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China Economics Update: Strong 4Q GDP and Dec activity on further acceleration of industrial activities
(中国经济数据在工业生产活动的推动下保持强劲)

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China's 2020 4Q GDP came in line with our above consensus forecast of 6.5% YoY. Industrial production was strong in Dec, led by momentum in high-tech manufacturing. Retail sales were softer than the market had expected due to a slow recovery in catering and some moderation in the consumer discretionary sectors.

Growth recovery in 2021 remains on track, albeit with some near-term uncertainty. We maintain our view that industrial upgrades, a consumption recovery and solid trade will propel growth recovery in coming quarters. Retail sales could face downside risks in the near-term amid rising Covid-19 cases and likely widening of travel restrictions.

The solid data should embolden policy makers to shift back to tightening incrementally. We expect monetary policy to stay accommodative in the near-term to guard against downside risks represented by new Covid cases though we are alert for signs of a tighter stance after the Lunar New Year.

中国去年四季度 GDP 同比增长 6.5%，与我们的预测一致而高于市场预期。12 月份的经济数据显示工业生产加速复苏，高科技制造业生产提速。内需方面，固定资产投资的总体增速受基建投资拖累，但制造业投资保持强劲。零售数据小幅下滑，主因餐饮等消费增速复苏较慢，部分非必需品消费增速也有所回落。

预计今年经济维持复苏势头。支持因素包括工业升级带动制造业投资，消费进一步修复。和稳健的贸易增长。短期关注北部省份新冠疫情上升的情形下，旅行限制加码和对消费信心修复的可能影响。

稳健的经济数据下，保持宏观政策今年逐步收紧的预测。预计货币政策将在短期内保持目前较为宽松的立场，而农历新年后可能逐步收紧。

China's 4Q GDP rose 6.5%, with 2020 full-year GDP up 2.3%

According to NBS, China's 4Q GDP grew 6.5% YoY, in line with our expectation but higher than market consensus (CCBI: 6.5%, consensus: 6.2%). On sequential basis, 4Q GDP turned up 2.3% seasonally adjusted, easing moderately from 3.0% from 3Q (Fig 1). After significant contraction in 1Q20, China's economy has been the first to show signs of recovery from the impact of Covid-19 when growth rates turned positive in the second quarter. Today's data suggests that China's economy will sustain a strong pace of growth up to year-end.

China's real GDP rose 2.3% YoY in 2020 as primary and secondary industries grew faster than headline GDP, at 3.0% YoY and 2.6% YoY, while growth in tertiary industries was more contained at 2.1% YoY, consistent with China's strong and quicker recovery in industrial activity compared with the services sector still shaken by the impact of the pandemic.

China's Nov economic activity continued to recover towards year-end, as expected

Industrial production (IP) in Dec once again delivered stronger-than-expected results. IP rose 7.3% YoY in Dec (7.0% YoY in Nov), stronger than market consensus for 6.9%. Growth in Dec accelerated on a sequential basis: 1.1% seasonally adjusted or 14.0% annualized (13.1% in Nov). IP for high-tech manufacturing maintained a strong pace of growth, rising 13.1% YoY in Dec or 7.1% YoY in 2020, outpacing headline IP growth at 2.8% YoY for the year, suggesting continued industrial upgrades was one of the main contributors to the IP recovery.

By looking at the three key major industrial categories we find that manufacturing continued to outperform headline growth and production value-added for mining and electricity and gas (EG) turned up towards year-end (Fig 3). Within the manufacturing subcategories, pharmaceutical manufacturing (up 16.9% YoY), electrical machinery & equipment manufacturing (up 15.6% YoY), fabricated metal products (up 13% YoY), computers, communication & other electronic equipment (up 11.4% YoY) and general equipment (up 11.1% YoY) delivered the strongest monthly growth in Dec. Production of automobiles (up 9.7%) and special equipment (up 8.7%) eased moderately from Nov, though their growth momentum remained stronger than most sub-industrial sectors.

Fixed asset investment (FAI) eased in Dec. FAI rose 2.9% YoY for full-year 2020, or 5.9% YoY in Dec based on our calculation. Among the main investment categories, manufacturing maintained the fastest pace of growth of 10.3% YoY in Dec (vs. 12.5% YoY in Nov) and the second-highest single month growth for the sector since late 2018, consistent with the latest PMI data. Real estate investment growth eased slightly to 9.3% YoY in Dec (vs. 11.4% YoY in Nov). Infrastructure investment on the other hand contracted 0.1% YoY in Dec (vs. a 3.5% YoY increase in Nov), dragging investment momentum as was the case in 2020 (Fig 4).

Retail sales were lower than the market expectation; and details suggest growth in consumer discretionary eased in Dec. Retail sales rose 4.6% YoY (consensus: 5.5%) in Dec, and declined 3.9% for the full-year. Catering picked up momentum in Dec (0.4% YoY vs. -0.6% YoY in Nov) but remained a major drag on retail sales growth in 2020, which was down 16.6% YoY. In Dec 2020, 6 of 15 commodity retail categories delivered higher growth than in Nov, with notable improvement in tobacco & liquor (up 9.5 ppt to 20.9% YoY), petroleum & related products (up 7.2 ppt to -3.8% YoY), household electronics & video appliances (up 6.1 ppt to 11.2% YoY) and construction & decoration materials (up 5.8 ppt to 12.9% YoY). Slower Dec growth was observed in cosmetics (down 23.3 ppt to 9% YoY), communication appliances (down 22.6 ppt to 21% YoY), gold, silver and jewelry (down 13.2 ppt to 11.6% YoY) and automobiles (down 5.4 ppt to 6.4% YoY). Despite some easing in Dec, sales in discretionary items such as communication appliances, cosmetics, beverage, and gold, silver and jewelry remained particularly strong throughout 4Q20, leading other commodity categories by a wide margin (Fig 5).

Our view:

Dec activity data and 4Q GDP are consistent with our view of continued gains in growth momentum led by strong industrial production and private sector investment. Despite moderate easing towards year-end, manufacturing investment supported by strength in external demand and industrial upgrades continued to deliver one of the strongest paces of growth in the last two years. This, together with still solid growth in real estate investment, made up for the drag from infrastructure activity. In Dec, consumption related to catering and energy-related commodity goods improved after lagging behind other sales categories for most of the year. Consumer discretionary items kept their strength as households gained more confidence to spend as the economy normalized.

For 2021F, we maintain our call that China's sequential recovery will continue with full-year growth reaching 8.5% against a backdrop of further normalization in consumption and services, continued strength within the manufacturing sector aided by domestic manufacturing capex and the global recovery. We expect trade to stay particularly strong in the next few months as it continues to benefit from strong demand for tech and medical products and yet-to-recover production capacity in DMs in the near-term.[1] Nonetheless, the current outbreak of Covid-19 in a few northern Chinese provinces may cause temporary downside in consumer activities, which may drag travel and catering services in the near-term.

Recent data should give policy makers the confidence to tighten gradually. In Dec 2020, Central Economic Work Conference (CEWC) expressed a relatively dovish tone in its macro policies, emphasizing continuity, stability and sustainability while avoiding a "policy U-turn". Consistent with this stance, the liquidity environment has remained accommodative in recent months while the PBoC directed lower market rates to alleviate pressure on the domestic credit market. We expect monetary policy to stay accommodative in the near-term to guard against downside risks represented by new Covid cases. Given the solid data and the policy goal of cooling leverage growth this year, we would look for signs that policy will shift back to a tighter stance after Lunar New Year in mid Feb.

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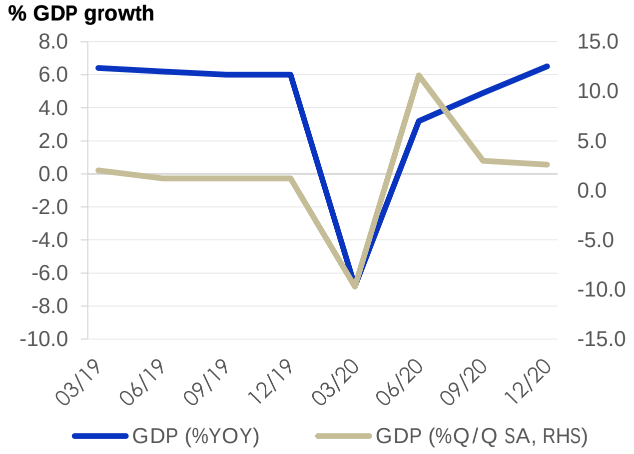
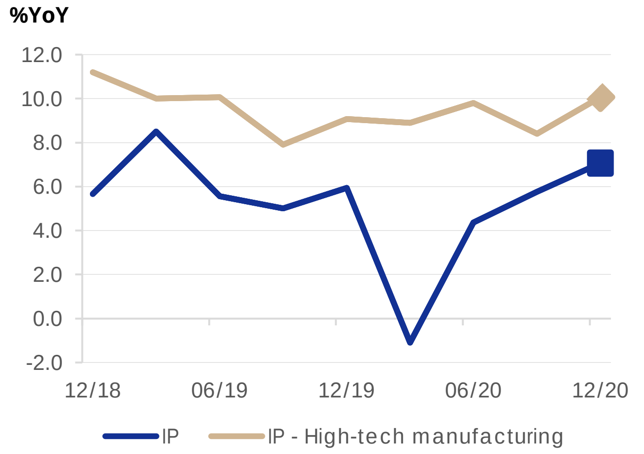
1 "China Economic Update: Strong export momentum carried on to end-2020", 14 Jan 2020

Fig 1: China 4Q GDP growth come in higher than the market expectation of 6.5%, while sequential momentum eased



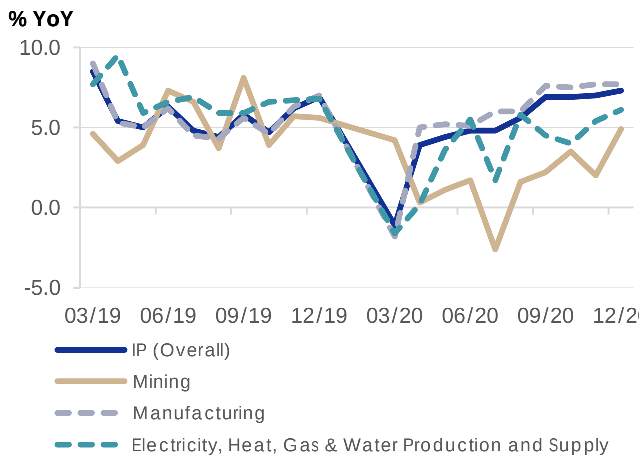
Source: NBS, CCBIS

Fig 2: Hi-tech manufacturing continued to outpaced the headline IP growth by large margin as industrial upgrades continue



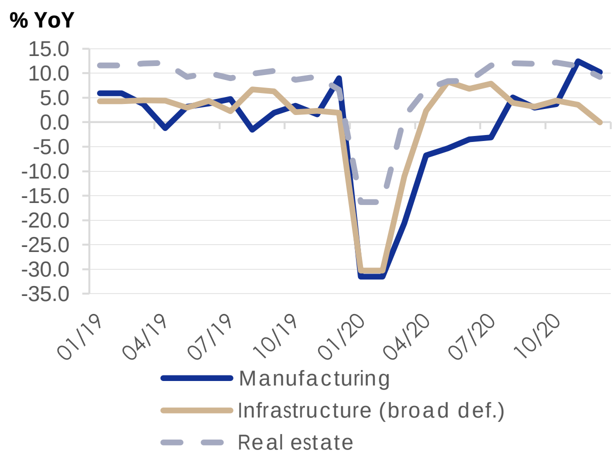
Source: NBS, CCBIS

Fig 3: Manufacturing remained the strongest category for IP activity, while mining and EG also improved towards year-end



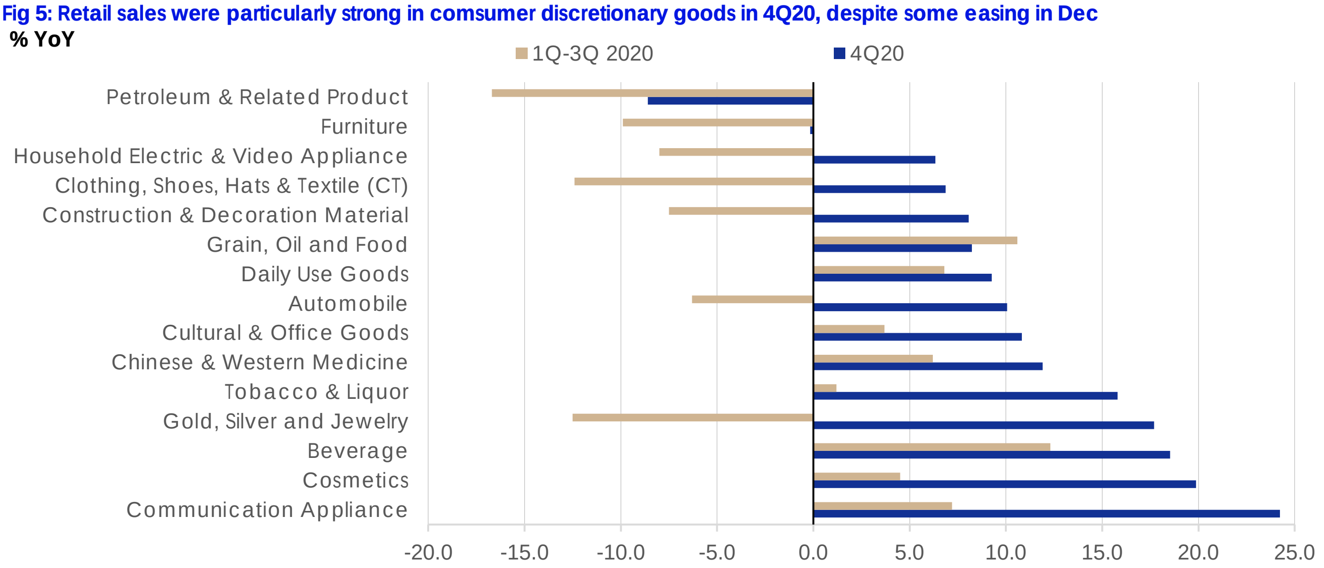
Source: NBS, CCBIS

Fig 4: Investment activities eased on a YoY basis in Dec, with infrastructure falling back to negative growth



Source: NBS, CCBIS

Fig 5: Retail sales were particularly strong in comsumer discretionary goods in 4Q20, despite some easing in Dec



Source: NBS, CCBIS

Rating definitions:

Outperform (O) – expected return > 10% over the next twelve months
Neutral (N) – expected return between -10% and 10% over the next twelve months
Underperform (U) – expected return < -10% over the next twelve months

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