

The Chinese economy could have bottomed out

Support from vast infrastructure investments and retail sales is helping the Chinese economy surf the waves of the trade war. But it's still not clear how long this can last



People in Beijing

Fiscal stimulus has shown its impact

November's activity data shows the Chinese economy was still largely supported by fiscal stimulus. This would have supported the jobs market and, therefore, retail sales were still strong.

The key question is, 'has the economy bottomed out?', and we've been analysing the data to get answers.

We expected that infrastructure projects which kicked off at the beginning of 2019 would go through the investment stage then the production stage.

The recent manufacturing PMI of 50.2 and industrial production growing at 6.2%YoY in November confirm our view. Most of the fast-growing items in industrial production were related to transportation infrastructure projects, such as electronic equipment (12.6%YoY) and steel production (10.4%YoY).

Investment growth stabilised at 5.2%YoY YTD in November. But investment in infrastructure projects, which are mainly focused on transportation, has slowed down, probably due to tighter funding as we come to the end of the year.

5G also adds to the economic growth

The building of 5G networks has brought good growth in integrated circuits (18.2%YoY), chemical fibre (16.3%YoY) and computer communication equipment production (9.7%YoY).

We can rule out that growth in these areas was caused by a new wave of growth in the production of smartphones, which reduced by -1.3%YoY. After building a sizeable 5G network, we should see the next rise in smartphones from the second quarter or 2020.

Retail sales were strong from the Double-11 celebration spending

November should be the strongest month of the year for retail sales, even better than the long holidays in May and October because of the online shopping festive, the Double-11.

This year is no exception. Retail sales growth speeded up to 8%YoY in November from 7.2% in October. The sales of cosmetics grew well at 16.8% YoY in November, from 6.2% YoY in October (the slowest of the year) after taxes were reduced.

But because the Double-11 festival is an online shopping month, it did not help sales of automobiles, which continued to shrink (-1.8%YoY).

The economy still needs fiscal stimulus support in 2020

Even November activity data was strong, mostly a result of fiscal stimulus on infrastructure projects. These projects have supported investments in 1Q19 to 3Q19 then production in 4Q19, and the job market, as retail sales displayed strong growth.

The question now is "Does China still need fiscal support with the Phase-1 deal coming?" We think the answer is yes.

- The timing of the signing of the Phase-1 deal is still uncertain, and the withdrawal of tariffs on Chinese goods, mentioned in the media, seems small (only 7.5% on \$120 billion of goods). There were still 25% tariffs on \$250 billion and 7.5% tariffs on \$120 billion of Chinese goods. These tariffs will continue to hurt China's export sector and its supply chains.
- 5G is going to contribute increasingly more to economic growth. But on the other hand, China will face more challenges from the technology war from the rest of the world.
- PBoC has stated that it does not prefer an ultra-low interest rate policy, and therefore monetary policy could play a supplementary role.

We discuss this in more detail in our [China 2020 outlook](#).

