Slow recovery continues

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- **Impact of COVID-19 Crisis on the Chinese Economy** – Although second-wave virus outbreaks have been avoided so far, the negative impact of the epidemic on the Chinese economy is likely to be prolonged. Economic recovery continues, but it is uneven and strongly driven by industrial production and construction. A key question looking forward is whether the improving price environment and stronger industrial profitability will encourage more private-sector investment.

- **Investment Trends** – The modest recovery in investment growth continues, driven by strong growth in real estate and infrastructure investment. Manufacturing investment remains sluggish but may pick up if the rebound in industrial profit growth holds.

- **Consumption Trends** – Retail sales growth is slowly recovering. Labor market weakness and slow household income growth continues to drag on consumer confidence. Consumption growth is likely to remain below its pre-coronavirus level throughout the 2H.

- **Trade Trends** – China’s export growth bounced up strongly in July, especially for exports to the US and Europe. The demand surge is consistent with the latest PMI data from the US and the Eurozone, which indicate manufacturing activity expansion. Whether this spells a bottoming out of economic contraction for the global economy remains to be seen. Public health risks from the pandemic remain pronounced in the US, Europe and much of the world and related shutdowns could continue to be highly disruptive to sustainable recovery.

**Implications for Business**

After Q2’s unexpectedly high GDP growth of 3.2 percent, China’s monetary support is tapering, purportedly in response to rising financial risks. China’s aggregate leverage level rose markedly in the 1H. The total Debt to GDP ratio increased from 245.4 percent at the end of 2019 to 266.4 percent in 1H 2020, according to National Institution for Finance & Development (NIFD). Nonperforming loan growth is also increasing. Data from the China Banking and Insurance Regulatory Committee shows that nonperforming loans in China’s commercial banks increased 322.9 billion or 13.4 percent from the end of 2019.

The government’s adjustment in monetary stance indicates that Beijing is aware of the financial system risks and willing to tolerate slower growth to ensure financial market stability. As monetary support fades, so too does visibility into the sustainability of the Q2-to-date recovery. The next several months shall tell. Our short-term view remains unchanged: growth momentum is likely to tail off in the 2H.

**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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