

China: Solid recovery or hidden risks ahead?

All three activity data – industrial production, investments and retail sales performed better in November on a yearly basis than a month ago. But with the technology war and more defaults coming the growth picture is at risk



Woman wearing a face mask to help curb the spread of Covid-19 as her friends prepare to set up a picnic cloth on a scenic mountain in Yanqing, outskirts of Beijing, China

Source: Shutterstock

Internal circulation is a big support for the economy

We saw the recovery continue in November.

Retail sales grew 5% year-on-year in November from 4.3% a month ago. This has been supported by mid-end consumers, e.g. on cosmetics (32.3% YoY) and jewellery (24.8% YoY). Medical items (13.6% YoY) and technology equipment (18.0% YoY) have stabilised growth in industrial production to 7.0% YoY from 6.9%.

These two growth sources are examples of how internal circulation has cushioned the economy from a bit of weak export demand due to the Covid infection in the export markets.

Investments will be more on new infrastructure projects and renewable energies

Investments stood up well at 2.6% YoY year-to-date from 1.8%, which was due to investments in new infrastructure projects (14.5% YoY YTD) as well as in the medical industry (27.3% YoY YTD).

Investments in traditional infrastructure, e.g. railways and toll roads (2.0% YoY YTD) could slow down if the internal and external circulation can work together in 2H21 when vaccines can slow down infections tremendously. This is because traditional infrastructure is considered to be polluting the environment more than new infrastructure projects. We will also see more investments in renewable energies in 2021 so that China can achieve a very quick drop in carbon emissions after 2030.

Hidden risks

The November activity data is aligned with our expectations. We continue to see the technology war as the biggest risk for China in 2021, along with the risk of credit defaults continuing. We are not particularly optimistic on the Chinese economy in 2021 though the trade relationship with the US could improve but that may not happen immediately after Biden will be in office.

We keep our GDP growth forecast at 7% in 2021 from 1.7% in 2020. The jump is partly due to the low base effect in 2020.