

19 October 2020  
Snap

## China's growth disappointed the market, but it was not all that bad

China's 3Q20 GDP growth fell just short of the consensus and moved the market. But the growth rate was in fact quite good



Woman wearing a face mask to help curb the spread of Covid-19 as her friends prepare to set up a picnic cloth on a scenic mountain in Yanqing, outskirts of Beijing, China

### GDP at 4.9%YoY for 3Q20

GDP continued to climb in 3Q20 to 4.9% year-on-year from 3.2% YoY in the previous quarter. That's mainly due to contributions from within the economy while the export market did not recover as fast.

The market is a bit upset by the 4.9% YoY growth as the consensus has been 5% or more. 10Y yields went up and CNY per USD has retreated slightly. But the market should recover these losses when it has time to digest the substance of the GDP report instead of just reacting to the headlines.

### The most encouraging factor is consumption

Retail sales jumped to 3.3% YoY in September from 0.5% YoY in August. This big jump shows that consumption has further stabilised, and there was also evidence of more spending from the business side.

Cross-provincial travel has helped the economy a lot as Mainland China "spenders" have stayed in the home country to spend on tourism services and luxury items in the duty-free shops. These activities have created jobs for low-skilled labour market participants and have helped to further stabilise consumption.

## The worrying factor is strong growth in property development

Property investment grew 5.6% YoY YTD in September after 4.6% YoY YTD in August. This growth is far better than the headline fixed asset investment growth of 0.8% YoY YTD in September, which was mainly supported by investments in the medical (21.2% YoY YTD) as well as the computer industry (11.7%YoY YTD). That means property investment is once again providing substantial support for the economy.

This is worrying as even large property developers could have an issue in getting more cash. Property prices are vital to the financial health of property developers. The market is now in positive sentiment, which is good. But another round of Covid-19 has come in Europe and the US, which will certainly dampen China's exports. And this might also weigh on prospective property investors' appetite for property investments with investors more cautious about committing cash to illiquid investments like property, and maintaining higher precautionary balances.

## Industrial production shows that China is working hard on technology

Headline industrial production was 6.9% YoY in September, a moderate improvement from 5.6% YoY in the previous month. Most of the growth was in technology-related industries. Industrial robots grew 51.4% YoY. That was a lot faster than 18.2% YoY YTD in September. Apart from that, integrated circuits increased by 16.4% YoY, which was also faster than 14.7% YoY YTD. Other parts of industrial production grew steadily but were not particularly eye-catching.

## Forecast

We are revising our China GDP forecast to 1.7% from 0.7% for the whole of 2020, and 5.5% YoY from 4.0% YoY for 4Q20. The forecast for 2021 is revised upward to 7.0% from 3.5%. The upward revision is mainly the result of a stronger-than-expected recovery of the domestic recovery.

### **Iris Pang**

Chief Economist, Greater China

+85 22 848 8071

[iris.pang@asia.ing.com](mailto:iris.pang@asia.ing.com)

## Disclaimer

"THINK Outside" is a collection of specially commissioned content from third-party sources, such as economic think-tanks and academic institutions, that ING deems reliable and from non-research departments within ING. ING Bank N.V. ("ING") uses these sources to expand the range of opinions you can find on the THINK website. Some of these sources are not the property of or managed by ING, and therefore ING cannot always guarantee the correctness, completeness, actuality and quality of such sources, nor the availability at any given time of the data and information provided, and ING cannot accept any liability in this respect, insofar as this is permissible pursuant to the applicable laws and regulations. This publication does not necessarily reflect the ING house view. This publication has been prepared solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice. The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam).