China: Robust August data points to stronger 3Q growth

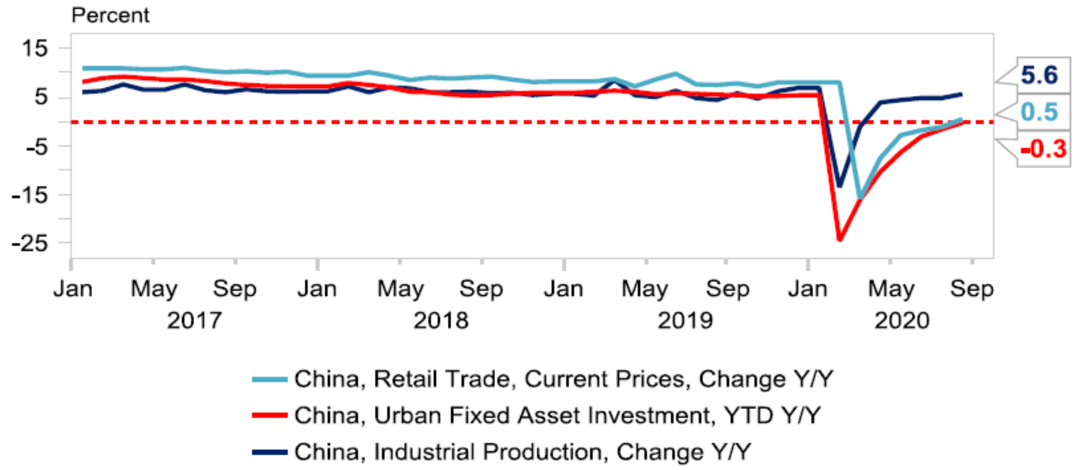
China's post-pandemic recovery has continued to gain momentum with economic data improving across all indicators in August. The industrial production has turned positive year-to-date with recent gains offsetting the steep declines at the start of the year while retail sales finally saw its first year-on-year growth this year.

Industrial production growth had accelerated to 5.6% year-on-year (y/y) in August (Bloomberg estimates +5.1%, Jul +4.8%) or the fifth straight month of gains led by machineries (+15.1% vs. 15.6% in Jul), automobiles (+14.8% vs. 21.6% in Jul), general equipment (+10.9% vs. 9.6% in Jul) and telecom/computers (+8.7% vs. 11.8% in Jul). With the sustained gains, industrial production has finally turned the corner with a +0.4% y/y increase compared to -0.4% in July.

Retail sales also came in above expectation at +0.5% y/y (Jul -1.1%) registering its first positive growth since the start of the year. The rebound was led by sales of telecom appliances (+25.1%), cosmetics (+19.0%), jewellery (+15.3%) and automobiles (+11.8%). Sales at restaurants however remain in the red at -7.0% y/y in August (-26.6% YTD) as tourism will take much longer to recover. Overall, the rebound in August has narrowed the year-to-date (YTD) decline in retail sales to -8.6% y/y from -9.9% y/y in the preceding month. In contrast, the e-commerce sales have risen 9.5% y/y YTD.

China: Key Domestic Macro Indicators Continue To Improve

Source: Macrobond, UOB Global Economics & Markets Research



Fixed asset investment (FAI) was slightly better than market forecast at -0.3% y/y YTD (Bloomberg est -0.4%, Jul -1.6%). Within the secondary industries, investment in energy and water infrastructure was up 18.4%; while mining and manufacturing investments were down at -9.5% and -8.1% respectively. Infrastructure investment excluding utilities fell 0.3% y/y YTD compared with real estate investment of 4.6%.

The urban jobless rate also edged lower to 5.6% (Jul 5.7%) coming off from a high of 6.2% in February as the economy continues to be back on track. The stronger than expected rebound in economic activities is likely to bring the unemployment rate lower to around 5.4% by end-2020, just a touch higher than 5.2% at the end of 2019.

The economic data in August, including the stronger-than-expected trade and credit growth, all point towards an acceleration in 3Q GDP growth. The rebound in retail sales to positive growth territory suggests that demand is finally catching up to supply side recovery though state measures to prevent a resurgence in COVID-19 infections as well as support SMEs hard-hit by the pandemic will need to stay in place.

We now see some upside risk to our GDP forecast at 4.9% for 3Q and 5.7% for 4Q (2Q: 3.2%) for full-year 1.8% growth. The strong credit growth numbers for August have effectively reduced the need for the People’s Bank of China (PBoC) to cut its benchmark interest rates next week (21 Sep). The prospect for rate cuts in the coming months has also fallen significantly as the economy continues to rebound though the central bank will likely maintain targeted support to SMEs to facilitate a sustained recovery.

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