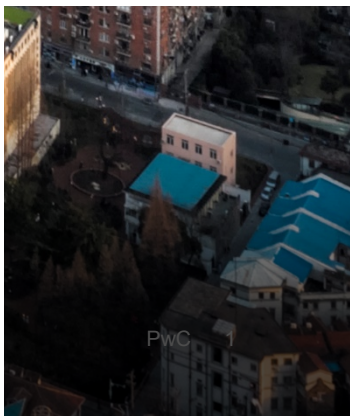
China Economic Quarterly Q3 2020

China's GDP growth reached 4.9% in Q3, and is expected to grow further in Q4 if the COVID-19 pandemic does not bounce back this winter.

November 2020



Content

1 Major economic indicators

Despite the on-going COVID-19 pandemic in some countries, China's **economic growth** continued to recover in the third quarter. GDP reached 72.28 trillion yuan with 4.9% growth year-on-year in Q3, which is 1.1% less than the same period last year. Nonetheless, GDP only increased by 0.7% during the first three quarters, as a result of the coronavirus outbreak in Q1 and control measures implemented thereafter.

The consumption generated during the eight-day Mid-Autumn Festival and the National Day holiday in the first week of October indicates an economic recovery. More specifically, according to the Ministry of Culture and Tourism, the total number of domestic trips has rebounded to 79% of 2019 levels while tourism revenue has risen to 70% of the 2019 figure. The figures reached to 637 million trips and 467 billion yuan respectively, in spite of the fact that tourism was among the sectors most impacted by COVID-19.

For Q4, the threat of the coronavirus outbreak on domestic economic development has not diminished, but might become more serious as winter approaches and temperatures drop given these conditions favour virus transmission. For example, there were several asymptomatic cases of coronavirus discovered in Kashi, Xinjiang (China's Uyghur Autonomous Region located in the northwest of the country).

Thus, whether or not GDP growth in Q4 will remain at a higher level than in Q3, will depend heavily on the COVID-19 situation in China. Furthermore, Chinese local governments have implemented very efficient and effective tracking and mass testing measures. Therefore, it is likely that China will be able to combat the coronavirus during the winter months (while there might be scattered cases).

As a result of the economic recovery, in Q3, China's employment market was more robust than in previous quarters. By the end of Q3, the country achieved 99.8% of its total annual employment goal for the year by creating 9.98 million new job opportunities (62.7% by the end of Q2).

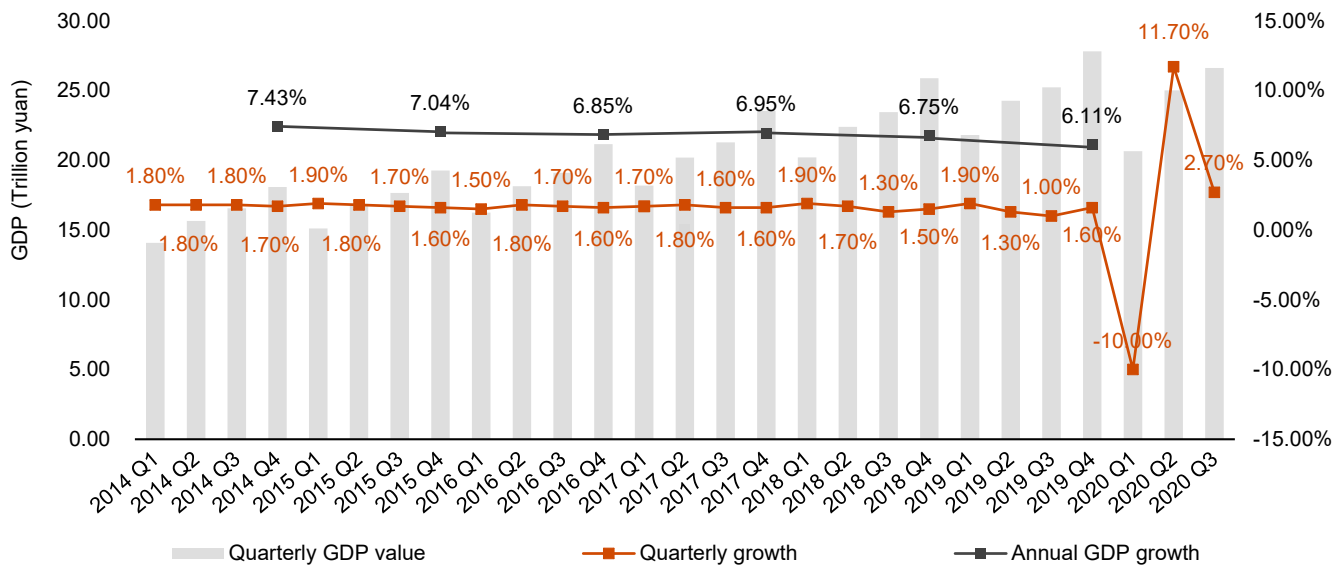
In September, the urban surveyed unemployment rate in 31 major cities was 5.5% which was slightly lower than 5.8% in June and 5.7% in March, but still a bit higher than 5.2% in December 2019. The national unemployment rate in urban areas was 5.4%, slightly lower than 5.7% in June and 5.9% in March.

The average working hours of company employees reached 46.8 hours per week in September, which was similar to the same period last year.

Furthermore, by the end of September, the number of migrant workers from rural areas reached 180 million (178 million in June), which is 3.8 million, or 2.1% less than the same period in 2019. This trend suggests that COVID-19 is affecting China's lower income population in the rural areas to a greater degree.

Outside of China, economic conditions seem to be getting better. In October, the IMF raised its forecast of global economic growth in 2020 to -4.4% from -4.9% which was forecast in June. However, recent developments relating to the COVID-19 pandemic in major economies such as the USA and EU are not promising. Whether or not the negative impact of COVID-19 on the global economy will fade away by 2021 is not clear, and the threat of coronavirus might still be present next year.

Figure 1: Quarterly GDP values and quarterly and annual GDP growth rate



Source of data: Unless otherwise stated, economic data is from the National Bureau of Statistics, Wind and financial data from the People's Bank of China.

In the first three quarters, the output of the primary, secondary and tertiary industry was 4.81, 27.43, and 40.04 trillion yuan respectively, and the growth rates were 2.3%, 0.9% and 0.4% year-on-year. Meanwhile, in Q3 alone, the output of the three sectors increased by 3.9%, 6.0% and 4.3% year-on-year respectively.

As a result, GDP growth in Q3 increased by 4.9%, while it went up by 0.7% in the first three quarters.

More specifically in the first three quarters, the tertiary industry or service sector, accounted for 54% of total GDP, while the primary industry and secondary industry accounted for 6.2% and 39.8% of total GDP respectively.

In Q3, the primary, secondary and tertiary industry accounted for 8.0%, 39.7%, and 52.3% of total GDP respectively. The proportion of GDP from the service sector was around 2% lower than the same period last year which aligns with the weak consumption pattern seen in Q3.

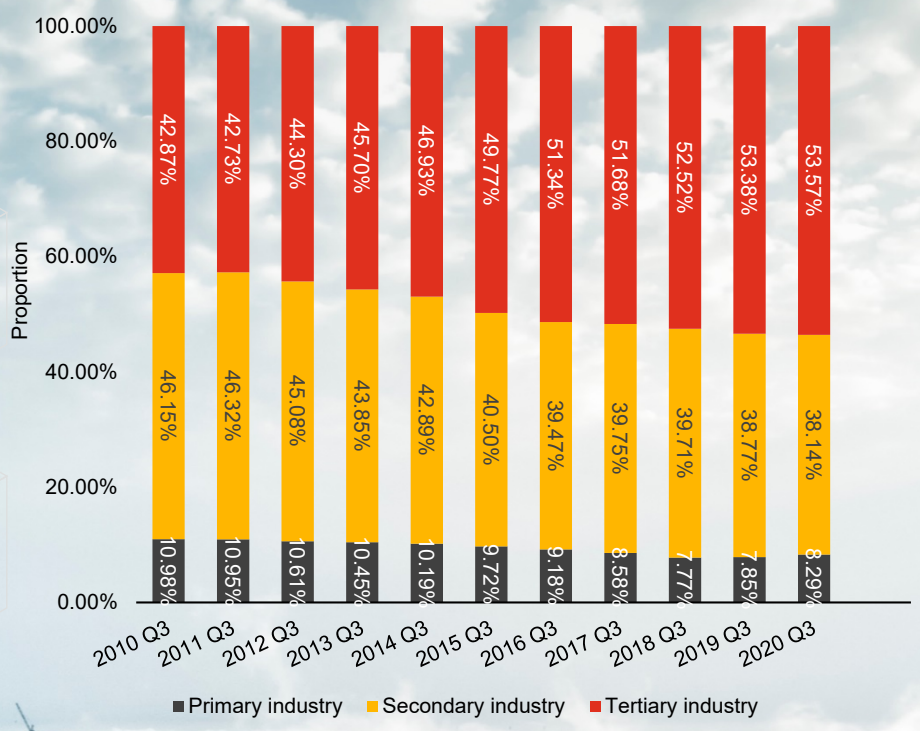
As with Q2, in Q3 the recovery of the service industry, particularly consumption, has been slower than the secondary industry. For instance, total retail sales of consumer goods still contracted by 7.2% in the first three quarters and increased by only 1.7% in Q3 year-on-year, while many other economic indicators became positive in Q3.

Final consumption expenditure contributed 1.7% to GDP growth in Q3, and it lowered GDP growth by 2.3% in Q2. Meanwhile, it lowered GDP growth by 2.5% in the first three quarters.

Gross capital formation (or gross domestic investment) contributed 3.1% to GDP growth in the first three quarters and 2.6% in Q3, while total fixed asset investment increased by 0.8% in the first three quarters.

Exports and imports increased by 0.7% in the first three quarters and 7.5% in Q3, year-on-year. The contribution of net exports including both goods and services to total GDP growth was 0.1% in the first three quarters and 0.6% in Q3.

Figure 2: GDP composition



Total fixed asset investment reached 43.65 trillion yuan in the first three quarters, increasing by 0.8% year-on-year, while also growing in Q3. In the first eight months of the year, fixed asset investment decreased by 0.3%. September was the turning point at which total fixed asset investment increased by 3.37% month-on-month.

In fact, the growth of total fixed asset investment was slower than expected in Q3. The main reason for this was that fixed asset investment from the private sector declined in the first three quarters. The growth of state-owned investment was not enough to support total fixed asset investment.

In Q4, government support and the implementation of fiscal and monetary stimulus measures are expected to continue. Thus, total fixed asset investment is expected to return to a higher level as compared to Q3 if COVID-19 does not spread in China.

More specifically, **by ownership**, in the first three quarters, private investment decreased by 1.5% and accounted for 55.9% of the total (56.4% in 2019 and 62% in 2018) year-on-year. On the other hand, as expected, state-owned investment rose by 4% in the first three quarters (12.8% decline in Q1). In Q4, state-owned investment is likely to grow at a faster rate than private investment once again.

Furthermore, fixed asset investment from Hong Kong, Macao and Taiwan owned companies increased by 4.9% in the first three quarters (13.0% decline in Q1) year-on-year. Foreign-owned fixed investment increased by 5.3% over the same period (9.0% decline in Q1).

It's not very often that fixed asset investment from domestic private companies lags behind the investment of foreign-owned and Hong Kong, Macao and Taiwan owned companies. However, since China chose to become more open during the pandemic period, and many restrictions on foreign investment have been lifted, it is expected that fixed asset investment from these companies will continue to grow in the post pandemic period.

By sectors, fixed asset investment of the primary (1.17 trillion yuan), secondary (12.51 trillion yuan) and tertiary industry (29.98 trillion yuan) increased by 14.5%, contracted by 3.4%, and increased by 2.3% year-on-year in the first three quarters, respectively. It is likely that as the government regards food security as one of its top priorities, fixed asset investment from the primary sector (mostly farming, and mining) has had rapid growth. However, compared to the size of total fixed asset investment, it still accounts for a very small portion.

By industries, the growth of fixed asset investment in the manufacturing sector dropped by 6.5% year-on-year in the first three quarters, which is much less than the 11.7% drop in Q2 and 25.2% drop in Q1. Infrastructure investment (excluding the production and supply of electricity, gas and water) improved slightly and increased by 0.2% (19.7% drop in Q1) during this period.

In the first three quarters, there were several industries that registered a greater than 10% contraction in fixed asset investment, including the manufacturing of textiles (-11.3%), manufacturing of automobiles (-16.7%), manufacturing of fabricated metal products (-12.8%), manufacturing of general purpose machinery (-12.3%), and manufacturing of electrical machinery and equipment (-12.1%).

On the other hand, a few industries registered fixed asset investment growth of more than 10% over the period including: the production and supply of electricity, gas, and water (17.5%), education (12.7%), health and social services (18.9%), manufacturing of medicines (21.2%), manufacturing of computers, communications and other electronic equipment (11.7%) as well as farming, forestry, animal husbandry and fishery (15.3%).

For Q4, overall total fixed asset investment is expected to grow further assuming there is no negative impact from COVID-19 this winter. However the recovery of global demand in 2021 is not certain, and as the world's workshop, China's manufacturing and industrial fixed asset investment might still be weak in Q4.

Figure 3: Fixed Asset Investment

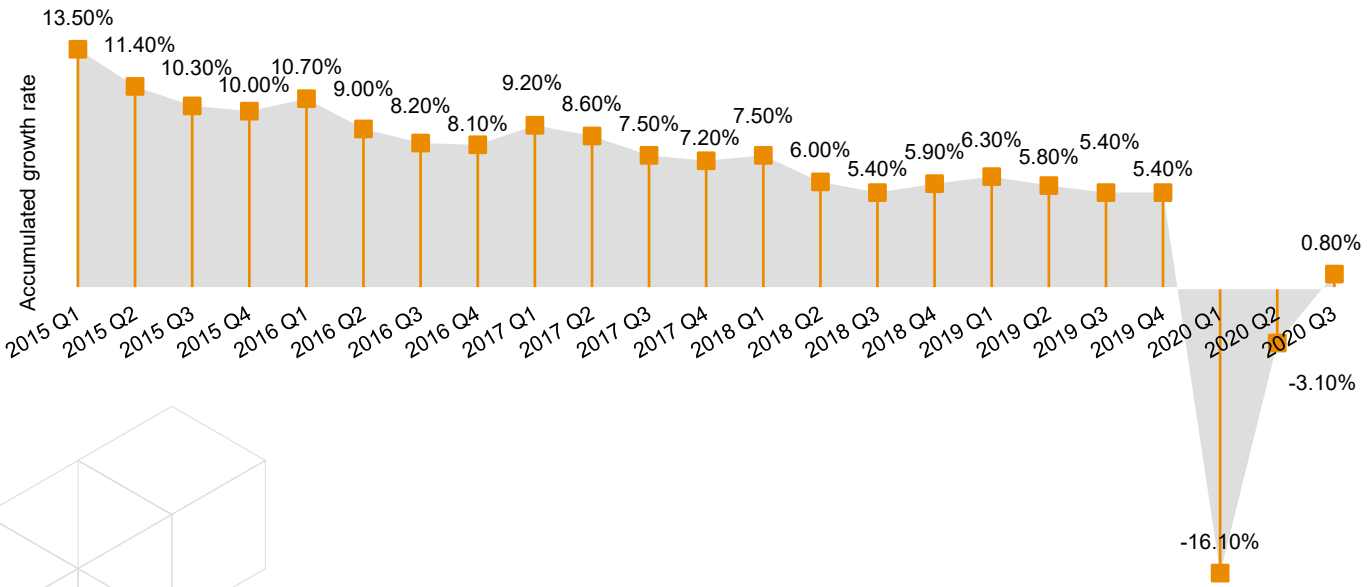
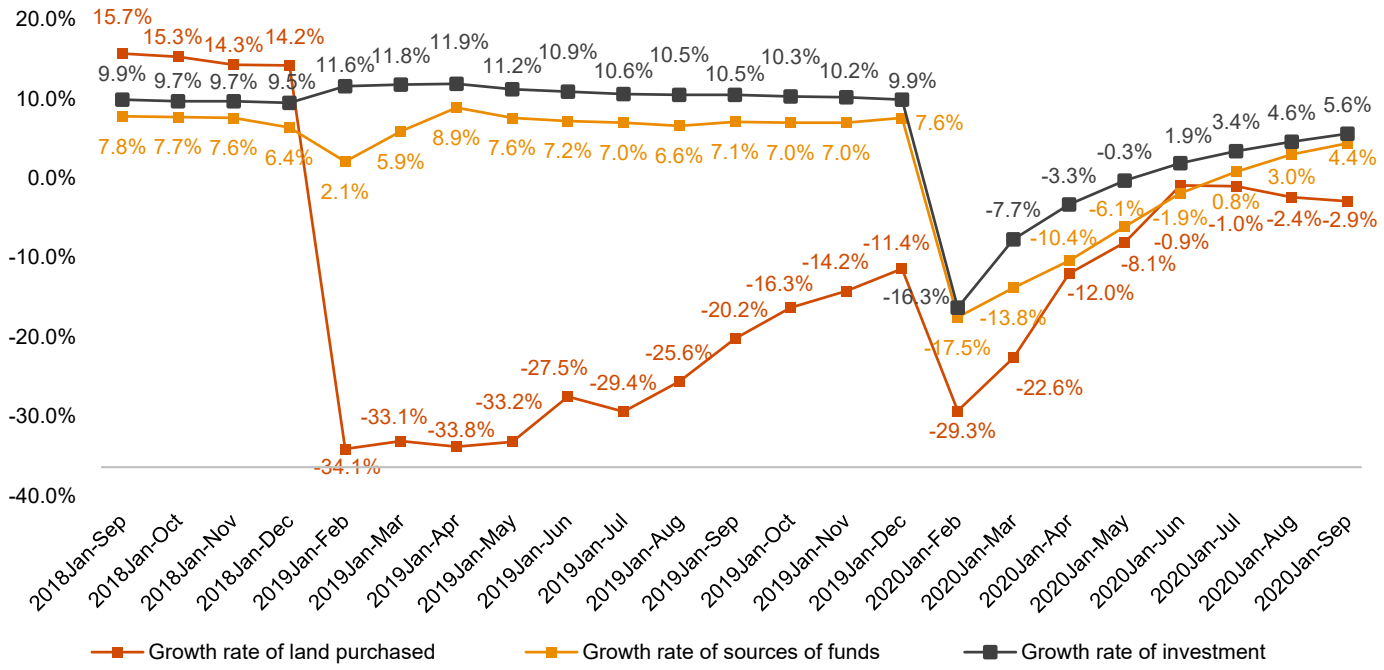


Figure 4: Growth rates in real estate



Total real estate investment increased by 5.6% in the first nine months of 2020 and reached 10.35 trillion yuan, which accounted for 23.7% of total fixed asset investment in the first three quarters (22.3% in Q2, and 26% in Q1). This growth rate is comparatively high, since total fixed asset investment only increased by 0.8% during the same period.

Real estate investment might grow faster in Q4 than in Q3. China still faces downward economic pressure and overall investment including investment in the real estate sector will play an important role in preserving economic stability. Furthermore, qualified developers are able to obtain financing more easily than in the past few years, as a result of monetary policy easing by the central bank.

Thus, the sources of funds for real estate development enterprises have improved in Q3.

The overall growth rate of sources of funds increased by 4.4% in the first three quarters, and reached 13.64 trillion yuan year-on-year. Meanwhile the growth rate decreased by 1.9% in Q2 and 13.8% in Q1.

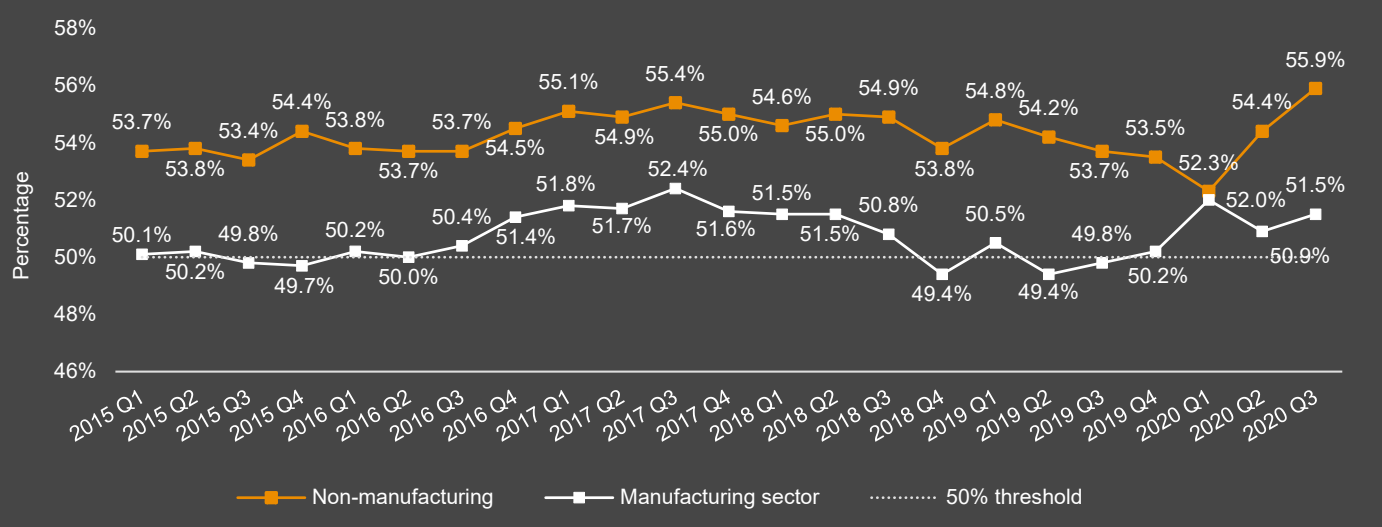
In the first three quarters, a few economic indicators relating to the real estate market became positive, but the majority were still negative. Floor space under construction increased by 3.1% year-on-year while total land transaction price increased by 13.8% over the period and reached 932 billion yuan. Furthermore:

- Floor space of buildings completed (residential, office, and commercial) decreased by 11.6% (10.5% drop in Q2 and 15.8% drop in Q1).
- Floor space of buildings just at the start of construction dropped by 3.4% (7.6% drop in Q2 and 27.2% drop in Q1).
- The growth rate of land purchased declined by 2.9% (0.9% decline in Q2, 22.6% decline in Q1) after an 11.4% drop in 2019.
- Floor space of properties ready for sale increased by 0.5% (1.8% increase in Q2 and 26.3% decline in Q1).
- Total floor space of all properties sold declined by 1.8% (8.4% decline in Q2 and 26.3% decline in Q1).

Fortunately, in the first three quarters, the total sales value of properties reached 11.56 trillion yuan and increased by 3.7% (5.4% drop in Q2 and 24.7% drop in Q1). As the total floor space of properties sold declined, this suggests that national property sales prices rose to counter this. In the short term, particularly when domestic demand is still weak, a healthy and growing property market can help to stabilise economic conditions.

For Q4, the current trend is expected to continue and more real estate sector indicators may shift from negative to positive territory. As a result, 2020 might not be a bad year for China's major property developers, in spite of the fact that the COVID-19 outbreak took place at the beginning of the year.

Figure 5: Purchasing Managers' Index



China's **Purchasing Managers' Index (PMI)** for the manufacturing sector increased slightly in the third quarter relative to Q2, and still remained above the threshold of 50%.The PMI was 51.1%, 51.0% and 51.5% for July, August and September respectively. The PMI in Q3 was higher than same period in 2019. This positive trend matched with other indicators from the manufacturing industry and it also indicates that the recovery of the sector might last until the fourth quarter.

One of the reasons why the PMI might remain stable in Q4 is that exports and imports surprisingly increased by 7.5% in Q3 year-on-year. This is likely due to the fact that industrial production was interrupted in other countries due to coronavirus, thus international buyers were driven to purchase certain goods from producers in China instead.

More specifically, the new export orders index increased to 48.4%, 49.1% and 50.8% in July, August and September respectively (while it was 33.5%, 35.3% and 42.6% in April, May and June). The import index also rose to 49.1%, 49.0% and 50.4% in July, August and September respectively from much lower levels during the second quarter.

By size of enterprises, in September, the PMI of large, medium, and small-sized enterprises were 52.5%, 50.7% 50.1% respectively, which was a slight improvement from June. It is worth mentioning that the PMI of small-sized enterprises rose above the threshold of 50%.

The production index continued to grow slightly in Q3, and was 54.0%, 53.5% and 54.0% in July, August and September respectively. This indicates that production is still expanding.

The new order index also increased by nearly 2% in Q3 to 51.7%, 52.0%, 52.8% in July, August, and September respectively. This suggests demand for new products increased significantly in the third quarter.

The raw materials inventory index was still below the threshold of 50% in Q3 and did not improve as compared to Q2. It was 47.9%, 47.3% and 48.5% in the months of July, August and September respectively. These figures suggest that the disruption of raw material supply caused by COVID-19 is ongoing. This trend is not likely to change in Q4 since coronavirus continues to spread in a few major international markets.

The employed person index did not fluctuate very much in Q3, it rose slightly from 49.1% in June to 49.6% in September. This suggests that despite challenges, the employment rate in the manufacturing sector has remained relatively stable.

In contrast, the **non-manufacturing PMI** continued to improve in Q3. It rose to 54.2%, 55.2%, and 55.9% in July, August and September respectively.

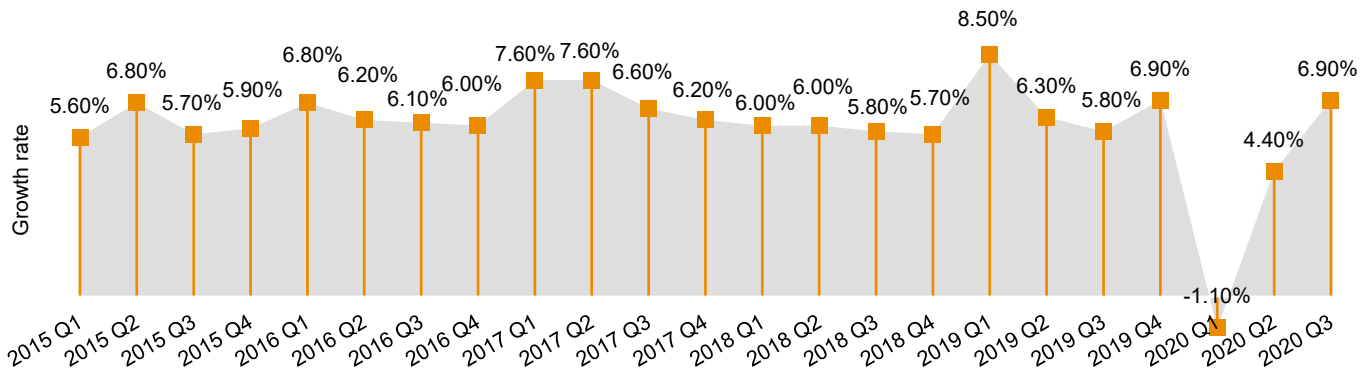
By sectors, the non-manufacturing PMI of the service sector increased to 55.2% in September, from 53.4% in June and 51.8% in March. This trend aligns with the fact that on a nation-wide basis, the service sector recovered much more quickly in Q3 than in Q2 and Q1.

Meanwhile, considering all the major industries, only the business activity index of capital market services was still below the threshold of 50% in September. The business activity index of several industries surged to more than 60%, including leasing and business services, railway transportation, air transportation, accommodation, catering, telecommunications and radio and television satellite transmission services. This is noteworthy considering the fact that the transportation, accommodation and catering industries were significantly impacted by COVID-19.

Furthermore, as a result of the increase in business activity, the new orders index increased to 54.0% in September from 52.7% in June. The input price index (similar to the main raw material purchase price index of manufacturing PMI) decreased to 50.6% in September from 52.9% in June. The sales price index and employment index changed slightly to 48.9% and 49.1% in September from 49.5% and 48.7% in June respectively.

In the fourth quarter, the non-manufacturing PMI is likely to remain at the current level in the event that the coronavirus outbreak remains contained in China.

Figure 6: Industrial Added Values



The growth of **Industrial Added Values** for companies over certain scales rose slightly to 1.2% year-on-year in real terms in the first three quarters. It increased by 5.8% in Q3 and 6.9% in the month of September. Growth was much higher in Q3 than Q2 and reached a similar level as the same period in 2019.

Thus in Q4, the growth of industrial added values is expected to be even more robust.

However, in the first three quarters, the total profit for all industrial companies over certain scales still declined by 2.4% to 4.37 trillion yuan. Meanwhile it declined by 12.8% in the first half year and 36.7% in Q1. Due to the tough economic conditions caused by COVID-19 and relatively weak demand, many industrial companies might find it difficult to grow their profit in 2020.

In the first three quarters, the majority of sectors had positive industrial added values, which marks a significant improvement from the first half of the year. Only a few industries still recorded minimal single-digit negative figures, for example:

- manufacturing of railways, shipbuilding, aerospace and other transportation equipment (-2.1%);
- processing of food from agricultural products (-3.4%);
- manufacturing of textiles (-1.7%);
- manufacturing of rubber and plastic products (-0.7%).

On the other hand, the industrial added values of several industries rose above 5% year-on-year as of Q3, including:

- manufacturing of ferrous metal smelting and pressing (5.3%);
- manufacturing of special-purpose machinery (5.1%);
- manufacturing of computers, communications and other electronic equipment (7.2%);
- manufacturing of electric machinery and equipment (5.6%);
- manufacturing of high-tech industry (5.9%).

Furthermore, the manufacturing of automobiles also recovered in the first three quarters and increased by 4.4%, whereas it decreased by 3.1% in H1, and 26% in Q1. As one of the flagship manufacturing sectors, healthy automobile production is an encouraging bellwether for economic growth. However total car output was still negative in the first three quarters, as the production of parts and components are also included in this figure.

According to the China Association of Automobile Manufacturers (CAAM), in the first nine months, car output and sales dropped by 6.7% and 6.9% to 16.97 million and 17.12 million year-on-year respectively. Nonetheless, in Q3 both figures improved significantly relative to Q2. In September, car output and sales increased by 14.1% and 12.8% year-on-year respectively.

China's car output and sales figures are expected to grow further in Q4.

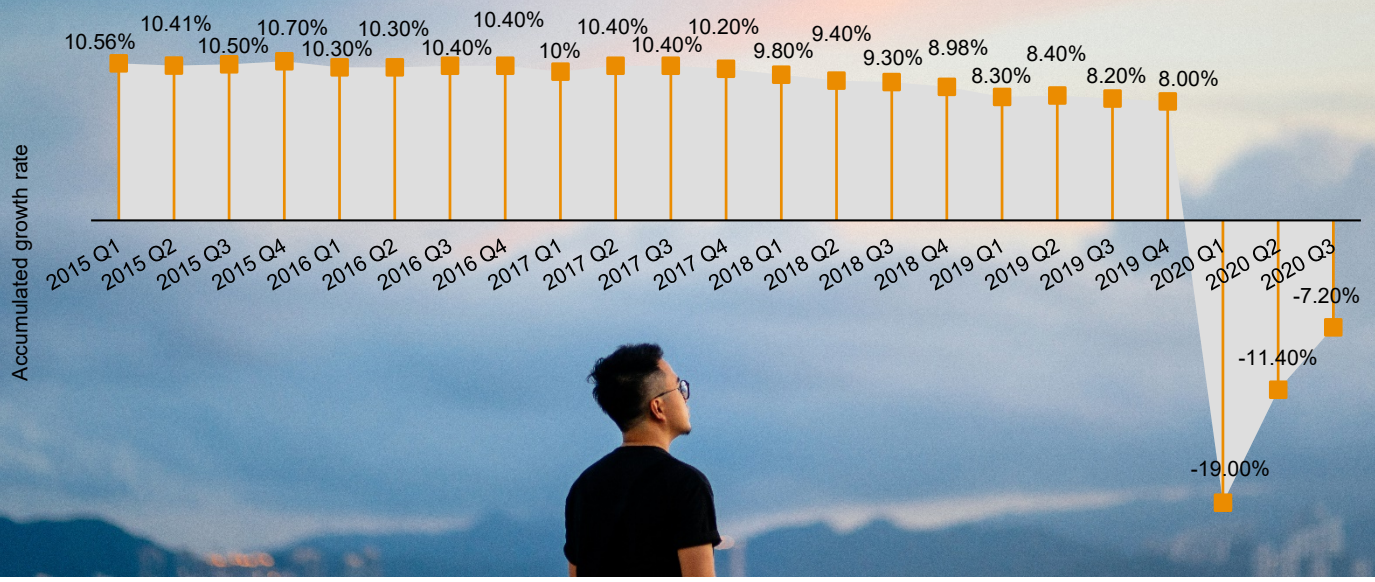
Fortunately, despite the fact that car output and sales dropped during this period, the total revenues and profits of automobile manufacturing companies increased by 0.8% and 3.0% in the first three quarters respectively. Thus, 2020 may not turn out to be a poor year for domestic automobiles makers after all. While their counterparts in other major economies are expected to face more severe market conditions.

By ownership, profits for all company types continued to contract in the first three quarters:

- Profits of SOEs dropped by 14.3% to 1.13 trillion yuan;
- Profits of foreign-owned enterprises (including Hong Kong, Macao and Taiwan) declined by 2.6% to 1.24 trillion yuan;
- Profits of joint-stock enterprises decreased by 3.6% to 3.07 trillion yuan;
- Profits of private companies reduced by 0.5% to 1.27 trillion yuan.

Since domestic demand is returning to normal, and while the international market is still fragile due to COVID-19, the growth of industrial added values and profits are expected to continue to improve in Q4. That said, these figures will probably not reach 2019 levels by the end of the year.

Figure 7: Retail Sales of Consumer Goods



Total retail sales of consumer goods recovered much more slowly than other economic indicators. This figure contracted by 7.2% year-on-year to 27.33 trillion yuan in the first three quarters, which is much better than the 11.4% reduction in Q2, and the 19% drop in Q1.

Total retail sales of consumer goods increased by 0.9% in Q3 specifically (declining by 0.5% in real terms). In the month of September, the situation improved further and sales rose by 3.3% (or 2.4% in real terms) year-on-year to 3.53 trillion yuan.

While total retail sales of consumer goods returned to positive levels in Q3 as expected, the growth rate is still behind relative to the same period last year when it was 8.2%.

This trend suggests that the negative impact of COVID-19 on Chinese consumers' confidence might last longer than was previously expected, not to mention the fact that the virus is still spreading in other countries.

China's stimulus measures on consumption can be further enhanced. COVID-19 has caused the real incomes of urban families to decline and uncertainty to rise which has also led to a decline in consumers' willingness to spend.

In Q4, total retail sales of consumer goods are expected to increase again, but probably not significantly. As a result, it is likely that for 2020 this figure will remain negative, unless the government provides more incentives for consumer spending or further income tax cuts.

In terms of types of consumption, in the first three quarters, catering consumption continued to decline by 23.9% year-on-year and reached 2.52 trillion yuan (32.8% decline in Q2, 44.3% decline in Q1). While in September, catering consumption decreased by 2.9% year-on-year.

Retail sales of physical goods declined by 5.1% in the first nine months to 24.81 trillion yuan, but in September this figure increased by 4.1% and reached 3.16 trillion yuan.

Additionally, regardless of the fact that retail sales of physical goods continued to decline, retail sales of the following items recorded positive numbers by the end of Q3:

- grain, cooking oil, foodstuffs (10.6%);
- beverages (12.3%), tobacco and liquor (1.2%), cosmetics (4.5%);
- daily necessities, or groceries (6.8%);
- traditional Chinese and western medicines (6.2%);
- cultural and office supplies (3.7%);
- communication equipment (7.3%).

The above information provides a good angle from which Chinese shopping habits can be observed. It is surprising to see that retail sales of cosmetics and communication equipment remained strong relative to many other items.

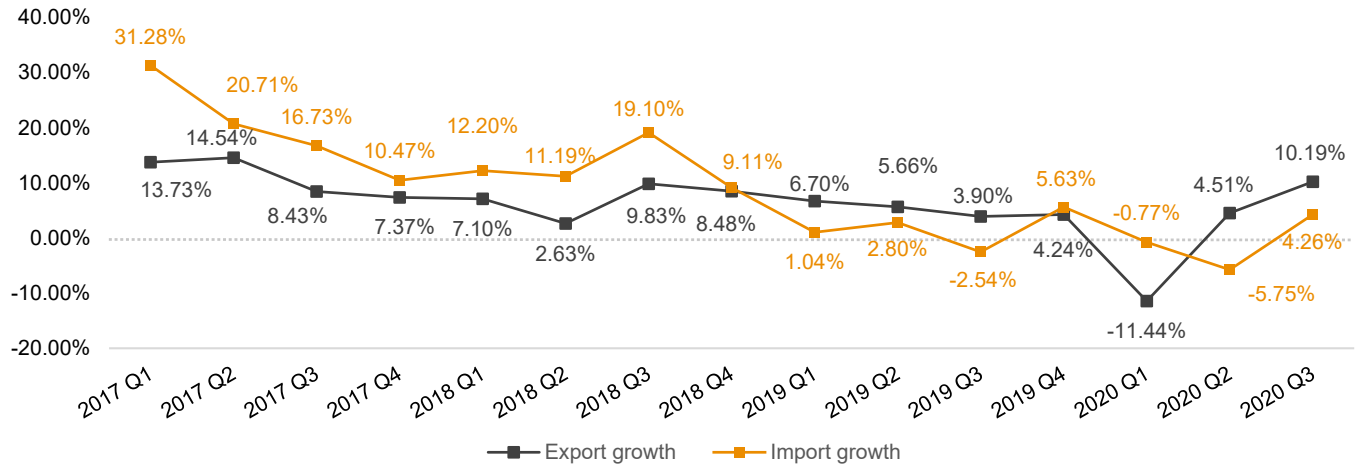
More importantly, sales of automobiles reduced by 6.3% and reached 2.67 trillion yuan in the first three quarters. Due to weak prices, sales of petroleum and related products also dropped by 16.7% to 1.22 trillion yuan. Automobile and petroleum sales rank in the top two among all retail sales items by value. Sales of grain, cooking oil and foodstuff also exceeded one trillion yuan. Sales values for other items were much smaller, ranging from 800 to 100 billion yuan, and usually less than 500 billion yuan.

National online retail sales continued to surge in the first three quarters. This figure grew by 9.7% and reached 8.01 trillion yuan year-on-year. Out of which online retail sales of physical goods rose by 15.3% and reached 6.65 trillion yuan accounting for 24.3% of total goods retail sales. This indicates that nearly one quarter of retail sales of physical goods went online. Indeed COVID-19 has become a key catalyst for the development of e-commerce.

Per capita disposable nominal income rose to 23,781 yuan and increased by 3.9% (0.6% in real terms) in the first three quarters. However for urban residents, real income declined by 0.3%. Over the same period, per capita consumption expenditure declined by 3.5% to 14,923 yuan. It reduced even further in real terms, dropping by 6.6%.

In Q4 it will be difficult for consumption to be fully restored to pre-pandemic levels. In order to increase the likelihood of this, policy makers should implement more aggressive measures to increase incomes or provide more incentives to stimulate consumption.

Figure 8: Quarterly Balance of Trade



While the global economy is still being negatively impacted by the COVID-19 pandemic, China's **total imports and exports** in the first three quarters unexpectedly increased by 0.7%.

More specifically, in the first nine months, imports and exports reached 23.12 trillion yuan. Exports went up 1.8% year-on-year to 12.71 trillion yuan, and imports increased by 0.6% to 10.41 trillion yuan. In Q3 alone, imports and exports increased by 10.2% and 4.3% respectively. Furthermore, imports and exports together went up 7.5% in Q3.

There are a few reasons why China's international trade grew during this difficult period. First, while the production of goods in other countries was disrupted, China emerged to be the only major reliable supplier as a result of the country's effective coronavirus control measures.

Second, since the COVID-19 pandemic has altered people's living and working habits, the demand for laptops and home appliances has surged. Thus, China's exports of laptops and home appliances increased by 17.6% and 17.3% in the first three quarters respectively.

Last but not least, exports of masks (and related textile products), as well as medical materials and drugs, medical instruments and apparatus increased by 37.5%, 21.8% and 48.2% respectively during the same period. At the same time, in order to secure domestic demand, China's imports of commodities and key agricultural products also rose substantially.

For Q4, the current trend is likely to continue. Therefore, imports and exports are expected to grow further. Even if a few new positive cases of COVID-19 emerge during the winter, based on previous experience China should be able to manage their industrial production to safeguard international trade.

By geography, according to the General Customs Administration, it seems China is still executing the phase one trade agreement with the US amidst the pandemic. Imports of agricultural products from the US increased by 44.4% to 91 billion yuan.

China's total trade with the US went up by 2% and reached 2.82 trillion yuan in the first three quarters, imports comprised 641 billion yuan while exports were 2.18 trillion yuan. Thus, the country's trade surplus increased to nearly 1.54 trillion yuan during this period. This is probably because the US had no other alternative than to source some goods from China due to COVID-19.

In addition to the US, China's trade with all other major trading partners also increased in the first three quarters. Trade with ASEAN rose by 7.7% to 3.38 trillion yuan. Trade with the EU increased by 2.9% to 3.23 trillion yuan. Trade with Japan reached 1.61 trillion yuan and went up by 1.4%. Trade with South Korea increased by 1.1% to 1.45 trillion yuan. Trade with countries under the Belt and Road Initiative (BRI) slightly increased by 1.5% to 6.75 trillion yuan.

The General Customs Administration also disclosed that imports and exports with Australia declined by 1.1% and reached almost 860 billion yuan in the first three quarters. China's exports to Australia comprised 259 billion yuan while imports were 601 billion yuan. Iron ore, natural gas and coal accounted for 76.4% of the imports.

By ownership of trading enterprises, in the first three quarters, trade conducted by private enterprises continued to lead relative to firms with other types of ownership structures. Trade generated by private enterprises rose by 10.2% year-on-year and accounted for 46.1% of China's total trade.

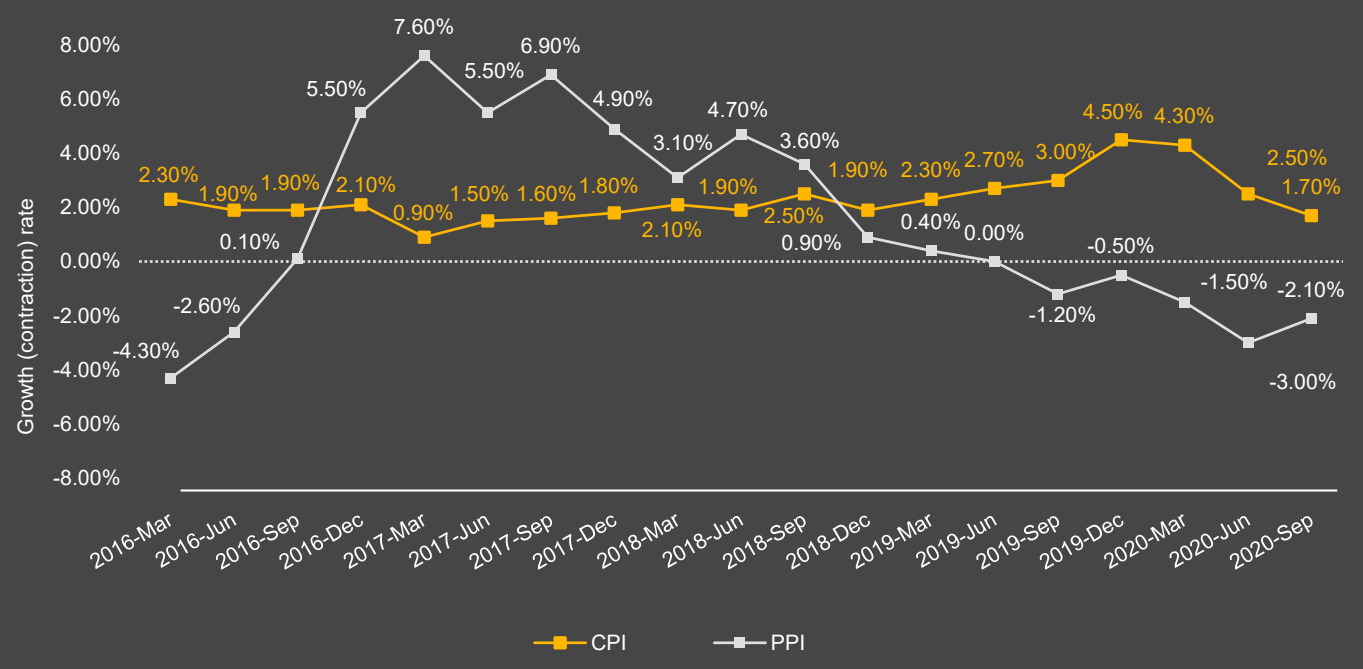
More specifically, in the first three quarters, trade from private enterprises reached 10.66 trillion yuan. Of which, exports reached 7.02 trillion yuan (55.2% of China's total exports) and imports reached 3.64 trillion yuan (35% of China's total imports).

Meanwhile, the trade from foreign-owned enterprises and state-owned enterprises reached 8.91 trillion yuan and 3.46 trillion yuan, accounting for 38.5% and 15% of total trade, respectively.

During the COVID-19 pandemic, companies in China not only prioritised sustaining their international business, but also sought to provide valuable assistance and aid both to individuals and to public and private bodies in other countries in these times of difficulty.

In this regard, it is very important for China as the world's largest factory to maintain their operations and keep trading with other countries, particularly as the world is still combatting the coronavirus.

Figure 9: Producer Price Index and Consumer Price Index



The Producer Price Index (PPI) for manufactured goods decreased by 2.0% (1.9% drop in Q2, 0.6% drop in Q1) in the first three quarters year-on-year. Meanwhile, the purchasing price index for manufactured goods also declined by 2.6% (same as in Q2) during this period.

As a result of recovering production, in July, August and September, the PPI for manufactured goods was -2.4%, -2.0%, and -2.1% year-on-year respectively, while these figures were higher than -3.0% for the three months in Q2.

For Q4, even though production is getting better, PPI could remain low as demand for industrial products is expected to still be weak.

Among all the PPIs for manufactured goods, in the first three quarters, the price for means of production decreased by 3.0% (2.8% drop in September, 4.2% drop in June, 2.4% drop in March) year-on-year. Of which, the price of mining and quarrying products declined by 6.0% and the price of raw materials dropped by 6.1%.

On the other hand, the PPI for consumer goods increased by 0.8% in the first nine months. Out of which, food prices increased by 3.7%, and the prices of all other consumer goods declined by between 0.8% and 1.8%.

As with Q2, nearly all major prices reflected in the purchaser price index dropped by between 0.1% and 8.5% in the first three quarters year-on-year, except the prices of building materials (0.9% increase) as well as non-metallic, agricultural and sideline products (6.4% increase).

The prices of fuel and power dropped by 8.5%, chemical raw materials dropped by 8.1%, textile raw materials dropped by 3.5%, and non-ferrous metal materials and wires dropped by 1.8%.

The price of petroleum and natural gas extraction declined by 26.8% in the first three quarters of 2020 (27% drop in the first half year). During this period, the price of mining and washing of coal declined by 6.5% and the price of manufacturing of chemical fibres went down by 14.4%. As chemical fibre manufacturing is commonly used in the textile and apparel industry, the price drop can be heavily attributed to COVID-19 as the demand for clothes has weakened.

On the other hand, the price of mining of ferrous metal ores, non-ferrous metal ores and non-metal ores increased by 4.7%, 4.1% and 1.5% respectively.

Compared to the PPI which has decreased for most products, the **Consumer Price Index (CPI)** continued to rise in the third quarter, it increased by 3.3% in the first nine months, and by 1.7% in September year-on-year.

Surging food prices, particularly pork prices, were the main cause of the increase in CPI in the first three quarters. More specifically, food prices continued to rise with 14.3% growth in the first three quarters (16.2% in H1). This pushed up the CPI by 2.92% (3.27% in H1). While, the non-food CPI only increased by 0.5% during the same period.

In the first three quarters, among all food prices, meat prices rose by 58.9% (70.5% in H1), out of which pork prices rose by 82.4% (104.3% in H1), year-on-year. Pork prices pushed the CPI up by 2.24% and accounted for almost 70% of the growth of the CPI. Fortunately for consumers, in September, pork prices only rose by 25.5% year-on-year, which is much less than in the previous months.

Apart from food prices, all other major prices of consumption items dropped except the prices of education, culture and recreation (including tourism) which increased by 1.4%, and the price of healthcare which increased by 1.9%.

Finally, if pork prices do not increase sharply in Q4, the CPI might drop to the 3% range.

2 Policy updates

Total aggregate financing to the real economy increased by 9.01 trillion yuan.

According to the People's Bank of China (PBoC), total aggregate financing to the real economy (AFRE) reached 29.62 trillion yuan during the first three quarters of 2020. This was 9.01 trillion yuan more than the same period last year. These proceeds will go towards stabilising private enterprise operations, safeguarding the labour market and providing additional direct assistance to the real economy. Total outstanding AFRE reached 280.07 trillion yuan by the end of September, and increased by 13.5% year-on-year.

Total RMB loans to the real economy increased by 2.63 trillion yuan during this period and reached 16.26 trillion yuan. While total outstanding RMB loans to the real economy reached 169.37 trillion yuan and recorded 13% year-on-year growth in the first three quarters.

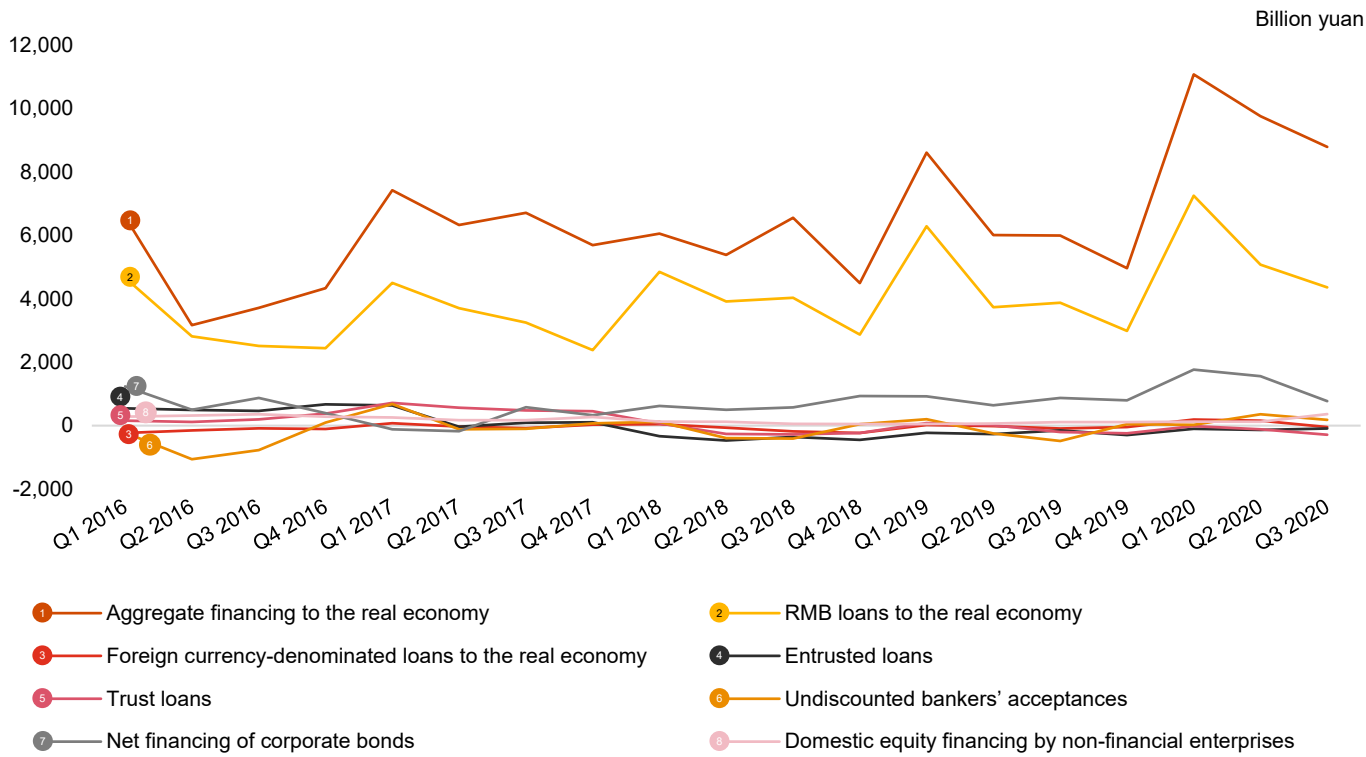
Furthermore, in September, the monthly weighted average interbank lending rate was 1.8% which was 0.75% less than the same period last year.

There are many indicators that show that financial support to the real economy has significantly increased since the outbreak of the coronavirus pandemic. For example:

- On top of substantial increases in the amount of total RMB loans, medium and long-term (MLT) corporate loan balances grew rapidly since March. The outstanding amount rose by 14.8% year-on-year as at the end of September. In the first three quarters of the year, MLT loans issued to the real economy rose by 11.85 trillion yuan and accounted for 72.9% of all loan increments over this period.
- Outstanding MLT infrastructure loans increased by 13.5%, or 3.4% more than the same period last year, while MLT loans to the manufacturing sector rose by 30.5%, 15.7 percentage points higher than the same period in 2019.
- The balance of inclusive loans to small and micro companies reached 14.6 trillion yuan in the first three quarters, and increased by 29.6% year-on-year, 6.5% higher than the same period last year.
- Net financing of corporate bonds also increased significantly in the first three quarters to 4.1 trillion yuan, or 1.65 trillion yuan more than the same period last year.
- Net financing of government bonds reached 6.73 trillion yuan in the first three quarters or 2.74 trillion yuan more than the same period last year.

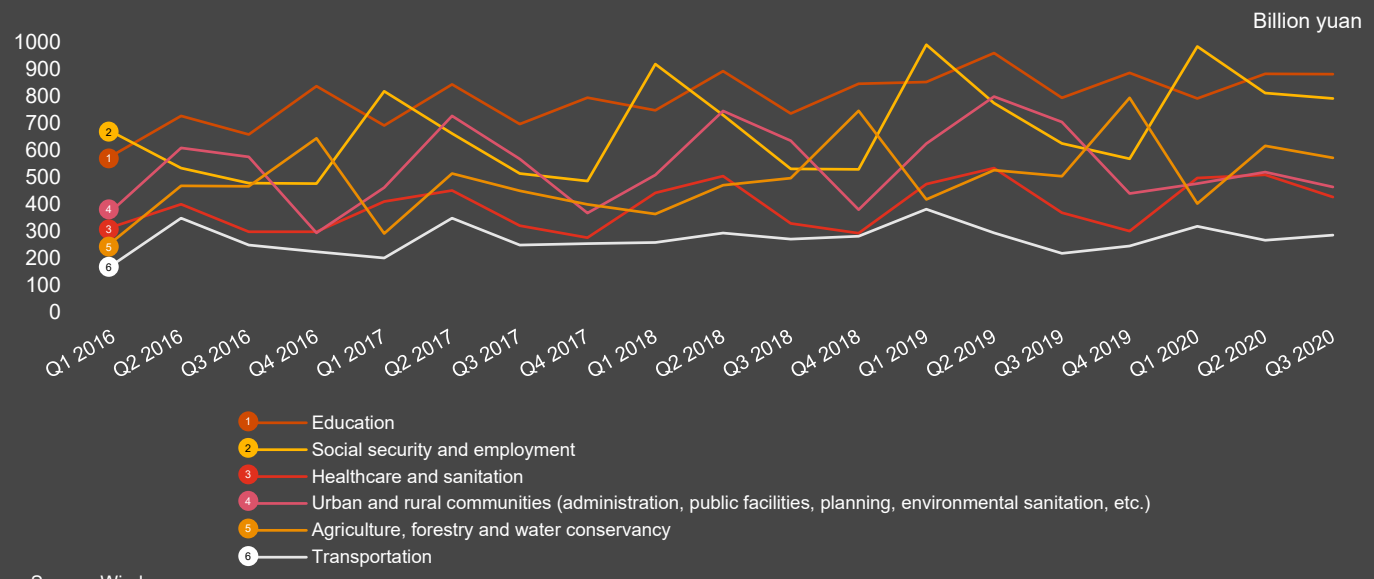
Finally, as the impact of the pandemic on both the international and domestic economy is likely to last until first half of next year, there should be no major change in China's monetary policies over this period. Companies in China are expected to continue to benefit from monetary policy easing and cheaper financing costs in Q4 and at least until the first half of 2021.

Figure 10: Aggregate financing to the real economy (flows) (Q1 2016 – Q3 2020)



Source: Wind

Figure 11: General public budget expenditure (Q1 2016 – Q3 2020)



Source: Wind

Fiscal revenue increased by 4.7% in Q3, and reduced by 4.6% to 14.1 trillion yuan in the first nine months of the year.

In the first three quarters of 2020, fiscal spending decreased by 1.9% to 17.51 trillion yuan, while fiscal revenue dropped by 4.6% year-on-year to 14.1 trillion yuan.

The general public budget revenue dropped by 14.3% in Q1 and by 7.4% in Q2 year-on-year, and it increased by 4.7% in Q3 as the economy gradually recovered. Over the months of July, August and September, public budget revenue rose by 4.3%, 5.3% and 4.5% year-on-year respectively.

During the first three quarters of 2020, the budget revenue of the central government declined by 9.3% to 6.53 trillion yuan and the budget revenue of local governments decreased by 3.8% to 7.57 trillion yuan year-on-year.

During this period, tax revenue declined by 6.4% to 11.89 trillion yuan and non-tax revenue contracted by 6.7% to 2.21 trillion yuan. With regards to tax revenue, only a few categories saw an increase in the first three quarters, including personal income tax (reached 856 billion yuan with 7.3% growth), stamp duty (reached 259 billion yuan with 30.3% growth), land and real estate-related taxes (reached 517 billion yuan with 7.7% growth), as well as vehicle and vessel tax, tonnage tax, tobacco tax (reached 81 billion yuan with 2.9% growth).

Moreover, the largest contributor to fiscal revenue, value-added tax, fell by 13.5% in the first three quarters. It accounted for 30.3% of total budget revenue in the first nine months of the year.

General public budget revenue is likely to grow again in Q4, as economic conditions are expected to improve from current levels. It is expected to fully recover in Q1 of 2021 if China continues to control the pandemic this winter.

On the other hand, fiscal spending dropped by 1.9% year-on-year in the first nine months to 17.52 trillion yuan. More specifically, this included central expenditure which was 2.45 trillion yuan (and reduced by 2.1%), and local general public budget expenditure which was 15.06 trillion yuan (and declined by 1.9%). Other major items comprising fiscal expenditure in the first three quarters included:

- 2.59 trillion yuan on social security and employment (8.2% increase to stabilise the labour market);
- 2.56 trillion yuan on education (1.9% decrease);
- 1.59 trillion yuan on agriculture, forestry and water conservancy (9.9% increase, probably due to the severe flooding in Southern China in Q2 and Q3);
- 1.46 billion yuan on urban and rural communities (administration, public facilities, planning, environmental sanitation, etc.) (31.3% decrease);
- 1.43 billion yuan on healthcare and sanitation (4% increase in order to combat the coronavirus pandemic);
- 873 billion yuan on transportation (2.5% decrease);
- Expenses for interest payments of debt increased by 16.8% to 735 billion yuan. Spending on science and technology declined by 5.7% to 567 billion yuan, and spending on energy conservation and environmental protection dropped by 15.3% to 402 billion yuan.

In addition to general public budget revenue, government funds reached 5.52 trillion yuan and rose by 3.8% year-on-year in the first three quarters of 2020. Of which, local government funds reached 5.26 trillion yuan and grew by 5%, while central government funds declined by 14.7% to 263 billion yuan. Regarding local governments funds, 4.94 trillion yuan was obtained from the transfer of state-owned land use rights, which accounted for nearly 94% of the total.

Overall, 7.82 trillion yuan in government funds was spent in the first three quarters of this year, an increase of 26.6%, while 7.65 trillion yuan in funds was spent by local.

In September, the country's tax revenue increased by 8.2% year-on-year, and the revenues of all major tax categories increased. Looking forward to Q4, China's economy is well-poised for further recovery. Industrial added value, corporate profits, imports and exports alongside other major economic indicators will continue to improve. Thus, revenues from value added tax, corporate income tax, import tax and other major tax categories are expected to continue to grow.

3 China strives to become a developed country by 2035, according to the fifth plenary session

At China's fifth plenary session earlier this year, a five year and 15-year roadmap for the country's economic and social development was drawn up. As a top political meeting that generally covers economic issues, the plenary session takes place once every five years. In 2020, the four-day fifth plenary session of the 19th Central Committee of the Communist Party of China (CPC) was concluded in Beijing on 29 October. The 19th CPC Central Committee was elected by the National Party Congress at the end of October 2017 with a term of five years. One of the key outcomes of the plenary session was the formulation of the 14th Five-Year Plan (2021-2025) for National Economic and Social Development and the Long-Range Objectives Through the Year 2035, which was based on proposals that were provided by the CPC Central Committee. These proposals map out a blueprint for China's future economic and social development.

The official statement generated during the fifth plenary session includes the following key topics:

- Technology and innovation
- Real economy and manufacturing powerhouse
- Domestic market demand and new development pattern
- Opening up and socialist market economy
- New urbanisation and rural revitalisation
- National culture and soft power
- Green development and natural environment
- Quality of life and social advancement

Highlights of the fifth plenary session of 19th CPC Central Committee

In terms of the number of attendees, 198 CPC Central Committee members and 166 alternate members were present at the session. Members of the Central Commission for Discipline Inspection, representatives of the 19th CPC National Congress and other experts and scholars also joined the plenary session as non-voting delegates.

President Xi Jinping, general secretary of the CPC Central Committee delivered a work report on behalf of the Political Bureau (which alongside the Central Commission exercises the functions and powers of the CPC Central Committee). The plenary session discussed this work report.

After deliberation, the CPC Central Committee's proposals for the formulation of the 14th Five-Year Plan (2021-2025) for National Economic and Social Development and the Long-Range Objectives Through the Year 2035 were adopted. Prior to this, president Xi Jinping explained the proposals.

The official statement of the fifth plenary session was released.

China will continue to strengthen domestic market demand in the next five years. A "dual circulation" development pattern was emphasised with the domestic market as the mainstay, while also allowing domestic and overseas markets to positively reinforce each other.

Quality and efficiency replaced a specific GDP growth target for the 14th Five-Year Plan. While the speed of economic growth was not mentioned, more attention was paid to the quality and efficiency of economic development, economic structure, scope for innovation, industrial base and industrial supply chain.

China will continue to make progress in environmental protection in the next five years. More specially, the country is expected to cut total emissions of major pollutants by implementing the green transformation of production and individuals' lifestyles, as well as allocating energy and resources more efficiently.

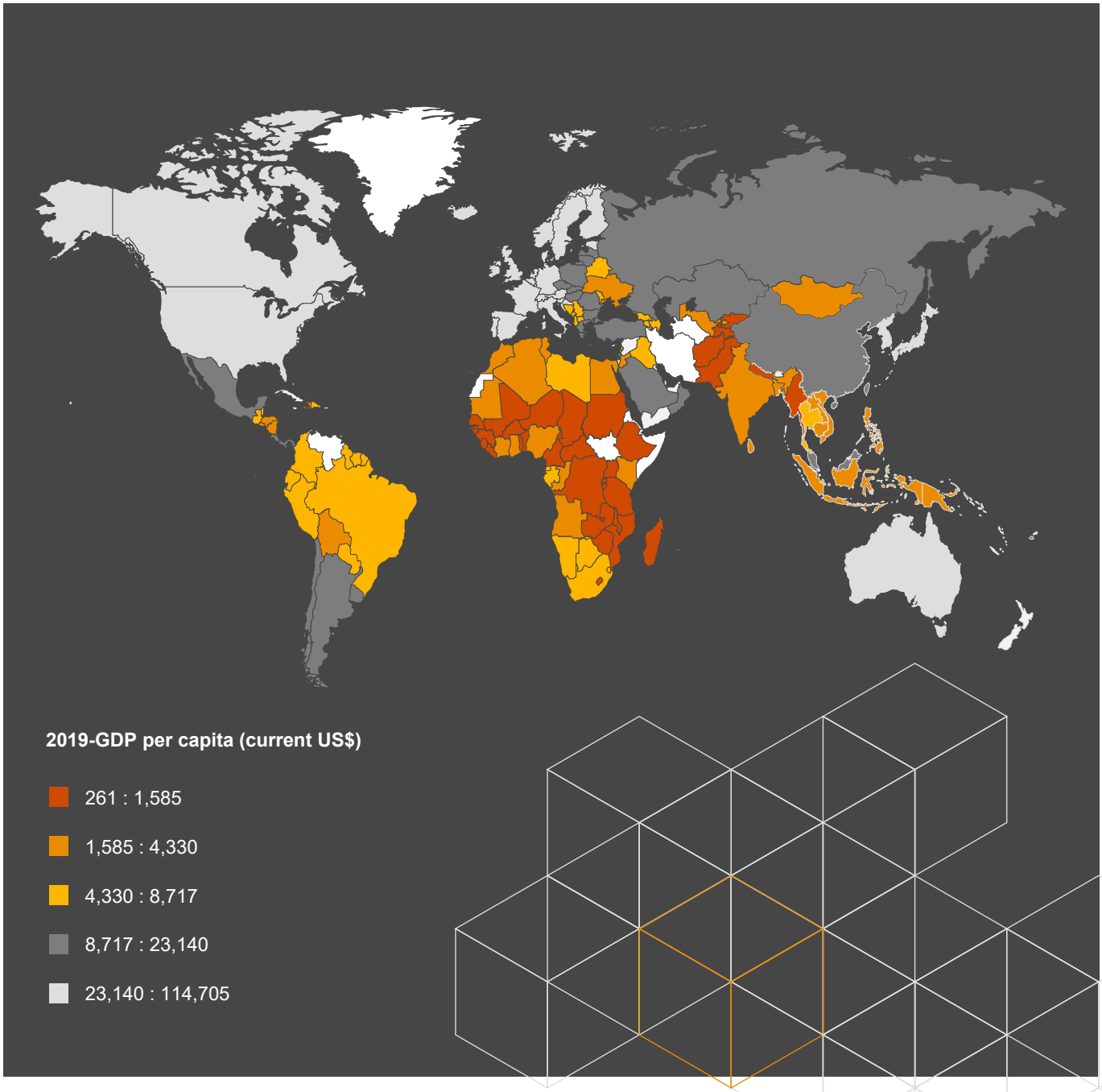
China will speed up the reform and opening up process to improve its socialist market economy in the next five years. For instance, there will be reforms on protecting property rights along with the market-oriented allocation of resources such as labour, land and capital, etc.

Highlights of the official statement on the Long-Range Objectives Through the Year 2035

- **China's GDP per capita is expected to reach the level of moderately developed countries by 2035**. This means GDP per capita is expected to double from US$ 10,262 in 2019 to at least US$ 25,000 or more in 2035.
- **China is expected to become an innovation-driven economy by 2035 and achieve major breakthroughs in core technologies**. Fostering an innovation-driven development strategy is China's top priority. The country is expected to build up a modern economic system through industrialisation, informatisation, urbanisation and agricultural development.
- **China's national strengths are expected to improve greatly, in addition to its economic and technological development**. China is expected to develop into a powerful nation in the areas of culture, education, talent and sports, with significantly enhanced soft power.

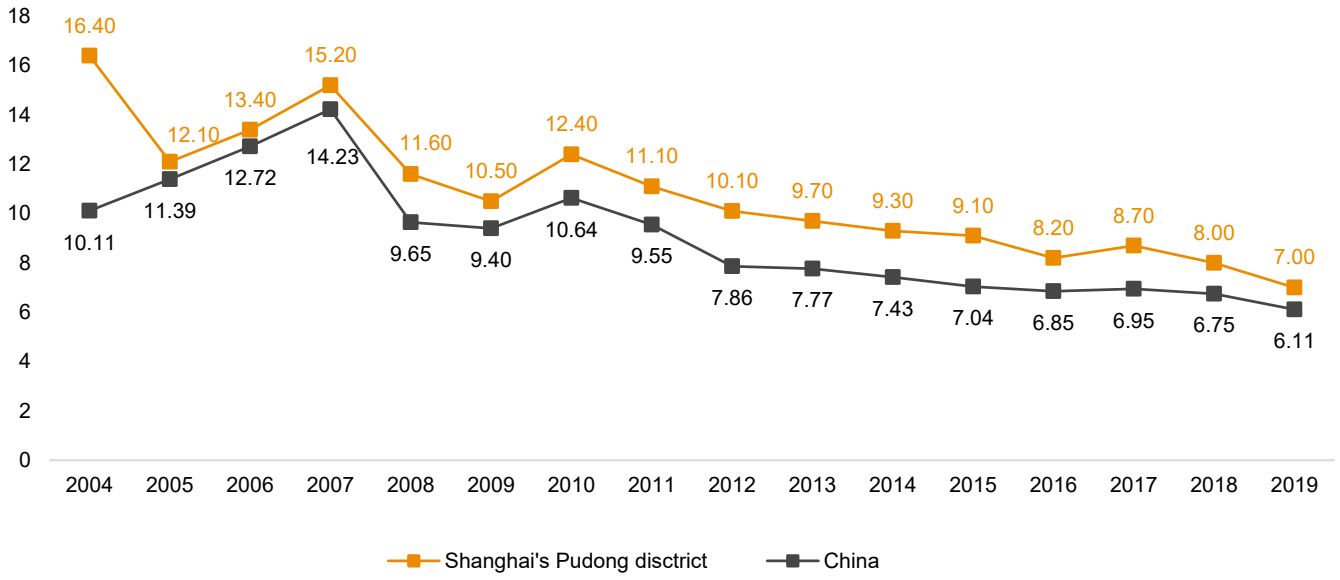
China's objective of becoming a developed country by 2035

According to different standards for a developed economy as defined by the World Bank, the Organisation for Economic Cooperation and Development (OECD) and the United Nations (UN), the mean GDP per capita for developed countries was slightly more than US$ 24,000 in 2019. Following this benchmark, China is expected to become a developed country by 2035. In fact, the GDP per capita in Shenzhen reached US$ 29,500 in 2019. By this standard, mega cities such as Shanghai and Beijing will also soon become developed economies.



Furthermore, taking the Pudong district in the city of Shanghai as a distinct example (the 30th anniversary of its development and opening-up occurred recently), its total GDP has increased by a factor of 20 in the past 30 years and its GDP per capita reached US $33,200 in 2019 (when the district's population was 5.5 million). As such, the size and level of economic development of Shanghai's largest district (by population) is already equivalent to that of a small developed country.

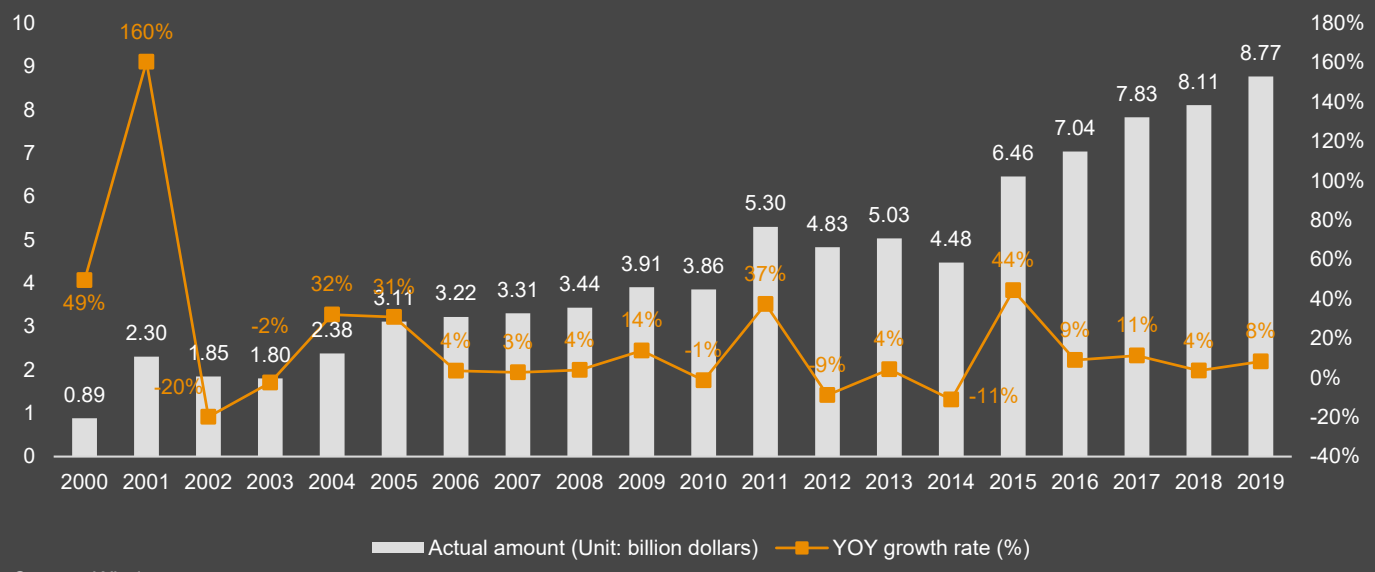
Figure 12: GDP YOY growth rate of Shanghai's Pudong district (2004-2019) (Unit: %)



Source: Wind, Shanghai municipal government

In addition, over 100 of the Fortune 500 companies have set up their research and development or innovation centres in Pudong. In 2019, foreign direct investment (FDI) in the district increased to US$ 8.8 billion. Additionally, from 2000 to 2019, the level of FDI into Pudong had an annual average growth rate of 19%.

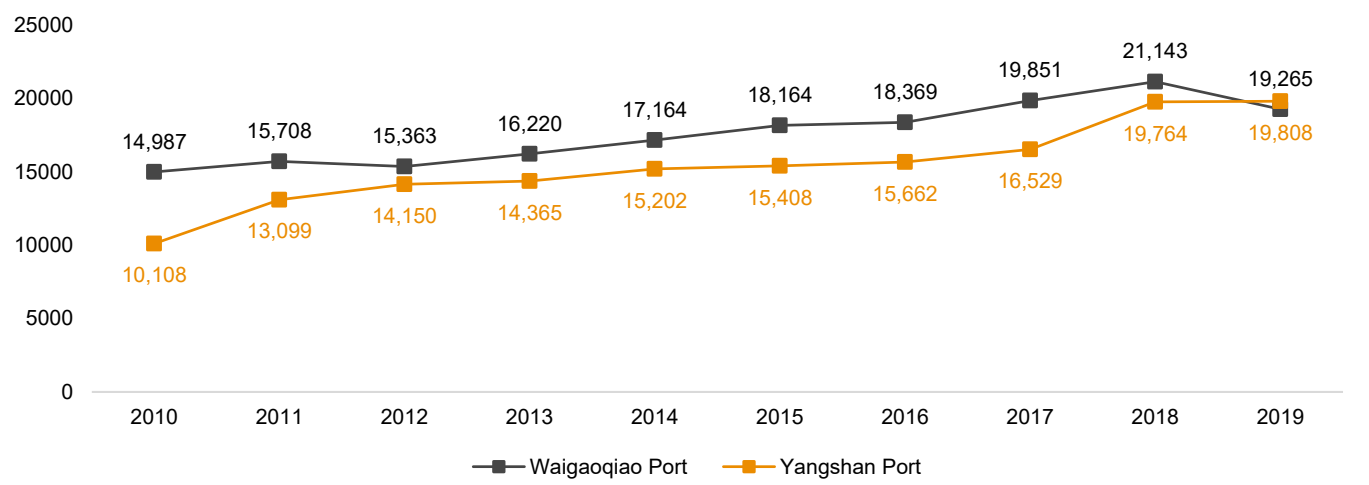
Figure 13: Actual foreign direct investment to Pudong district (2000-2019)



Source: Wind

The district of Pudong, as well as Shanghai as a whole, has rapidly developed into a global shipping and aviation hub. In 2019, the container throughput of the Waigaoqiao and Yangshan ports in Pudong exceeded 43.3 million twenty-foot equivalent units (TEUs), making the city the world's largest container port for the tenth consecutive year.

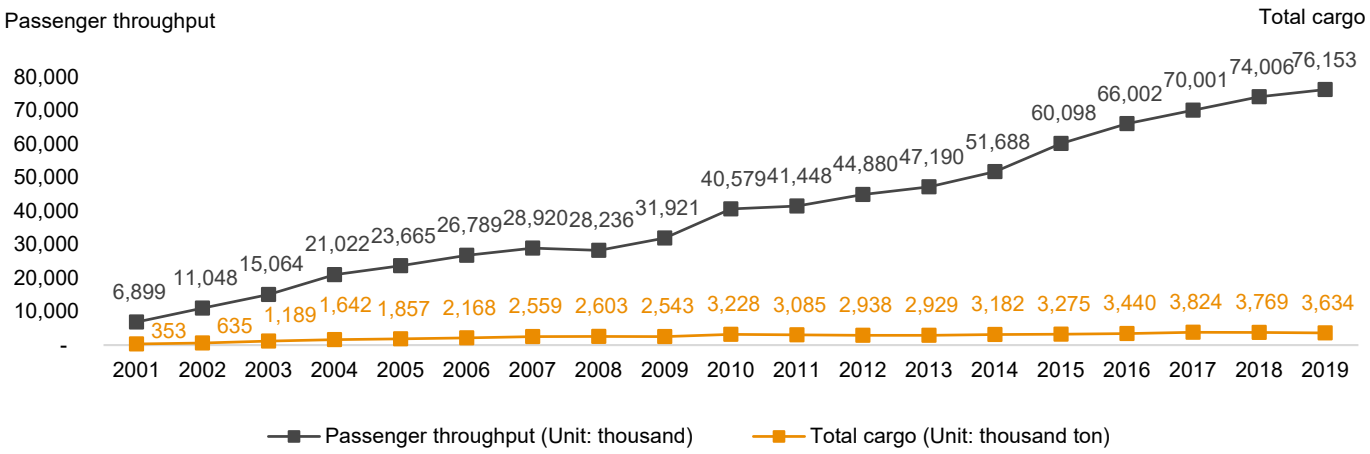
Figure 14: Container throughput (2010-2019) (Unit: thousand TEUs)



Moreover Shanghai Pudong International Airport, which started operations in 1999, is now one of the leading airports in the world and also one of the busiest. The airport's passenger throughput reached more than 76 million passengers in 2019.

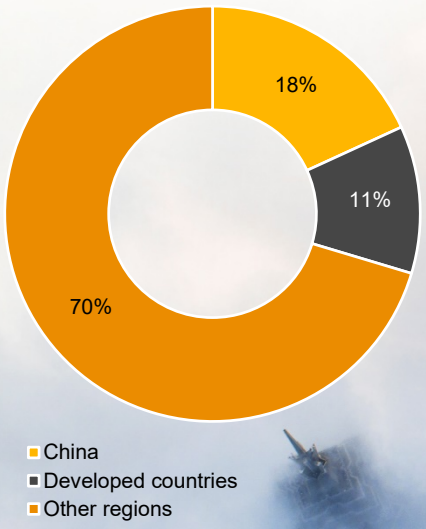
Together with Shanghai Hongqiao International Airport, the passenger throughput for Shanghai increased to 120 million passengers in the same year, making the city one of the most important aviation hubs in the world.

Figure 15: Passenger throughput and total cargo of Shanghai Pudong International Airport (2001-2019)



Source: Wind

Figure 16: Distribution of the world's population in 2019



Source: World Bank

Finally, with its population of 1.4 billion people, comprising around 18% of the global population in 2019, once China becomes a developed economy this will dramatically alter the distribution of the world's high-income population. According to data from the UN and the International Monetary Fund, the total number of people in developed countries was around 884 million or 11.5% of the global population in 2019. This proportion could increase to around 30% once China achieves its 2035 objective. However it is worth noting that this is a simplified assumption, and the reality may be much more complex.

Another point to consider is that the definition of high-income or developed country is a relative concept. Thus the benchmark of what constitutes a high-income or developed country could possibly be adjusted in the future.

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