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 economic growth rebounded to 6.5% in 4Q20, faster than expected

ABCI Research

January 19 , 2021

- China's economy expanded by 6.5% in 4Q20 on the back of strong growth of export and industrial production. The growth is higher than 4.9% in 3Q20 and better than the market expectation of 6.2%
- For 2020, China's GDP rose 2.3%. It is expected that China would be the only major economy in the world achieving a positive growth for the year. Notably, China's GDP exceeded RMB 100tr in 2020, the second highest globally, accounting for 17% of the world's economy. China's per capita GDP also exceeded US$ 10,000 in 2019 and 2020
- We expect China's economic growth to rebound significantly in 2021 due to improving domestic demand and potential de-escalation of the Sino-US conflict; the low base in 2020 will also elevate the figure. On the whole, we expect China's economy to expand by 8.0% for 2021E, much higher than 2.3% for 2020. Strong external demand and steady consumer spending will be the main growth drivers. On the contrary, high debt burden and COVID-19 mutation will present challenges
- On the monetary front, PBOC will maintain a neutral monetary policy with a loosening bias to support economic growth. The rates for one-year LPR and five-year LPR are projected at 3.65% and 4.55% for end-2021E. We expect RRR to be 10.0% for large financial institutions and 8.0% for medium and small financial institutions at end-2021E.
- We expect the proactive fiscal policy in 2020 to resume normalcy in 2021. The temporary and phased special measures introduced in 2020 in response to the pandemic are likely to be partially withdrawn in 2021. However, a normal fiscal policy, including tax and fee reductions, consumption-specific measures, and strategies to boost infrastructure investment, will be retained to support economic growth

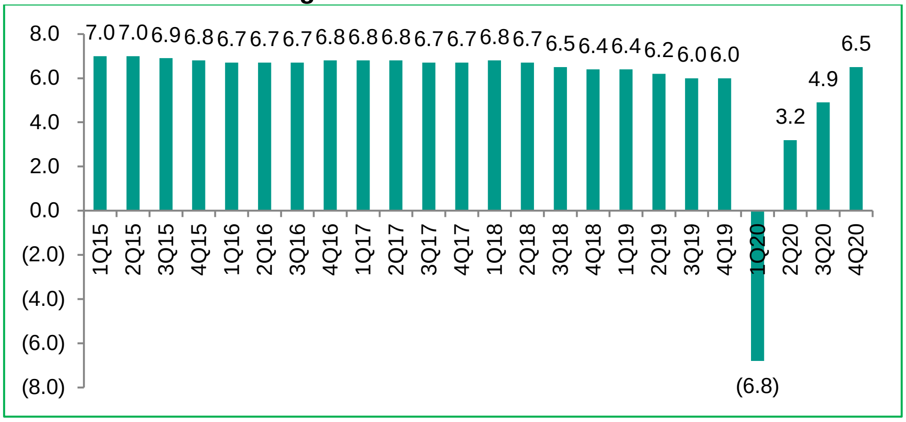
China's economy expanded by 6.5%[1] in 4Q20 on the back of strong growth in export and industrial production. The figure was higher than 4.9% in 3Q20 and better than the market expectation of 6.2% (Exhibit 1). On a quarterly basis, China's economy grew 2.6% in 4Q20, slightly down from 3.0% in 3Q20. For the full year, GDP rose 2.3%. China is expected to be the only major economy in the world to achieve a positive growth. Notably, China's GDP exceeded RMB 100tr in 2020. According to the exchange rate, the total GDP reached US$ 14.7tr, accounting for 17% of the world economy and is the second highest in the world. Per capita GDP also exceeded US$ 10,000 for 2019 and 2020.

The macro data in Dec showed a strong momentum, especially for the industrial output. Benefiting from strong exports and profit growth of industrial enterprises, the growth of industrial added value in Dec rose to 7.3% from 7.0% in Nov. Power generation growth in Dec also rose to 9.1% from 6.8% in Nov. The added value of the automobile industry increased rapidly by 9.7% in Dec although it was 1.4ppt lower than that in Nov. By product, new-energy vehicles, metal cutting machine tools, industrial robots, microcomputer equipment,

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

and integrated circuits all maintained rapid growth in Dec at 55.6%, 32.4%, 32.4%, 42.3%, and 20.8%, respectively.

Exhibit 1: China's GDP growth



Source(s): NBS, ABCI Securities

On the demand side, the single-month FAI growth in urban areas eased to 11.3% in Dec, according to our calculation. By sector, although property FAI and sales were lower than those in Nov, the growth was still substantial in Dec. Affected by the financing restriction policy of property companies, property FAI in Dec edged down from 11.5% in Nov to 9.2%. Property sales also fell in Dec, with sales area and value growth slowing to 11.1% and 18.7%, respectively, from 12.4% and 19.2% in Nov. The growth of infrastructure investment slowed down slightly to -0.1% in Dec from 3.5% in Nov. Increase in manufacturing investment also slowed to 10.2% in Dec from 12.5% in Nov.

Affected by the resurgence of COVID-19 cases in some provinces and the cold weather, retail sales of consumer goods increased only by 4.6% in Dec, lower than the 5.0% growth in Nov. By sub-sector, non-discretionary consumption maintained a rapid growth in Dec. Beverages, cereals, oils and foodstuffs, daily necessities, tobacco, and alcohol commodities grew 17.1%, 8.2%, 8.0%, and 20.9%, respectively. In contrast, discretionary consumption dropped significantly. Automobiles, communication equipment, cosmetics, gold, silver and jewelry, and medicines increased by 6.4%, 21.0%, 9.0%, 11.6%, and 12.1%, respectively, in Dec, compared with 11.8%, 43.6%, 32.3%, 24.8% and 12.8% in Nov. In Dec, consumption growth of petroleum and products (-3.8%) and furniture consumption (+0.4%) were anemic. Catering revenue rose 0.4% in Dec after falling by 0.6% in Nov.

With the resumption of production, 11.86mn new jobs were created in urban areas in 2020, significantly higher than the expected target of over 9mn people, achieving 131.8% of the annual target. The unemployment rate in the national urban survey in Dec was 5.2%, the same as that in Nov. The urban surveyed unemployment rate in 31 major cities in Dec was 5.1%, down 0.1ppt MoM. The urban registered unemployment rate at the end of 2020 was 4.2%, which was lower than the expected target of ~5.5%.

Looking ahead, we expect China's economic growth to rebound significantly in 2021 due to improving domestic demand and potential de-escalation of the Sino-US conflict; the low base in 2020 will also elevate the figure. On the whole, we expect China's economy to expand by 8.0% for 2021E, much higher than 2.3% for 2020 (Exhibit 2). Strong external demand and steady consumer spending will be the main growth drivers. On the contrary, high debt burden and a mutating COVID-19 would be the major challenges for 2021.

On the monetary front, PBOC will maintain a neutral monetary policy with a loosening bias to support economic growth. The rates for one-year LPR and five-year LPR are projected at 3.65% and 4.55% for end-2021E. We expect RRR to be 10.0% for large financial institutions and 8.0% for medium and small financial institutions at end-2021E. We expect the proactive fiscal policy in 2020 to resume normalcy in 2021. The temporary and phased special measures introduced in 2020 in response to the pandemic are likely to be partially withdrawn in 2021. However, a normal fiscal policy, including tax and fee reductions, consumption-specific measures, and strategies to boost infrastructure investment, will be retained to support economic growth.

Exhibit 2: Economic forecasts

Economic indicators	2019	2020	2021F
Real GDP growth, %	6.0	2.3	8.0
FAI growth, %	5.1	2.9	6.0
Retail Sales growth, %	8.0	(3.9)	14.0
Export growth in USD terms, %	0.5	3.6	7.0
Import growth in USD terms, %	(2.7)	(1.1)	9.0
Industrial Production growth, %	5.7	2.8	7.0
CPI, %	2.9	2.5	1.2
PPI, %	(0.3)	(1.8)	1.5
M2 growth, %	8.7	10.1	9.5
Aggregate Financing, RMB bn	25,575	34,860	33,000
New Yuan Loans, RMB bn	16,810	19,630	20,500
Spot CNY per US dollar, End-year	6.9632	6.5272	6.4500
One-year LPR, %	4.31	3.85	3.65
Five-year LPR, %	NA	4.65	4.55

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

Disclosures

Analyst Certification
I, Yao Shaohua, Andy, being the person 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 our 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 any listed company (ies) covered in this report, and I and/or My associates do not serve as officer(s) of any 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 2008-20 CAGR at 9.2%)

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

investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

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