農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

Economic Insight

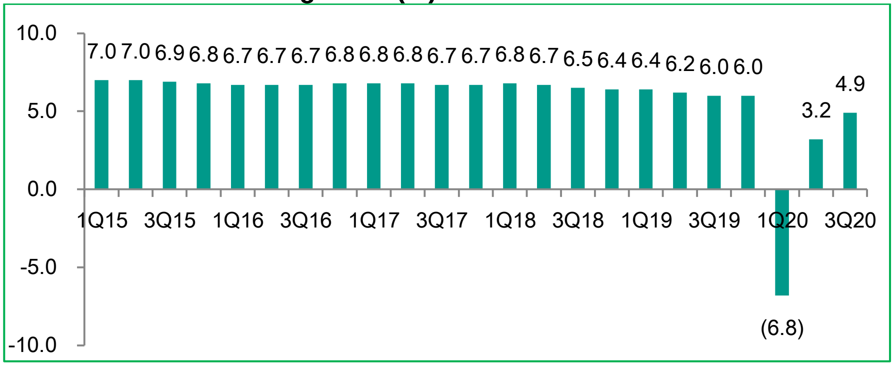
Analyst: Andy Yao Shaohua, PhD
Tel: 852-2147 8863
Email: yaoshaohua@abci.com.hk

China’s GDP growth was below the market forecast in 3Q20

- Dragged by the mild recovery in services industry, China's economy expanded by 4.9% in 3Q20, lower than the 5.5% expected but higher than the 3.2% growth in 2Q20
- A breakdown of the GDP components shows that domestic demand continued to be the key growth driver contributing to 4.3ppt to the economic growth of 4.9% in 3Q20. Investment added 1.9ppt to the overall growth, while consumption and net exports of goods and services contributed 1.7ppt and 0.6ppt
- Overall, the main economic indicators improved in Sep. Given that China’s economic growth in 3Q20 was below our expectation, we lower our 2020E GDP growth forecast to 2.0% from the 2.5% previously estimated
- With the real growth of national per capita disposable income turning positive in 9M20, consumption is expected to rebound in coming months. However, the pandemic is still rampant outside China, with new cases ebbing and surging in different regions. External demand is likely to be stifled. The Sino-US conflict sees no signs of abating. Thus, challenges in the Chinese economy should not be underrated
- China will continue to promote the tasks of "six stability" and "six guarantees" and expedite to implement macro policies in the next few months. The government will expand the coverage of inclusive finance and seek to release the country’s consumption potential, especially pertaining to that in the services industry; furthermore, it will target to stimulate economic growth and tap into the new growth points for effective investment

Dragged by the mild recovery in the service industry, China's economy expanded by 4.9%[1] in 3Q20, lower than the market expectation of 5.5% but above the 3.2% increase in 2Q20 (Exhibit 1). By industry, the secondary industry grew by 6.0%, while the third industry expanded by 4.3%. On a quarterly basis, China’s economy gained 2.7% QoQ in 3Q20, compared with 11.7% in 2Q20. For 9M20, China’s GDP edged up by 0.7%.

Exhibit 1: China’s GDP growth (%)



Source(s): NBS, ABCI Securities

ABCI Research

October 20, 2020

[1] All growth rates are year-on-year except specified otherwise

A breakdown of the GDP components shows that domestic demand continued to be the key growth driver, contributing 4.3ppt to the 4.9% economic growth in 3Q20 (Exhibit 2). Investment added 1.9ppt to the overall growth, while consumption contributed 1.7ppt. Net exports of goods and services added 0.6ppt on the back of increase in the goods trade surplus and decrease in the services trade deficit.

Exhibit 2: Contribution to China's real GDP growth (ppt)

Economic items	1Q20	2Q20	3Q20	9M20
Consumption (household + government)	(4.3)	(2.3)	1.7	(2.5)
Investment (private + public)	(1.5)	5.0	2.6	3.1
Net exports of goods & services	(1.0)	0.5	0.6	0.1
Real GDP growth %	**(6.8)**	**3.2**	**4.9**	**0.7**

Source(s): NBS, ABCI Securities

Most economic data in Sep were better than expected. On the supply side, industrial output growth rebounded to 6.9% from 5.6% in Aug, driven by production resumption. Integrated circuit production rose by 16.4%, well above the 12.1% in Aug. The added value of the automobile industry surged 16.4% in Sep, up 1.6 ppt MoM; the output of automobile climbed 13.8% to 2.461mn, up 6.2ppt MoM. However, growth in electricity generation inched down from 6.8% in Aug to 5.3%; the National Energy Administration reported that electricity consumption rose 7.2%, lower than the 7.7% increase in Aug.

On the demand side, the single-month FAI growth in urban areas eased to 8.7% in Sep from 9.3% in Aug, according to our calculation. By sector, property FAI growth edged down to 11.9% from 12.1% in Aug, indicating that the adverse effects of "three red lines" financing policy for property enterprises began to emerge. Property sales eased significantly due to rising property prices - the single-month increase in new home sales, as measured in floor space area and value, were 7.0% and 16.1% in Sep, compared with 13.7% and 26.7% in the previous month. The growth of infrastructure investment slowed from 4.0% in Aug to the latest 3.2%. Manufacturing FAI growth eased to 3.0% from 5.0% in Aug, while private investment growth dropped to 9.1% from 19.5% during the same period.

Driven by the rebound in catering revenue, retail sales rose by 3.3%, above the growth of 0.5% in Aug. By sub-sector, catering revenue fell by 2.9%, up 4.1ppt MoM. Mandatory consumption grew sharply – beverages, grain, oil and food, daily necessities, and tobacco and alcohol products increased by 22.0%, 7.8%, 10.7%, and 17.6%, respectively, in Sep. Automobile consumption growth remained high at 11.2% on policy support. Online retail sales maintained a positive momentum, growing by 9.7% to RMB 8,006.5bn in 9M20, 0.2ppt higher than that in 8M20. Meanwhile, the consumption for petroleum and communication equipment declined by 14.5% and 4.2% in Sep.

The job market makes strides as production resumes. Unemployment rate in the national urban survey was 5.4% in Sep, down 0.2ppt MoM. The surveyed unemployment rate of 31 major cities and towns was 5.5%, down 0.2ppt MoM. In 9M20, a total of 8.98mn new jobs were created in cities and towns across the country, completing 99.8% of the full-year target.

Overall, the main economic indicators continued to improve in Sep. Nonetheless, given that 3Q20 GDP growth was below our expectation, we lower our 2020E GDP growth forecast to 2.0% from the previously estimated 2.5% (Exhibit 3). With the real growth of national per capita disposable income turning positive in 9M20, consumption is poised for a substantial rebound in the coming months. Yet, eternal demand is likely to be stifled by the pandemic, which ebbs and surges but overall still rampant on the global level; meanwhile, the Sino-US conflict continues to escalate. Thus, challenges in the Chinese economy should not be underrated. Going forward, China will continue with the tasks of "six stability" and "six guarantees" while expediting the implementation of the macro policies over the next few months. The government will expand the coverage of inclusive finance and seek ways to release the consumption potential, especially pertaining to that in the services industry. Stimulating economic growth and tapping into new growth points for effective investment will be prioritized.

Exhibit 3: Economic forecasts

Economic indicators	2018	2019	2020F
Real GDP growth, %	6.6	6.1	2.0
FAI growth, %	5.9	5.4	2.0
Retail Sales growth, %	9.0	8.0	(3.0)
Export growth in USD terms, %	9.9	0.5	2.0
Import growth in USD terms, %	15.8	(2.8)	(1.0)
Industrial Production growth, %	6.2	5.7	2.7
CPI, %	2.1	2.9	3.0
PPI, %	3.5	(0.3)	(2.0)
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

Analyst Certification
I, Yao Shaohua, Andy, primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company(ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

Definition of equity rating

Rating	Definition
Buy	Stock return rate≥ Market return rate (10%)
Hold	- Market return rate (-10%) ≤ 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.

Disclaimer

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research

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