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Signs of bottoming out

Tommy Xie Dongming
Economist
+65 6530 7256
xied@ocbc.com

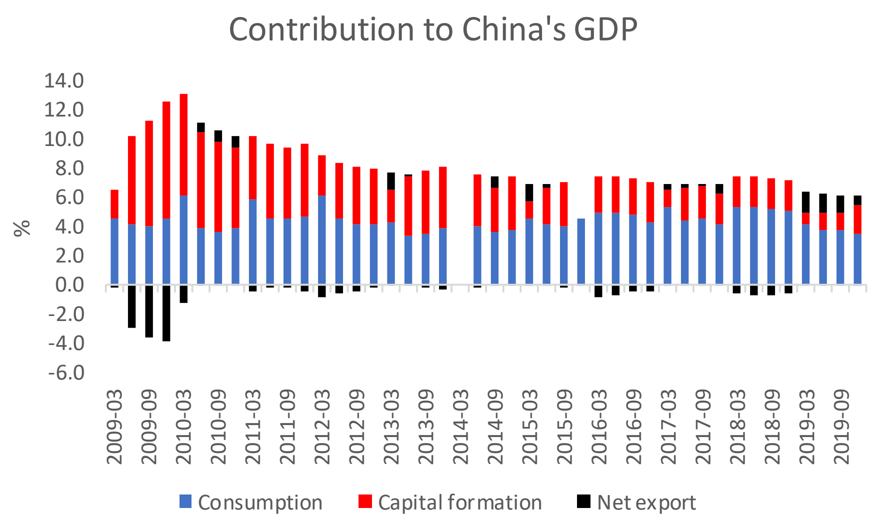
- **China promised, China delivered.**
- **Surprisingly, net export of goods and services was one of the key drivers to growth in 2019 despite the trade war.**
- **The small V-shape recovery of nominal GDP growth in 4Q to 9.6% signals that the economy may have stabilized.**
- **The key disappointment came from infrastructure investment, which failed to response to China's supportive policies.**
- **The upcoming restock cycle could be positive after the removal of uncertainty thanks to trade truce.**
- **It is inevitable for property investment to slow down further.**
- **Infrastructure investment holds the key. A 6% growth is still possible.**

The Chinese economy grew by 6% yoy in 4Q 2019, unchanged from 3Q growth. For 2019, the Chinese economy decelerated to 6.1% yoy from 6.6% yoy in 2018, in line with market expectation but within government's target of 6-6.5%.

Three surprises in 2019

First, net export of goods and services was actually one of the key drivers to growth in 2019 despite the trade war. Net export contributed 11% to China's growth in 2019, highest since China published the breakdown data from 2009. The surprisingly strong support from the net export was mainly because the decline of import growth was much bigger than export growth. This shows that China may have passed some of the costs of trade war the region.

Chart 1: Net export contributed positively to China's growth in 2019



Second, China's infrastructure investment decelerated to 3.8% yoy in 2019 from 4% in the first eleven months. The infrastructure investment failed to pick up despite the supportive measures from Chinese government such as green light for local government special bond to be used as the capital for infrastructure projects. This shows that local government continued to face funding constraints due to breakdown of implicit guarantee and rising default risks in China.

Chart 2: Infrastructure investment growth failed to response to China's supportive policies

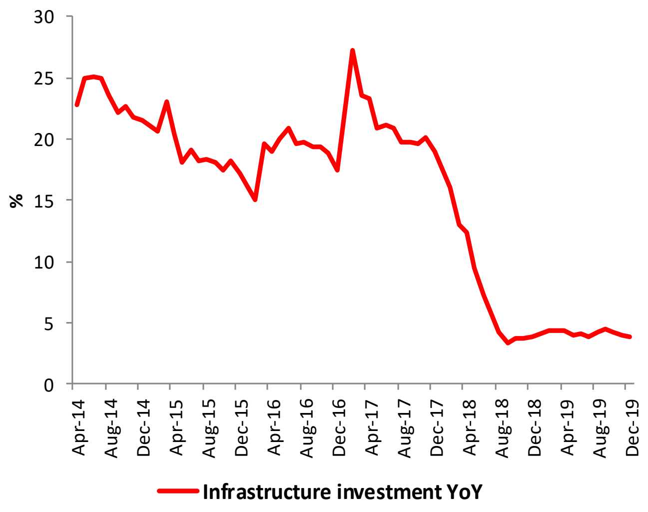
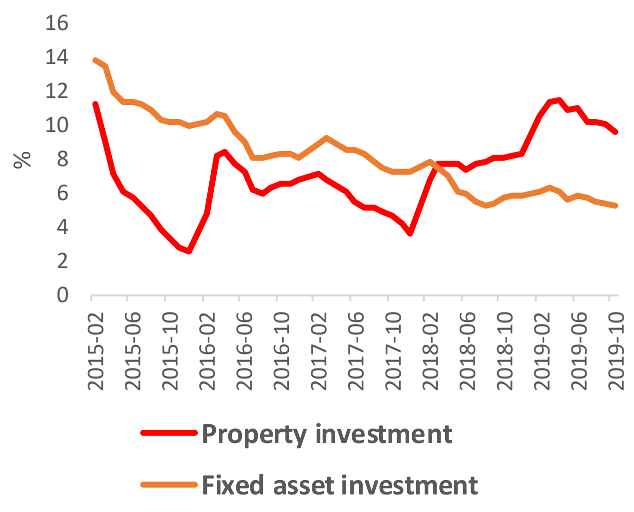


Chart 3: Property investment remained resilient despite tightening measures



Third, property market was more resilient than expected. China's property investment growth decelerated gradually to 9.9% yoy in December. Despite all the property tightening measures, the close to double-digit growth in property investment helped partially offset the weak manufacturing and infrastructure investment.

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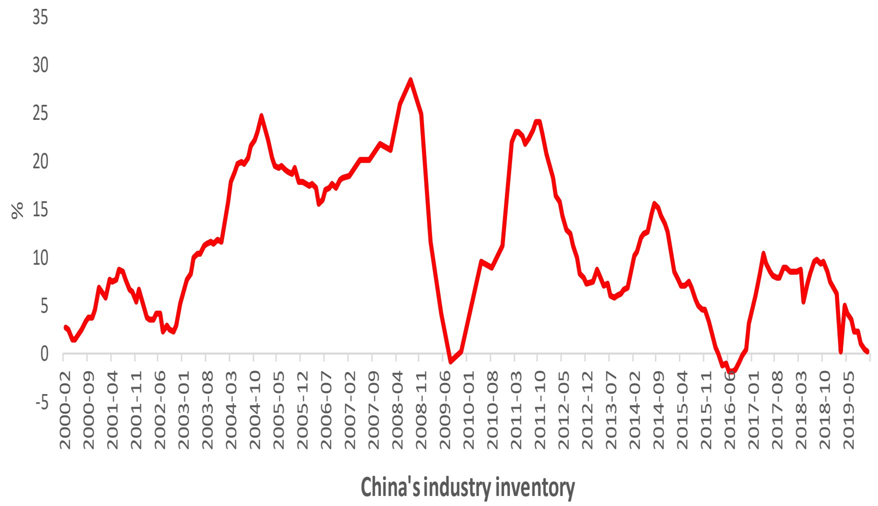
Although real GDP remained intact at 6% yoy in 4Q, China's nominal GDP growth reaccelerated to 9.63% yoy from 7.57% yoy. The small V-shape recovery in nominal GDP reinforced our view that the Chinese economy may have stabilized in the near term thanks to trade truce and more supportive policies.

Manufacturing sector has also shown signs of stabilization. Manufacturing output rose by 7% in December, strongest since March 2019. Meanwhile, fixed asset investment in manufacturing reaccelerated to 3.1% yoy from 2.5%. The removal of uncertainty from trade truce and China's increasing support to high tech manufacturing sectors will continue to support the manufacturing sectors in our view.

Time for re-stock?

From industry inventory perspective, the current destock cycle may near the end. Coupled with the trade truce with the US, we expect a start of restock cycle in 2020, which will help support the growth.

Chart 4: China's 2-year destock cycle may be near the end



However, it is inevitable that China's property investment will trend down further in 2020 as a result of falling land acquisition last year as well as tightening property measures.

The outlook of China's growth in 2020 will hinge on whether China's infrastructure investment is able to reaccelerate, which may require further support from both monetary policy and fiscal policy.

To **conclude,** the stabilized manufacturing investment and expected recovering infrastructure investment are likely to offset the deceleration of property investment in 2020, which may bring the fixed asset investment growth back to 6-7% range. As such, we think a 6% growth is still possible in 2020.

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