China:domestic demand on the rise

Domestic demand is driving China's economic growth. Retail sales returned to positive growth. And new-infra and traditional infrastructure investments increased, which matched the growth in these items in industrial production. But external circulation may remain a challenge to growth.

A busy road in Shanghai

Rising domestic demand from retail sales

Since the introduction of cross-provincial travel within China, we have seen retail sales recovering strongly to 0.5%YoY growth in August from -1.1%YoY a month ago. Spending on cosmetics and jewellery rose 19.0%YoY and 15.3%YoY, respectively in August. The tourism business has also brought back jobs in the service sector. The spending power of the population has improved. The favourite spending item, telecommunication products, experienced a jump in sales of 25.1%YoY.

Covid-19 is still having some impacts on spending. For example, catering still experienced a contraction of 7%YoY in August. Though this was an improvement on -11% in the previous month.

New and old infrastructure led investment growth

China's new-infra plan and traditional infrastructure projects in transportation have led overall investment spending. Fixed asset investment (FAI) shrank only -0.3%YoY YTD in August from

-1.6%YoY YTD in July. The "computer, telecommunication" category, which represents new-infra investment plans, grew 11.7%YoY YTD, which results in part from China’s push towards self-reliance in technology. Rail transportation investment also grew 6.4%YoY YTD.

These growth numbers are high compared to the headline growth rates, which means these are the engine of investment growth in China currently. We believe this situation will change gradually to a broader growth picture as these engines bring growth to more industries, which will then start to plan their own investment upturn.

Wider growth in industrial production

Industrial production growth also picked up to 5.6%YoY in August from 4.8%YoY in July. This was brought about by improvements in production across a broader range of categories than in previous months.

Integrated circuits grew 14.6%YoY and industrial robots grew 13.9%YoY, which again nods towards China‘s increasing self-reliance on advanced technology.

But industrial production shows that growth in manufacturing is still uneven. For example, the production of vehicles remained in a contraction of 9.0%YoY in August, only slightly improved from -9.7%YoY in July.

External environment is a challenge to growth

We can see that domestic demand has brought back growth, mainly in retail sales and infrastructure projects, which have in turn led to growth in industrial production. This growth has brought some jobs back to the market. This is indeed the internal growth circulation that China is promoting.

But the dual circulation, that is, both domestic and external growth, is yet to be seen as Covid-19 cases seem to be rebounding in some places outside China, and there is more political tension too, weighing on external demand.

Our forecasts for China's GDP is currently at 0.7%YoY for the whole of 2020, which we are not changing now. We will probably not do so unless there are big improvements or deteriorations in external circulation that would change economic growth materially.