



ASIA PERSPECTIVE

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China Economic Update Report

This Issue:

China's Economic Growth in Q3

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China's economy grew at its slowest rate in nearly three decades in Q3 2019

As a consequence of cooling domestic demand and continuous tension of the U.S. – China trade war, China's economy expanded at its slowest rate in nearly three decades in Q3 2019.

According to the National Bureau of Statistics (NBS), Gross Domestic Product expanded 6.0 percent in the July-September period, down from 6.2 percent in the second quarter. Services and high-tech manufacturing were reported to be the key areas of growth, while employment was generally stable during this period.

Unemployment Rate in China remained unchanged at 3.61 percent in the third quarter of 2019 from 3.61 percent in the second quarter of 2019.

In September 2019, China's annual inflation rate rose to 3.0 percent from 2.8 percent in July and August, partly due to heavily increased pork prices (+101.3 percent) caused by an epidemic outbreak of African swine fever. Meanwhile, the annual core inflation, which strips out volatile food and energy prices, remained at 1.5 percent.

In September 2019, China's manufacturing purchasing managers index (PMI) was 49.8 percent, 0.3 percent up from the previous month.

Among the five sub-indices composing the PMI, the production index, new orders index and supplier distribution time index were higher than the threshold (50.0 percent), while main raw materials inventory index and employment index lied below the threshold.

The Caixin/Markit services purchasing managers' index (PMI) fell from 52.1 percent in August to 51.3 percent in September, hitting the weakest point since February.

China's services sector grew at its slowest pace in seven months in September despite a strong increase in new orders, as operating expenses continued to rise at the end of the third quarter.

In conclusion, China's September Composite PMI Output Index was 53.1 percent, slightly up by 0.1 percent from the previous month, indicating that the current production and operation activities of Chinese enterprises maintained a steady development in general.

Trade War Escalated in Quarter 3

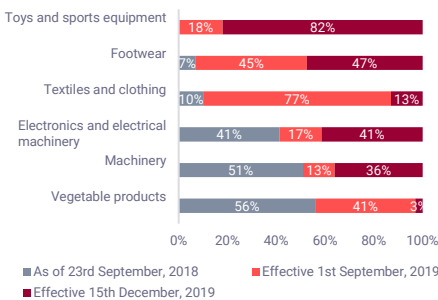
Q3 has seen immensely escalating tension between the US and China after the announcements of import tariffs on almost every single product from both sides.



Within one year from July 2018 to June 2019, the US has imposed tariffs between 10% and 25% on imports of 250 billion USD from China. In return, China applied its levies on 110 billion USD worth of products from the US. After the unsuccessful talk in July 2019, the trade tension between the two countries worsened quickly. In August, the US announced a new round of tariffs on the remaining Chinese imports of 300 billion USD, divided into two batches, which would apply from the 1st of September and the 15th of December. Soon after the US's statement, China informed publicly about their retaliatory taxes on US products of 75 billion USD, taking effect at the same time as the US's impositions.

In the latest tariff wave in September, consumer goods from China, especially toys, footwear, and clothing, have seen the most significant increases in tariff coverage. Capital equipment is also included, most of which will come in effect on the 15th of December.

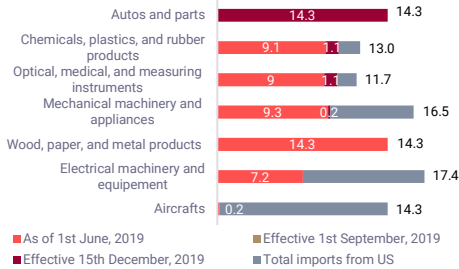
Percentages of imports from China subject to tariffs (out of 100 percent)



Source: US-China Trade War: The Guns of August, Peterson Institute for International Economics

On the other hand, China's retaliatory list of taxed imports from the US gives more impact from the 15th of December, particularly on automobiles and spare parts.

Amount of imports in manufacturing sector from the US covered by China's retaliatory tariffs (billion USD)



Source: US-China Trade War: The Guns of August, Peterson Institute for International Economics

After having agreed to hold the 13th round of trade in Q4, China and the US immediately revealed tariff exemptions on certain imports. China removed 16 types of US imports from the sanction list, including products, such as soybeans, pork, other farm goods, pesticides, animal feeds, lubricants, and cancer drugs. On the 20th of September, the US announced an exemption list of 437 Chinese goods from tariffs as well. They mainly consist of equipment or material, such as organic synthetic materials, daily necessities, chemicals, textiles, mechanical and electrical equipment, chemical products, and steel products.



The tariff impositions in Q3 on almost every Chinese import to the US have weakened China's economy further. Total trade in September continued to drop, falling 5.7% from a year ago, of which exports decreased by 3.2%, being the biggest fall since February. Imports also declined by 8.5%, the lowest record since May this year.

However, the "Phase 1" agreement from the 13th round of trade talks in early October, which happened in a two-day meeting in Washington DC, gave hopes for China's economy in the next quarters and confirmed effort from both sides to end the trade war.

Samsung closes its last smartphone factory in China



In September, Samsung announced it had closed down their last smartphone factory in China, the Huizhou factory located in the northern part of the Pearl River Delta. The factory has been operating since 1992 and used to be one of the most important production sites for consumer electronics in China and the world, from stereos in the 1990s, MP3 players in the early 2000s, and smartphones since 2007.

Samsung has followed other manufacturers, such as SONY and Google, to move the production from China to alternative locations due to rising labor costs and economic slowdown.

But the main reason for relocating is the intensifying competition with local rivals in the Chinese smartphone market. Despite being a global smartphone company, Samsung faces different challenges in China. At the beginning of 2019, Samsung's market share in China had shrunk to 1% from 15% in mid-2013.

Consumers in China have many options for Android smartphones. In low and mid-priced range, there is a large number of domestic brands, such as Xiaomi, Oppo, Vivo, and Meizu. The high-end segment is also dominated by Huawei for Android devices and Apple for iOS.

Samsung have today expanded its smartphone production in lower-cost countries instead, such as Vietnam and India, to supply its substantial global demands.

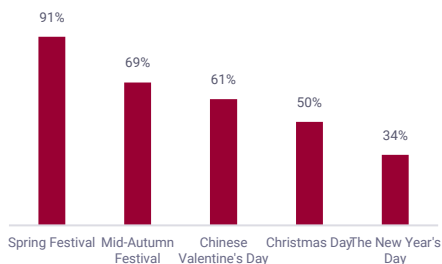
Mid-Autumn Holiday Boosts China's Economy



Mid-Autumn Festival is a major holiday that happens on the 15th of August in the Chinese lunar calendar. It's a festival for Chinese families to gather and enjoy festive foods, trade gifts with family members and friends, which spurs the consumption in China. Regardless of the economic slowdown, the holiday market is growing, and so is the Mid-Autumn Festival.

As online retail and mobile e-commerce develop, the holiday consumption market is also expanding quickly. By the beginning of the third quarter, there were 638.82 million online shopping users in China, having increased 42.7% compared to three years ago. Online shopping usage rate also improved from 63.1% to 74.8% between 2016 and 2019. Holiday sales contribute significantly to this stable growth. According to a survey by iiMedia Research, Spring Festival is considered the most important occasion for consumption, followed by the Mid-Autumn Festival.

Top 5 Holidays for Consumption



Source: iiMedia Research

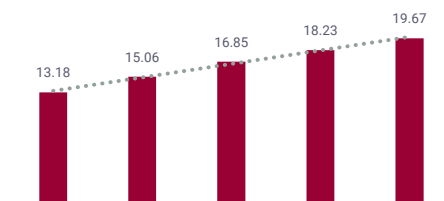
Since the disposable income of Chinese residents has increased over the past years, and the middle and affluent classes are expanding, spending during the holidays are also growing correspondingly. The Chinese population nowadays pays more attention to traditional festivals and tends to spend more on these occasions.

For the Mid-Autumn Festival, mooncakes, alcoholic beverages, and hairy crabs are undoubtedly on the top of the consumption list as they are the compulsory items in the festival. While mooncakes are more consumed by the middle-age group, alcoholic drinks and hairy crabs are purchased by the younger generations.



In 2019, mooncake sales grew 7.9% from the previous year, making the total sales of 19.67 billion RMB (about 2.77 billion USD). Over the years, mooncake sales have shown a steady upward trend. And Domestic brands have been actively exploring new flavors and innovative marketing campaigns to encourage consumers' spending on mooncakes. Beijing, Shanghai, and Guangdong were the top three regions in terms of mooncake spend.

Mooncake Sales Between 2015 - 2019 (billion RMB)



Source: China mooncake industry analysis 2019, iiMedia Research

Mid-Autumn Festival is also a bolster for tourism. According to the Ministry of Culture and Tourism of China, about 105 million Chinese people went on leisure tours during the holiday in September, an increase by 7.6% YoY. Domestic tourism revenue grew by 8.7% to 47.28 billion RMB (about 6.73 billion USD). Due to the encouraging guidelines from China's State Council before the holiday, 2019 has seen rising interests from Chinese consumers in cultural activities during the festival, such as mooncake making and cultural shows.

Beijing Daxing International Airport: China's new mega-airport is now officially open



On the 25th of September, the much-anticipated Beijing Daxing International Airport (PKX) has officially come into operations, marked by its grand opening ceremony. The starfish-shaped airport is expected to relieve pressure on the existing Airport in Beijing, where the capacity constraints often cause flight delays.

As the existing Beijing Capital International Airport (PEK) has hit its maximum capacity, it is nearly impossible for airlines to add flights at desirable times. In 2018, more than 100 million travelers passed through its three terminals, making it only the second airport in the world to cross that passenger traffic milestone. With the inauguration of PKX, China is projected to overthrow the United States as the world's biggest air travel market by 2022.

The airport, which has four runways, parking spaces for 150 airplanes and a 700,000-square-meter terminal, is expected to handle 45 million passengers by 2021 and 72 million by 2025.

In addition, the new airport is located around 50km to the south of Beijing city, and can be accessed via the new subway line – the Daxing Airport Express.



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