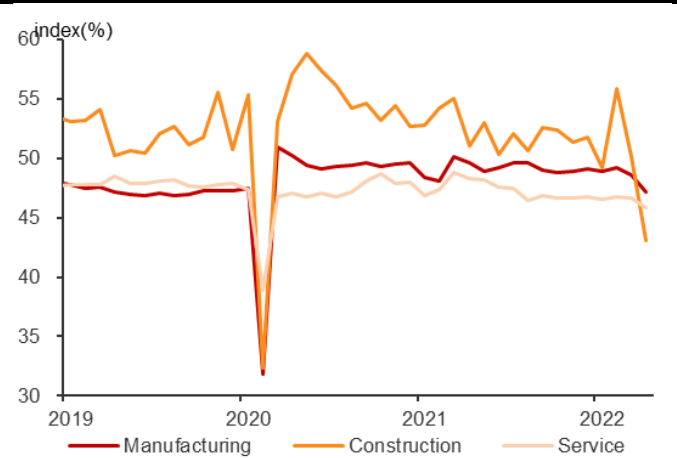
Source: WIND, CMBGM

**Figure 10: Urban surveyed unemployment rates**



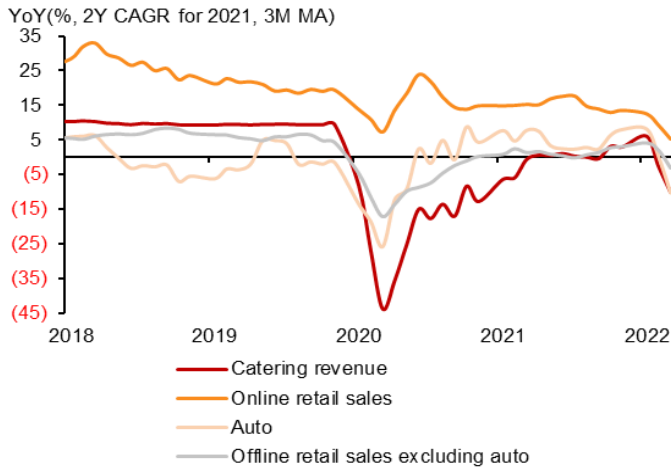
Source: WIND, CMBGM

**Figure 11: Employment Index**



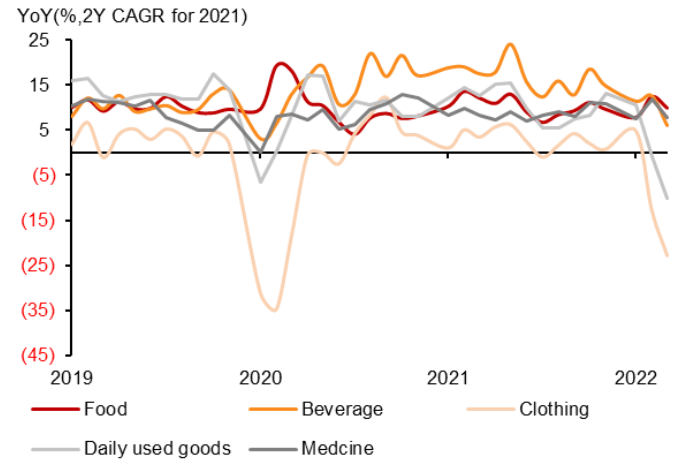
Source: WIND, CMBGM

**Figure 12: Retail sales**



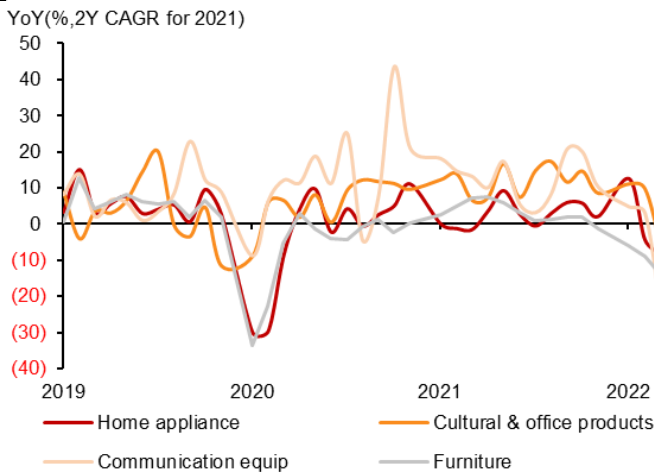
Source: WIND, CMBGM

**Figure 13: Retail sales of staples & garments**



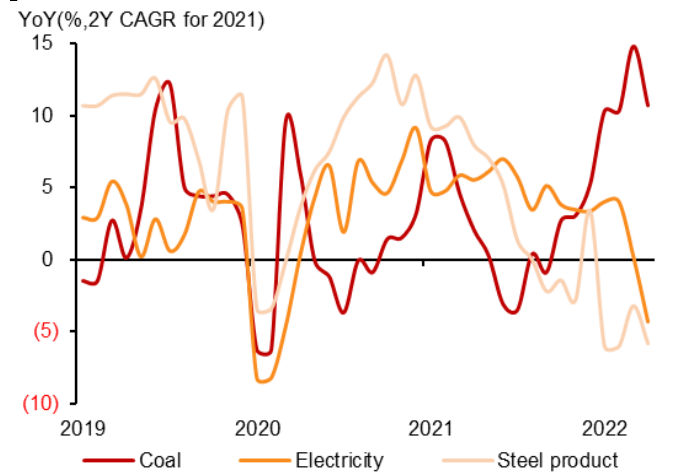
Source: WIND, CMBGM

**Figure 14: Retail sales of some durables**



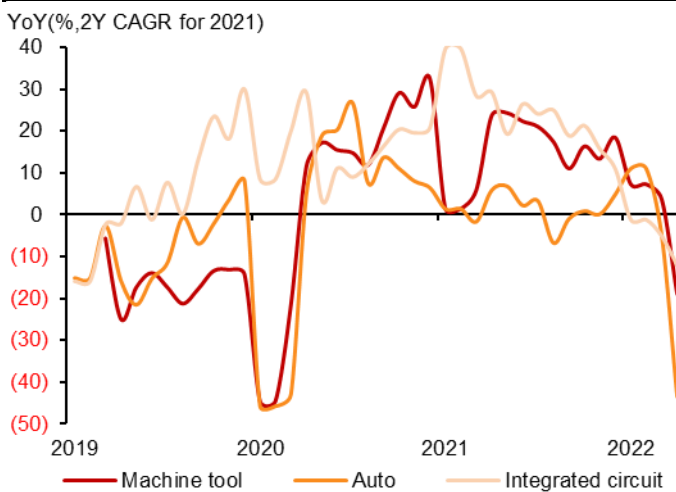
Source: WIND, CMBGM

**Figure 15: Production of energy & steel product**



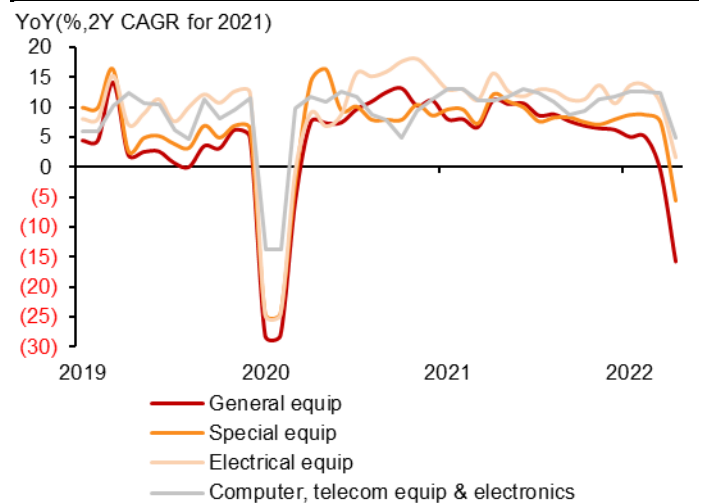
Source: WIND, CMBGM

**Figure 16: Production of machine tool & auto**



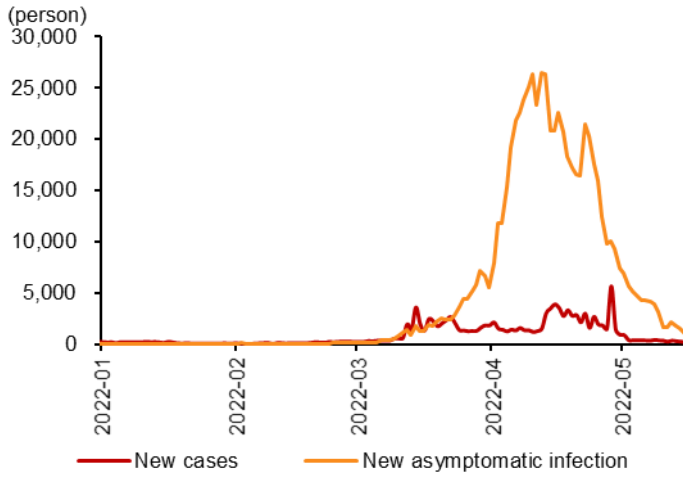
Source: WIND, CMBGM

**Figure 17: VAIO in equipment industries**



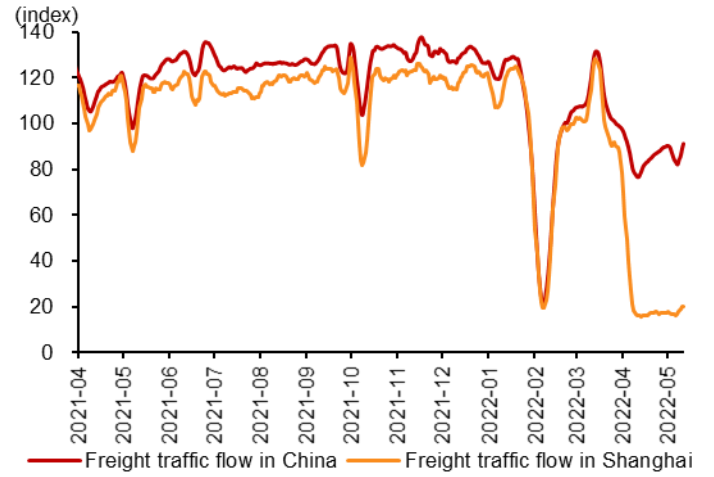
Source: WIND, CMBGM

**Figure 18: Covid-19 cases & asymptomatic infection**



Source: WIND, CMBGM

**Figure 19: Freight Traffic Flow Index**



Source: WIND, CMBGM

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