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Global Markets Research

Research Alert

China: Some Positivity in 2Q GDP and June Numbers

China's economy grew in 2Q, compared to the previous quarter

Retail sales was the outperformer in June, with industrial production also resilient

Maintain full year GDP growth forecast at 9.2%

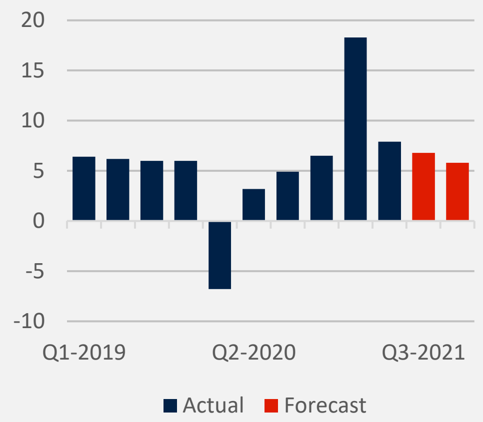
Summary

China's GDP growth numbers showed some resilience in 2Q, with a 7.9% y/y and 1.3% q/q expansion (Figure 1). This compares well with the 18.3% y/y (inflated by base effects from 2020 Covid-19 lockdowns) and 0.6% q/q increase a quarter ago.

June results showed some positive outperformances in retail sales, alongside some resilience in industrial production and fixed asset investment. Overall, these indicate that the economy continues to expand steadily. Although growth numbers are likely to come off in 2H-2021, China pursuit of quality growth is on track.

Examining our heatmap, GDP growth looks healthy and is supported by both domestic demand (retail sales and imports) and external demand. China's trade surplus is at levels slightly higher than three-year averages. At the same time, property price increases look contained. One area of concern is a downtrend in freight activity, although it is partly due to base effects. Chip shortages are also affecting the auto industry, according to China officials.

Figure 1: China GDP (% y/y)



Source: Bloomberg, HL Bank

Heatmap on Key China Economic Metrics

2019						2020												2021						
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	
-1.2	-1.2	-1.3	-1.3	-1.3	-1.0	-1.0	-5.7	-3.3	-2.2	-1.5	-1.0	-0.7	-0.5	-0.3	-0.2	0.0	0.0	0.1	3.6	2.3	1.6	1.1	0.8	FAI
-1.5	-1.7	-1.8	-1.9	-1.7	-1.3	-1.0	-1.1	-1.5	-1.9	-1.9	-1.6	-1.3	-1.1	-1.1	-1.1	-0.8	-0.3	0.0	0.6	1.7	2.5	2.9	2.6	PPI
-1.5	-1.1	-0.8	-0.6	-0.6	-0.6	-0.6	-4.6	-2.5	-1.2	-0.1	0.3	-0.7	0.7	0.6	0.4	1.1	1.1	1.0	2.8	2.6	1.3	1.2	1.1	Energy Use
-0.8	-0.9	-0.9	-0.7	-0.6	0.3	-1.7	-0.6	-2.0	-2.6	-1.2	0.1	0.4	0.1	-0.2	-0.2	-0.3	-0.4	2.6	3.1	2.0	2.4	0.7	-0.7	Freight
-1.4	-1.5	-1.2	-1.6	-0.6	-0.6	-0.8	-5.5	0.6	0.2	0.1	0.3	0.3	0.3	0.5	0.5	0.7	0.7	0.4	0.2	0.6	0.3	0.3	0.3	Manufacturing PMI
-2.0	-2.3	-0.4	-1.8	0.1	1.0	0.9	0.9	-4.9	-1.3	-0.9	-0.6	-0.6	0.0	0.8	0.8	0.9	1.0	1.0	1.0	3.9	1.7	1.2	0.9	Ind. production
-0.2	-0.6	-0.9	-0.7	-0.7	0.2	-0.9	-3.7	-0.9	-0.1	-0.6	-0.3	0.2	0.4	0.4	0.5	1.3	1.0	1.5	5.3	0.8	0.8	0.6	0.8	Exports
0.7	0.1	0.4	0.6	0.3	0.9	1.4	-4.5	-0.6	0.6	1.4	0.6	1.2	1.1	0.1	1.0	1.7	1.7	1.1	0.0	-1.0	0.2	0.3	0.5	Trade balance
-1.3	-1.3	-1.4	-1.3	-0.7	0.5	-1.7	-0.1	-0.7	-1.7	-1.7	-0.3	-0.5	-0.6	0.6	0.0	0.0	0.2	1.9	1.1	2.5	2.6	2.8	1.8	Imports
-1.8	-1.8	-1.4	-1.8	-1.1	-1.0	-1.0	-0.9	-5.7	-3.1	-1.9	-1.6	-1.4	-1.1	-0.5	-0.3	-0.2	-0.2	-0.2	-0.2	3.9	1.5	0.8	0.7	Retail sales
-1.3	-1.2	-1.4	-2.8	0.0	-1.4	-0.4	-5.8	-0.3	-0.1	0.0	0.2	0.2	0.4	0.6	0.6	0.7	0.5	-0.3	-0.5	0.6	0.3	0.4	0.0	Non-manuf. PMI
0.6	0.1	-0.1	-0.3	-0.6	-0.8	-0.9	-1.1	-1.2	-1.3	-1.3	-1.3	-1.2	-1.2	-1.2	-1.3	-1.4	-1.4	-1.4	-1.2	-1.0	-1.0	-1.0	-1.0	Property prices
-1.6	-1.5	-1.8	-1.5	-0.9	-1.3	-0.9	-5.6	0.4	0.5	0.3	0.3	0.2	0.3	0.5	0.5	0.4	0.4	0.0	0.0	0.7	0.4	0.3	0.2	Employment
1.7	1.6	1.8	2.8	3.2	2.7	3.1	2.6	1.7	0.7	-0.2	-0.1	0.1	-0.2	-0.9	-2.0	-2.6	-1.9	-2.1	-1.9	-1.4	-1.0	-0.7	-0.8	CPI
-1.7	-2.1	-1.6	-1.8	-1.7	-1.7	-2.1	-2.1	-0.5	0.5	0.7	0.6	0.2	0.1	0.1	0.0	-0.2	-0.3	-0.5	0.0	-0.7	-1.4	-1.6	-1.3	Loan

Note: Measured in standard deviations from mean over the past three years (June 2018 to May 2021). Positive (negative) number indicates higher (lower) than mean. Source: Bloomberg, HL Bank

Examining the Breakdown

China's underlying GDP growth picked up in 2Q, compared to 1Q. Between the period of 2019 to 2021, 2Q growth was an annualised 5.5%, compared to the 5.0% in 1Q. Growth has been supported by secondary industries (manufacturing and construction) during this period, outpacing 2019 numbers. In contrast, third industry (services) growth was positive but more subdued.

China flagged that high-tech manufacturing sector, including new energy vehicles, industrial robotics and integrated circuits, supported growth. It expanded by 22.6% y/y in 1H-2021. China produced a record high of 30.8bn integrated circuits in June, intending to reduce reliance on US technology and build a domestic semiconductor industry.

Underlying retail sales growth picked up to 4.9% CAGR (2019 to 2021) in June, compared to 4.5% in May. This was supported by improvements in consumer goods items – such as food and beverages, household electronics, communication devices, and office supplies. In contrast, automobiles sales continue to come off, and growth in restaurants/catering eased slightly (albeit staying high).

Household income growth for 2019 and 2020 grew an annualised 5.2%. At the same time, the surveyed jobless rate stayed stable compared to a month ago, at 5%. These, including rising Covid-19 vaccination rates, are supportive of private consumption.

For industrial production, underlying growth was steady at 6.5% CAGR (2019 to 2021) in June, versus 6.6% in May. Resilient manufacturing and power supply performances mitigated a slump in mining. Auto manufacturing was down from chip shortages.

Fixed asset investment growth staged a rebound in June, after a slump in May. According to our calculations, fixed asset investment growth fell by only 1.4% y/y in June, compared to the 2.6% y/y decline in May (Figure 3). Private fixed asset investments outpaced the public sector in 1H-2021.

Implications

We maintain our full-year GDP growth forecast at 9.2%, given that first half growth of 12.7% y/y is relatively more inflated by base effects. External demand continues to look strong, although this may fade from some setbacks in Asia demand in 2H-2021.

China's recent cut in the reserve requirement ratio appears to be targeted at reducing financial sector risks, instead of as a result of needing to support the economy. We maintain our view of a neutral monetary policy stance by the People's Bank of China for the next 12-month period. This comes after the PBOC kept the 1-year medium-term lending facility unchanged at 2.95%.

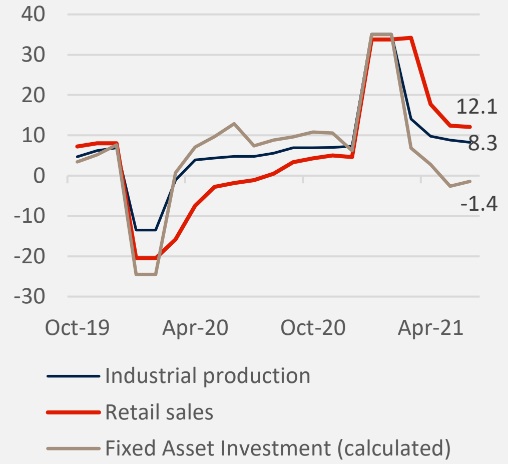
Rising energy prices are a potential risk factor for China's economy, although slightly mitigated by a strengthening currency (compared to trade partners) over the past twelve months (see Figure 4). Elevated producer prices are another potential banana skin,

Figure 2: Key forecasts

	2021F	2022F
GDP	9.2	5.7
Inflation (avg)	1.3	2.5
USD/CNY (end-period)	6.40	6.55 (June 2022)

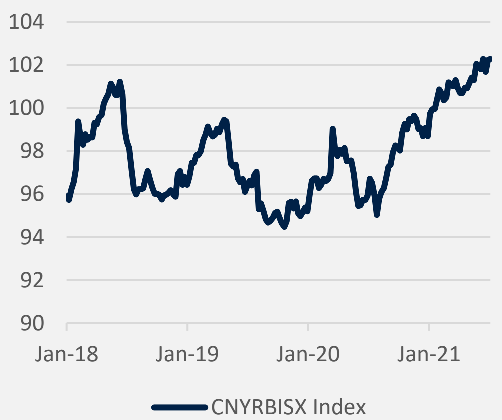
Source: HL Bank

Figure 3: China's key monthly metrics (% y/y)



Source: Bloomberg, HL Bank

Figure 4: China's CFETs RMB Index (based on BIS currency basket) shows that the yuan has been strengthening.



Source: Bloomberg, HL Bank

possibly causing uneven growth between upstream and downstream firms.

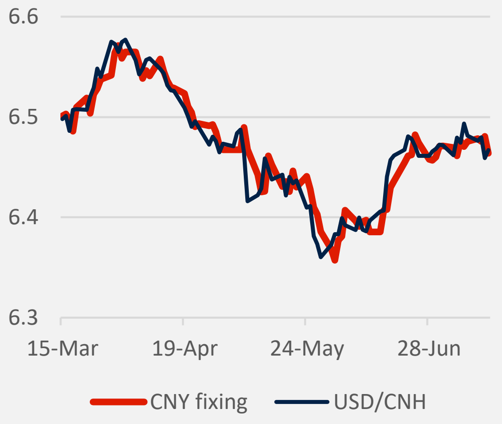
The National Bureau of Statistics also flagged that unemployment pressures remain, with youth unemployment an issue. Its spokesperson noted that 9.09 million college graduates are about to enter the job market in summer.

China's inflation view is similar to most other major economies, anticipating some reduced pressures in the coming months, perhaps as energy prices stabilise and base effects turn. Given that inflation has been 0.65% in 1H-2021, we maintain our 1.3% forecast for 2021.

In contrast, PPI has been at an elevated 4.7% y/y in 1H-2021. This should remain a concern to downstream firms, although supportive of industrial profits in 2021. However, the headline y/y numbers should fade sometime by end-2021.

USD/CNY and USD/CNH has been little affected by China's data releases. We see the currency being primarily affected by USD strength. Near-term, the pairs may see some downsides if the USD temporary tanks from previous rallies. However, USD strength will likely lead to higher USD/CNY over a 1-year period. Our current forecast is for USD/CNY to climb to 6.55 in 2Q-2022, from 6.40 in 4Q-2021.

Figure 5: USD/CNH, compared to PBOC fixings



Source: Bloomberg, HL Bank

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