China View: Optimistic outlook over the near-term; but headwinds expected in late 2021

December 2020 | November Data Release

- **Impact of COVID-19 on the Chinese Economy** – Robust recovery growth is anticipated to sustain into early 2021. But credit expansion is likely to moderate. Last Friday's readout of the Central Economic Work Conference signals regulator preferences for slower credit growth in 2021 but pledges a smooth transition. The government's efforts to deter financial system risks are clear. But tightening credit will see defaults and payables risks rise.

- **Investment Trends** – Manufacturing investment picked up strongly in November, while deceleration was seen in both infrastructure investment and property development. Strengthening manufacturing investment, backed by improving demand and rising corporate profitability, is likely to sustain through the 1H 2021. Tightening financing conditions should see a gradual slowdown in real estate investment in 2021. Amidst increasing fiscal pressure, infrastructure investment growth is likely to be modest in 2021.

- **Consumption Trends** – Retail sales continue to strengthen, but catering services growth turned negative in November. This underscores the point that full recovery in consumer-services spending will be difficult to achieve until COVID is resolutely contained. The current consumer price deflation is expected to be temporary. Large-scale subsidy programs to promote consumer spending are considered unlikely in the coming year.

- **Trade Trends** – China's export growth continues to beat expectations; exports jumped to a nearly 3-year high in November. Strong global demand for pandemic-related goods will likely continue until the pandemic downtrends mid-2021.

**Implications for Business**

November data confirm that China's economic recovery continues apace. Growth in exports, manufacturing investment, and retail sales (in real terms) all exceeded pre-COVID levels in November. The Central Economic Work Conference last week vowed continuity in policy support in 2021 which reduced market concerns over a sharp policy shift. Recovery growth should thus sustain through 1H 2021, even with marginal credit tightening. Given the low base of comparison from 2020, China's GDP is expected to expand 8.1 percent in 2021. While the near-term outlook is optimistic, headwinds are anticipated in late 2021 as a function of slowing exports and property investment and tightening liquidity conditions. Moderating demand caused by these factors will drag on industrial profitability and manufacturing investment.

**Note:** Member businesses in China are driven, in general, by one or more of three key economic factors: Investment, Consumption, and Trade. Our monthly “China Economy Watch” analysis assesses each factor in turn to inform business planning and forecasting.

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