29 July 2022

China in focus

Economics
China

2022 vs 2020: COVID-19 waves and policy responses

- GDP slowed in Q2 but maintained a positive reading on the back of some recovery momentum in June
- We expect China's easing stance to remain for the rest of the year, helping to support a moderate rebound in H2

China data review (June 2022)

Activity generally saw a broad-based recovery in June with consumption seeing a stronger-than-expected boost partly due to tax cuts and subsidies. More policy easing may be needed to help mitigate headwinds and support an investment-led recovery in the coming quarters.

- **China GDP** growth slowed to 0.4% y-o-y in Q2, but remained in positive territory as the economy grappled with its worst wave of COVID-19 to date. April and May bore the worst of the impact as June data showed stronger activity prints across the board, with the exception of a further drop in property investment. However, the recovery is facing challenges from COVID-19 outbreaks and the property market. We think further policy easing is needed to stabilize growth.
- **Manufacturing activity** was a pillar of support for the economy in terms of both production (+3.4% y-o-y) and investment (+9.9% y-o-y). This is due to a combination of still resilient exports demand, a continued domestic recovery, and further easing of domestic supply chain bottlenecks. Looking ahead, we expect global demand to slow in the coming quarters, but we still expect to see strong growth in medium and high-tech manufacturing activity on the back of strong structural factors and policy support.
- **Infrastructure investment** picked up further in June, rising 11% y-o-y. This follows on accelerated issuance of special local government bonds, with almost all of the issuance completed by June. Infrastructure investment is likely to sustain strong momentum in the coming months on the back of guidance to use these proceeds by the end of August as well as further policy funding.
- **Exports** surged again, rising 17.9% y-o-y in June boosted by the resumption of work following better domestic containment of COVID-19 and a weaker RMB in recent months. Meanwhile, **imports** rose by a more meagre 1.0% y-o-y, down from 4.1% y-o-y in May, on the back of still elevated global commodity prices and only a gradual recovery in domestic activity. The trade surplus rose to a new record high of USD97.9bn.
- **Consumer Price Index (CPI) inflation** moved up to 2.5% y-o-y in June, from 2.1% in May. Improved logistics conditions and an increase of production due to warmer weather have added to the supply of vegetables, fruits, and eggs, and hence led to a fall in their prices. Non-food prices, on the contrary, extended another 0.3ppt rise, attributable to both rising oil prices and possibly some recovery of service consumption (e.g. higher hotel prices).

HSBC

Thematic article: 2022 vs 2020: COVID-19 waves and policy responses

We expect a moderate rebound in H2

With COVID-19 outbreaks in 2020 and 2022 creating economic headwinds in China, we compare the periods and find that **policy support is largely comparable, helping to pave the way for a moderate rebound in H2 2022**. We expect the current easing stance to remain for the rest of the year, with additional measures on the table, too.

2022 vs 2020

The nature of the recovery will depend on policy support

China's economy is well on its way to recovery. The latest Omicron wave is receding, mobility restrictions are gradually lifting, and activity levels have been bouncing back. However, looking ahead, **the pace and strength of the recovery will depend on the implementation of policy support in the coming quarters**. To give us a better idea of what shape the recovery is likely to take, we compare the policy responses between this latest wave and the initial outbreak in 2020, using three key measures:

1. COVID-19 cases – Case numbers during this wave are higher, but the economic damage has not been as deep as in 2020, when country-wide restrictions were implemented. Still, this time around, the impact has been broader, with more cities facing COVID-19 waves, and it has taken longer to fully resume activities.

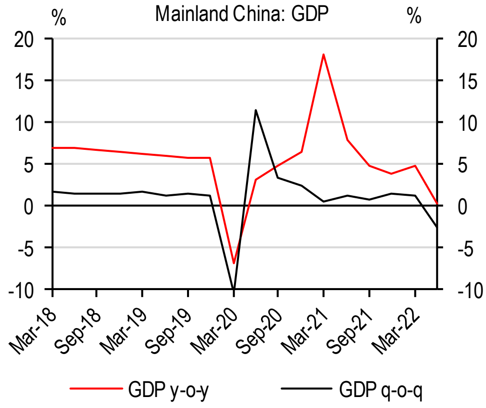
2. Fiscal stimulus – Fiscal policy has played a key role in both rounds of COVID-19 waves. Many measures are on par, including tax cuts (RMB2.64trn in 2022 vs RMB2.6trn in 2020) and special local government bond issuance (RMB3.65trn in 2022 vs RMB3.75trn in 2020).

3. Monetary easing – Monetary policy seems less punchy this time around when looking at headline figures such as policy rate cuts and relending quotas, which are smaller. But the People's Bank of China (PBoC) still has room to remain accommodative given low inflation.

Policy impact can pick up the slack

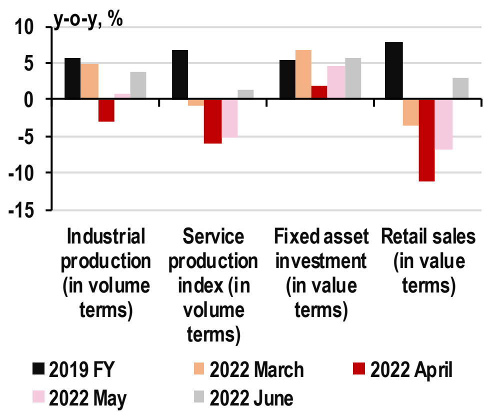
On the whole, the policy package this time around from China is still substantial. Now, it comes down to implementation. With the latest COVID-19 wave better contained, **we think the policy impact can pick up the slack,** helping to pave the way for a moderate recovery in the second half of the year.

1. China's growth is likely to see a moderate recovery in H2



Source: CEIC, HSBC

2. Services and consumption have been hardest hit



Source: CEIC, HSBC

Key upcoming China economic data

Date	Indicator	Prior
3 Aug	Caixin Services PMI	54.5
7 Aug	Exports YoY	17.9%
7 Aug	Imports YoY	1.0%
10 Aug	Producer Price Index (PPI) YoY	6.1%
10 Aug	Consumer Price Index (CPI) YoY	2.5%
10-17 Aug	M2 Money Supply YoY	11.4%
15 Aug	Retail sales YoY	3.1%
22 Aug	Loan prime rate 1Y	3.70%
22 Aug	Loan prime rate 5Y	4.45%

Source: Refinitiv Eikon

Performance of key A-share indexes*

	Current	Last month	Last 1yr
Shanghai Composite	3,283	-3.71%	-2.35%
Shenzhen Composite	2,203	-1.81%	-4.75%
CSI 300	4,226	-5.90%	-11.23

Note: * Past performance is not an indication of future returns. As of 28 July 2022 market close.

Source: Refinitiv Eikon

Disclosure appendix

1. This report is dated as at 29 July 2022.
2. All market data included in this report are dated as at close 28 July 2022, unless a different date and/or a specific time of day is indicated in the report.
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