



## China's Recovery Continued in Industry, But Weak in Retail Sales

Lu Yu\*

China's industrial activity continued to recovery in July, while Retail Sales and Fixed Asset Investment remained negative but both narrowed contractions. **Industrial Output** growth **unchanged** in July at 4.8% YoY, lower than the market projection of 5.2% YoY. The stable growth in production reflected that the recovery is still ongoing with improved overseas demand, which, however, hasn't been strong enough to offset the hit from the second wave of virus outbreak. **Retail Sales** unexpectedly remained negative but **slowed down to fall** by 1.1% YoY from -1.85% YoY in June, due to weak domestic demand amid deadly floods and resurgence of Covid-19 virus. **Urban Fixed Asset Investment narrowed contraction** of -1.6% YTD YoY from a year earlier in the first seven months of 2020, showing recovery in investment from the reading of -3.1% YTD YoY in June.

### More Details

- Manufacturing Output jumped to 6% YoY from 5.1% YoY, while Mining declined by 2.6% YoY and Power Supply decelerated growth at 1.7% YoY.
- Consumer Discretionary Retail Sales mostly show a fall back pattern with weak domestic demand. Clothing Sales headed back to a deeper deterioration by 2.5% YoY in July from an almost recovered reading at -0.1% YoY in June. Cosmetics slowed down to grow by 9.2% YoY from 20.5% YoY in prior month. Meantime, Household Electronics plunged by 2.2% YoY compared with a growth of 9.8% YoY in June. On the contrary, Automobiles Sales jumped by 12.3% YoY from -8.2% YoY in June.
- The narrowed deterioration in Industrial Investment was picked up by the growth in State-owned Investment at 3.8% YTD YoY (from 2.1% YTD YoY in June) and the decelerated contraction in Private Investment of -5.7% YTD YoY (from -7.3% YTD YoY in June).

### Recovery Pattern Uneven, Strong Rebound In Domestic Demand Is Needed

China's activity data in July painted a picture of uneven recoveries, with the recovery appeared to be stable in manufacturing and business investment while slow in private consumption. Strengthened overseas demand and relaxation on travel within province stepped up recoveries both in manufacturing and service sectors. However, domestic demand remained weak amid flood disaster and resurgent virus. **Looking ahead**, as the rising tensions with the U.S., a strong rebound in consumption at home will be a key factor for a sustainable recovery especially when China is transiting its economic focus on domestic market. Elevated uncertainties from both external and domestic cloud the outlook of China's sustainable recovery, which increase the possibility to put easing policy back on table by the People's Bank of China.