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中国经济评论：数据承压；政策支持持续

China Economics Update: Activities gradually improving, policies to stay accommodative

受疫情影响年初国内宏观数据远不及市场预期，生产，零售和固定资产投资均出现同比负增长。一些行业相对坚挺：金融服务，IT服务和在线商品销售保持正增长。食品，饮料和药品的销售也较为强劲。

随着疫情得到控制，中国的生产活动开始升温。但由于复工复产仍在复原当中，3月份数据预计仍然承压。

全球疫情的蔓延预计将对贸易复苏造成压力，并增加国内增长的下行风险。我们预计流动性政策保持宽松，财政支持也可能加码。

China's economic data weakened more-than-expected in Jan-Feb. Production, retail sales and fixed-asset investment all plunged into negative territory year-over-year. There were a few bright spots, however: financial services, IT services and online goods sales all saw growth. Sales of food, beverages and medicine also held up.

Thanks to effective epidemic control measures, production activity in China has started to warm up. However, given the gradual resumption of activities we expect Mar data to stay soft on a year-over-year comparison.

The global pandemic will weigh on trade and add downside risk to near-term growth. We expect continued easy liquidity with stepped-up fiscal support.

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COVID-19 puts a damper on economic activity

Production suspensions caused by the outbreak leave their mark on the data. Industrial production declined 13.5% YoY in Jan-Feb after gaining 5.9% YoY in 4Q19. Upstream sectors, including mining, metal processing and utilities, held up better than other industrial sectors. Pharmaceuticals, chemicals and IT hardware also recorded small declines.

Consumption and services sectors hit hard. Retail sales fell 20.5% YoY in Jan-Feb following a 7.7% YoY increase in 4Q19. Housing-related consumption, auto, jewelry and apparel sales were down the most, over 30% YoY. Food, beverages and medicines maintained positive gains. Meanwhile, catering services fell 43.1% YoY in Jan-Feb. Except for financial and IT services, other services sectors all recorded declines in activities.

Investment weakens driven by manufacturing and infrastructure sectors. Fixed-asset investment declined 24.5% YoY in Jan-Feb, from 5.4% in 2019. Weakness mainly stemmed from manufacturing and infrastructure. Manufacturing investment fell 31.5% YoY while infrastructure investment declined 30.3% YoY due to production and construction halts.

Housing construction halted; investment holds up. Housing investment was down 16.3% YoY in Jan-Feb, less than other forms of fixed-asset investment. Construction activity felt the brunt, with new starts declining 44.9% YoY in the first two months of the year. Floor space sold fell a steep 39.9% YoY.

Our view

Production gradually resuming in Mar. Baidu big data reported over 60% work resumption in China by 10 Mar, an encouraging sign that economic activity is picking up coinciding with successful virus containment efforts. Electricity production has also recovered, though still 20% below the same period last year. However, outdoor entertainment and catering businesses remain subdued, except for take-away and delivery services. Given the gradual resumption of activities, we expect March data to stay soft on a year-over-year comparison. We continue to expect a further rebound in domestic demand and broad economic activity in 2Q20F.

Global pandemic could further infect the economy – implies easier policies for longer. The global pandemic risks derailing the trade recovery that began at the end of last year, in particular ICT and auto supply chains. Some European countries, notably Italy, are expected to enter a recession while US growth weakens further, outcomes likely to weigh on growth in China in 2Q20F. On the heels of the RRR cut last Friday which released RMB550b into the market, the PBoC today injected RMB100b in liquidity through the MLF. We expect the government to continue with liquidity support, with a small rate cut a possibility. Fiscal measures such as tax relief and infrastructure building may also be stepped 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

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