



## Economic Insight

Analyst: Andy Yao Shaohua, PhD

Tel: 852-2147 8863

Email: yaoshaohua@abci.com.hk

### China's economy accelerated in August

ABCI Research

September 16, 2020

- Supported by macro policies, receding coronavirus pandemic within the country, and rebound in external demand, China's economy accelerated in Aug. Fixed asset investment (FAI), retail sales, industrial production, and export data for the month hit YTD highs and exceeded market expectations
- As production resumed, the job market improved. Unemployment rate in the national urban survey was 5.6% for the month, down 0.1ppt from July. The surveyed unemployment rate of 31 major cities and towns was 5.7% in Aug, down 0.1ppt MoM. In 8M20, a total of 7.81mn new jobs were created, completing 86.8% of the full-year target
- Overall, the main economic indicators in Aug showed continuous strengthening of China's economy, especially in the areas of manufacturing investment, catering revenue, and optional consumption. our GDP estimates for 3Q20E and 2020E stay unchanged at 6.0% and 2.5%
- In our view, current macro policies are sufficient. The focus of fiscal policy should be geared to the successful implementation of the existing measures, especially concerning the special nation debts and special local government debts. Fiscal policy will continue to stabilize growth and expand domestic demand, while monetary policy should direct more funds into the real economy

Supported by the macro policies, successful containment of the coronavirus spread within the country and rebound in external demand, China's economy accelerated in Aug. Fixed asset investment (FAI), retail sales, industrial production, and export data in Aug were higher than expected and hit new highs this year.

On the supply side, despite the severe flooding in the Yangtze River region, industrial output growth in Aug rose to 5.6%<sup>1</sup> from 4.8% in July, driven by the continuous production resumption and sharp rebound in the profit growth of industrial enterprises. Growth in electricity generation in Aug rebounded from 1.9% in July to 6.8%; the National Energy Administration reported that electricity consumption rose 7.7% in Aug, up from 2.3% in July. By subsector, the added value of general equipment manufacturing and special equipment manufacturing in Aug increased by 10.9% and 8.0%, while the added value of the automobile industry rose by 14.8%. The added value of high-tech manufacturing rose by 7.6%, 2.0ppt higher than the growth in overall industrial added value in Aug. By product output, automobile grew 7.6% to 2.088mn, of which new energy automobile leaped 31.6%. The output of mining, shoveling and transporting machinery, industrial robots, smart phones, integrated circuits, and microcomputer equipment rose 34.1%, 32.5%, 12.1%, 12.1%, and 12.0%, respectively, in Aug.

<sup>1</sup> All growth rates are year-on-year except specified otherwise



On the demand side, FAI in urban areas fell by 0.3% in 8M20, compared with the 1.6% decrease in 7M20. According to our calculation, the single-month FAI growth in urban areas rebounded to 9.3% in Aug from 8.3% in July, supported by recovery in manufacturing investment and private investment. By sector, property FAI growth in August stayed high at 12.1%, driven by the loose monetary policy and the low interest rate for housing loans. Property sales rebounded significantly due to the low mortgage rate. The single-month increase in new home sales, as measured in floor space area and value, were 13.7% and 26.7% in Aug, compared with 9.3% and 16.6% in July. Affected by the flood disaster in the southern provinces, the growth of infrastructure investment fell slightly in Aug, slowing from 7.9% in July to 4.0%. Manufacturing FAI growth rebounded to 5.0% in Aug from -3.1% in July due to improving export growth and lower financing cost, while private investment growth also climbed to 19.5% from 5.2% during the same period.

Driven by the rebound in catering revenue and optional consumption, retail sales rose by 0.5% in Aug, the first positive growth so far this year. By sub-sector, catering revenue fell by 7.0%, 4.0ppt higher than that in July. Mandatory consumption grew sharply – beverages, grain, oil and food, and daily necessities increased by 12.9%, 4.2%, and 11.4%, respectively, in Aug. Strong rebound in optional consumption was seen, with communication equipment, cosmetics, gold, silver and jewelry, and medicine increasing by 25.1%, 19.0%, 15.3%, and 6.2%, compared with 11.3%, 9.2%, 7.5%, and 5.3% in July. Automobile consumption growth remained high at 11.8% in Aug on policy support. It is worth noting that online retail sales maintained a positive momentum, growing by 9.5% to RMB 7,032.6bn in 8M20, 0.5ppt higher than that in 7M20. Meanwhile, petroleum and furniture fell 14.5% and 4.2% in Aug.

As production resumed, the job market improved. Unemployment rate in the national urban survey was 5.6% in Aug, down 0.1ppt MoM. The surveyed unemployment rate of 31 major cities and towns was 5.7%, down 0.1ppt MoM. In 8M20, a total of 7.81mn new jobs were created in cities and towns across the country, completing 86.8% of the full-year target.

Overall, the main economic indicators in Aug showed that China's economy continues to strengthen, especially in the areas of manufacturing investment, catering revenue, and optional consumption. Our GDP estimates for 3Q20E and 2020E stay unchanged at 6.0% and 2.5% (Exhibit 1). In our view, macro policies at present are sufficient and require no further strengthening. The focus of fiscal policy should be geared to the successful implementation of the current measures, especially concerning the special nation debts and special local government debts. Fiscal policy will continue to stabilize growth and expand domestic demand. Monetary policy should direct more funds into real economy and be carried out in a flexible and precise manner.



**Exhibit 1: Economic forecasts**

<b>Economic indicators</b>	<b>2018</b>	<b>2019</b>	<b>2020F</b>
Real GDP growth, %	6.6	6.1	2.5
FAI growth, %	5.9	5.4	2.0
Retail Sales growth, %	9.0	8.0	2.0
Export growth in USD terms, %	9.9	0.5	2.0
Import growth in USD terms, %	15.8	(2.8)	(3.0)
Industrial Production growth, %	6.2	5.7	2.7
CPI, %	2.1	2.9	3.0
PPI, %	3.5	(0.3)	(1.0)
M2 growth, %	8.1	8.7	11.0
Aggregate Financing, RMB bn	22,492	25,674	30,000
New Yuan Loans, RMB bn	16,844	16,816	20,000
Spot CNY per US dollar, End-year	6.8785	6.9632	6.7000
One-year LPR, %	4.31	4.15	3.65
Five-year LPR, %	NA	4.80	4.55

Source(s): NBS, PBOC, ABCI Securities estimates



## Disclosures

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Rating	Definition
Buy	Stock return rate $\geq$ Market return rate (10%)
Hold	- Market return rate (-10%) $\leq$ Stock return rate < Market return rate (+10%)
Sell	Stock return < - Market return (-10%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months  
Market return rate: average market return rate since 2008 (HSI total return index 2008-19 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.  
Tel: (852) 2868 2183