

# China Economy

## In a gradual resumption cycle

China's economy has started to resume gradually in May amid factory restart and macro policy loosening. 2H22-1H23 will see a resumption cycle as the GDP is expected to increase by 4% in 3Q22 and 5% in 4Q22 after decreasing 0.2% in 2Q22. But the pace of resumption should be much slower than in 2Q20-2H20 due to the zero-COVID policy, weak confidence and policy tightening with downside risks in global economy. China is ahead of the US in the latest cycle as the Chinese economy is in a resumption cycle with policy easing while the US economy faces downside risks with policy tightening. Such a divergence in the business cycle for China and the US indicates Chinese stock market may outperform the US market in the next few months.

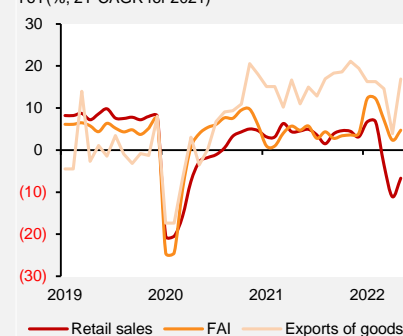
- Economy slowly resumed amid factory restart and macro policy loosening.** After the economic collapse in April, China took great effort in May to restart freight logistics and supply chain activities. Some factories were in reopening to deliver the delayed orders and resume supply chains. The value added industrial output (VAIO) rose 0.7% YoY in May after dropping 2.9% YoY in April. However, population mobility remained low as lockdowns continued in most communities in a few cities. Service output index dropped 5.1% YoY in May, compared to the YoY decrease of 6.1% YoY in April. Catering revenue continued to drop sharply by 21.1% YoY in May after decreasing 22.7% in April.
- Consumption improved yet consumer confidence remained weak.** The lockdowns in April severely hurt employment, income, confidence and outdoor activities. As the economy started to resume gradually, consumption slowly improved. Retail sales declined 6.7% YoY in May after dropping 11.1% YoY in April. Staples picked up as food, beverage, alcohol & tobacco product and medicine respectively rose 12.3%, 7.7%, 3.8% and 10.8% in May, compared to 10%, 6%, -7% and 7.9% in April. Most durables saw narrowing YoY declines as communication equipment and autos declined 7.7% and 16% in May after dropping 21.8% and 31.6% in April. But home appliance further deteriorated and furniture saw limited improvement as housing sales continued with sharp declines.
- Property market continued to slump with mild improvement.** Gross floor area (GFA) sold for commodity buildings dropped 31.8% YoY in May after declining 39% YoY in April. GFA started for buildings and land area purchased respectively plummeted 41.8% and 43.1%, compared to the YoY declines of 44.2% and 57.3% in April. Average sales price for commodity buildings dropped 8.7% YoY in May after decreasing 12.6% YoY in April. Total funding source for property development investment dropped 25.8% in 5M22 after declining 23.6% in April. Property development investment moderately improved as it declined 7.7% in May after dropping 10.1% in April.
- Mining, infrastructure & health service investments remained strong.** Total urban fixed asset investment (FAI) picked up 4.7% YoY in May after rising 2.3% YoY in April. The YoY growth of FAI in manufacturing slightly improved from 6.4% to 7.1%. Mining, public utility, water conservancy

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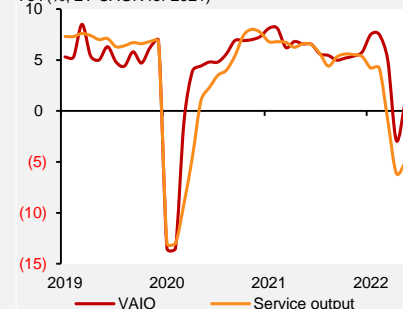
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YoY(%), 2Y CAGR for 2021



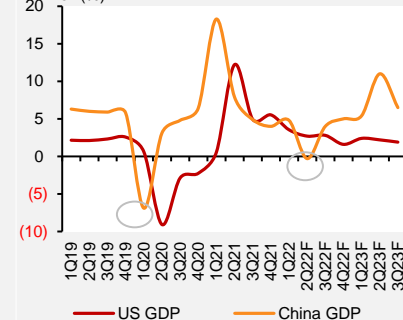
Source: Wind, CMBIGM

YoY(%), 2Y CAGR for 2021



Source: Wind, CMBIGM

YoY(%)



Source: Wind, CMBIGM

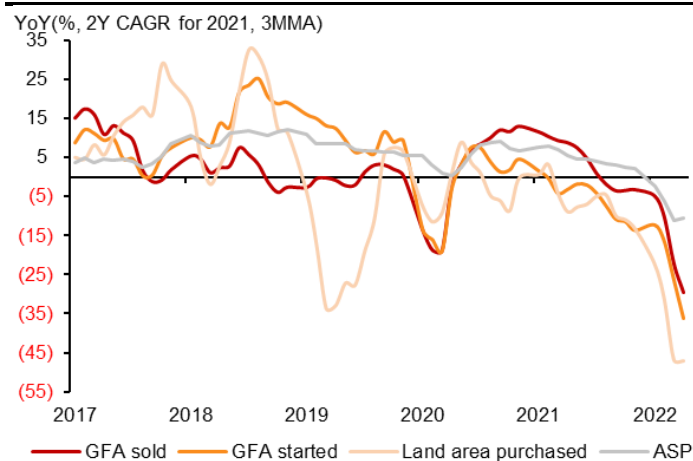
management and health & social welfare services maintained strong FAI as their YoY growth rates reached 17.3%, 11.5%, 11.8% and 28.1% in May.

- **China's economy is in a gradual resumption cycle in 2H22-1H23.** The worst time has been over as China's economy is in a gradual resumption cycle in 2H22-1H23. China has loosened virus control as the epidemic condition has improved. The policymaker has eased macro policy to support the growth. But the zero-COVID policy, weak confidence and global economic slowdown may restrain the resumption pace of China's economy.
- **Implications for Chinese stock market.** China is ahead of the US in the latest cycle. China tightened policy last year as Chinese stock market began to enter a bear cycle from last February. China's economy started to slow down again from 2H21 and saw its bottom in 2Q22. 2H22 and 1H23 will see a gradual resumption cycle for China. Chinese stock market is in a liquidity easing and economic resumption cycle in the short term. But the US faces high inflation and tightened policy with a bear stock market this year. Its economy may gradually slow again from 2H22. The US stock market may face earnings cut in the future. Such a divergence in the business cycle for China and the US indicates that Chinese stock market may outperform the US market in the next few months.

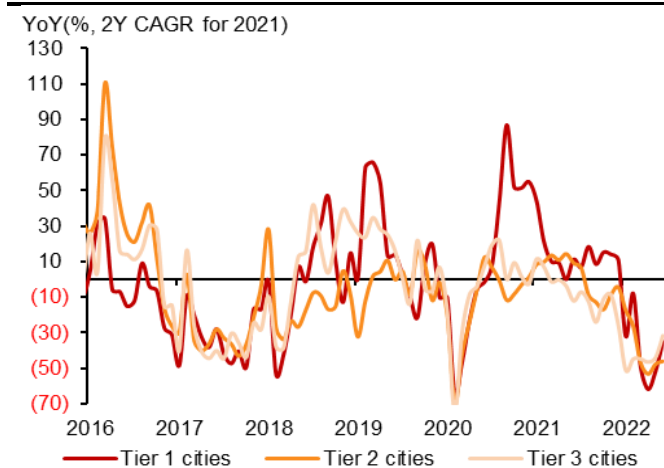
**Figure 1: China's economic indicators**

YoY(%)	2019	2020	2021	1Q21	2Q21	3Q21	4Q21	1Q22	Apr 2022	May 2022	2020-2021
VAIO	5.7	2.8	9.6	24.5	9.0	4.9	3.9	6.5	(2.9)	0.7	6.1
-Mining	5.0	0.5	5.3	10.1	2.4	2.1	6.5	10.7	9.5	7.0	2.9
-Manufacturing	6.0	3.4	9.8	27.3	9.3	4.7	3.1	6.2	(4.6)	0.1	6.6
-Public utility	7.0	2.0	11.4	15.9	11.0	9.7	9.8	6.1	1.5	0.2	6.6
Delivery value for exports	1.3	(0.3)	17.7	30.4	16.3	14.2	13.2	14.4	(1.9)	11.1	8.3
Service Output	6.9	0.0	13.1	29.2	13.9	5.9	3.3	2.5	(6.1)	(5.1)	6.3
Urban FAI (YTD)	5.4	2.9	4.9	25.6	7.5	(0.4)	(0.9)	9.3	6.8	6.2	3.9
-Property development	9.9	7.0	4.4	25.6	9.8	(0.6)	(7.8)	0.7	(2.7)	(4.0)	5.7
-Manufacturing	3.1	(2.2)	13.5	29.8	14.9	8.8	10.6	15.6	12.2	10.6	5.4
-Infrastructure	3.3	3.4	0.2	26.8	(0.4)	(7.1)	(2.8)	10.5	8.3	8.2	1.8
Retail sales	8.0	(3.9)	12.5	33.9	14.1	5.1	3.5	3.3	(11.1)	(6.7)	4.0
Exports of goods	0.5	3.6	29.9	48.8	30.6	24.2	23.1	15.8	3.9	16.9	16.0
Imports of goods	(2.7)	(0.6)	30.1	29.4	44.5	25.9	23.7	9.6	0.0	4.1	13.7

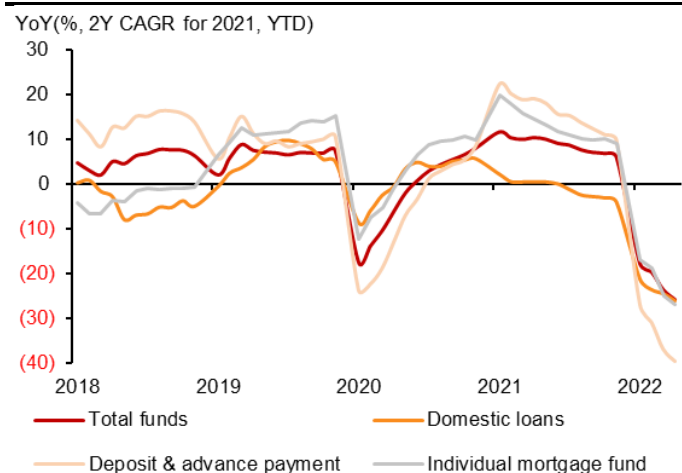
Source: Wind, CMBIGM

**Figure 2: Property market indicators**

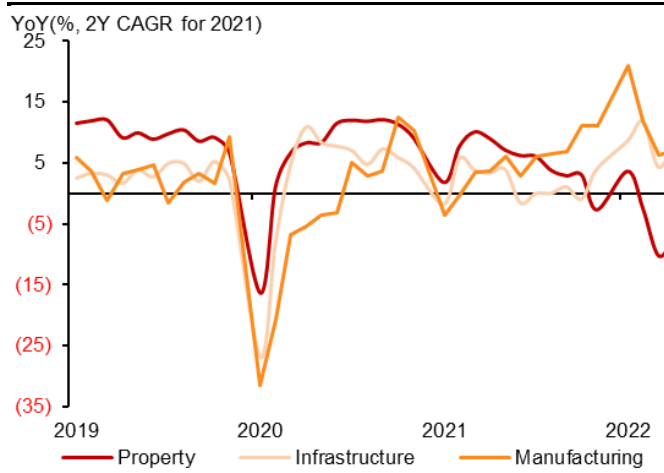
Source: WIND, CMBIGM

**Figure 3: Housing sales by Cities**

Source: WIND, CMBIGM

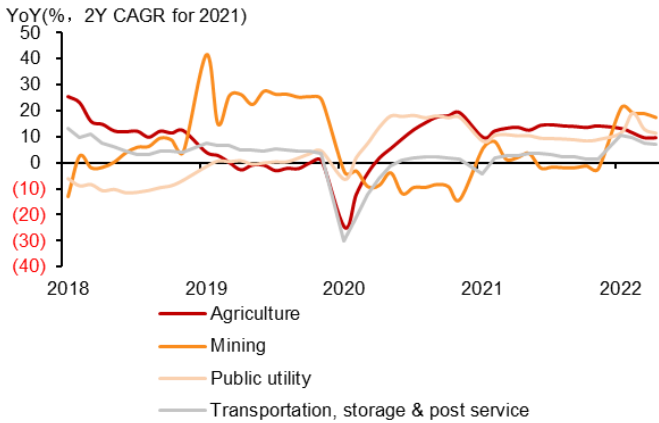
**Figure 4: Funding source for property investment**

Source: WIND, CMBIGM

**Figure 5: FAI by sector**

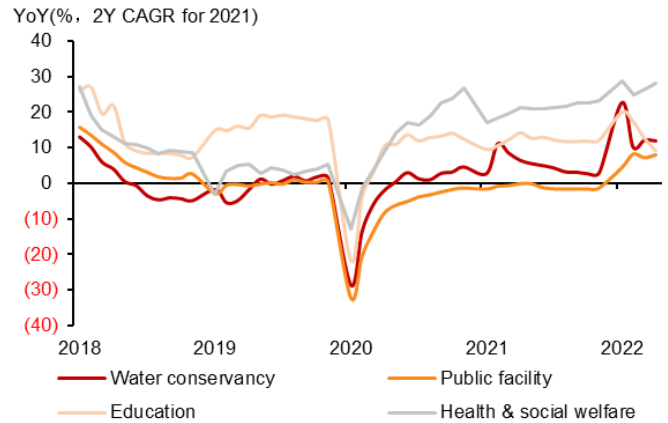
Source: WIND, CMBIGM

**Figure 6: FAI in agriculture & infrastructure sectors**



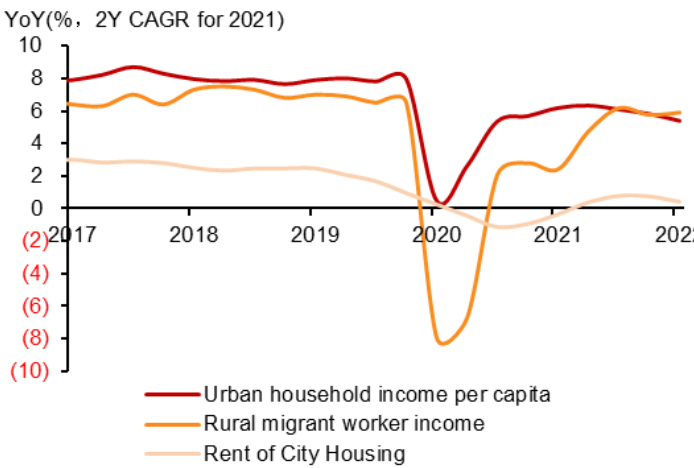
Source: WIND, CMBIGM

**Figure 7: FAI in infrastructure & social service**



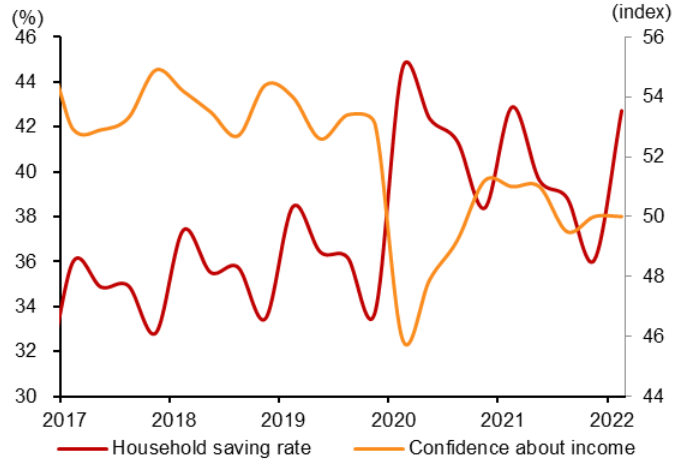
Source: WIND, CMBIGM

**Figure 8: Household income & rent for housing**



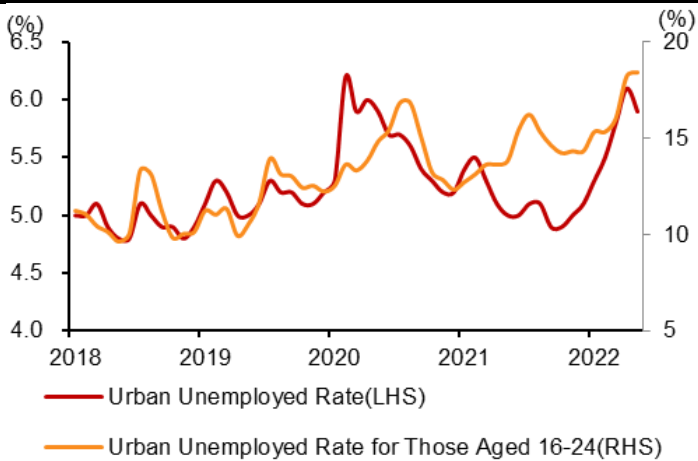
Source: WIND, CMBGM

**Figure 9: Consumer confidence**



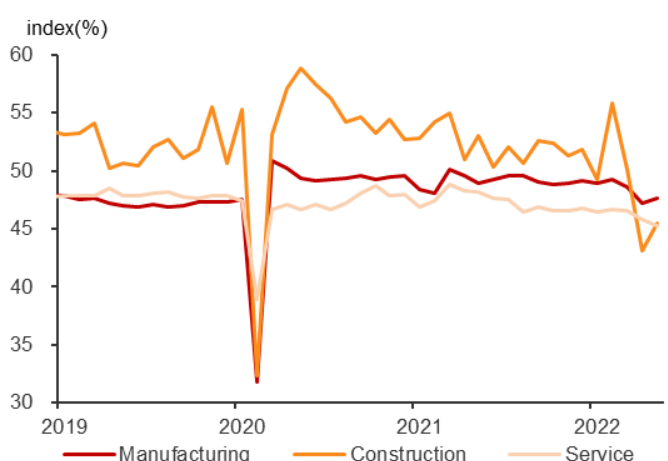
Source: WIND, CMBGM

**Figure 10: Urban surveyed unemployment rates**



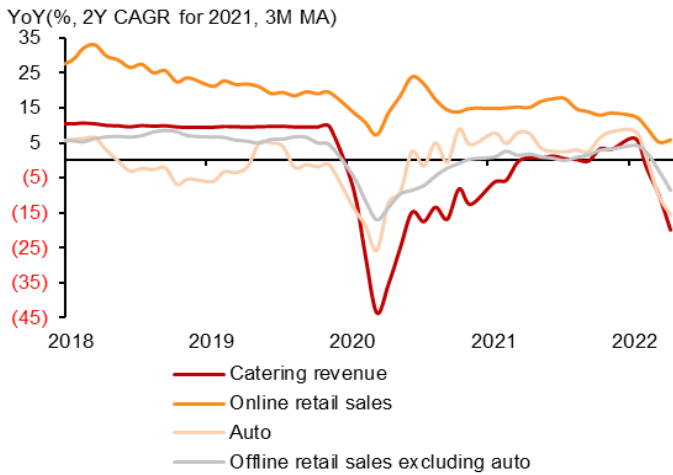
Source: WIND, CMBGM

**Figure 11: Employment Index**



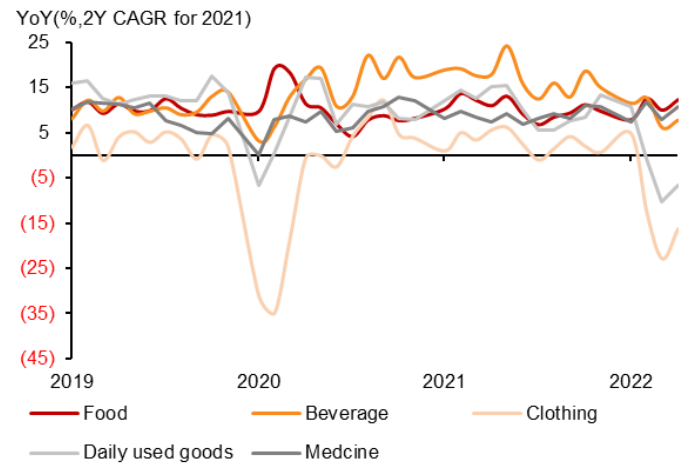
Source: WIND, CMBGM

**Figure 12: Retail sales**



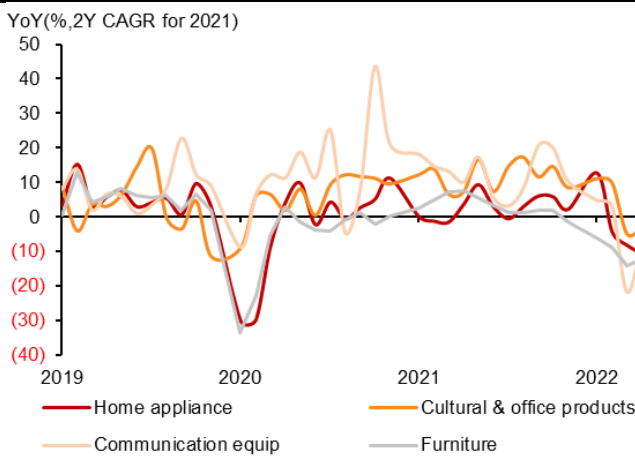
Source: WIND, CMBGM

**Figure 13: Retail sales of staples & garments**



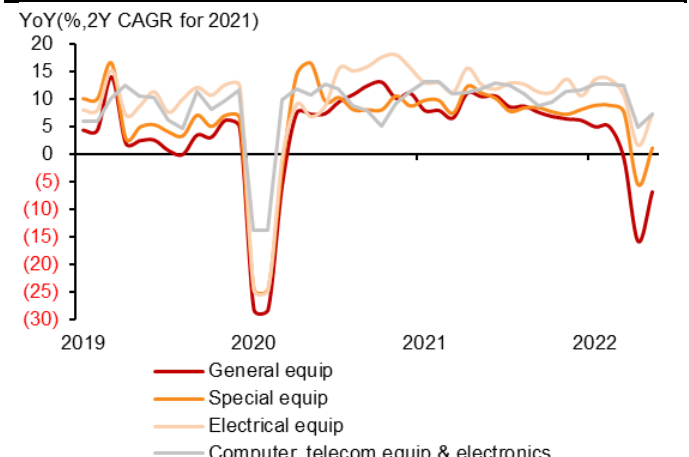
Source: WIND, CMBGM

**Figure 14: Retail sales of some durables**



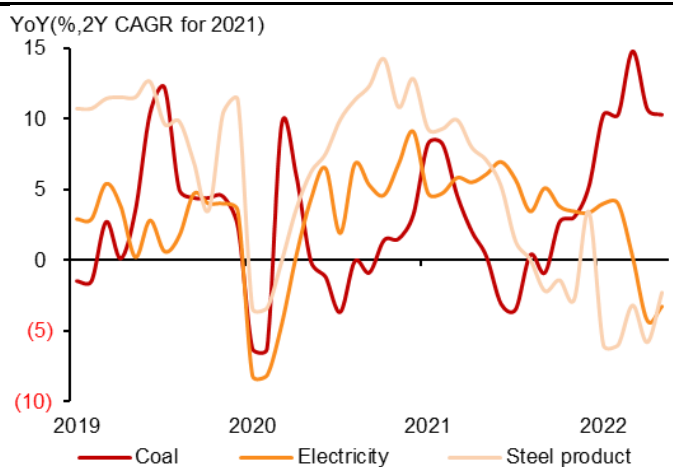
Source: WIND, CMBGM

**Figure 15: Production of energy & steel product**



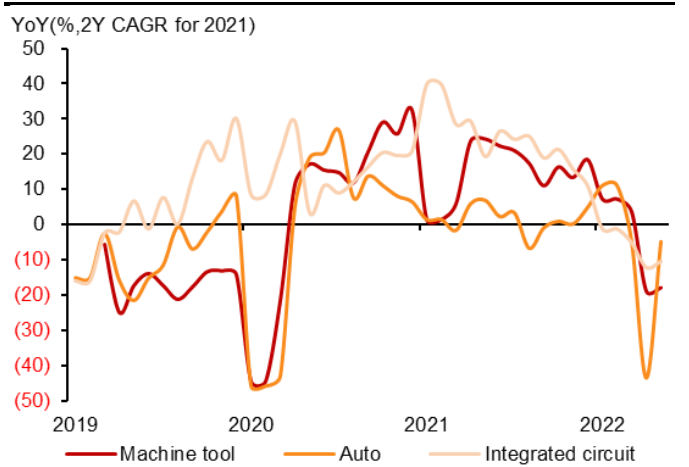
Source: WIND, CMBGM

**Figure 16: Production of machine tool & auto**



Source: WIND, CMBGM

**Figure 17: VAIO in equipment industries**



Source: WIND, CMBGM

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