![GENERALI INVESTMENTS]

## Market Commentary: China's recovery continued but a bit softer than expected

October 19, 2020

Macro & Market Research, Generali Insurance Asset Management S.p.A. SGR

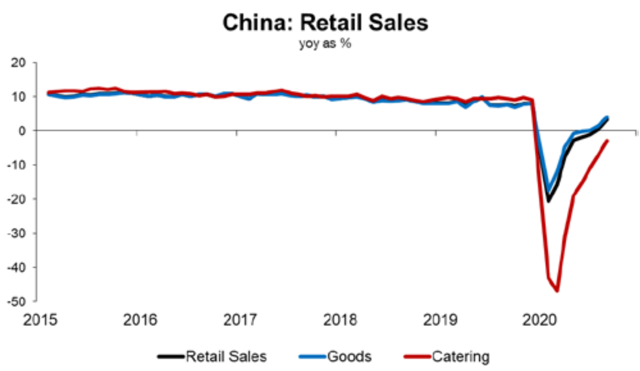
- **China's Q3 GDP growth picked up to 4.9% yoy, a bit softer than expected.**
- **However, monthly activity data suggest the recovery is still strengthening and broadening to the demand side.**
- **We maintain our 2020 growth forecast of 2.1% , although weaker activity in Q3 highlights downside risks. China will most likely be one of the few countries around the globe able to post positive real growth in 2020.**
- **Given the ongoing demand recovery, we expect the PBoC to stay on the side-lines for the time being.**

China's economic recovery continued in Q3 2020, although a bit softer than expected. Real GDP growth rose to 4.9% yoy, slightly below the Reuters consensus expectation of 5.2% yoy, but still a substantial upturn from the 3.2% yoy in Q2. On a quarterly base, growth dynamics softened to 2.7% qoq, after 11.7% qoq and -10% qoq in the two previous quarters. Dynamics were also a bit weaker than expected, showing the difficulties to revive the demand side. Finally, cumulative real GDP growth over the first three quarters in 2020 (ytd, year-to-date) turned slightly positive to 0.7% yoy ytd. These cumulative (but no quarterly) numbers are also available for sectors, showing that industry grew 0.9% yoy ytd while services lagged behind with 0.4% yoy ytd. In sum, China already compensated for the Covid-19 shut-down and is likely to be one of the few countries globally which will be able to post positive real growth in 2020.

Nominal GDP data show a similar picture. The economy grew by 5.5% yoy in Q3 and by 1.4% yoy ytd in the first three quarters of 2020. However, the nominal cumulative growth rate in the industry sector was still slightly negative as a result of a temporarily strong deflationary impact of the crisis.


Alongside the quarterly GDP figures, China's statistical office also published real activity data for September. They show that the recovery continued to strengthen and to broaden more to the demand side. Industrial production (IP) accelerated from 5.6% yoy in August to 6.9% yoy, which is clearly above the average IP growth rate of 2019. Retail sales surprised to the upside, rebounding from 0.5% yoy in August to 3.3% yoy. While goods sales increased to 4.1% yoy, the previously very much battered catering sector narrowed its loss to -2.9% yoy in September. Clearly, the (at least official) success in fighting the virus plays a major role.

Fixed-asset investment rose by 0.8% yoy ytd and increased by an estimated rate of 7.5% yoy in September. Among the major subcomponents, infrastructure investment improved to an estimated 5.8% yoy (after 3.8% yoy in August), still rather disappointing with regard to the stronger implementation of the fiscal package announced at the NPC meeting. The main driver of investments likely remained real estate outlays.





Previously published data also show that China's exports remained strong in September, increasing almost 10% yoy. External demand reflected some normalising activity in advanced economies, still marked pandemic-related product purchases as well as electronics orders. Accelerating fresh global infections suggest that exports will stay well supported with regard to health products. Imports came as a major surprise, rising from slightly negative territory to 13.2% yoy. This can be interpreted as another sign of improving domestic demand.

On the monetary side, CPI inflation fell to 1.7% in September, down from 2.4% in August. The main factor was a base effect as food prices began to accelerate at this time last year. This will lead to further diminishing inflation rates over the coming months. Credit growth remained strong. New yuan loans rose by19.3% yoy ytd. Total social financing came in at RMB 3,477 bn, 960 bn more than in the same month of last year. Given this very expansionary monetary policy and the prospect of an ongoing recovery in aggregate demand, we expect the PBoC to stay on the side-lines, dropping our previous expectation of another cut in the RRR. However, this assumes that China's fresh Covid-19 cases will remain low so that consumer confidence will continue to improve. Nevertheless, a fresh Covid-19 outbreak still remains a major downside risk.


**Author:**
**Christoph Siepmann**
Christoph.siepmann@generali-invest.com