Economic Insight

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China's GDP grew by 3.2% in 2Q20, better than expected

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- Supported by the acceleration of production resumption and the implementation of macro polies, China's economy grew by 3.2% in 2Q20, not only higher than 2.4% of market's expectation, but also well above -6.8% in 1Q20. In terms of industries, the primary and secondary industries contributed more. From the perspective of expenditure, investment and net exports were the main contributors to economic growth, and consumption was still a drag
- Overall, the main economic indicators continued to improve in June, showing that China's economic growth momentum continues to strengthen. Given that China's economic growth in 2Q20 exceeded our expectation, we raised our 2020 GDP growth forecast to 2.5% from the previously estimated 2.0%
- With the resumption in infrastructure and property investment as well as consumption recovery, we believe that China's economic growth will continue to rebound in 2H20. However, the pandemic is still rampant, with the rising likelihood of a second wave. External demand is likely to continue to be hit. The conflicts between US and China have intensified since the start of this year. Thus, challenges in the Chinese economy should not be underestimated
- In the next step, China should continue to do a good job of "six stability" and "six guarantees", and accelerate the implementation of the macro policies deployed in this year's Government Work Report. China should continue to implement counter-cyclical monetary policies, promote tax reductions and fees, and help foreign trade enterprises to develop the domestic market, and support small and medium-sized enterprises that have been hit hard by the epidemic

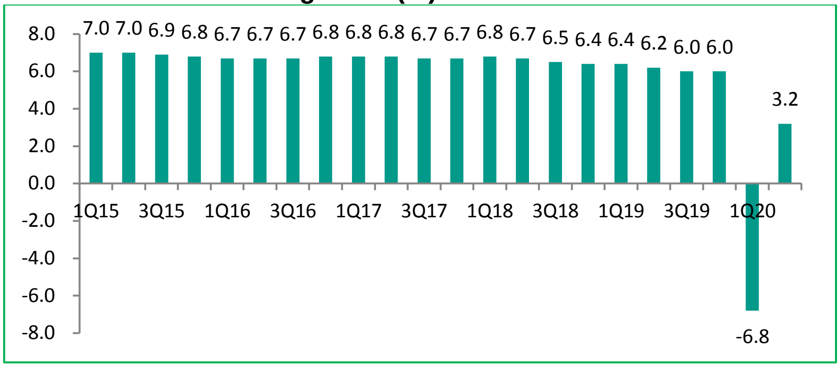
Supported by the acceleration of production resumption and the implementation of macro polies, China's economy grew by 3.2%[1] in 2Q20, not only higher than 2.4% of market's expectation, but also well above -6.8% in 1Q20 (Exhibit 1). In terms of industries, the primary and secondary industries contributed more. From the perspective of expenditure, investment and net exports were the main contributors to economic growth, and consumption was still a drag. On a quarterly basis, China's economy grew 11.5% QoQ in 2Q20, compared with -10.0% in 1Q20. For 1H20, China's GDP contracted by 1.6%. Economic activity in June expanded faster than expected, with investment, trade, and industrial production all rebounding significantly.

On the supply side, industrial output growth in June rose to 4.8% from 4.4% in May, driven by the rapid growth of infrastructure and property investment, as well as production resumption. Growth in electricity generation in June rebounded from 4.3% in May to 6.5%; the National Energy Administration reported that electricity consumption rose 6.1% in June, also up from 4.6% in May. Integrated circuit production rose by 11.1% in June, well above 3.4% in May. In June, the added value of the automobile industry increased by 13.4%, 1.2 percentage points higher than that of May; the output of

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

automobile grew by 20.4% to 2.311 million, which was 1.4 percentage points higher than that of May.

Exhibit 1: China's GDP growth (%)



Source(s): NBS, ABCI Securities

On the demand side, according to our calculation, the single-month FAI growth in urban areas rebounded to 5.6% in June from 3.9% in May. By sector, property FAI growth in June remained high at 8.4%, driven by the loose monetary policy and the low interest rate for housing loans. However, property sales eased significantly due to rising property price. The single-month increase in new home sales, as measured in floor space area and value, were 2.3% and 8.8% in June, compared with 9.6% and 14.2% in May. Affected by the flood disaster in the southern provinces, the growth of infrastructure investment fell slightly in June, slowing from 8.3% in May to 6.8%. Manufacturing FAI growth rebounded to -3.5% in June from -5.3% in May due to improving export growth and lower financing cost, while private investment growth eased slightly to -1.1% from -0.1% during the same period.

Dragged by the 15.2% drop in catering revenue, retail sales growth remained negative in June, but the decline continued to narrow. Retail sales growth rebounded to -1.8% in June from -2.8% in May. Compared with the improvement in overall FAI and industrial output, the recovery in retail sales in Mar was weaker, partly due to the substantial fall in the national residents' income. The per capita disposable income of the national residents in 1H20 only increased by 2.4% in nominal terms and decreased by 1.3% after deducting price factors. It is worth noting that online retail sales maintained positive momentum, growing by 7.3% in 1H20, 2.8 percentage points higher than that in 5M20. Especially, the online retail sales of physical goods grew by 14.3% in 1H20, and these sales accounted for 23.6% of total retail sales.

As production resumed, the job market improved in June. The unemployment rate in the national urban survey was 5.7% for the month, down 0.2 percentage points from May. The surveyed unemployment rate of 31 major cities and towns was 5.8% in June, also down 0.1 percentage point from May. In 1H20, a total of 5.64mn new jobs were created in cities and towns across the country, completing 62.7% of the full-year target.

Overall, the main economic indicators continued to improve in June, showing that China's economic growth momentum continues to strengthen. Given that China's economic growth in 2Q20 exceeded our expectation, we raised our 2020 GDP growth forecast to 2.5% from the previously estimated 2.0% (Exhibit 2). With the resumption in infrastructure and property investment as well as consumption recovery, we believe that China's economic growth will continue to rebound in 2H20. However, the pandemic is still rampant, with the rising likelihood of a second wave. External demand is likely to continue to be hit. The conflicts between US and China have intensified since the start of this year. Thus, challenges in the Chinese economy should not be underestimated. In the next step, China should continue to do a good job of "six stability" and "six guarantees", accelerate the implementation of the macro policies deployed in this year's Government Work Report. China should continue to implement counter-cyclical monetary policies, promote tax reductions and fees, and help foreign trade enterprises to develop the domestic market, and support small and medium-sized enterprises that have been hit hard by the epidemic.

Exhibit 2: Economic forecasts

Economic indicators	2018	2019	1H20	2020F
Real GDP growth, %	6.6	6.1	-1.6	2.5
FAI growth, %	5.9	5.4	-3.1	2.0
Retail Sales growth, %	9.0	8.0	-11.4	2.0
Export growth in USD terms, %	9.9	0.5	-6.2	-2.0
Import growth in USD terms, %	15.8	-2.8	-7.1	-4.0
Industrial Production growth, %	6.2	5.7	-1.3	2.7
CPI, %	2.1	2.9	3.8	3.0
PPI, %	3.5	-0.3	-1.9	-1.0
M2 growth, %	8.1	8.7	11.1	11.0
Aggregate Financing, RMB bn	22,492	25,674	20,830	30,000
New Yuan Loans, RMB bn	16,844	16,816	12,090	20,000
Spot CNY per US dollar, End-year	6.8785	6.9632	7.0654	6.9000
One-year LPR, %	4.31	4.15	3.85	3.45
Five-year LPR, %	NA	4.80	4.65	4.45

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

Disclosures

Analyst Certification

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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.

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