

# One Year On, the Evolving Evergrande Saga: Macro overview

August 3, 2022

## What we'll cover

- The headlines
- The numbers
- The breakdown
- The policy prescription
- The big questions
- The bottom line

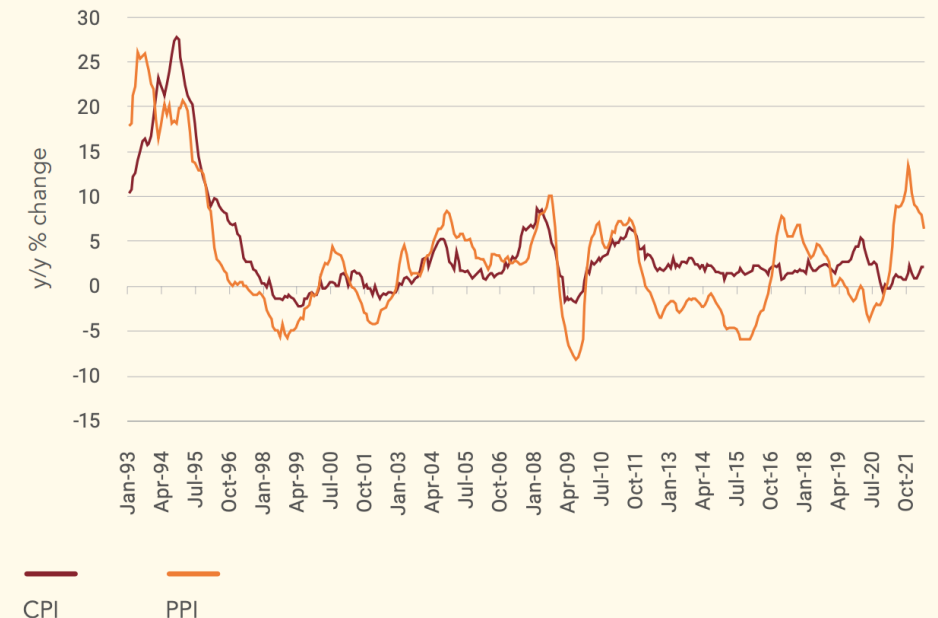
## The headlines: Uncertainty abounds

- **The never-ending pandemic**
  - Tight COVID policy continues to loom over China's economic recovery
- **Geopolitical upheaval**
  - Russia-Ukraine, US-China, Taiwan
- **Property problems**
  - Price pressure, developer defaults, downstream impacts
- **No respite for big tech**
  - Re-regulation of tech sector ongoing

## The numbers: top line macro

- Q2 GDP growth: 0.4% y/y – way below expectations of 1%
  - Down for 4.8% growth in Q1
  - Slowest in modern history (ex Q1 2020)
- June unemployment: 5.5%
  - Youth unemployment (16-24): 19.3% (number pre-college graduation)
- June inflation: in control
  - CPI rose 2.5% y/y in June, up from 2.1% in May.
  - PPI rose 6.1% y/y in June, down from 6.4% in May.
  - Fuel and pork prices stand out
  - Driven by poor consumption

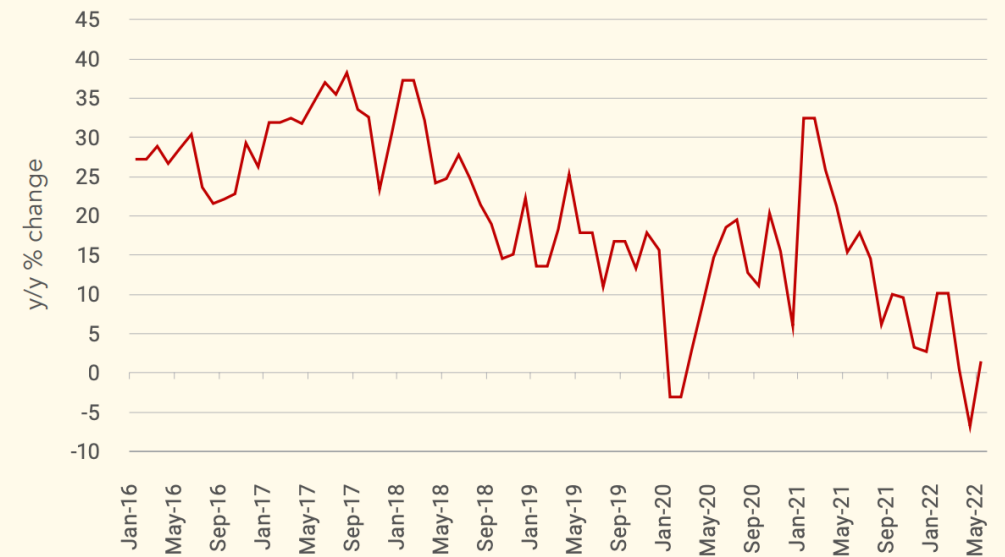
Fig. 5 – CPI vs PPI



## The numbers: line by line

- **Export-led growth**
  - Net exports of goods and services accounted for 1.1pp of the 0.4% real GDP growth in Q2.
- **An uptick in infrastructure**
  - GCF contributed 0.3pp of Q2 growth
  - In June, infrastructure spending was up 12% y/y, including a 10.9% y/y increase in SOE FAI
- **Consumption continues to be a major drag**
  - Consumption was a 225% drag on GDP growth in Q2.
  - Retail sales increased a disappointing 0.53% m/m in seasonally adjusted terms in June.
- **Real estate**
  - Economic activity in the real estate sector dropped 6.9% y/y in nominal terms in Q2 – the largest drop on record
  - Land sales revenue down 31.4% in H1

**Fig. 1 – Online sales of goods and services**



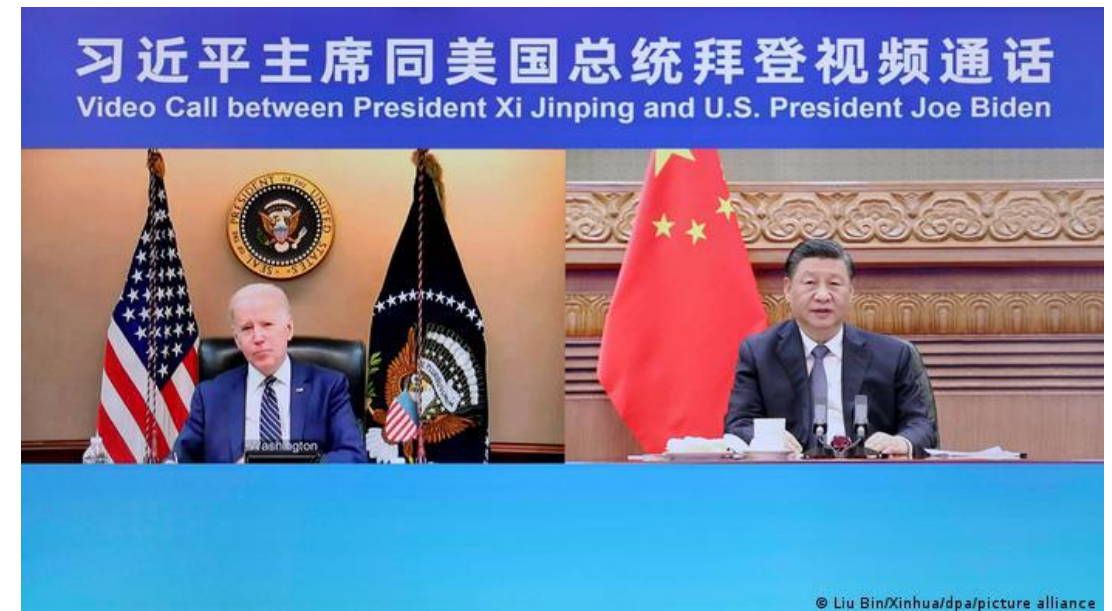
## The never-ending pandemic

- From July's politburo meeting
  - *"When an outbreak occurs, we must immediately and strictly prevent and control it."*
- Lockdowns and outbreaks continue, with varied responses
  - Two month lockdown in Shanghai (outlier)
  - Notable outbreaks in Beijing, Guangzhou, and Changchun
- Marginal easing
  - Inbound quarantine reduced to 10 total days
  - Controls for secondary contacts reduced to 7 days of home quarantine



## Geopolitical upheaval

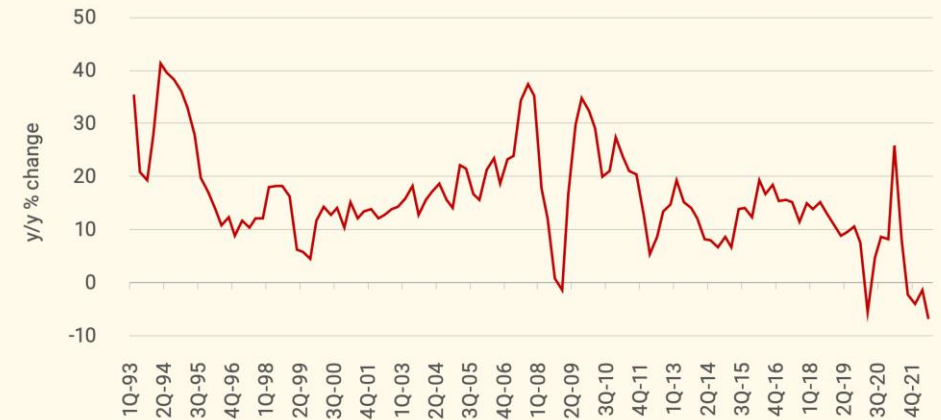
- Russia-Ukraine
  - China continues to play it down the middle
  - China-Russia energy trade up (but it's not so straightforward)
  - Secondary sanctions risk has tempered
- US-China
  - US view: Competitor, threat
  - Uyghur Forced Labor Prevention Act
  - Holding Foreign Companies Accountable Act
  - Numerous trade and investment blacklist actions
  - Taiwan rhetoric heating up



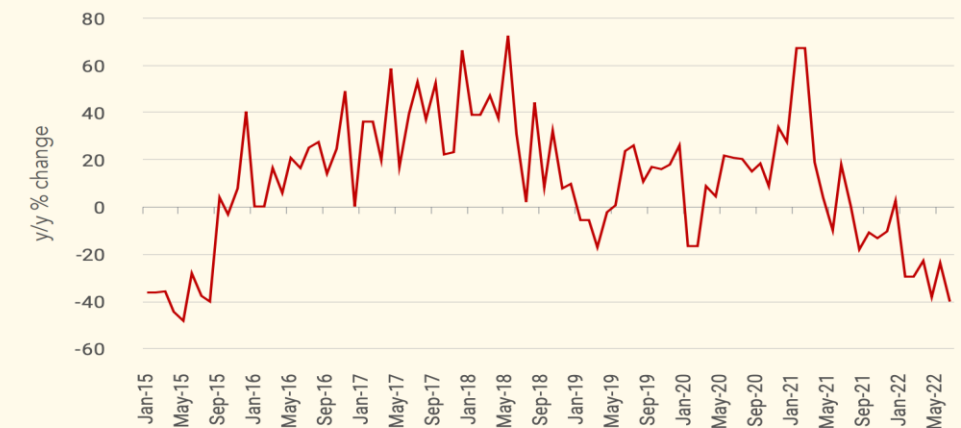
## Property problems

- Debt constraints
  - Three red lines
- Slowing demand
  - Sales down 29% m/m, 40% y/y in July
- Developer defaults
  - Dozens have defaulted, mostly on offshore debt
- Local government land sales
  - Down 31.4% y/y in H1
- Mortgage boycotts
  - 335 developments and counting
- Downstream implications
  - Construction, services, savings

**Fig. 2 – Value-added output in the real estate sector, nominal growth**



**Fig. 2 – Fiscal revenue from land sales**





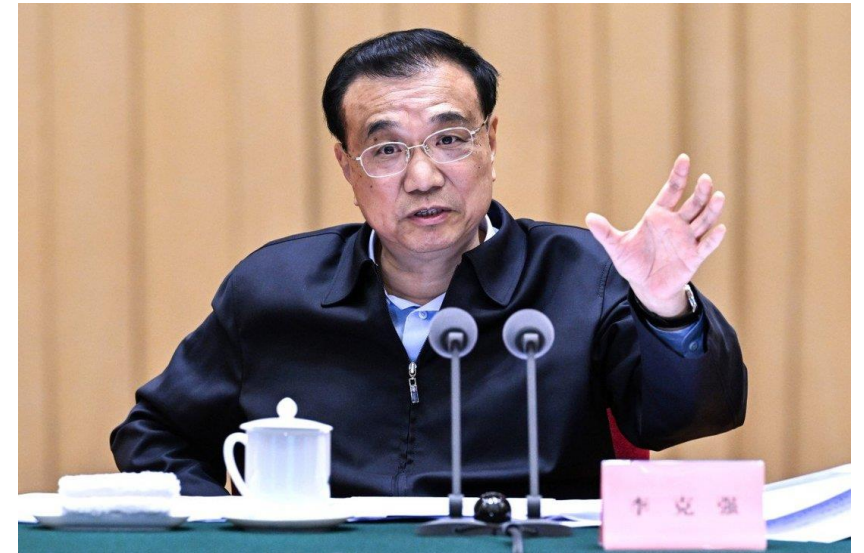
# The policy prescription

- Covid first
  - *"The relationship between epidemic prevention and control and socio-economic development should be viewed holistically, systematically, and in the long-term."*
- Backing off 5.5%
  - *"[M]aintain economic operations in a reasonable range and strive to achieve the best results."*
  - *"Provinces in the position to do so should strive to achieve the expected economic and social development goals."*
- Stimulate, within reason
  - *"Monetary policy should maintain reasonable and sufficient liquidity, increase credit support for enterprises, and make good use of new credit from policy banks and infrastructure construction investment funds."*
  - *"[We] must not overdraft the future and increase the debt burden for later, let alone return to the traditional debt-driven growth model"*
- Getting consumption back on track
  - *"Consumption is closely related to people's livelihoods and should remain the driving force of the economy."*
- Geopol
  - *"[A] certain non-regional power has continued to increase its input into the region [and] deliberately escalated conflicts and provoked tensions."*
  - *"The United States is hollowing out, blurring out the 'One China' policy."*



## The big questions

- How and on what timeline will COVID policy evolve?
  - Covid containment will continue to be the top priority.
  - No significant changes until at least 2023.
- Will there be enough shovel-ready projects to absorb stimulus spending?
  - Stimulus will struggle to find productive outlets.
  - Some stimulus spending will be diverted to fight fiscal fires.
- How will provincial and municipal governments fill their revenue gaps?
  - Local governments will continue make budget cuts.
- Who foots the property bill?
  - State involvement in the property sector will increase dramatically.



## The bottom line

- All the economic headwinds from H1 will remain.
  - However, the likelihood of another Shanghai is low.
- No surprises at the Party Congress
- Growth will pick up, but disappoint, in H2.



trivium

**Email**

[hq@triviumchina.com](mailto:hq@triviumchina.com)

**Follow us**

[www.triviumchina.com](http://www.triviumchina.com)

Twitter: [@triviumchina](https://twitter.com/triviumchina)

Facebook: [/triviumchina](https://facebook.com/triviumchina)

LinkedIn: [/company/trivium-china/](https://linkedin.com/company/trivium-china/)