

An uneven recovery, changed playbook

Yingke Zhou
+852 2903 2653
yingke.zhou@barclays.com
Barclays Bank, Hong Kong

Eric Zhu
+852 2903 2655
eric.zhu@barclays.com
Barclays Bank, Hong Kong

Jian Chang
+852 2903 2654
jian.chang@barclays.com
Barclays Bank, Hong Kong

Weekly trackers and PMI suggest services outperformed manufacturing

The authorities are trying to balance boosting consumption and containing COVID-19

Positive moves to reopen hard-hit services sectors

- **The NBS PMI and our weekly trackers suggest services continued to outperform manufacturing. The downward pressure on exports was exacerbated in April.**
- **Authorities are trying to strike a balance between boosting consumption and containing risks of a second wave COVID-19 outbreak during the Labor Day holiday.**
- **China announced the NPC will convene on 22 May. We think the fiscal package from the NPC will focus more on “relief” than “stimulus”, and on spurring demand.**

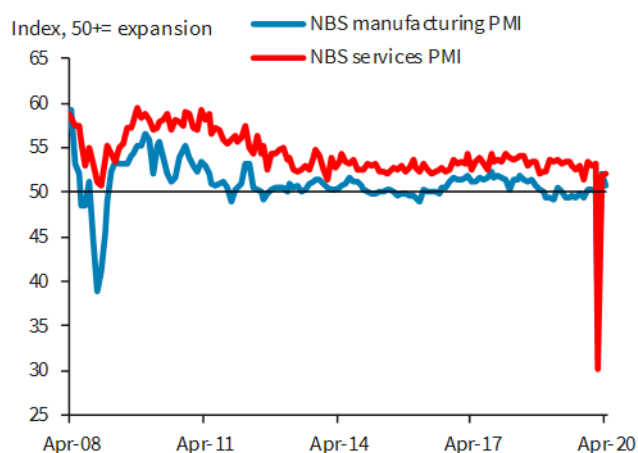
We think the April PMI prints have confirmed our high frequency weekly tracking that the recovery in manufacturing has stalled, largely due to slumping global demand, while services have continued to narrow the contraction (see [China: COVID-19 tracking: Services outperform manufacturing](#), 23 April 2020). Notable contributions to services came from real estate services and retail sales (led by autos), and still-strong internet and financial services.

On a m/m basis, the manufacturing PMIs both retreated from strong rebounds in March, with the NBS PMI falling 1.2pp to 50.8, and the Caixin PMI sliding back to contraction territory. In contrast, the NBS services PMI further improved to 52.1 from 51.8 previously. We note the employment index for the NBS manufacturing PMI declined to 50.2 from 50.9, suggesting downward pressure on the manufacturing job recovery; while the services employment index, albeit still in contraction, improved to 47.1 from 46.7.

With the five-day International Labor Day holiday at the start of May, we think authorities are trying to strike a balance between boosting consumption/services and containing outbreak risks from an increase in public gatherings and outdoor activities (see [China: COVID-19 tracking: Labor Day: spend more but keep safe](#), 29 April 2020).

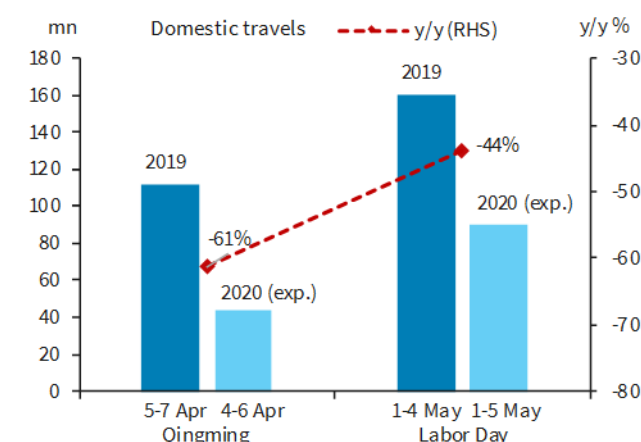
We see some positive developments in the services sectors, including: 1) some regions (Jiangxi, Qinghai, and Gansu) plan to, or have begun to, reopen indoor attractions, cinemas, and bars; 2) some major cities (Shanghai and Shenzhen) worked with internet companies to carry out large-scale promotional activities; and 3) some inland provinces encouraged 2.5-day-a-week vacation system, providing residents a longer weekend to boost spending.

FIGURE 1
NBS PMI: services outperforms manufacturing



Source: Wind, Barclays Research

FIGURE 2
Tourism is expected to recover during upcoming holiday



Source: MOCT, Ctrip, Barclays Research

Though measures in place to limit risks of a second wave of COVID-19 during the holiday

Tourism is expected to recover during Labor Day holiday

We expect a double-digit contraction in exports in April

NPC will start on 22 May. We expect the fiscal package to focus on relief rather than stimulus...

...we see contained upside for infrastructure investment

On the other hand, the Ministry of Culture and Tourism called for continued efforts to control passenger flows, avoid over-crowding, and implement reservation systems. Some tourism restrictions remain, including limiting visitor numbers at outdoor scenic attractions to 30% of daily capacity, and suspending cross-province/outbound group tours.

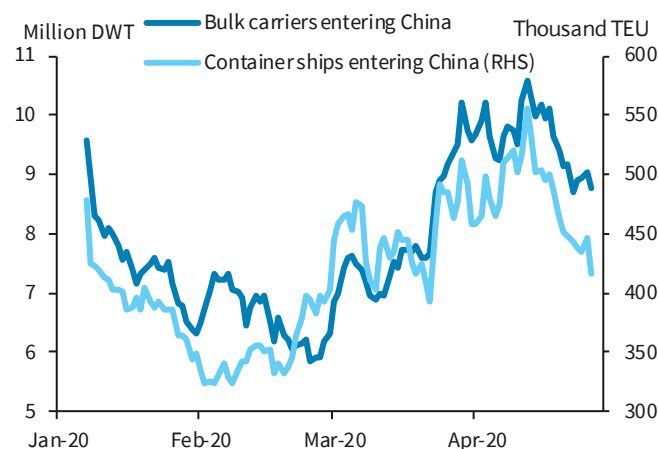
Some industry data already predict a rebound in holiday travel. Ctrip.com expects around 90mn Chinese travellers to make domestic trips during the Labor Day holiday. While that's about 40% y/y lower, it is still twice the number who travelled during the Qingming Festival in early April (-60% y/y). We think data from the holiday will be key to assessing the recovery's strength, given high-frequency data show the tourism, accommodation and catering sectors remain deep in contraction y/y.

On the external front, we note the downward pressure on exports was exacerbated in April as seen in: 1) bulk carriers and container ships leaving/entering China's ports fell more significantly; 2) PMI new export orders deepened its contraction; and 3) China's exports to Korea weakened. Reflecting this, we expect the contraction in exports to widen to ~20% y/y in April from ~7% in March.

China announced the NPC will convene on 22 May. While COVID-19 has spurred expectations of massive stimulus similar to the 2008 GFC response, we think authorities are likely to remain cautious and release stimulus at a measured pace, amid a likely more hostile external environment. We think the upcoming fiscal package from the NPC will focus more on "relief" than "stimulus", and on demand stimulus, we also expect most of the measures to be aimed at spurring investment rather than consumption.

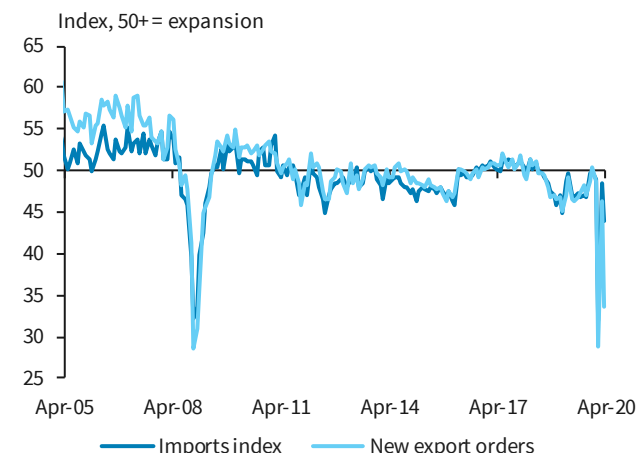
The economic implications would include the stimulus package likely providing more support for domestic demand, with little in the way of global spill overs. It will likely involve contained upside for infrastructure investment and China's imports from the rest of the world, and may not provide sufficient impetus to sustain a rebound in consumption. We expect the property sector to remain a bright spot despite the government reiterating its view that "housing is for living, not for speculation" (see [China: COVID-19 stimulus: A changed playbook](#), 27 April 2020).

FIGURE 3
Shipments entering China down since start of April



Source: Bloomberg, Barclays Research

FIGURE 4
Contraction in new export orders deepened



Source: Wind, Barclays Research

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