



China Golden Week: Domestic consumption to play a bigger role in driving economic recovery post COVID-19

Prepared by Invesco Asia Equity Investment Team
September 28, 2020



Mike Shiao
Invesco Asia Equity Investment Team,
Hong Kong

In the post COVID-19 era, domestic consumption plays a bigger role in driving economic recovery. Asia, especially North Asia, has the advantage of boosting domestic consumption as the COVID-19 pandemic is largely under control.

The upcoming Golden Week in China could be a good indicator to gauge recovery of Chinese consumption. According to data from online travel booking website Qunar¹, China's domestic air traffic volume is expected to reach a record high during the upcoming "golden week" holiday - domestic flight trips made between Oct 1 and 8 may exceed 15 million, up 10% yoy.

The encouraging pre-booking data of air tickets and hotels so far imply positive normalization trends, which is a key driving force of Chinese consumer activities including dining, shopping and entertainment in the post-pandemic era.

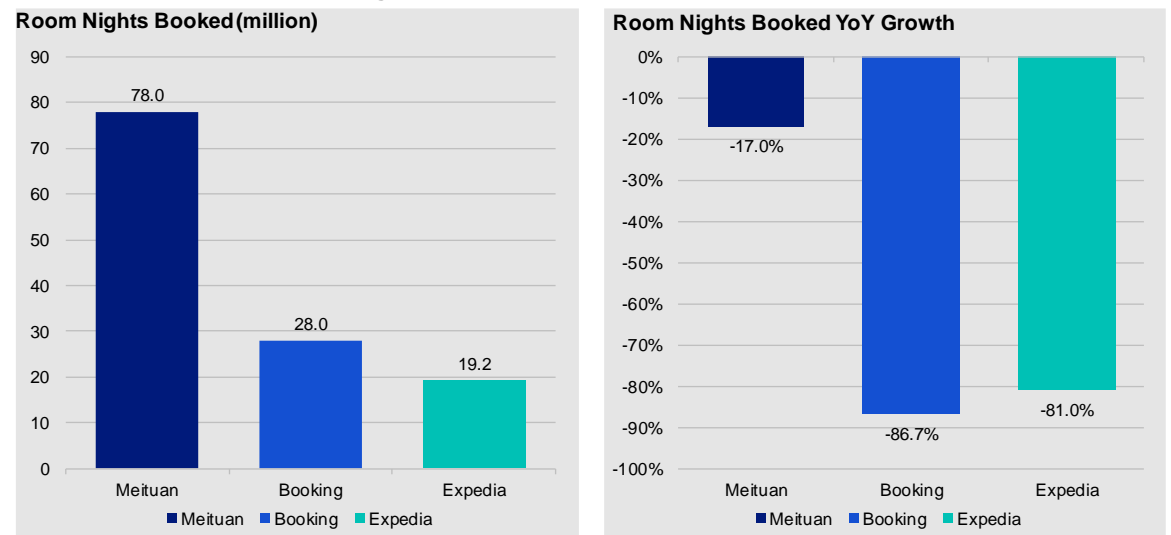
With better virus containment, China resumes consumer activities ahead of other parts of Asia. That said, we also observe positive trends in Korea, Taiwan, and India signalling domestic consumer recovery at different pace.

Consumer companies in Asia are quick to offer discounts and incentives aiming to capture every dollar of the pent-up spending and customer loyalty by offering elevated customer experience. We believe the latest development in Asia consumerism brings good investment opportunities.

China consumption activities resumed

- Booking data show positive signs in consumer normalisation patterns from various leading online travel agencies platforms.
- Meituan (a leading e-commerce platform in China) reported 78 million domestic China hotel room nights stayed from Apr to Jun 2020, which was almost triple Booking's results and four times that of Expedia on their worldwide room nights during the same period².

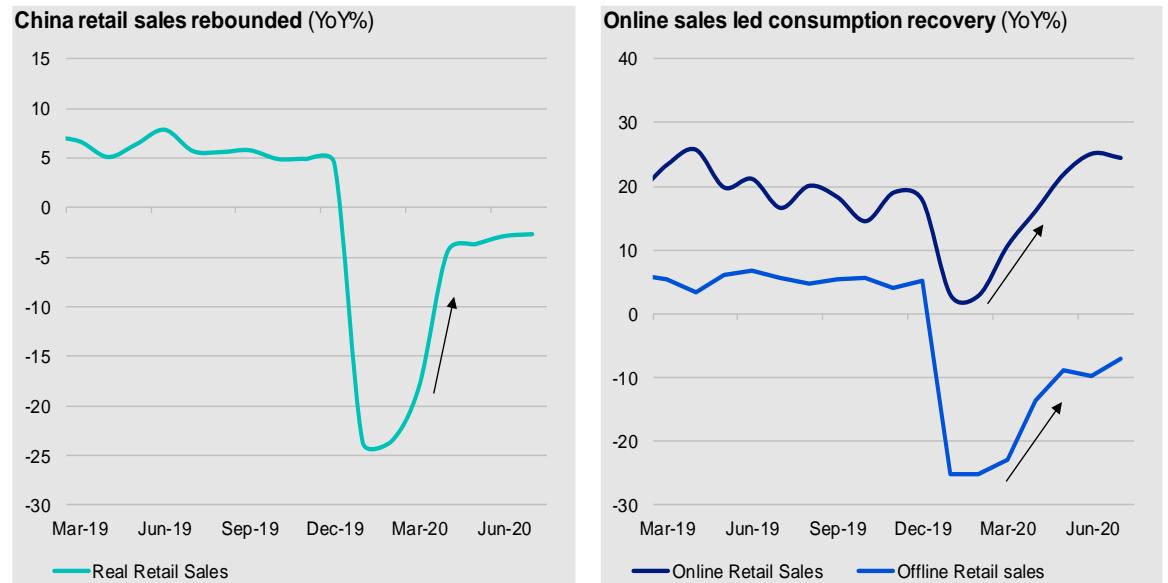
Chart: April – June 2020 Bookings



Source: Q2 2020 Earnings Release by Meituan, Booking, and Expedia, company reports, data as of August 2020. Note: Room nights from Meituan refers to domestic China booking only, while Booking and Expedia refer to worldwide booking. For illustration purpose only.

- Moving towards the end of Q3, advance online travel booking for Golden Week two weeks before the holiday season in China reiterated our investment thesis of China's strong V-shape rebound of consumer retail activities.

Chart: China Consumption V-shape rebound, led by online channel



- According to a leading Chinese online travel agency³, air ticket booking volume has exceeded 90% of the same period last year. Hotel bookings also saw rising demand, as overall average daily rate per room nights (ADR) grew by 20-30% yoy.
- Fliggy⁴, an online travel platform owned by Alibaba, indicated ADR increases by 65% compared to August this year.
- The encouraging pre-booking data imply the positive normalization trends, which is a key driving force of Chinese consumer activities including dining, shopping, and entertainment, in the post-pandemic era.

Consumers are trading up, demanding better quality and experience

- Another key observation was the acceleration in consumers' trade-up pattern in China - higher quality accommodation, private transportation, and more customized travel experience post COVID-19.
- Over 80% of orders on a leading online travel agent in China go to high-end products (4-star & 5-star) for better service and experience⁵. Private and small group tour mix rises to two-thirds of total group tours⁶.
- Search engine in China shows that self-driving is the most popular domestic travel activity during the Golden Week⁷, which has pushed up car rentals.
- Meituan published a new 2020 version of its "Must List Series", which helps consumers to select restaurants based on increasing concerns for hygiene factors and quality induced by the pandemic⁸.
- Companies innovate, stay close to customers and ahead of competitors, to provide elevated customer experience to capture the rising consumer demand.

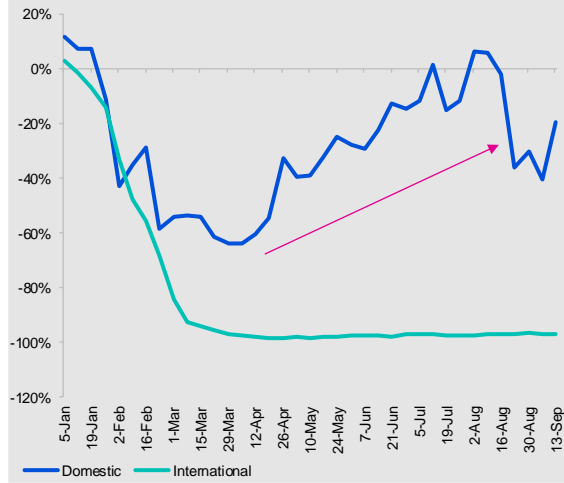
Asian economies are on the path of recovery at different pace

- While China is leading the recovery of the region, other countries / economies in Asia are on the path of recovery at different pace.
- In Taiwan, consumer confidence improved for the third consecutive month⁹, coming in at 71.3 in August, vs. 69.4 in July, led by the expectation of durable goods consumption. Meanwhile, retail sales picked up to +3.3% YoY in July vs. +0.1% YoY in June.

- In Korea, we see encouraging signs of domestic travel bottoming out from recent lows¹⁰.
- In India, google mobility indicators show recovery path after different phases of country lockdown, as seen in pickup in retail and recreation as well as grocery and pharmacy¹¹.
- We believe the macroeconomic data are tracking normalisation of consumption activities at different levels in Asia.

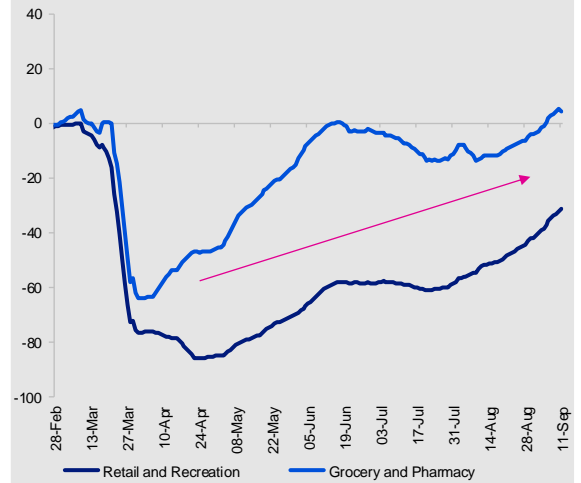
Chart: Asia: On the path of recovery at different pace

Korea weekly air passengers (YoY%): bottoming out from recent low



Source: MoTIE, Morgan Stanley Research as of 22 September 2020
 Note: each week ends on Sunday.

India Google mobility Indicators (YoY%): showing recovery path after country lockdown



Source: Google Mobility Report, Morgan Stanley, as of 20 September 2020.
 Note: Changes for each day are compared to a baseline value for that day of the week. The baseline is the median value, for the corresponding day of the week, during the 5-week period 3 Jan – 6 Feb, 2020. 7 day-average values of all indicators are taken.

Conclusion

Pre-booking data of Golden Week in China point us to dynamic behavioural changes which are likely to exemplify similar patterns for other parts of Asia.

The mobility normalisation uptrend in Asia consumerism brings us diverse investment opportunities. We believe it is time to buy into compelling companies to tap into the consumer resumption and trade-up trends in China and Asia consumer demand.

¹<https://www.scmp.com/business/china-business/article/3102133/golden-week-record-number-chinese-travellers-planning>
²Pandaily.com, September 1, 2020. <https://pandaily.com/meituan-reports-the-worlds-highest-hotel-room-nights-in-q2-beats-booking-and-expedia/>
³ Sino.com, 11 September 2020. <https://tech.sina.com.cn/roll/2020-09-11/doc-iivhuipp3842327.shtml>
⁴ “2020 National Day Golden Week: Pent-up Demand to Unleash During the Lengthened Holiday” Citi Research, 14 Sep 2020
⁵ “2020 National Day Golden Week: Pent-up Demand to Unleash During the Lengthened Holiday” Citi Research, 14 Sep 2020
⁶ “2020 National Day Golden Week: Pent-up Demand to Unleash During the Lengthened Holiday” Citi Research, 14 Sep 2020
⁷ Sino.com, 11 September 2020. <https://tech.sina.com.cn/roll/2020-09-11/doc-iivhuipp3842327.shtml>
⁸ “Meituan - Big profit beat”, CLSA, 21 August 2020.
⁹ Morgan Stanley Research, Taiwan Macro and Strategy Chartbook, 14 September 2020.
¹⁰ MoTIE, Morgan Stanley Research, 22 September 2020
¹¹ Morgan Stanley Research, India Economics - Macro Indicators Chartbook, 20 September 2020.

Important Information

This document has been prepared only for those persons to whom Invesco has provided it for informational purposes only. This document is not an offering of a financial product and is not intended for and should not be distributed to retail clients who are resident in jurisdiction where its distribution is not authorized or is unlawful. Circulation, disclosure, or dissemination of all or any part of this document to any person without the consent of Invesco is prohibited.

This document may contain statements that are not purely historical in nature but are "forward-looking statements", which are based on certain assumptions of future events. Forward-looking statements are based on information available on the date hereof, and Invesco does not assume any duty to update any forward-looking statement. Actual events may differ from those assumed. There can be no assurance that forward-looking statements, including any projected returns, will materialize or that actual market conditions and/or performance results will not be materially different or worse than those presented.

The information in this document has been prepared without taking into account any investor's investment objectives, financial situation or particular needs. Before acting on the information the investor should consider its appropriateness having regard to their investment objectives, financial situation and needs. You should note that this information:

- may contain references to amounts which are not in local currencies;
- may contain financial information which is not prepared in accordance with the laws or practices of your country of residence;
- may not address risks associated with investment in foreign currency denominated investments; and
- does not address local tax issues.

All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. Investment involves risk. Please review all financial material carefully before investing. The opinions expressed are based on current market conditions and are subject to change without notice. These opinions may differ from those of other Invesco investment professionals.

The distribution and offering of this document in certain jurisdictions may be restricted by law. Persons into whose possession this marketing material may come are required to inform themselves about and to comply with any relevant restrictions. This does not constitute an offer or solicitation by anyone in any jurisdiction in which such an offer is not authorised or to any person to whom it is unlawful to make such an offer or solicitation.