China: Economic Update

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China's National Statistics Bureau released the country's GDP figures for the second quarter today. The headline figure, that **China's GDP grew by 3.2%,** in the three months to the end of June, compared with the same period last year, should provide cause for cheer in Zhongnanhai but, **these figures should be greeted with cautious optimism**.

China's factories are back in gear, but nobody's buying:

Firstly, while the data suggests that an uptick in industrial production has managed to steer China's economy out from the inactive state it entered as a result of the lockdown implemented to contain Covid-19, the spectre of Coronavirus lingers, with consumer figures remaining low; indicating people remain reluctant to go out and spend. To put this in perspective, **Industrial production grew by 4.4%** but, **retail sales fell by 3.9%** between April and June.

Secondly, uncertainty and a lack of consumer confidence is rife. There are fears that in the event of a second wave, **China's unemployment rate might reach 10% by the end of the year**. While June in fact saw a slight improvement in China's unemployment rate, bringing May's figure of 5.9% down to 5.7%, there appears little in terms of a political remedy to the fact that **27 million urban workers had lost their jobs by March 2020**. This issue is complicated further by the fact that over the course of the second quarter, 8.7 million university graduates joined the labour market, while tens of millions of migrant workers remain out of work and in limbo as a result of local lockdowns and restrictions on movement. Consequently, **consumers are saving their money**, potentially trapping the economy in a vicious circle of increased production and reduced consumption.

Markets mirroring cloudy consumer confidence:

Unenthusiastic Chinese spenders sit badly with investors, and **stocks in Asia-Pacific markets retreated after the data was released**. Following the announcement, the CSI 300 Index of Shanghai and Shenzhen listed stocks was down 1.6% and Hong Kong's Hang Seng index fell by 1.2%. In Japan, where the Bank of Japan used its own Q2 briefing to signal that it expects the economy to shrink a median 4.7% in the current year ending in March, the Topix index dipped 0.6%; with South Korea's Kospi index following suit.

Concerned consumers are the bane of the Chinese Government's stimulus effort. Analysts had anticipated that GDP would grow by 2.5% this quarter. The higher figure of 3.2% suggests that **the Chinese Government's stimulus package**, directed at increased infrastructure spending and the resumption of predominantly state-owned industrial activity, **is working to some degree**. Provincial level initiatives such as the issuing of vouchers and tax breaks to incentivise consumers appear to be less effective, however. Despite some cities, such as Nanjing, giving their citizens $45 million in vouchers to spend, **retail sales across China were down 1.8% in June**, in what was the fifth straight month of decline and worse than a predicted 0.3% growth, after a 2.8% drop in May.

Wanted: 20 million new jobs:

Getting people back to work and back to the shops will be critical in addressing the country's economic woes. Chinese consumers have one of the highest domestic savings rates in the world, with many employees opting to save up to 40% of their salary at the best of times. In the worst of times, there is only more of an incentive to do so, but this only compounds the associated issue of unemployment that led them to save in the first place. It is estimated that some **20 million jobs will need to be created** to stem China's unemployment crisis, 11 million more jobs than the government's target of 9 million that was set at the beginning of 2020. China's economy could rebound quite quickly if capital tied up in domestic savings could be released, but this would rely on consumer confidence returning in a big way.

Conclusion:

China is displaying signs of growth from the fallout of the Coronavirus pandemic. However, as Liu Anhua, spokeswomen for the National Bureau of Statistics stated at today's release, there are "mounting external risks and challenges" to China's economic recovery that must be addressed and taken seriously.

China is still on course to deliver 1% GDP growth in 2020. However, China could be doing better, given that it is recovering slower than analogous markets, such as India, which before Covid-19 was also forecast to deliver 6% in GDP growth, and now expects to record 2.1% growth in the 2020/2021 financial year. That said, China could also be doing worse, given the state of other similar markets, such as Indonesia or Turkey.

And so, cautious optimism is allowed, and should be encouraged, because **for China confidence will be key**.