

Snap | 14 August 2020

CHINA

## China: some improvements

We see some improvement in the Chinese domestic economy despite the damage from the recent flood.



Weak Chinese confidence is undermining investment and consumption

Source: Shutterstock

### Growth came mostly from the domestic economy

Retail sales fell 1.1%YoY in July, better than -1.8%YoY a month ago. The main reason for the continued negative yearly growth in retail sales was the -11.0%YoY spending on catering, which results from social distancing measures in China. We do not expect this situation to change particularly over the rest of 2020, or until there is an effective vaccine for Covid-19.

We also observe that high-end spending has returned. Chinese tourists could not travel abroad during the summer holidays because of travel restrictions from other economies. But cross-province travel is now allowed in China. This resulted in growth in spending on cosmetics and jewellery rising by 9.2%YoY and 7.5%YoY respectively.

Industrial production stabilised at 4.8%YoY growth in July from the previous month. Most of the growth came from automobiles, industrial robots, machinery and telecommunication production, at 21.6%YoY, 19.4%YoY, 15.6%YoY, and 11.8%YoY respectively. This production is partly for export, as seen from June's export recovery, and partly for domestic use as some exports and most domestic orders continue to recover from the trough of the production cycle in 1H20.

Fixed asset investment is still showing a contraction of 1.6%YoY YTD, but we do see growth in infrastructure-related areas, e.g. transportation, medical, and education sectors.

### **Growth in 2H20 will continue to depend on the domestic market**

The central government has promoted the idea of domestic growth for the economy. This is reasonable given the Covid-19 situation faced by foreign economies. China can no longer depend too much on exports. And with a trade deal review looming, and a technology war heating up, this situation for exports is not going to disappear in a hurry.

Infrastructure investment and domestic spending are both sources of growth for industrial production if exports are going to take a back seat for a time. Fiscal stimulus has supported infrastructure investment, and this will continue in 2H20 and even into 2021. For domestic consumption, under the situation of Covid-19, Chinese tourists will stay at home and spend locally when they travel in China. This will help support jobs that were lost during the peak of Covid-19. With these two growth engines, industrial production can continue to grow.

That said, economic growth will not be as fast as it would have been if the rest of the world recovered from Covid-19 and export demand picked up.

### **The flood's damage**

The damage caused by the recent flooding is evident in the slower retail sales growth in rural areas, and fixed asset investment also fell 9%YoY YTD in the central area of China, along the Yangtze River where most of the flooding is located.

We expect there will be reconstruction work when the flood is over, but that could be slow given the persistence of tight social distancing measures in China.

### **Forecast**

We continue to monitor our GDP forecast of 0.5% for the full year for a possible amendment, as there are several factors that could cause us to change our view, including Covid-19's spread in the rest of the world, as well as the review of the trade deal and the technology war.

### **Author**

#### **Iris Pang**

Chief Economist, Greater China

[iris.pang@asia.ing.com](mailto:iris.pang@asia.ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).