China GDP Growth in 2020

Market Report

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Prepared by the [POST TYPE] in [LOCATION].

Rāpopoto — Summary

- China reported higher than forecast fourth-quarter GDP growth of 6.5%, resulting in annual real GDP growth in 2020 of 2.3%.
- Although this was the lowest annual growth rate in 40 years, China is likely to be the only top-20 economy to have expanded in 2020.
- China's growth in 2020 was led by industrial output and capital expenditure, while domestic consumption was hard hit, pulling annual GDP growth back by half a percentage point.
- Domestic demand in the fourth quarter continued its uneven recovery. Retail sales recorded their fifth month of growth, but remained in negative territory for the year (down 3.9%). Certain sectors, particularly in the services industry, continue to struggle.
- Tightening travel restrictions across the country as a result of the recent spike in domestic COVID-19 cases will have a significant impact on services such as tourism and catering over the Chinese Lunar New Year holiday period, a traditional boom time for these sectors.
- Overall, New Zealand's exports to China held up well in 2020, at NZ$16.6 billion (down by just $100 million).
- International analysts maintain bullish forecasts for China's economic rebound in 2021, with current estimates of GDP growth coalescing around 8%

Pūrongo — Report

1. China's Gross Domestic Product (GDP) grew 6.5% year-on-year in the fourth quarter (Q4) of 2020, up from 4.9% in Q3, pulling annual real GDP growth for 2020 up to 2.3%. This means that China is likely to be the only top-20 economy to have experienced economic growth in 2020. Nevertheless, 2020 marks China's lowest level of GDP growth in over 40 years.

2. Preliminary fourth quarter data shows that China's economy is still on the upward swing of its recovery with primary, secondary (industrial), and tertiary (services) sectors all growing at impressive rates (between 4-7% year-on-year), and accelerating from Q3. However certain sectors of the Chinese economy continue to face challenges.

   External demand and capital expenditure is driving GDP growth…

3. China's positive economic performance in the second half of 2020 was primarily led by a resurgence in industrial activity, driven by external demand for Chinese goods. This trend continued in December with China's industrial value-added production growing by 7.3%, the

highest monthly rate all year. High tech, pharmaceutical and textile manufacturing all continued to show strong growth in December.

4. Chinese exports remained strong in Q4, growing substantially in December (up 10.9% in RMB terms, and 18.1% in USD terms) leading China to its largest-ever monthly trade surplus. Exports of medical equipment and electronic goods led the surge, with exports of computers in particular up 54.5% on the same period in 2019. Overall, China's exports in 2020 were up 3.6% in 2020, with imports down 1.1% (despite growing by 6.5% year on year in December), meaning China's trade surplus is continuing to widen.

5. Another contributor to China's 2020 GDP growth was capital expenditure, with infrastructure investment growing 3.4% in 2020, and fixed-asset investment up 2.9%.

6. Foreign Direct Investment (FDI) into China grew 4% in 2020 to US$163 billion. When coupled with the 49% decline in FDI flows into the US, China became the largest global FDI recipient for the first time.

…and domestic demand is showing signs of slow recovery

7. Consumer spending, seen as a key driver of Chinese GDP growth as the economy rebalances away from trade and infrastructure driven growth, was hit hard in 2020 and has been slow to recover. There were positive signs in Q4 with domestic sales of consumer retail goods, a key indicator of consumption growth, rising 4.6% in Q4, up from 0.9% growth in Q3. Despite the resurgence during the tail end of the year, total retail sales of consumer goods declined 3.9% overall in 2020, the first contraction since 1968, contributing a 0.5% drag on 2020 GDP growth. The lower 2020 baseline and the recovering economy should mean retail sales return to overall growth in 2021, although the Q4 growth rate is still a considerable way from the 8-9% growth reported in 2018 and 2019.

8. Domestic consumer demand for services was hardest hit, with official data showing that Chinese consumer expenditure on certain services, such as restaurants and catering, recreation, education services, and medical services all declined significantly over 2020. Consumer spending on the major services categories, particularly those related to recreation and education have only now started to return to low levels of growth; however other subsectors, such as catering and accommodation, continue to lag behind. The recent COVID-19 outbreaks in various locations in China and consequent tightening of restrictions across the country will likely have a significant impact on the recovery of these sectors, particularly as restrictions will affect the Lunar New Year holiday period for the second year in a row.

9. The ongoing strong demand for Chinese exports has contributed to a global shortage of shipping containers and consequentially shipping price rises in recent months. This fact, coupled with increased COVID-19 inspection requirements for goods entering China, has created additional logistical challenges for global trade. Overall, New Zealand's goods exports to China held up well in 2020 despite the challenges of COVID-19 – totalling NZ$16.6 billion over the year, a small drop of -0.6% from $16.7 billion in 2019.

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