

China Economy in Jan-Feb

Worst data, best hope

Brutal declines were reported in China's economic metrics in Jan-Feb as a consequence of COVID-19. Under the backdrop of a pandemic, nothing seems more defensive than facial masks and a glimmer of hope - stay healthy, work efficiently and contribute to a robust recovery thereafter. Regarding policy boost, we expect targeted and tailored support to continue overall, and consumption stimuli may come in more direct forms. Finally, we believe employment and people's well-being is prioritized over growth figures in this year's economic goal.

- **Dismal investment and industrial activities in Jan-Feb**, which is not surprising given severe interruptions in the supply chain. Industrial output declined 13.5% YoY and urban FAI plunged 24.5% (manufacturing -31.5%, infrastructure -30.3% and real estate development -16.3%).
- **Steep fall in consumer demand**. Only food and edible oils, beverages, medicines stayed on positive growth track. Some of the missing demand is delayed and may resume in May and Jun when concerns over coronavirus diminishes. But we bet a non-negligible portion of demand (could reach the magnitude of over RMB 1tn) is lost and will not come back.
- **Expect to see modest uptick in Mar**. Work resumption rate is recovering, but still short of full strength (Figure 1 and 2). Given eminent global slowdown and unclear ending of the COVID-19 story, our forecast of annual GDP growth is pegged at 4.5-5.0% and GDP growth may be close to zero or even negative in 1Q20.
- **Prescriptions for economic recovery from COVID-19?** So far, China's stimulus plan has been very targeted at relieving burdens for pandemic-stricken industries and SMEs on thin working-capital margins. These initiatives balance short-term pressures with long-term transition toward high-quality growth. Going forward, we think policy boost will be featured by,
 - 1) **Employment priority**. Employment and wage growth is the backbone of consumption. While China aims to achieve "growth target" this year, we believe indicators related to people's well-being, in particular employment rate and new job increments will be the focus as opposed to GDP figures.
 - 2) **Investment boost** via a) new infrastructure endeavors; b) high-tech and advanced manufacturing; c) industries that improve people's livelihood.
 - 3) **Consumption support may arrive in quasi-cash forms**. While we expect investment boost to be tailored and targeted, consumption boost could be more well-rounded. We think an ultimate boost of consumption may involve subsidies for low-income and most-affected population, coupons for purchasing big-ticket items, etc.
- **Policy boost implies much more than money injection. It is more about putting policies into effective execution**. Monetary policies, for example, should clean up the credit conduit and make sure the added money helps those in need rather than jerking up asset prices. Besides monetary and fiscal policies, industry policies have stepped up providing convenience to resume business and adapt firms to market challenges. Since the outbreak of coronavirus, policy efforts have been coordinated, responsive and dedicated. This is something we are delighted to see and it bodes well for China's development after the pandemic.

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YoY growth (%)	Jan to Feb 20	2019A
Industrial value-added	-13.5	5.7
Fixed asset investment	-24.5	5.4
- Manufacturing FAI	-31.5	3.1
- Real estate FAI	-16.3	9.9
- Infrastructure FAI	-31.5	3.8
Retail sales value	-20.5	8

Source: NBS, CMBIS

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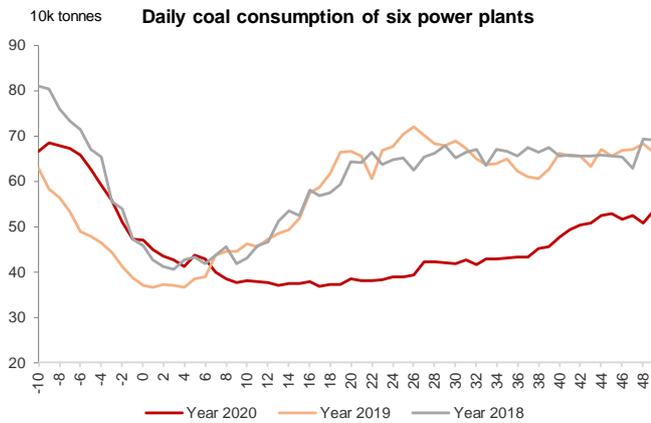
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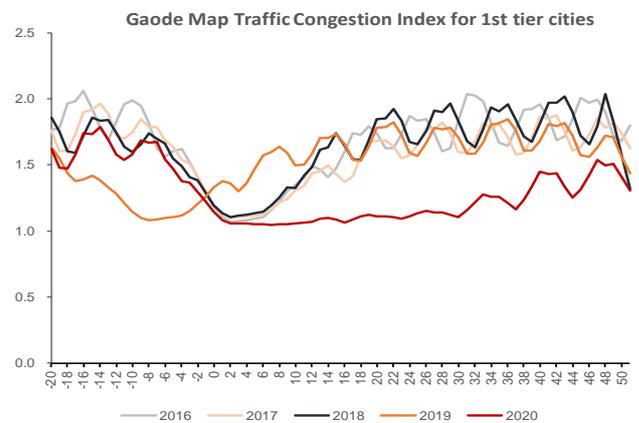
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Figure 1: Currently, daily coal consumption has gradually come back to 80% of previous years' levels



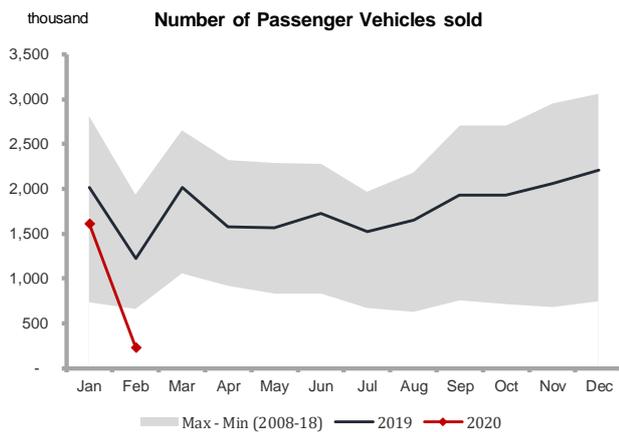
Source: NBS, Wind, CMBIS
Note: X-axis in relative calendar day, in which "Day 0" denotes 24 Jan 2020, i.e. the Chinese New Year's Eve.

Figure 2: ... so has the traffic congestion measure within tier-1 cities



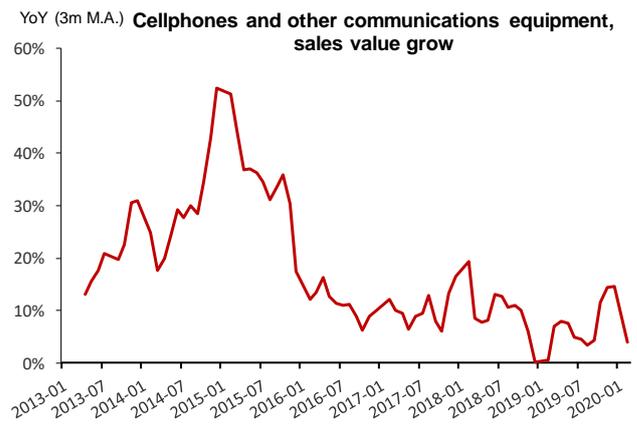
Source: Gaode Map, Wind, CMBIS
Note: X-axis in relative calendar day, in which "Day 0" denotes 24 Jan 2020, i.e. the Chinese New Year's Eve.

Figure 3: Number of passenger vehicles sold declined 43% YoY in Jan-Feb



Source: China Automobile Association, Wind, CMBIS

Figure 4: Sales of consumer electronics also experienced slowdown



Source: NBS, Wind, CMBIS

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