

Insights: Quarter 2, 2021

China Economic Update Report

This Issue:

China's Economic Performance in Q2 2021
Chinese government supports businesses
facing production price surge

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China recorded a 7.9% GDP growth in Q2 2021, slightly short of a predicted 8.1% increase

With an economic growth powered by strong exports and industrial production, China logged a 7.9% GDP growth (YoY). During the first half of 2021, China has seen an economic growth of 12.7% (YoY), making the annual target of 6% highly reachable.

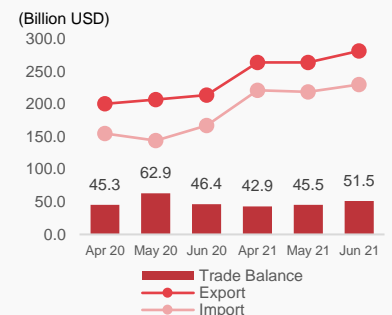
Along with the US and Europe with rapid rollouts of vaccines, China's recovery has continued to drive global markets for commodities and industrial goods. Retail sales, which measures consumer spending, grew 13.9% in the second quarter of 2021 (YoY) while industrial production rose steadily by 8.9% (YoY). During the full first 6 months of the year, retail sales, industrial production and fixed asset investment, including infrastructure, property, machinery and equipment expenditure, has seen a 23%, 15.9% and 12.6% increase (YoY), respectively.

Nevertheless, uncertainties are still on the high as new COVID-19 outbreaks has taken place in recent months. Consumption is picking up, but it is still below pre-pandemic levels since households are still cautious following the pandemic effects on personal incomes. Moreover, recent surging of commodity prices is rising faster than consumer prices, which are leading to a slowdown in production. Responding to this issue, government has given a heads-up on policies to control raw material prices and support business operations stability in upcoming time.

China saw a sharp increase in both imported and exported goods

In June 2021, China recorded a trade surplus of 51.5 billion USD, the highest since January. This was achieved thanks to the sudden acceleration of China's export growth (31.8% YoY). The pickup overpassed the impact of port disruptions in southern China caused by new COVID-19 cases, helping to underpin the heavily driven export economy.

From April to June, China's export and import expanded by 30% and 44% respectively (YoY). China recorded a trade surplus of 139.9 billion USD in the second quarter and 256.6 billion USD during the entire first half of the year. Moreover, foreign trade with major trading partners such as ASEAN, EU and the US maintained a sound growth momentum in the first 6 months.



Source: National Bureau of Statistics of China

Government supports businesses facing production price surge

Over the past years, China has steadily moved up the global value chain by increasing the export share of high technology products, automatic data processing machines and textiles. However, in the second quarter of 2021, the production of these major products was dented by the global semiconductor shortage, surging raw materials prices and new COVID-19 control measures in different areas of the country, urging Chinese government to take prompt support for affected businesses.



According to China's National Bureau of Statistics, the producer price index, which is also known as factory-gate prices, has been shooting up since the beginning of the year and reached the highest rate in more than a decade in May 2021 with 9% increase (YoY). Notably, two major commodities on China market - copper and iron ore, have surged more than 20% each during the same period.



Source: National Bureau of Statistics of China

On the other side, China's consumer price index rose just 1.3% in May, indicating that producers were not able to pass on these increasing costs to domestic consumers because of intense competition. As a result, manufactures' profits have been squeezed significantly, which mid-sized and small businesses being hit the hardest. According to a study conducted in April 2021, the proportion of Chinese companies that have

a gross profit margin below 15% has increased to about 70%.

Given how critical the Chinese manufacturing industry is to global trade, soaring factory prices in China added to global inflation concerns. Along with the ocean freight that have become more expensive than ever, the prices of made-in-China goods has been increasing in global market. Indicatively, China's exported product to the US, the biggest China's trading partner on the single-country basis, costed 2.1% more at the beginning of the second quarter than it did a year ago, claiming the fastest rise in the past decade.



In coping with these consequences, Chinese government has provided additional support for privately run businesses, which is the biggest foreign trade entity for the export-led economy.

The recent governmental policies to ensure supply and stabilize commodities prices, appeared to be pulling back prices to some extent. In June 2021, the producer price index rose 8.8% from a year earlier after jumping 9% in the previous month, showing an end to a long-standing rising period. In the same month, the government gave a surprised heads-up about cutting the reserve requirement ratio, meaning that the required amount of money in the bank will be lowered. This strategic move was expected to better support small businesses and lower their financing costs while dealing with the impact of rising commodity prices.

Looking ahead, producer prices is forecasted to slow down even more in the upcoming quarters, whereas consumer prices are seen picking up over the same period. Consequently, businesses will be able to improve their profit margin and stabilize operations.

Domestic travel strongly resumed during two big public holidays in China in Q2 2021

Since the coronavirus pandemic keeps Chinese from venturing overseas, Chinese's enthusiasm for domestic travel has grown superb, especially after the Chinese New Year in which the country was under strict quarantine requirements.



According to the Ministry of Culture and Tourism, bookings for 5-day Labor Day holiday in May tripled from the previous year and domestic trips topped 230 million, posing a 120% and 18% increase compared with the same period in 2020 and 2019, respectively. However, a total spending of 17.48 billion USD during the holiday was only about 75% of 2019's high record.

Other correlative services took advantage from the occasion as well. For the restaurant industry, the number of orders in the first three days of the holiday was the highest in more than half a decade. As for shopping, nearly 500 million parcels were delivered in the first two days of the holiday, increased 26% from the year 2020.

Another public holiday that stimulated the domestic travel was the Dragon Boat Festival, taking place in June. A continuing recovery of China's domestic travel market was seen over the three-day national holiday, with travel orders growing by about 60% (YoY). Due to time constraints, most of the tourists went for short-distance trips, resulting in growing demand for high-speed railway during the holiday.

All in all, these public holidays had great impact to China's economic recovery post-pandemic as it helped to stimulate domestic consumption and encourage production to meet growing demand. The success of China's holiday economy certainly buoyed up the travel industry around the world with new hope.



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