

China Economy in 4Q20

Growth beat; resurgence of COVID-19 may complicate near-term business outlook

China's economy advanced further toward pre-pandemic levels. GDP increased 6.5% YoY in 4Q20, exceeding long-term trend line and was primarily boosted by booming industrial production and catching-up of the tertiary sector. Annual GDP growth was 2.3% YoY in 2020 (-6.8%/3.2%/4.9% in 1Q/2Q/3Q). Household disposable income growth and employment conditions also improved in pace with macroeconomic recovery in 4Q20. While we stay positive on China's economic recovery bolstered by vaccines worldwide, we point to some risk factors, including the resurgence of COVID-19 cases and consumption uncertainties.

- **Industrial production achieved broad-based acceleration in Dec 2020**, boosted by both export and domestic demand. Industrial output increased 7.3% YoY in Dec 2020 and 7.1% in 4Q, lifting annual growth to 2.8% in 2020. High-tech manufacturing speeded up to grow 13.1% in Dec. Equipment and machinery manufacturing growth also outpaced.
- **FAI strengthened by manufacturing and real estate in Dec-20.** 1) Manufacturing FAI achieved double-digit growth in both Nov and Dec 2020, narrowing annual decline to 2.2%. It could gain stronger footing in 2021 on back of global economic recovery, technological advance and government support. 2) Real estate investment stood up well thanks to robust construction expenditure and land acquisition spending, +7.0% in 2020. It may edge down to ~5% in 2021, resulting primarily from the cool down of land market. 3) Infrastructure FAI decelerated to ~0% in the month of Dec 2020 partly due to cold weather conditions.
- **Retail sales increased 4.6% YoY and 1.24% MoM in Dec 2020**, decelerating mildly after some demand has been exhausted during the Nov shopping festival. Sales of cosmetics, jewellery, consumer electronics and automobiles decelerated in Dec 2020 compared to Nov 2020. Catering revenue, however, speeded up to increase 3.6% YoY in Dec 2020 for the above-designated-size sample and 0.4% YoY for the whole sample, indicating continued recovery.
- **Risks.** 1) **Resurgence of new COVID-19 cases.** As of 17 Jan 2021, 1,265 new COVID-19 cases were reported this year, including 1,020 local cases primarily in Hebei and the northeast provinces. Beijing also reported scattered cases. Although the rest of China remains safe and economic activities are intact, we should be alert to risks regarding regional economies of affected provinces. Policy guidance of avoiding travel during the Chinese New Year would also have bitter ramifications on airline and travel-related industries, and may imply meaningful changes in household consumption behavior and economic data in 1Q21. 2) **Lack of consumption boost.** Although last year's low base is likely to spook double-digit retail sales growth in 2021, there still remain uncertainties regarding consumption growth after demand for durables are gradually exhausted.

Data Summary

YoY growth (%)	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
Industrial output	4.8	5.6	6.9	6.9	7.0	7.3
FAI, YTD	-1.6	-0.3	0.8	1.8	2.6	2.9
- Manufacturing	-10.2	-8.1	-6.5	-5.3	-3.5	-2.2
- Real estate	3.4	4.6	5.6	6.3	6.8	7.0
- Infrastructure	-1.0	-0.3	0.2	0.7	1.0	0.9
Retail sales value	-1.1	0.5	3.3	4.1	5.0	4.6

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

On monthly China economy

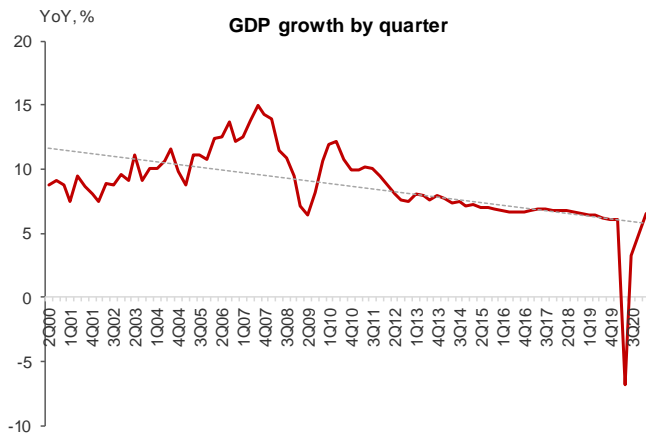
1. China Economy in Nov: Growth spurred by demand and supply – 16 Dec 2020
2. China Economy in Oct: Holiday boosted consumption spending – 16 Nov 2020
3. China Economy in 3Q: Service sector took longer to recover – 20 Oct 2020
4. China Economy in Aug: Healthy recovery with favorable trends – 16 Sep 2020
5. China Economy in Jul: Mild pace of recovery – 17 Aug 2020
6. China Economy in 2Q: Looking forward to more balanced recovery – 17 Jul 2020
7. China Economy in May: Recovery and bifurcation – 16 Jun 2020

On inflation/PMI monitors

1. China inflation in Sep – Food impact waned; oil price dragged PPI growth - 15 Oct 2020
2. China inflation in Aug – Ex-food inflation monitors trended well – 9 Sep 2020

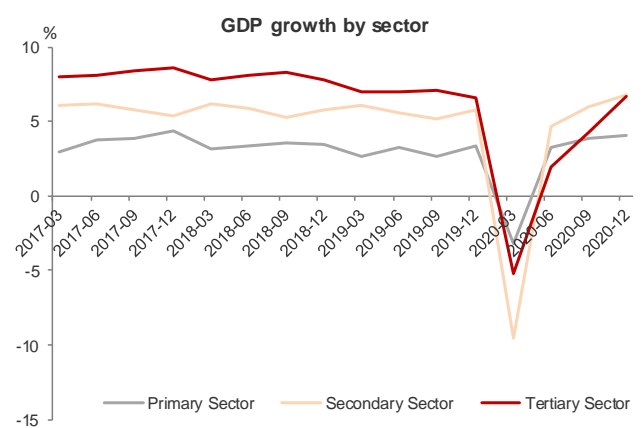
GDP

Figure 1: GDP +6.5% in 4Q20



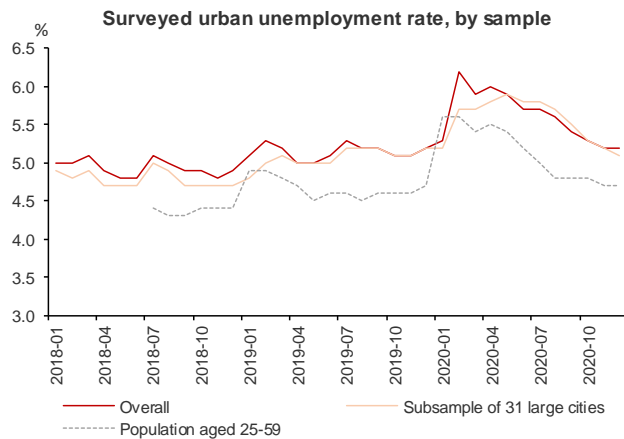
Source: NBS, Wind, CMBIS

Figure 2: Tertiary sector recovery is catching up



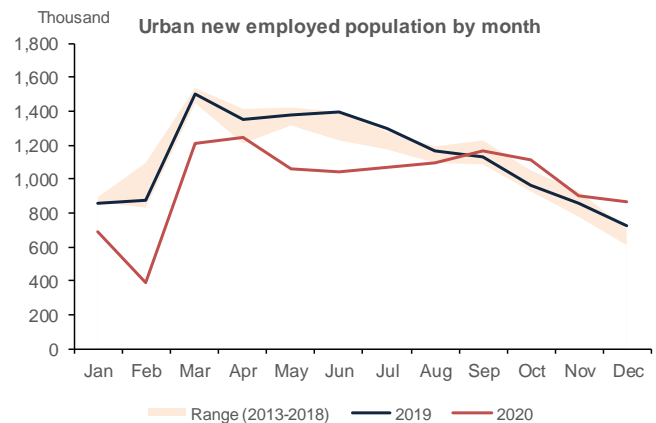
Source: NBS, Wind, CMBIS

Figure 3: Surveyed urban unemployment rate was 5.2% at YE20, same as YE19



Source: NBS, Wind, CMBIS

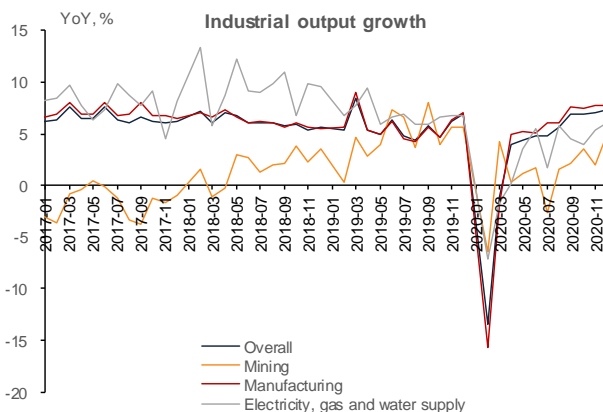
Figure 4: New urban employed population added 11.86 million in 2020



Source: NBS, Wind, CMBIS

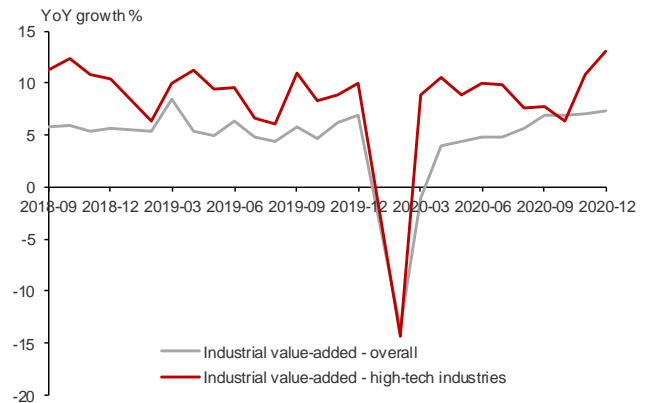
Industrial output

Figure 5: Industrial output +7.3% YoY in Dec 2020



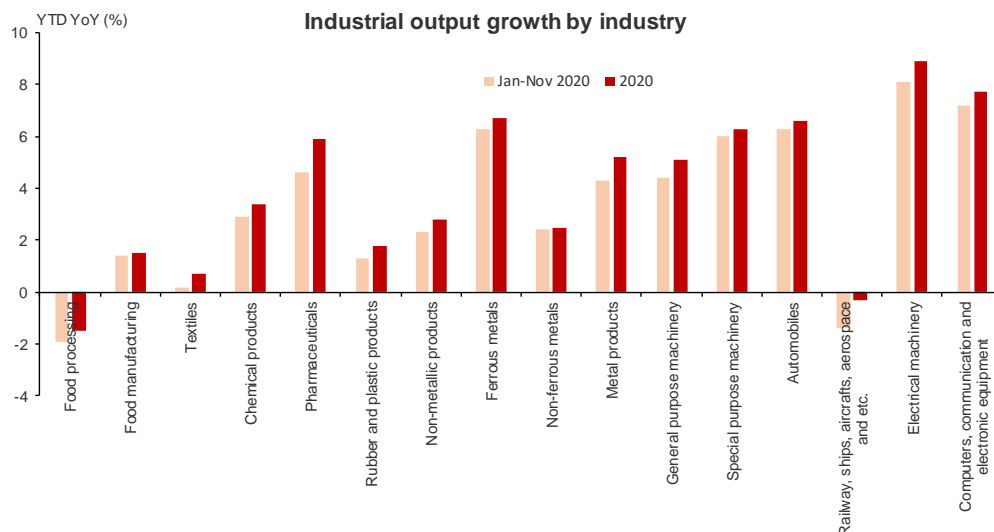
Source: NBS, Wind, CMBIS

Figure 6: High-tech manufacturing +13.1% in Dec 2020



Source: NBS, Wind, CMBIS

Figure 7: Manufacturing growth accelerated for key industries

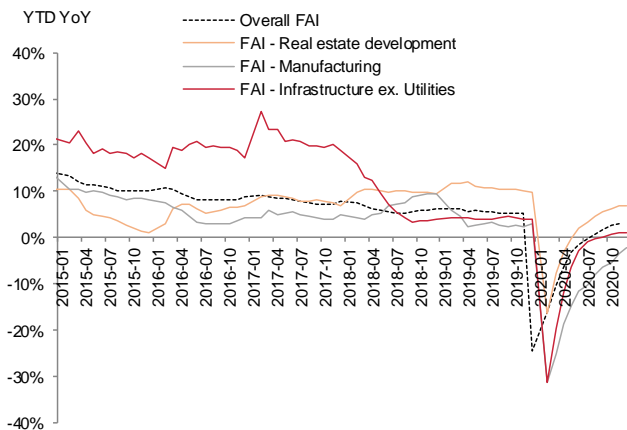


Source: NBS, Wind, CMBIS

FAI

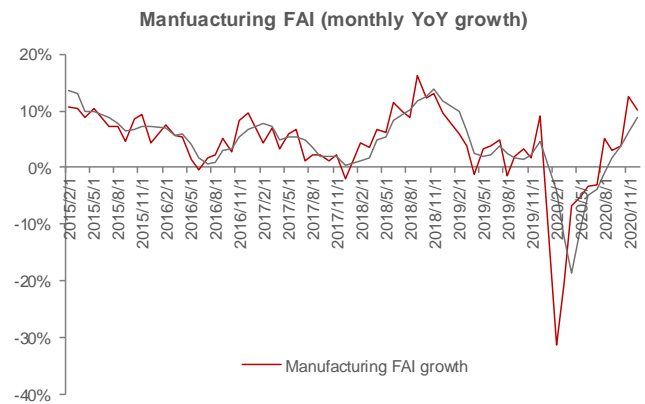
■ Manufacturing FAI

Figure 8: FAI growth by the three components

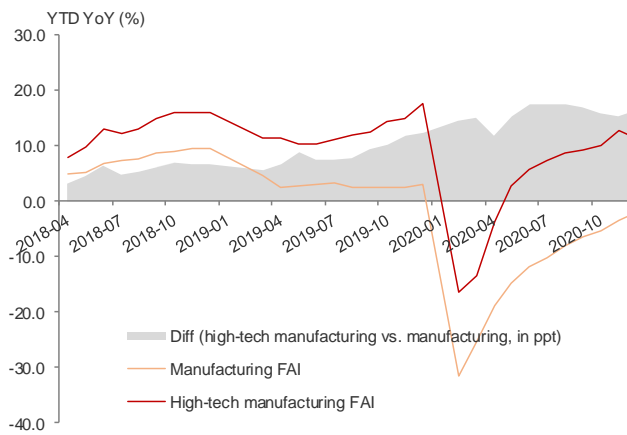


Source: NBS, Wind, CMBIS

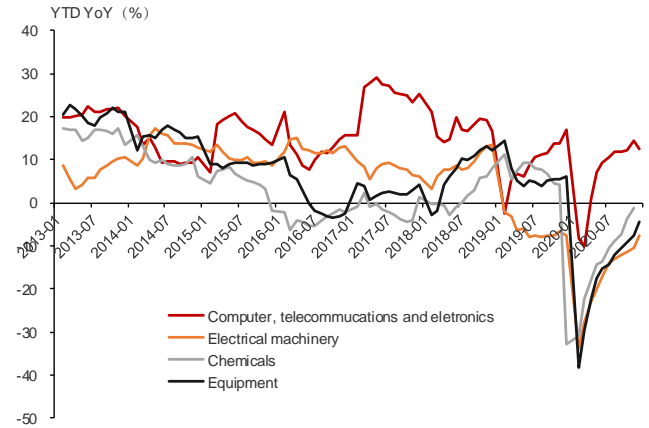
Figure 9: Manufacturing FAI achieved double-digit growth in Nov and Dec



Source: NBS, Wind, CMBIS

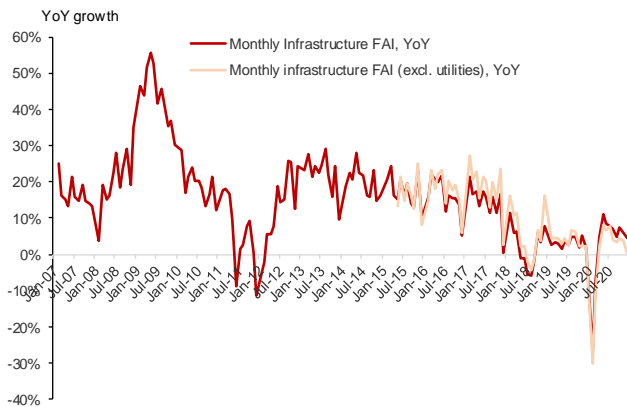
Figure 10: High-tech manufacturing led the growth

Source: NBS, Wind, CMBIS

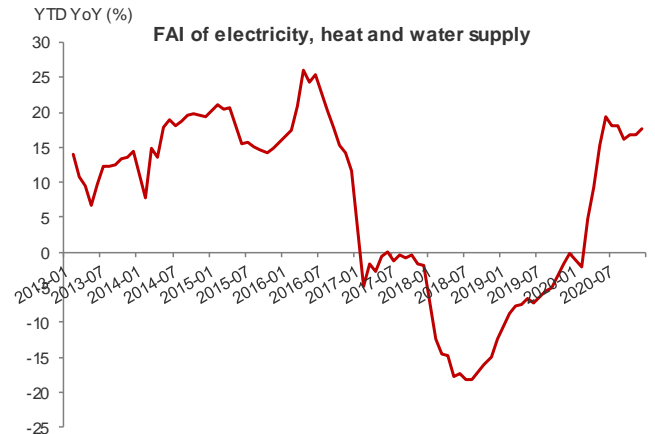
Figure 11: FAI of key selected industries

Source: NBS, Wind, CMBIS

■ Infrastructure FAI

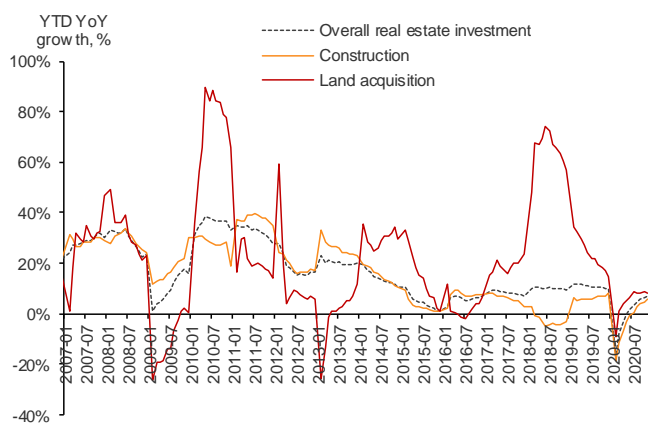
Figure 12: Monthly infrastructure FAI growth

Source: NBS, Wind, CMBIS

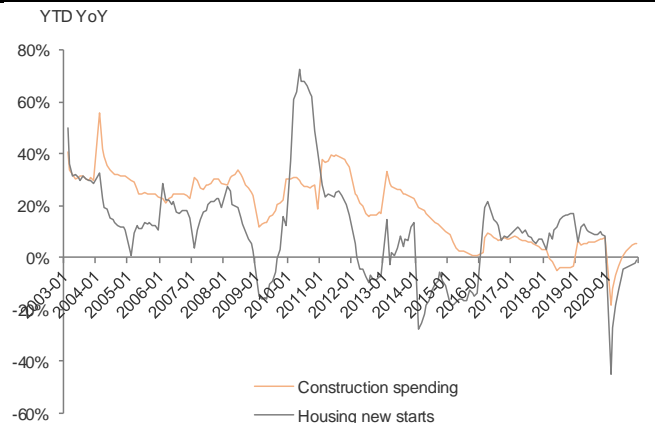
Figure 13: FAI of electricity supply stood up high

Source: NBS, Wind, CMBIS

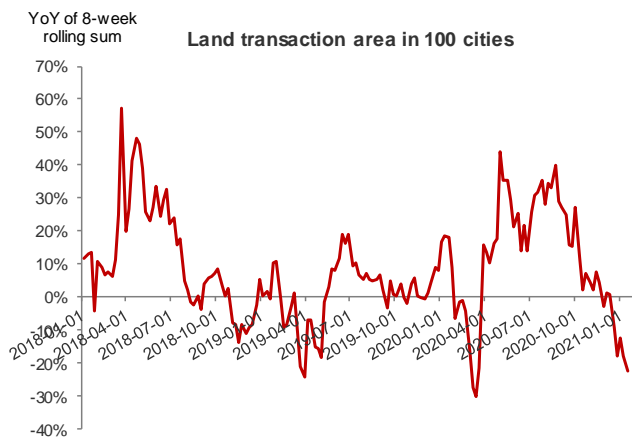
■ Real estate FAI edged up to 7.0% YoY

Figure 14: Decomposing real estate investment

Source: NBS, Wind, CMBIS

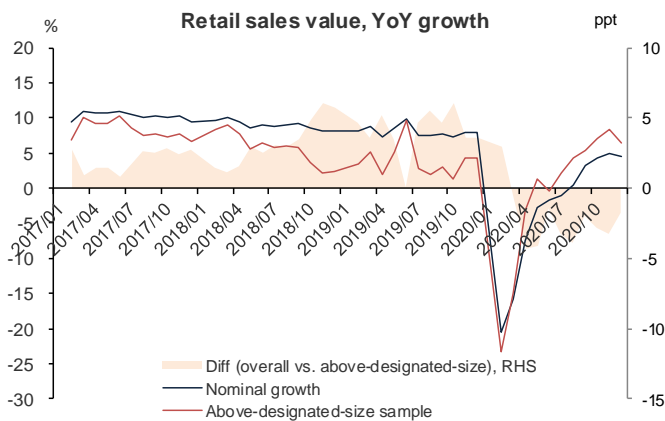
Figure 15: Housing new starts

Source: NBS, Wind, CMBIS

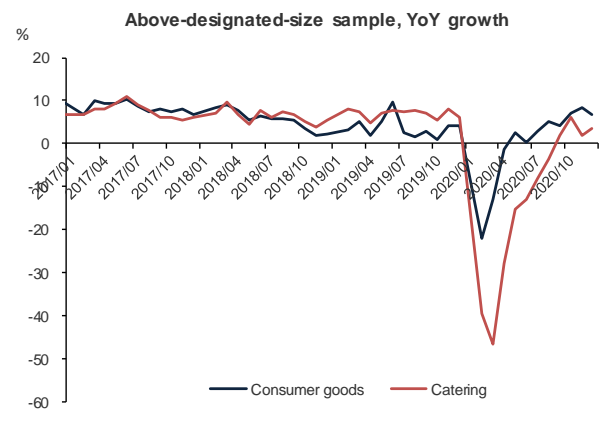
Figure 16: Land transaction cooled down

Source: NBS, Wind, CMBIS estimates

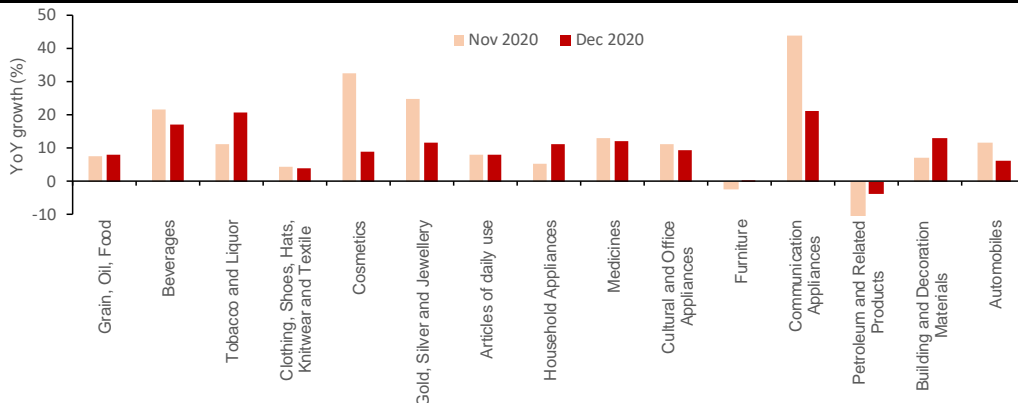
Retail sales

Figure 17: Retail sales +4.6% YoY in Dec-20

Source: NBS, Wind, CMBIS

Figure 18: Catering revenue accelerated growth while goods sales growth weakened

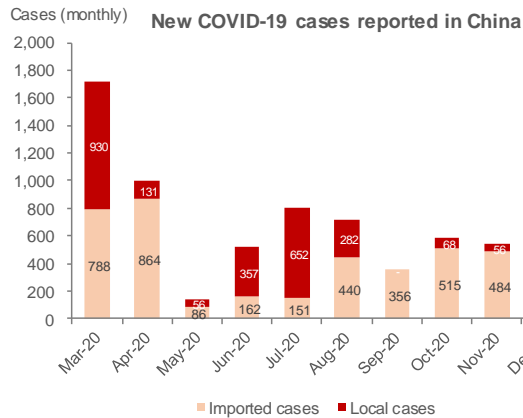
Source: NBS, Wind, CMBIS

Figure 19: Sales of cosmetics, jewellery, mobile phones, automobile decelerated in Dec-20 compared to Nov-20

Source: NBS, Wind, CMBIS

Resurgency of COVID-19

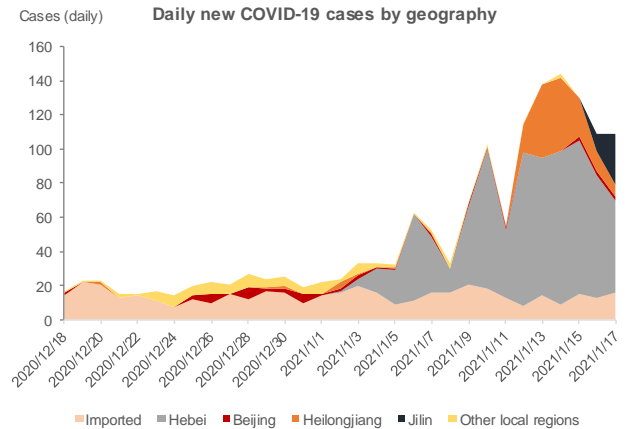
Figure 20: Resurgence of local infections since 2021 – 1,020 local cases as of 17 Jan 2020, exceeding Mar-20 numbers



Source: NHC, CMBIS

Note: Jan-21 data ended 17 Jan 2020

Figure 21: New cases reported primarily in Hebei and Northeast provinces in China; Beijing also reported scattered cases



Source: NHC, CMBIS

Economic forecast

Figure 22: Forecast of major economic indicators

	2017A	2018A	2019A	2020E	2020A	2021E
Real GDP (YoY growth, %)	6.9	6.6	6.1	2.3	2.3	8.8
Nominal GDP (YoY growth, %)	11.2	9.7	7.8	2.7	2.98	10.1
CPI (YoY growth, %)	1.6	2.1	2.9	2.7	2.5	1.3
PPI (YoY growth, %)	6.3	3.5	-0.3	-2.0	-1.8	1.2
Value-added industrial output (YoY growth, %)	6.6	6.2	5.7	2.4	2.8	8.7
Fixed asset investment (YTD YoY growth, %)	7.2	5.9	5.4	2.5	2.9	7.4
Infrastructure	19.0	3.8	3.8	1.5	0.9	7.0
Manufacturing	4.8	9.5	3.1	-4.5	-2.2	9.4
Real estate development	7.0	9.5	9.9	5.9	7.0	4.5
Retail sales (nominal, YoY growth, %)	10.2	9.0	8.0	-3.0	-3.9	13.0
Export (in USD, YoY Growth, %)	7.9	9.9	0.5	2.0	3.6	8.0
Import (in USD, YoY Growth, %)	15.9	15.8	-2.8	-1.0	-1.1	10.0
M2 (YoY growth, %)	8.2	8.4	8.7	10.4	10.1	9.2
Total social financing (TSF) balance (%)	13.4	9.8	10.7	13.8	13.3	11.4
RMB loans outstanding (%)	12.7	13.5	12.5	12.9	12.5	11.2
1-year LPR (%)	4.30	4.31	4.15	3.85	3.85	3.85
5-year LPR (%)	n/a	n/a	4.80	4.65	4.65	4.65
1-year MLF operating rate (%)	3.25	3.30	3.25	2.95	2.95	2.95
USD/CNY (range)	6.46-6.96	6.26-6.97	6.68-7.18	6.60-7.10	6.52-7.16	6.40 -6.70
USD/CNY (end of period)	6.51	6.88	6.96	6.60	6.54	6.50
Fiscal deficit ratio (%)	3	2.6	2.8	3.7	3.7	>3.0
Local government special bond, (RMB tn)	0.91	1.35	2.15	3.75	3.75	>3.0

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

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

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

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.