OUTLOOK FOR THE CHINESE ECONOMY

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09/15/2020

We had the pleasure of speaking to Tao Wang, UBS chief China economist, last week on our *Behind the Markets* podcast. Wang is based in Hong Kong, and her team leverages insights from the UBS evidence labs, with data scientists all over the world tracking what is happening in the global economy and the Chinese economy.

Wang acknowledges there are issues with the availability of reliable data for the Chinese economy, but compared to other emerging market economies, Wang believes the data happens to be quite good.

Wang emphasized that gross domestic product (GDP) is always a key estimate figure and there are inherent methodology issues in estimates. She acknowledges that there could also be data manipulation from local officials. Wang's team tries to get corroborative evidence from a wide swath of data points like industrial production, property activities, exports and imports, which can be verified against other country data to get a better understanding of the economy. When construction is strong, Wang looks at steel production and iron ore to verify the strength.

First in, First out

China was the first to shut down from the novel coronavirus with a "forced recession." While people's movement was still relatively slow in April, industrial production and port activity (for export and imports) had a sharp rebound earlier than expected. Many of those activities are currently back to normal or above normal at this stage of the year.

Bigger gatherings and events are still lagging behind, however, although domestic travel is recovering as well. Wang's team is looking at year-over-year growth of 5%–6% in the third and fourth quarters of 2020.

Different Government Responses

China locked down Wuhan, the epicenter of the virus, which was bad for the province but helped prevent the virus from spreading throughout the country. The Chinese government focused its relief measures on getting people back to work, which was a challenge with public transportation shut down. Compared to the U.S., there were very few subsidies given to individuals, and instead, the government tried to help reopen the economy more quickly.

Banks Pressured to Do "National Service"

One of the primary Chinese government efforts to help businesses cope is having banks extend loans and not ask for payments—even on interest—for a year. The government is also asking banks to continue to lend to companies having cash flow issues. This is good for the economy in the short run, but at some point, someone has to pay for these bad loans. This is one of the issues for investments in state-influenced banks in China, which will likely see a rise in non-performing loans. This "national service" catch of being a state bank causes most of the large Chinese banks to trade for less than their book value.

Consumption Shift

Even after the mobility lockdown was relaxed, online entertainment was still subdued. People are spending more on daily goods, such as cooking at home. They are also spending more on health care items, such as gyms for fitness, with less on clothing, cosmetics and jewelry. Car sales have also been quite robust, with sales higher than their level one year ago, as the pandemic increased desires to buy a car, given fears of unreliable public transportation in the near future. Upgrades to homes and electronics were also preferred.

This was a great review of what is happening in one of most important economies. You can listen to our full conversation with Tao Wang below.

Behind the Markets Podcast: Tao Wang

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DEFINITIONS

Gross domestic product (GDP) : The sum total of all goods and services produced across an economy.

Book Value : refers to the net asset value of a company determined by subtracting liabilities and intangible assets from Total assets.