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China Economic Update Report

This Issue:

China's Economic Performance in Q4

China's luxury market booms despite COVID-19

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China's economy grows strongly in the last quarter of 2020

As the world continues to battle COVID-19, China's economy showed exceptional strength in Q4 2020, even surpassing last year's figure of the same quarter. In 2020 as a whole, China achieved a positive GDP growth of 2.3%, which is beyond expectation for a year characterized by COVID-19.

In Q4 2020, China's GDP rose by 6.5% (YoY), exceeding the growth rate of 6.1% in the same period of 2019. The pace of economic recovery appears to be speeding up. In 2020 as a whole, although the GDP growth rate was the slowest since 1977, China's 2.3% growth rate is expected to make it the only major economy that grew in 2020. Since the deep contraction in the first quarter, the government succeeded in saving the economy from another contraction by investing in major infrastructure projects, stimulating domestic demand, and boosting heavy industry.

China's industrial production surged by 7.3% in December (YoY). Meanwhile, December's retail sales increased by 4.6%. 11.86 million new jobs were created during the year.

Although China successfully achieved a positive economic growth of the year, its economic growth has been uneven among different sectors. However, the economic outlook in China is still optimistic in the near future, with an expected growth of around 7.8% in 2021.

China's trade surplus breaks all time high in December

In December, China's trade surplus soared to the record-high level of 78.2 billion USD, increasing by 65.4% compared to last year. In 2020 as a whole, the trade surplus reached 535.03 billion which was the highest level since 2015.

In 2020, China's export went up 3.6% compared to previous year. Export reached its peak of 281.9 billion USD in December with a (YoY) increase of 18.1%. This was the seventh consecutive month of export growth. The export growth is mainly fueled by increasing demands of medical and electronic products, as a result of people working from home.

China's import also recorded a breaking value of 203.7 billion USD in December, an increase of 6.5% (YoY). This is the fourth straight month of growth. In 2020 as whole, the imports witnessed a decline of 1.1% (YoY).



China's luxury market booms regardless of COVID-19

Although the pandemic affected the global market of luxury goods, it did not seem to be hindered in China. The luxury market experienced a remarkable surge in 2020, despite the pandemic.



The market for luxury goods in China is expected to have increased by 48% in 2020 compared to a year earlier, measuring up to a total of 346 billion CNY (53.4 billion USD). It is a strong growth since the level of 113 billion CNY (17.4 billion USD) in 2015, resulting in a CAGR of 21% between 2015 and 2020. Within the next few years, China's luxury market is expected to become the largest in the world, surpassing markets such as the US.



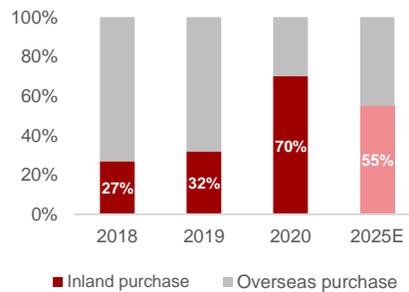
Source: Bain & company

One of the main drivers for the remarkable domestic sales increase has been that more Chinese consumers made their purchase inland rather than internationally, due to travel restriction. The percentage of expensive goods purchased by Chinese consumers domestically increased from 27% in 2018 to more than 70% in 2020. Nevertheless, in the next five years, the figure is projected to reduce to around 55% with the assumption that the global situation will be normalized.

Moreover, as e-commerce is growing rapidly in China, luxury goods did not stay

out of the trend, especially during the difficult time of 2020. During the pandemic, online sales increased about 150% compared to 2019. The online penetration of luxury shopping rose significantly from only 6% in 2015 to 23% in 2020. The new consumer habit of shopping expensive goods online is likely to stick over the next few years as 40% of consumers plan to switch to this channel. However, luxury brands tend to perceive that going online will diminish their brand image. Therefore, they now focus on going omnichannel by increasing presence online as well as expanding offline stores to other cities.

Geographic breakdown for Chinese luxury goods spending



Source: Bain & company

In addition, duty-free shopping is another channel that witnessed dramatic sales increase amidst the pandemic. Particularly, Hainan's duty-free sales skyrocketed 98% in the first 10 months of 2020 compared to the previous year. As wealthy consumers cannot travel overseas to traditional destinations, such as Hong Kong and Korea, the Chinese island of Hainan has worked as an alternative. Also, China's government wants to encourage inland shopping as they adjusted duty-free shopping policies such as quota increase from 30 thousand CNY to 100 thousand CNY.

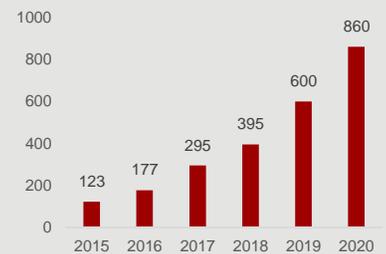
In conclusion, unlike the tough situation for the luxury market globally, the market in China proved to be unstoppable as it is set to rise stronger than ever. The growth is fueled by shift of luxury purchase from cross border to inland China, e-commerce growth and a duty-free boom. During the pandemic, not only are luxury brands embracing multiple new channels to approach its customers, but Chinese consumer habits is also evolving. If this growth continues, China has high chance to become the largest luxury goods market in the next five years.

Singles' Day sales set new record in 2020



Singles' Day, which is the biggest shopping day globally, held by China's e-commerce platforms, broke previous year's sales record. In 2020, over 250,000 brands and 800 million consumers participated. The gross merchandise value (GMV) during the festival amounted to 860 billion CNY (133 billion USD), an increase by 43.3% compared to 2019. E-commerce giant Alibaba announced that its GMV during the festival reached 498.2 billion CNY (76.9 billion USD), nearly increasing by a 100% compared to last year.

GMV of Singles' Day sales on online marketplaces in China (billion CNY)



Source: Statista

2020 Single's Day saw some changes and new trends, including an extended discount period to 11 days, exponential growth of livestreaming e-commerce, and increasing demand in lower tier cities. These developments made a substantial contribution to the new sales record.

Singles' Day has been widely viewed upon as a reflection of the domestic consumption health. Especially after consumption was hit by COVID-19, this year sales were a sign of economic recovery and resilience. Hence, the groundbreaking sales record during the shopping festival show huge potential of China's market and the escalation of the digital economy in the midst of the pandemic.



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