鵬元國際
PENGYUAN

COVID-19's Impact May be More Profound and Prolonged than Expected

An Update of Key Macro Forecasts on China

Contents

Summary

As the COVID-19 crisis continues to wreak havoc across global economies, we now believe that the pandemic's impact on China may be more profound and prolonged than our expectations back in February (see [March Marks a Critical Point for China's Economy]). Our increased caution stems from the sharp contraction in the economic activity of China's key trading partners, slower than expected resumption of work and production domestically, as well as the more restrained policy responses and support by China's government so far. In view of the risks these emerging trends pose, we have revised down our 2020 real GDP forecast for China from 3.1% in our prior severe scenario to a base-case estimate of 1.5–2.0%. We have also revised a number of other macro forecasts which, on aggregate, paint a more challenging picture for China's public finances, corporates, and households for the remainder of the year (Exhibit 1).

We have cut our 2020 base-case real GDP growth forecast to 1.5-2.0% in anticipation of a more protracted path to recovery. We have also revised down our growth forecasts on retail consumption and fixed-asset investments to 3-4% and 0-2%, respectively. While we had originally expected economic activity to rebound noticeably in 2Q20, we may now see a flatter trajectory lasting until 3Q20 to 4Q20. In particular, we note that the resumption of production remains uneven across regions and sectors, with many sectors continuing to struggle with re-staffing, re-stocking and logistics arrangements. The retail, hospitality, entertainment, travel, and transportation sectors may also remain stalled before containment measures are gradually relaxed.

We expect to see a significant decline in exports in the order of 5-7% for 2020, compared to a modest expansion of around 1% in our prior severe scenario. The COVID-19 pandemic has rapidly evolved into a global economic crisis, affecting China's major export partners, most notably the United States, Europe, Hong Kong, Japan and South Korea. Although China's export contraction moderated to 6.6% year-on-year (y/y) in March – compared to a 17.2% y/y plunge in January and February combined – we believe the outlook on export demand will continue to be bleak up to the summer of 2020 as nations fight to contain the virus.

We expect consumer price index (CPI) growth to be 3.5% for the full year, more than one percentage point lower than our previous severe scenario. China's CPI growth was 4.3% y/y in March, compared to 5.2% in February. We believe the tail risk of China's inflation has now eased as the critical Spring planting season appears to be less affected by COVID-19 than we had originally feared, according to recent government releases. We believe the next crucial juncture will be the August/September planting cycle. Moreover, the global energy price collapse in March will also help contain inflation risk domestically in China. In the absence of further disruption to production and staple food supplies, and with prolonged low energy prices, we anticipate inflation will continue to be moderate for the remainder of the year.

A potential second wave of the COVID-19 outbreak may present further downside risks to our forecasts. At the time of writing, there are early indications that the outbreak may have peaked in a number of countries, although the full social, economic, political and health impacts may not fully materialise until well into 2021. As far as China is concerned, we now see 3Q20 as a potential inflection point for key macroeconomic indicators, with a gradual recovery path beginning in 4Q20. In the interim, we believe the Chinese government will continue to adopt an accommodative monetary policy. In our view, regulators may also push through further stimulus packages for micro and small enterprises, whose survival may to a large extent determine the depth and breadth of the economy's rebound.

Contacts

Primary Analyst

Name	Tony Tang
Title	Chief Analytics Officer
Direct	+852 3615 8278
E-mail	tony.tang@pyrating.com

Secondary Analyst

Name	Stanley Tsai, CFA
Title	Managing Director
Direct	+852 3615 8340
E-mail	stanley.tsai@pyrating.com

Exhibit 1: Key Macro Assumptions

	Prior Severe Case	Current Base Case
2020E		
Real GDP Growth	3.1%	1.5 to 2.0%
CPI Growth	> 4.5%	3.5%
PPI Growth	-2.0%	-2.0%
Retail Consumption Growth	5.0 to 6.0%	3.0 to 4.0%
Fixed Asset Investment Growth	< 4.0%	0.0 to 2.0%
Exports Growth	1.1%	-5.0 to -7.0%

DISCLAIMER

Pengyuan Credit Rating (Hong Kong) Company Ltd (“Pengyuan International”, “Pengyuan”, “the Company”) prepares various credit research and credit research related commentary (collectively “research”) in compliance with the established internal process. The Company reserves the right to amend, change, remove, publish any information on its website without prior notice and at its sole discretion.

The research is subject to disclaimers and certain limitations. RESEARCH AND CREDIT RATINGS ARE NOT FINANCIAL OR INVESTMENT ADVICE AND MUST NOT BE CONSIDERED AS A RECOMMENDATION TO BUY, SELL OR HOLD ANY SECURITIES AND DO NOT ADDRESS/REFLECT MARKET VALUE OF ANY SECURITIES. USERS OF RESEARCH AND CREDIT RATINGS ARE EXPECTED TO BE TRAINED FOR INDEPENDENT ASSESSMENT OF INVESTMENT AND BUSINESS DECISIONS.

This research is based solely on the public data and information available to the authors at the time of publication of this research. For the purpose of this research, the Company obtains sufficient quality factual information from public sources believed by the Company to be reliable and accurate. The Company does not perform an audit and undertakes no duty of due diligence or third-party verification of any information it uses in the research. The Company is not responsible for any omissions, errors or inconsistencies of the public information used in the research.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS OR COMPLETENESS OF ANY INFORMATION GIVEN OR MADE BY THE COMPANY IN ANY FORM OR MANNER. In no event shall the Company, its directors, shareholders, employees, representatives be liable to any party for any damages, expenses, fees, or losses in connection with any use of the information published by the Company.

This research focuses on observing trends from the credit markets. This research has not been made available to any issuer prior its distribution to the public. The Company does not receive compensation for its research.

The Company reserves the right to disseminate its research through its website, the Company’s social media pages and authorised third parties. No content published by the Company may be modified, reproduced, transferred, distributed or reverse engineered in any form by any means without the prior written consent of the Company.

The Company’s research is not indented for distribution to, or use by, any person in a jurisdiction where such usage would infringe the law. If in doubt, please consult the relevant regulatory body or professional advisor to ensure compliance with applicable laws and regulations.

Copyright © 2020 by Pengyuan Credit Rating (Hong Kong) Company Ltd. All rights reserved.