CHINA BIWEEKLY

RMB Internationalization Business Promotion Office
Global Business Division

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■ BIWEEKLY DIGEST

[Economy]

- **Main Economic Indicators for May Continue to Recover, While Investment and Consumption Remain in Negative Growth**
- **IMF Economic Outlook for 2020: Global Growth Projected to Decline 4.9%, China to Grow 1.0%**
- **Number of Employed Persons in FY2019 Down 1.15 Million to 774.71 Million**

[Industry]

- **May Housing Prices for 70 Medium- to Large-Sized Cities: More Cities See Prices Rising Month-on-Month (MoM), but Prices Falling Year-on-Year (YoY)**
- **This Year's "618" Online Sales Events a Big Success; Strong Activity in Small- and Mid-Size Regional Cities; Livestreaming Boosts Spending**

[Trade/Investment]

- **Foreign Direct Investment (FDI) in May: Inward FDI Grows by 4.2% YoY, Outward FDI Falls by 12.8% YoY**
- **MOFCOM's Latest Report on Trade Situation: Full-Year Stability to Be Maintained in a Harsh, Complex Environment**

[Economy]

◆Main Economic Indicators for May Continue to Recover, While Investment and Consumption Remain in Negative Growth

On June 15, the National Bureau of Statistics (NBS) released the main economic indicators for May. Although growth rates continued to improve over April across the board for investment, production, and consumption (Figs. 1 & 2), the economy has not yet returned to normal with investment and consumption remaining lower than the previous year. NBS indicated that further efforts need to be made to normalize the economy considering the growing external risk due to concerns over the impact on the global economy from the COVID-19 pandemic expanding outside China.

[Fig. 1] Main Economic Indicators for May

Item			April 2020				May 2020		
			Amount		YoY (%)		Amount		YoY (%)
Investment in fixed assets (excl. by rural companies)*			(RMB Bn)	13,682.4	▲ 10.3	↗	(RMB Bn)	19,919.4	▲ 6.3
(State-owned sector)			(RMB Bn)	(Undisclosed)	▲ 6.9	↗	(RMB Bn)	(Undisclosed)	▲ 1.9
(Private sector)			(RMB Bn)	7,736.5	▲ 13.3	↗	(RMB Bn)	11,223.2	▲ 9.6
	By industry	Primary	(RMB Bn)	310.2	▲ 5.4	→	(RMB Bn)	563.4	▲ 5.4
		Secondary	(RMB Bn)	4,093.7	▲ 16.0	↗	(RMB Bn)	6,046.9	▲ 11.8
		Tertiary	(RMB Bn)	9,278.5	▲ 7.8	↗	(RMB Bn)	13,309.1	▲ 3.9
Industrial production (value added)**			-	-	3.9	↗	-	-	4.4
Total retail sales of consumer goods			(RMB Bn)	2,817.8	▲ 7.5	↗	(RMB Bn)		▲ 2.8
Consumer price index (CPI)			-	-	3.3	↘	-	-	2.4
Industrial producer price index (PPI)			-	-	▲ 3.1	↘	-	-	▲ 3.7
Industrial producer purchase price			-	-	▲ 3.8	↘	-	-	▲ 5.0
Exports			(USD Bn)	200.28	3.5	↘	(USD Bn)	206.81	▲3.3
Imports			(USD Bn)	154.94	▲ 14.2	↘	(USD Bn)	143.89	▲ 16.7
Trade balance			(USD Bn)	45.34	-	–	(USD Bn)	62.93	-
Inward foreign direct investment (executed basis)			(USD Bn)	10.14	8.6	↘	(USD Bn)	9.87	4.2

* Year-to-date total from January

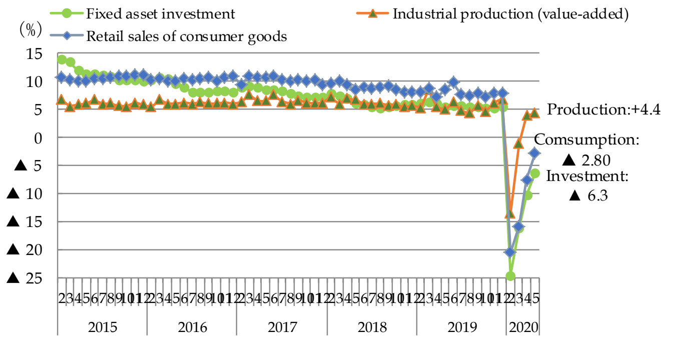
** Independently-accounted state-run companies and non-state-run companies with annual sales of RMB20Mn or more

Source: Created based on data released by the NBS

[Production, Investment and Consumption] Two Months Consecutive Growth in Production, Slowed Decreases in Investment and Consumption

Industrial production for May increased by 4.4% year-on-year (YoY) (April: up 3.9%), maintaining a growth trend for two consecutive months. Meanwhile, investment in fixed assets for January to May decreased by 6.3% YoY (January-April: down 10.3%), and the total retail sales of consumer goods for May decreased by 2.8% (April: down 7.5%). Compared to the previous month, both indicators are significantly closing the gaps created by the large drops (Figs. 1 & 2).

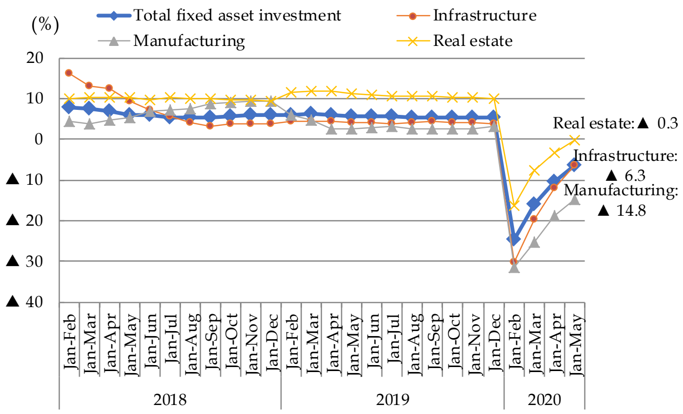
[Fig. 2] Growth in Fixed Asset Investment, Industrial Production, and Retail Sales of Consumer Goods



Notes: Fixed asset investment figures use year-to-date totals from January
Industrial production and consumer sales figures use cumulative Jan-Feb totals for Feb only

Source: Created based on data released by the NBS

[Fig. 3] Growth in Fixed Asset Investment by Category



Source: Created based on data released by the NBS

Divided by product category, production saw remarkable YoY increases of 62.1% in excavation and soil shoveling transport equipment, 22.3% in notebook PCs, 20.8% in fiber optic cables, 19.0% in automobiles, and 16.9% in industrial robots. By contrast, production in smartphones decreased by 9.0% YoY, further falling from the previous month's drop of 2.0%.

There were YoY decreases in investment for January to May: 0.3% for real estate (January-April: down 3.3% YoY), 6.3% for infrastructure (January-April: down 11.8% YoY), and 14.8% for manufacturing (January-April: down 18.8% YoY). All the sectors saw the pace of decline slow down slightly, however manufacturing has still been suffering a significant drop (Fig. 3).

Consumption also significantly slowed YoY decreases in both consumer goods at 0.8% (April: down 4.6% YoY) and dining at 18.9% (April: down 31.1% YoY). Regarding consumer goods, some sectors enjoyed a high YoY growth: 17.3% for daily necessities, 16.7% for beverages, 15.4% for sporting goods, 12.9% for cosmetics, and 11.4% for communication devices. However, this was not the case for dining and other sectors that are based around social gatherings and close contact with others, and therefore they have endured a slower recovery in consumption.

[Employment] Slight Improvement Seen

The surveyed unemployment rate in urban areas as of the end of May decreased to 5.9%, 0.1 point lower than 6.0% the month before. Conversely, the unemployment rate rose by 0.9 point on a YoY basis, and the number of newly employed workers in urban areas for January to May fell by 1.37 million YoY to 4.6 million. Furthermore, the NBS stated that employment would continue to suffer downward pressure as a record high of 8.74 million new university graduates are estimated to enter the labor market in the future.

◆IMF Economic Outlook for 2020: Global Growth Projected to Decline 4.9%, China to Grow 1.0%

On June 24, the IMF published its "World Economic Outlook Update, June 2020."

Global growth in 2020 is projected to decline 4.9%, 1.9 points below the previous forecast. The IMF states that this update reflects greater-than-anticipated negative effects on economic activity in the first half of 2020 caused by the COVID-19 pandemic, as well as the lower business productivity in the second half and beyond due to the prolonged need for COVID-19 countermeasures such as social distancing.

Regarding China, the IMF forecast 1.0% growth for 2020 as its economy has recovered from the severe contraction seen in Q1 and major stimulus measures can be expected to support its recovery. While the forecast is a 0.2 point downward revision from the previous outlook, the IMF maintained its expectation of positive growth. In 2021, China is expected to grow 8.2%, the highest growth rate of any country/region, exceeding the 4.8% forecast for advanced economies and 5.9% for emerging and developing economies.

In announcing this outlook, the IMF emphasized the uncertainty that continues with regard to the pandemic. It also identified other risk factors that could weigh on growth including escalating tensions between the U.S. and China, frayed relationships among major oil producing countries, and widespread social unrest.

IMF Economic Outlook for Growth

Region	Growth in 2019 (%)	World Economic Outlook (April 14, 2020)		World Economic Outlook (June 24, 2020)	
		Projected growth in 2020 (%) (Point correction from 2020/01)	Projected growth in 2021 (%) (Point correction from 2020/01)	Projected growth in 2020 (%) (Point correction from 2020/04)	Projected growth in 2021 (%) (Point correction from 2020/04)
World	2.9	▲3.0(▲6.3)	5.8 (+2.4)	▲4.9(▲1.9)	5.4 (▲0.4)
China	6.1	1.2(▲4.8)	9.2(+3.4)	1.0(▲0.2)	8.2(▲1.0)
U.S.	2.3	▲5.9(▲7.9)	4.7 (+3.0)	▲8.0(▲2.1)	4.5 (▲0.2)
Japan	0.7	▲5.2(▲5.9)	3.0(+2.5)	▲5.8(▲0.6)	2.4(▲0.6)

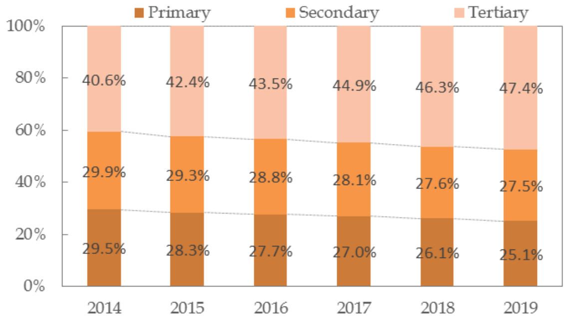
Source: Created based on IMF's announcements

◆Number of Employed Persons in FY2019 Down 1.15 Million to 774.71 Million

The Ministry of Human Resources and Social Security released its FY2019 statistical report on employment and social security on June 8. The total number of employed persons at the end of 2019 was 774.71 million, a decline of 1.15 million from the previous year. A breakdown of the data indicates that the portion employed in the primary industry declined from 26.1% to 25.1%, as well as in the secondary industry from 27.6% to 27.5%, with both sectors continuing a declining trend. Meanwhile, the portion employed in tertiary industries remained on an upward trend, expanding from 46.3% to 47.4% (Fig. 1).

Of the total number of employed persons, 442.47 million were urban workers, and 13.52 million of these were newly employed, a slight decrease from 13.61 million last year. Each year, the government indicates a target for new employment in its "Report on the Work of the Government" delivered at the National People's Congress (NPC, China's legislative body). The actual result for 2019 was well above the stated target of 11 million. For 2020, however, the target announced at the NPC held this May was 9 million, which is considerably less than both the target and actual figure for 2019 (Fig. 2).

[Fig. 1] Trends in Employment Ratio by Industry Sector



Source: Created based on FY2019 statistical report on operational development of human resources and social security

[Fig. 2] Newly Employed Urban Workers and Unemployment Rates (Targets and Actual)

	2019 Target	2019 Actual	2020 Target
Number of newly employed (urban)	11 million or more	13.52 million	9 million or more
Urban surveyed unemployment rate	Approx. 5.5%	5.2%	Approx. 6.0%
Urban registered unemployment rate	4.5% or lower	3.6%	Approx. 5.5%

Sources: Target figures are from the "Report on the Work of the Government" for each year; actual figures are from FY2019 statistical report on operational development of human resources and

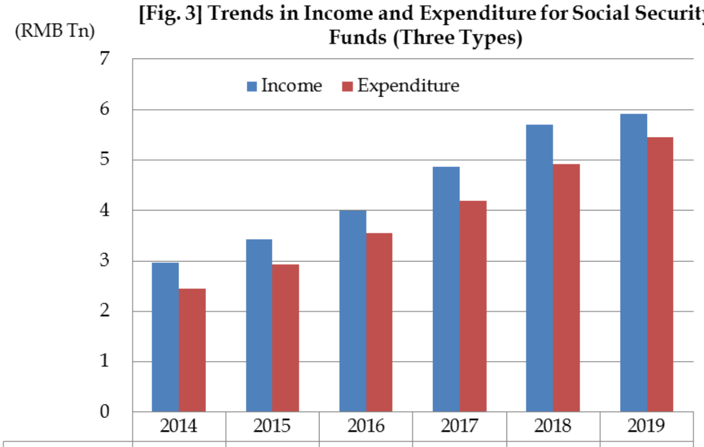
Unemployment rates were within the target ranges, with the urban surveyed unemployment rate at 5.2% at the end of 2019 (End of 2018: 4.9%), compared to a target of approximately 5.5%. The urban registered unemployment rate* was 3.6% (End of 2018; 3.8%), compared to a target of 4.5% or less. The government has raised the target figures for 2020, anticipating that unemployment will increase by a certain degree (Fig. 2), and has pledged to use every available means to maintain employment.

*The urban registered unemployment rate is a measure of unemployment among registered urban residents, a category that excludes rural migrant workers. Since March 2018, the government has also released a surveyed unemployment rate based on a national survey, which is closer to actual economic conditions.

Comparing the income and expenditure of China's social security system, income in 2019 for the three types of insurance—pensions (basic old age), unemployment, and workers' compensation—was RMB 5.9130 trillion, up 3.6% YoY, against expenditure of RMB 5.4492 trillion, up 10.7% YoY. While total income is still higher than total expenditure (Fig. 3), the rate of increase is far higher for expenditure than it is for income. In fact, expenditure exceeded income for unemployment insurance, with expenditure of RMB 133.3 billion against income of RMB 128.4 billion.

The number of people enrolled in each type of insurance as of the end of 2019 and the fund balance of each are as follows: 967.54 million people/RMB 6.2873 trillion in pensions, 205.43 million people/RMB 462.5 billion in unemployment, and 254.78 million people/RMB 178.3 billion in workers' compensation.

[Fig. 3] Trends in Income and Expenditure for Social Security Funds (Three Types)



	2014	2015	2016	2017	2018	2019
Income	2.9694	3.4317	3.9957	4.8580	5.7089	5.9130
Expenditure	2.4501	2.9265	3.5591	4.1980	4.9208	5.4492

Source: Created based on FY2019 statistical report on operational development of human resources and social security

[Industry]

◆May Housing Prices for 70 Medium- to Large-Sized Cities: More Cities See Prices Rising Month-on-Month (MoM), but Prices Falling Year-on-Year (YoY)

On June 15, the Chinese National Bureau of Statistics (NBS) released the housing price indices for 70 medium- and large-sized cities for May. As the economy and social activities are getting back to normal, the NBS views that the recovery of the housing demand has kept on growing.

Sale prices for newly constructed residential buildings increased over the previous month in 57 cities—an increase of 7 cities over the 50 cities in the previous month, while 11 cities experienced declines, the same number as last month. Two fewer cities have seen on MoM housing price change than the nine cities that did last month (Fig. 1).

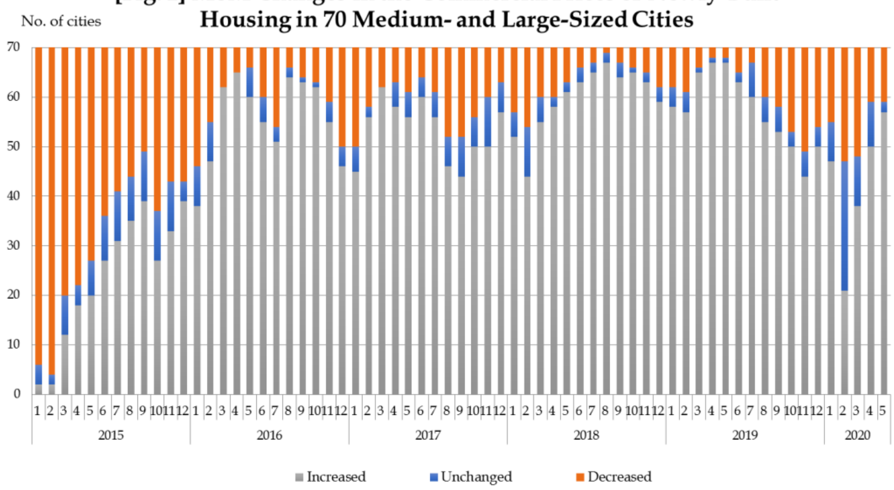
Taking a closer look at price rises by city size, the house prices rose MoM in all the city sizes: from 0.2% to 0.7% in the first-tier cities,* from 0.5% to 0.6% in the second-tier cities,* and from 0.6% to 0.7% in the third-tier cities * (Fig. 3). The cities with substantial rises on a MoM basis were Yinchuan (Ningxia Hui Autonomous Region) at 2.1%, Ningbo (Zhejiang) at 1.4%, Nanchong (Sichuan) at 1.3%, while those with the largest drops were Sanya (Hainan) at 0.4% and Haikou (Hainan) at 0.3%.

Meanwhile, 62 cities—one fewer than the 63 cities in the month before—saw YoY price increases, while eight cities—one more than the seven cities in the month before—saw YoY price decreases, indicating that the number of cities with falling house prices is growing year-on-year (Fig. 2).

The YoY rate of growth in house prices remained the same in the first-tier cities as it did in the previous month at 2.9%, while there were declines from the previous month in both second-tier cities from 5.6% to 5.4% and the third-tier cities from 5.1% to 4.8% (Fig. 4). On a YoY basis, the cities which saw substantial growth include Tangshan (Hebei) at 15.0%, Yinchuan at 14.7%, Xining (Qinghai) at 13.9%, and Hohhot (Inner Mongolia Autonomous Region) at 13.8%. Declines were seen in Luzhou (Sichuan) at 3.5%, Jinan (Shandong) at 3.1%, and Shaoguan (Guangdong) at 2.0%.

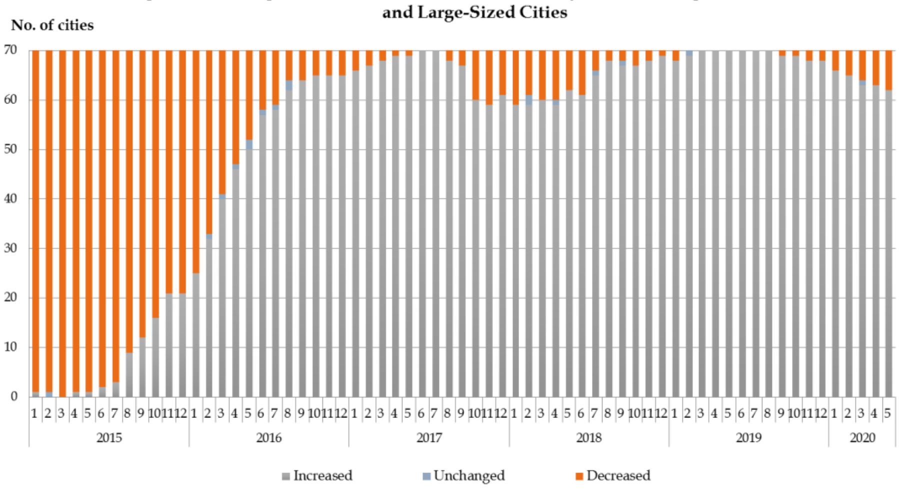
* First-tier cities: Beijing, Shanghai, Guangzhou, and Shenzhen
Second-tier cities: 31 cities including provincial capitals and sub-provincial cities
Third-tier cities: The 35 remaining cities of the 70, excluding the above first- and second-tier cities

[Fig. 1] MoM Changes in the Commercial Prices of Newly-Built Housing in 70 Medium- and Large-Sized Cities



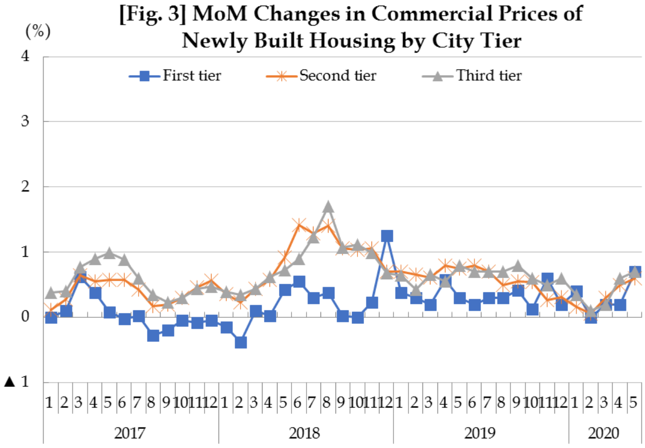
Source: Created based on data released by the NBS

[Fig. 2] YoY Changes in the Commercial Prices of Newly-Built Housing in 70 Medium- and Large-Sized Cities



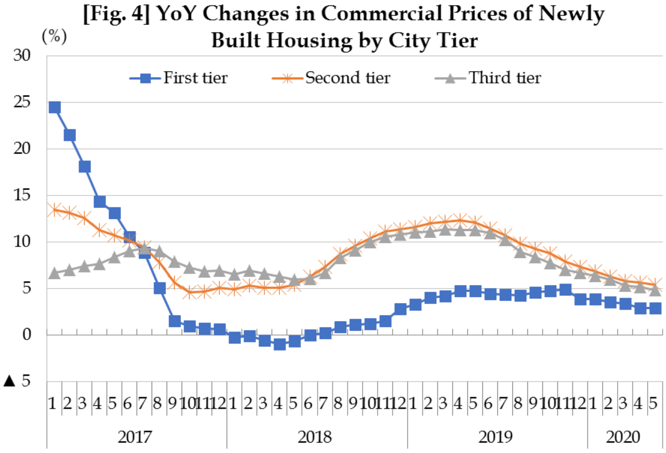
Source: Created based on data released by the NBS

[Fig. 3] MoM Changes in Commercial Prices of Newly Built Housing by City Tier



Source: Created based on data released by the NBS

[Fig. 4] YoY Changes in Commercial Prices of Newly Built Housing by City Tier



Source: Created based on data released by the NBS

◆This Year's "618" Online Sales Events a Big Success; Strong Activity in Small- and Mid-Size Regional Cities; Livestreaming Boosts Spending

An annual mid-year online shopping event in China known as the "618" sales was held from June 1 to June 18. The total value of online transactions during this period was up 42% from the year before, with the number of purchases also rising 52.0%. Major e-commerce company JD.com launched the 618 sales in 2010 to celebrate the day the company was founded (June 18, hence "618"). It is now a major mid-year event in which other e-commerce companies also take part. In recent years, improvements to logistical infrastructure and other factors have boosted orders from small- and mid-size cities in regional areas, and the wide use of livestreaming sales events helped ramp up strong sales.

<Growth in Sales Figures>

Looking at figures released by the major e-commerce companies, JD.com's sales during the 618 event totaled RMB 269.2 billion, up 33.6% over last year. The product categories that saw the highest sales growth were fresh foods, medical and health care products, and kitchen products. The categories with the highest sales were smartphones, consumer electronics, and PCs and personal digital products. Sales on Alibaba's online platform Tmall during its corresponding sales event (May 25–June 20) hit a new record of RMB 698.2 billion. On the final day of the sale, Suning.com sold 129% more than it did on the same day last year.

According to NetsUnion Clearing Corporation, which processes third-party payments such as those of e-commerce firms as well as bank settlements, the value of online transactions processed between June 1 and 18 totaled RMB 16.91 trillion, up 42% over the previous year. The number of transactions also increased sharply to 26.178 billion, up 52.0% year-on-year (YoY). In particular, payments for medical and healthcare products increased 97.0% YoY, and cosmetics were up 202.0% YoY. Additionally, transactions linked to livestreaming achieved a significant increase of 343.0% YoY.

<Highlights of This Year's Sales>

In recent years, the major e-commerce companies have hurried to set up logistics service networks in order to expand sales outside the major cities, including to rural townships. During this year's 618 sales, JD.com used its proprietary logistics system to provide same-day or next-day deliveries in 90% of the country's administrative districts. Tmall also provided one-hour, half-day, or same-day deliveries in over 300 cities. Expanding their delivery area and providing faster service whetted consumers' appetites, and this resulted in a clear trend of internet shopping by consumers in small and mid-size cities and rural towns racking up higher growth than in major metropolitan areas.

According to data from JD.com, the value of large-screen TV sales to rural areas doubled over last year. Tmall data showed that the sales volume of books shipped to small- and mid-size regional cities grew to 3.5 times of previous figures, and sales were also strong for electric toothbrushes, body-fat scales, and in-car refrigerators. Meanwhile, news reports indicated that significant numbers of major metropolitan area customers ordered agricultural products online.

Another takeaway from this year is that livestreaming has become a new growth channel for online sales. These livestreams communicate product features with a sense of authenticity and are particularly popular with younger consumers. During this sale period, as many as 30,000 factories made use of Tmall's streaming platform, offering consumers a real-time glimpse into production floors and processes. This reportedly contributed to confidence in the products among consumers, which helped increase sales. News reports also focused on the appearance of top officials from many regional governments on livestream broadcasts. Their efforts to promote regional specialties directly to consumers was another feature of online sales this year.

On the other hand, a recent report from the China Consumers' Association cited online sales utilizing livestreaming as the subject of the greatest number of complaints from consumers during this year's 618 sales period. According to the report, grievances included exaggerated advertising of product functions, sales of defective merchandise, inadequate after-sales services, and inflated figures for statistics such as follower numbers and sales data.

[Trade/Investment]

◆Foreign Direct Investment (FDI) in May: Inward FDI Grows by 4.2% YoY, Outward FDI Falls by 12.8% YoY

<Inward FDI>

According to an announcement made by the Chinese Ministry of Commerce (MOFCOM) on June 18, the amount of inward foreign direct investment (FDI) for May was USD 9.87 billion, up 4.2% YoY (April: up 8.6% YoY). Although the growth was smaller than that seen on the previous month, it marked a YoY increase for the second consecutive month (Fig. 1). Year-to-date FDI from January to May was down by 6.2% YoY (January-April: down 8.4% YoY) to USD 51.21 billion (Fig. 2).

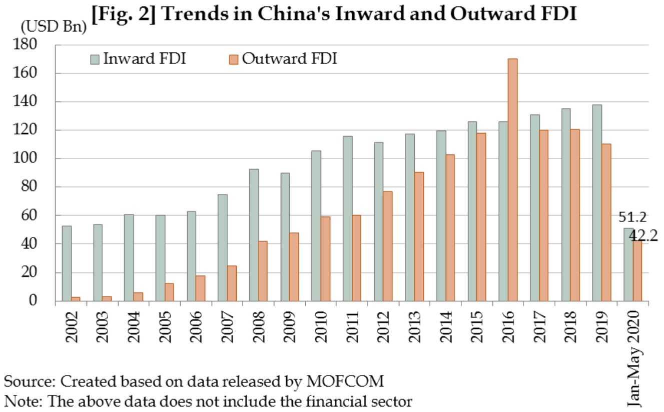
For year-to-date investment from January to May by industry, investments in the high-tech industry increased by 2.0% YoY, with large YoY increases notably in the sectors of information services (42.3%), e-commerce services (67.9%), and research, development, and design services (49.8%).

By country or region, YoY increases were seen in investments from the Belt and Road Initiative countries (up 6.0%) and ASEAN countries (up 10.1%).

[Fig. 1] Monthly Trends in China's Inward FDI

Source: Created based on data released by MOFCOM
Note: YoY data calculated by MUFG based on inward FDI data released by MOFCOM

[Fig. 2] Trends in China's Inward and Outward FDI

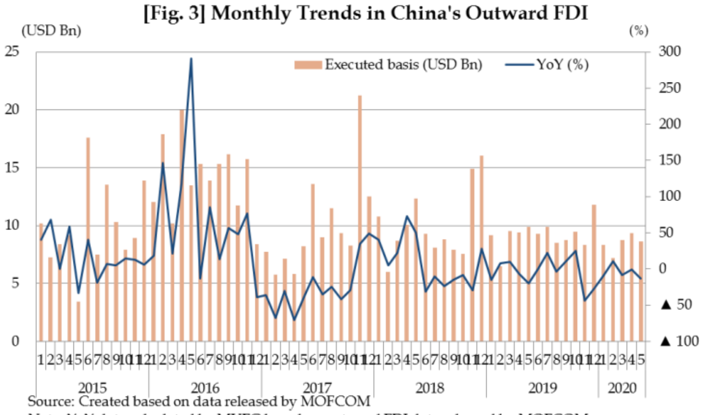


Source: Created based on data released by MOFCOM
Note: The above data does not include the financial sector

<Outward FDI>

According to a MOFCOM announcement made on the same day, outward FDI in May fell 12.8%* YoY to USD 8.63 billion* (April: down 0.9%* YoY to USD 9.35 billion*), seeing a decrease from the previous year with an expansion of the negative growth rate from the previous month (Fig. 3). China's cumulative outward FDI from January to May was USD 42.2 billion, which is a decrease of 5.3%* YoY (January-April: down 3.1% YoY to USD 33.57 billion) (Fig. 2). * Figures calculated by MUFG Bank based on the data published by MOFCOM.

[Fig. 3] Monthly Trends in China's Outward FDI



Source: Created based on data released by MOFCOM
Note: YoY data calculated by MUFG based on outward FDI data released by MOFCOM

By industry for the January-May period, outward investments in leasing/commercial services (up 35.6% YoY) and wholesale/retail (up 61.5% YoY) grew significantly, while investments for manufacturing fell 22.5% YoY. The main segments of outward FDI were leasing/commercial services (38.3%), wholesale/retail (16.5%), and manufacturing (15.3%).

◆MOFCOM's Latest Report on Trade Situation: Full-Year Stability to Be Maintained in a Harsh, Complex Environment

On June 15, the Ministry of Commerce of the People's Republic of China (MOFCOM) and a subsidiary, the Chinese Academy of International Trade and Economic Cooperation (CAITEC), jointly released the "Report on China's Foreign Trade Situation (Spring 2020)."

<Current Trade Situation>

The report states that as the global COVID-19 pandemic caused a significant decline in demand, both exports and imports continued to fall until May. Since March, however, this downward trend has apparently slowed down.

When China's amount of trade for January to May is broken down by region, the top positions were occupied by ASEAN (14.7%), the EU (13.9%), the U.S. (11.1%), and Japan (7.3%). While China's amount of trade with ASEAN increased by 4.2% YoY, trade decreased YoY with the EU by 4.4%, with the U.S. by 9.8%, and with Japan by 0.3%. As this data shows, ASEAN outperformed the other regions.

China's amount of trade for January to May is composed mainly of private enterprises (44.3%) and foreign invested enterprises (39.4%). While private enterprises' trade amounts increased by 1.8% YoY, those by foreign invested enterprises decreased by 7.3% YoY. The report concludes that the private enterprises have flexibly responded to the crisis.

<Trade Outlook for 2020>

MOFCOM's report states that there are so many uncertainties in the trade environment for 2020 that it will become even more complex and challenging. It also points to some downward risks, dividing them into global risks (global economic slowdown, shrinking global trade and disrupted supply chains) and domestic risks (small- and medium-sized businesses struggling to survive, which may put negative pressure on the employment environment).

Under these harsh circumstances, the government has laid out a series of concrete measures to stabilize China's trade: 1) offering tax rebate programs for exports, alleviating corporate burdens through improved loan and credit insurance programs for trade, 2) developing new markets by promoting online trade fairs, 3) developing new business sectors by expanding cross-border e-commerce pilot zones, 4) offering tax breaks for businesses engaging in processing trade and reducing the number of items on the list of prohibited products, 5) providing support for exporters to develop domestic sales routes, and 6) streamlining international logistics and supply chains through increasing usage of the "CR Express" rail freight service that connects inland regions in China and Europe.

The report predicts that China will be able to maintain the stability of its full-year trade because it has seen the spread of the virus waning nationwide and its economic activities getting back to normal.