China’s growth disappointed the market, but it was not all that bad

China's 3Q20 GDP growth fell just short of the consensus and moved the market. But the growth rate was in fact quite good

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, outskirt of Beijing, China

Source: Shutterstock

GDP at 4.9%YoY for 3Q20

GDP continued to climb in 3Q20 to 4.9% year-on-year from 3.2% YoY in the previous quarter. That’s mainly due to contributions from within the economy while the export market did not recover as fast.

The market is a bit upset by the 4.9% YoY growth as the consensus has been 5% or more. 10Y yields went up and CNY per USD has retreated slightly. But the market should recover these losses when it has time to digest the substance of the GDP report instead of just reacting to the headlines.

The most encouraging factor is consumption

Retail sales jumped to 3.3% YoY in September from 0.5% YoY in August. This big jump shows that consumption has further stabilised, and there was also evidence of more spending from the business side.

Cross-provincial travel has helped the economy a lot as Mainland China "spenders" have stayed in the home country to spend on tourism services and luxury items in the duty-free shops. These activities have created jobs for low-skilled labour market participants and have helped to further stabilise consumption.

The worrying factor is strong growth in property development

Property investment grew 5.6% YoY YTD in September after 4.6% YoY YTD in August. This growth is far better than the headline fixed asset investment growth of 0.8% YoY YTD in September, which was mainly supported by investments in the medical (21.2% YoY YTD) as well as the computer industry (11.7%YoY YTD). That means property investment is once again providing substantial support for the economy.

This is worrying as even large property developers could have an issue in getting more cash. Property prices are vital to the financial health of property developers. The market is now in positive sentiment, which is good. But another round of Covid-19 has come in Europe and the US, which will certainly dampen China's exports. And this might also weigh on prospective property investors' appetite for property investments with investors more cautious about committing cash to illiquid investments like property, and maintaining higher precautionary balances.

Industrial production shows that China is working hard on technology

Headline industrial production was 6.9% YoY in September, a moderate improvement from 5.6% YoY in the previous month. Most of the growth was in technology-related industries. Industrial robots grew 51.4% YoY. That was a lot faster than 18.2% YoY YTD in September. Apart from that, integrated circuits increased by 16.4% YoY, which was also faster than 14.7% YoY YTD.

Other parts of industrial production grew steadily but were not particularly eye-catching.

Forecast

We are revising our China GDP forecast to 1.7% from 0.7% for the whole of 2020, and 5.5% YoY from 4.0% YoY for 4Q20. The forecast for 2021 is revised upward to 7.0% from 3.5%. The upward revision is mainly the result of a stronger-than-expected recovery of the domestic recovery.

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