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中国经济评论：宏观数据预计继续好转

China Economics Update: March data rebounds; continued improvement expected

三月宏观数据从一二月的低迷水平反弹。工业生产和贸易数据均有所回升。地产回暖，基建投资和部分零售走强。数据好转反映年初部分经济活动的延迟，并受益政策支持加码。

我们预计 IP, FAI 和零售数据将在未来几个月进一步改善。但短期餐饮等消费尚难全面恢复，另外贸易也可能受海外封城的影响而保持疲软。政策预计保持宽松：财政增加发债，进一步降准降息均有可能。预计信贷周期进一步上行，支持工业需求的复苏。

亚洲贸易相对全球坚挺，科技贸易进口也指向技术周期保持上行，全球疫情过后贸易复苏仍是大概率事件。

Strong macro data in Mar was driven by delayed economic activities after the lockdown, as well as policy support. IP made a broad-based improvement and trade rebounded. The property sector, infrastructure investment, and retail sales also showed some recovery. Catering and manufacturing investment, however, remained soft.

We expect further improvement in IP, FAI, and retail sales in coming months, supported by a pickup in the credit cycle and normalization of economic activities. Catering and entertainment consumption are likely to remain a drag. Trade is likely to face headwinds in the near-term due to supply disruptions abroad, but the underlying trend suggests the tech cycle is positive.

Until the global economy starts to recover and domestic consumption improves more broadly, we expect the government to leave policies accommodative, including more government bond issuance and RRR cuts, supporting a recovery in industrial demand.

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Real GDP growth in China in 1Q20 declined notably to -6.8% YoY, from 6.0% YoY in 4Q19, largely in line with market consensus of -6.0% YoY. Agriculture, IT services and finance registered YoY expansion, while industries contracted. Most of the decline stemmed from the lockdown and factory closures in late Jan-Feb. Mar data showed a significant rebound in most sectors.

Data improved in Mar, with production recovering faster than demand

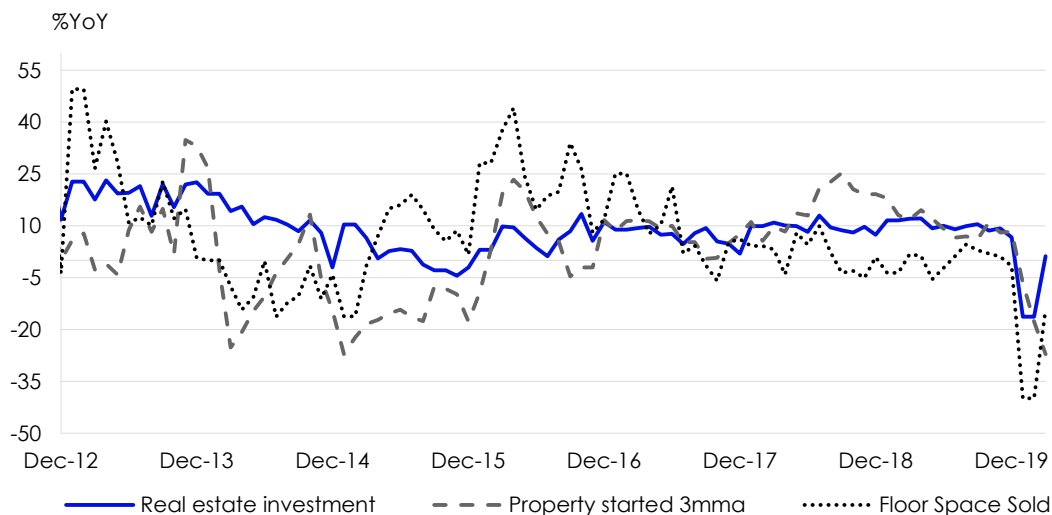
Mar 2020 industrial production growth (IP) rebounded notably to -1.1% YoY from -13.5% YoY in Jan-Feb, beating the consensus estimate of -5.8% YoY. Sequentially, IP jumped 32% MoM following a -25% MoM plunge in Feb. Available sectoral data points to a broad-based rebound, with notable improvement in pharma products, metals, and high tech products, which all returned to positive YoY growth, suggesting delayed production was behind the strong rebound in Mar. Auto production remained lower than a year ago, but the YoY decline narrowed from that in Feb.

Retail sales growth in Mar recovered to -15.8% YoY from -20.5% YoY in Jan-Feb. Goods sales improved, led by food, medicine, cultural goods, and communication products. Auto sales improved to -18.1% YoY from -37% YoY in Jan-Feb. Catering services are down 45% from a year ago and discretionary consumer goods such as home appliances and furniture remain weak. Online sales improved further, with YTD growth increasing to 6% YoY, up from 3% in Jan-Feb.

Mar FAI growth rebounded to -9.5% YoY from -24.5% YoY in Jan-Feb. Infrastructure and real estate FAI saw the most notable pickup, to -8% and 1.2% YoY in Mar, from -26.9% and -16.3 YoY in Jan-Feb. Manufacturing sector FAI is down 21% from a year ago.

The domestic property sector is catching up on lost time, with property sales and new starts both accelerating (Fig 1). Sales and new starts are down 14% and 10% from a year ago, though both have improved relative to Jan-Feb, a two-month period that saw growth plunge 30-40% YoY. Property completions also accelerated in Mar.

Fig 1: In Mar, China's property sector recovered from its plunge in Jan-Feb



Source: CEIC and CCBIS

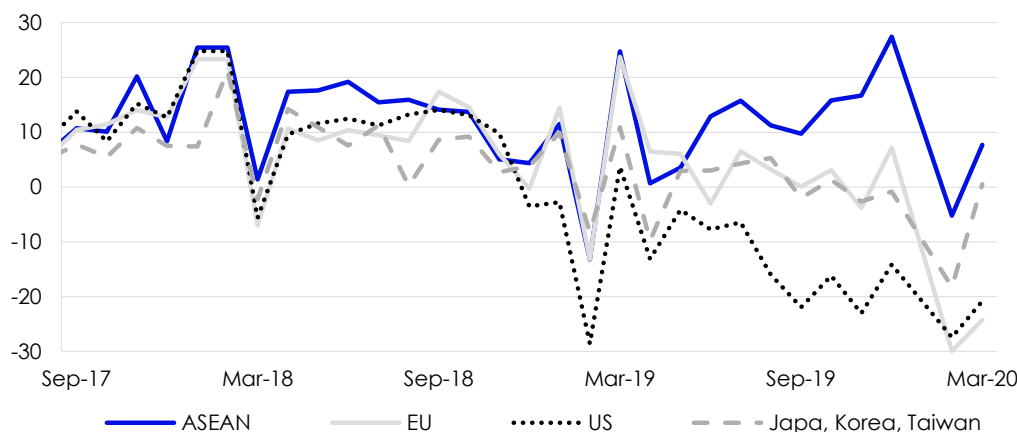
Cyclical improvement was supported by easing policies. Since Feb, the PBoC has cut rates and RRR while banks have lowered their LPR. Total social financing (TSF) significantly outpaced market expectations, rebounding to 11.5% YoY (10.9% at the end of 2019). Meanwhile, corporate bond issuance has accelerated as has bank credit. Issuance of government bonds and local bonds has also risen, albeit not as robustly.

Trade also improved in Mar, led by stronger regional trade and strong domestic demand

Trade recovered from its sharp decline in Jan-Feb. Export growth fell 6.6% YoY in US dollar terms in Mar, up from -17.7% YoY growth in Jan-Feb. Imports held up better, declining only slightly from a year ago, up from a -4% YoY decline in the first two months of the year. General imports held up better than processing imports pointing to a recovery in domestic demand. Exports to ASEAN and North Asia recovered strongly while sales to the US and Europe remained subdued (Fig 2). The divergence reflects the lockdowns taking place in the western economies while Asia's main exporters outside of Japan resume normal economic activity.

Fig 2: Exports – regional sales held up better than global sales

Exports by destination, %yoy

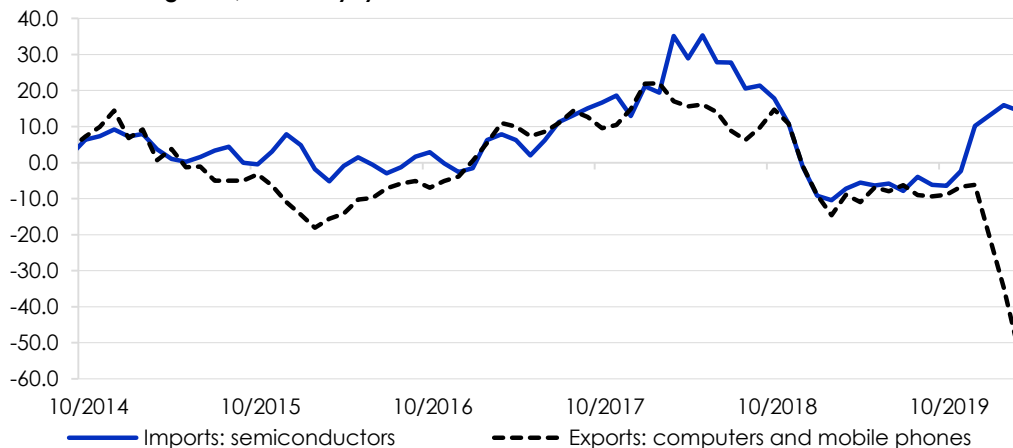


Source: CEIC and CCBIS

While global supply chain trade slowed, we see positive signs that a recovery later in the year is still likely. Chinese imports of semi-conductors have picked up in the last few months, in contrast to the decline by high tech products (Fig 3). We take this as a promising sign that the recovery in the tech cycle is moving in the right direction despite overseas supply disruptions that have temporarily slowed sales.

Fig 3: Impact of supply disruptions on high tech cycle likely temporary

China's tech trade growth, 3mma %yoy



Source: CEIC and CCBIS

Cyclical outlook and policies

High frequency indicators paint a mixed picture for Apr: electricity production continues to recover, approaching the level a year ago. Steel production is strong, suggesting continued strength in the cyclical sectors driven by domestic demand and restocking. Property sold in major cities has also continued to recover in Apr.

Meanwhile, indicators of travel and transportation are still weak; moreover, entertainment and catering consumption are likely to stay soft for longer. Trade faces headwinds given the broadening of city lockdowns in western countries, though regional trade is likely to hold up.

We anticipate further improvement in FAI, retail sales and IP growth in the coming months, but with soft trade growth. The recovery in demand will be constrained by reluctance on the part of consumers to use catering and entertainment services. The government is likely to maintain accommodative macro policies in 2Q20F, with the near-term focus on job protection. Government bond issuance is likely to pick up, and further cuts to the RRR and MLF rates are both possible. The credit cycle is likely to rise further, supporting infrastructure investment and commodity prices.

Global development remains key: recent newsflow points to stabilization in confirmed coronavirus cases in advanced economies, prompting government officials to begin planning for the reopening of their respective economies. Under a scenario of normalization of economic activities in 2H20, we would expect global and Chinese trade to rebound to positive growth in the second half, led by a positive tech cycle. Domestic policies could also become incrementally less accommodative once growth picks up.

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****Analyst certification:**

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