

China Economic Spotlight

The Delta wave likely to prompt more targeted easing

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Economics - China

- ◆ A new COVID-19 wave is adding pressure to the already slowing economy
- ◆ We lower our H2 2021 GDP forecast to 5.2% from 5.7%, while keeping our full-year forecast for 2022 unchanged
- ◆ We expect Beijing will likely roll out more targeted fiscal and monetary easing to cushion the growth slowdown

An outbreak of the Delta variant. A new COVID-19 wave is unfolding in China, this time with the more contagious Delta variant. It was first detected on 20 July in Nanjing, the capital city of Jiangsu, a province with the second-highest GDP in mainland China. The Nanjing airport cluster quickly spread to 18 provinces, with the total number of local confirmed cases reaching 1,396 between 20 July and 15 August. (Source: the National Health Commission.)

There are several reasons to believe this COVID-19 wave may lead to a larger economic shock this time compared to the last wave in January 2021. First, new cases in this wave are concentrated in southern provinces which have higher contributions to GDP, such as Jiangsu (which accounts for 10.1% of national GDP), Henan (5.4%), Hunan (4.1%) and Hubei (4.2%). Moreover, given that the Delta variant is far more infectious than the previous variants, local governments have imposed stringent containment measures. All 31 provincial-level regions have issued travels bans to outside of the province. Cities most affected by the virus, such as Nanjing, Yangzhou and Zhangjiajie, have tightened restrictions on public gatherings and outdoor activities. Even regions that have not seen local new cases yet, such as Shanxi and Sha'anxi, have required businesses to reduce client-facing activities.

Second, given that the Delta variant is more infectious, it is possible that it will take longer for China to contain the current outbreak than the previous wave in the winter (with containment measures lasting about two months in January and February 2021). The National Health Commission has stated that the current outbreak could be largely contained within two to three incubation periods. As cited by the 21st Century Business Herald, an incubation period is usually 14 days so, on that basis, at least 4-6 weeks would be needed to curb the current wave. Previous containment measures have been kept in place for longer to allow a cautious observation period. If this continues, then most of Q3 will likely be affected by prevention and control measures.

We lower our H2 growth forecast to 5.2%, from 5.7%, y-o-y. However, given the upside surprise in Q2's actual data, this leaves our full-year 2021 GDP forecast unchanged at 8.5%. Our forecast for next year also remains unchanged at 5.6%.

This is an abridged version of a report by the same title published on 17-Aug-21. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

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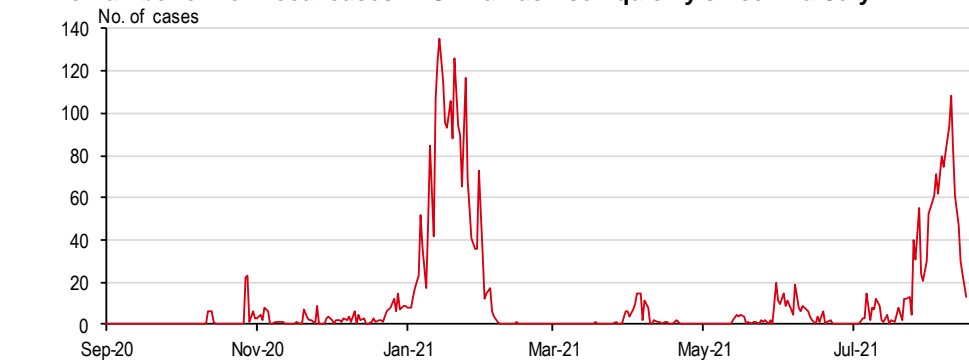
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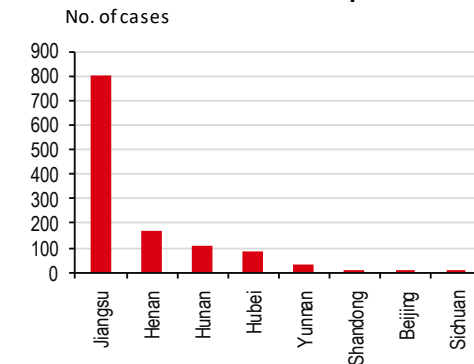
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1: The number of new local cases in China has risen quickly since mid-July



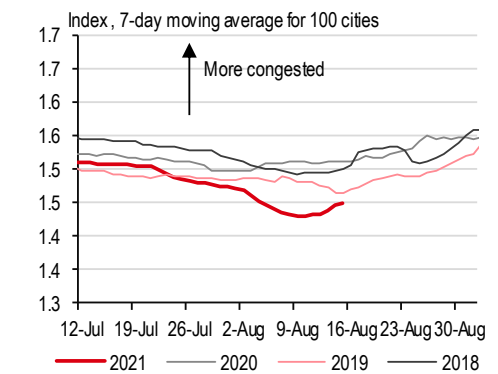
Source: CEIC, HSBC

2: The current outbreak is more concentrated in the southern provinces



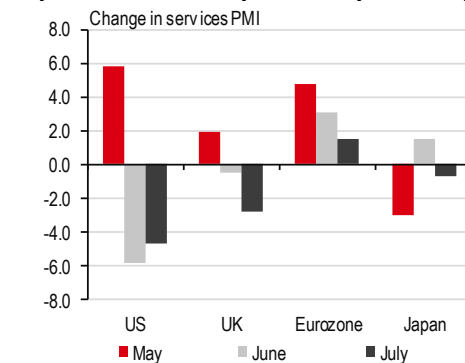
Source: CEIC, HSBC

3: The new wave dents mobility in cities



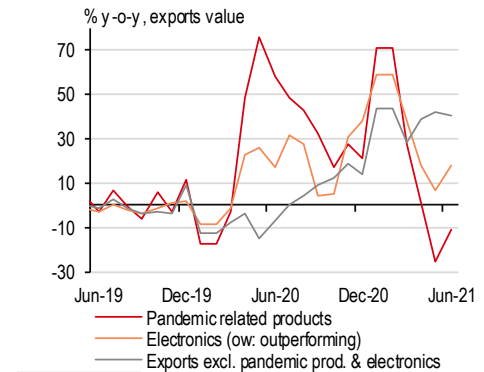
Source: Gaode Map, HSBC

4: Consumption recovery in some key export markets likely to hit a speedbump



Source: IHS Markit, HSBC

5: Exports of general consumer goods should still prove resilient



Source: CEIC, HSBC

Revising down GDP forecast for H2 2021

6. Changes to HSBC forecasts

Real GDP growth (%)	H2 2021	2021f	2022f
New, % y-o-y	5.2	8.5	5.6
Old, % y-o-y	5.7	8.5	5.6

Source: CEIC, HSBC forecasts

New headwinds pose near-term challenges, prompting us to downgrade our growth outlook for H2, with the brunt of the hit likely occurring in Q3 2021. We have revised down our H2 growth forecast from 5.7% y-o-y previously, to 5.2%. However, given the upside surprise in Q2's actual data, coming in at 7.9% y-o-y versus our expected 7.3%, this leaves our full-year GDP forecast unchanged at 8.5%. Our forecast for next year also remains unchanged at 5.6%.

Disclosure appendix

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