CHINA DATA RESPONSE

Activity & Spending (Apr.)

A mixed start to Q2

- **Growth on most indicators accelerated in y/y terms in April. But this was due to a weak base for comparison from a year ago when Shanghai and several other cities went into lockdown. In seasonally-adjusted m/m terms, the outturn was mixed. The recovery in consumer spending regained some momentum and investment growth held steady but industrial activity contracted. While the boost from reopening should still underpin a further recovery in the near-term, the bulk of China's rebound is now behind us.**

- Headline growth in all the main indicators undershot expectations last month. Industrial output growth rose from 3.9% y/y to 5.6% (the Bloomberg consensus was 10.7% and our forecast was 11.4%). Growth in retail sales jumped from 10.6% to 18.4% (Bloomberg: 22.0%, CE: 35.0%). Year-to-date, fixed investment growth dropped back from 5.1% to 4.7% (Bloomberg: 5.7%, CE: 5.5%). That implies a slowdown in monthly y/y growth from 4.8% y/y to 3.9%.

- These figures don't tell us much about the economy's current momentum, however, since they reflect a much weaker base for comparison. Instead, it makes sense to focus on seasonally-adjusted m/m changes. **Our calculations suggest that the pace of growth in retail sales picked up from -0.2% in March to 1.2% in April.** The breakdown shows broad-based improvement, although it was restaurants that saw the largest increase. (See Chart 1.)

- Fixed investment held up reasonably well. On our estimates, growth was largely stable in seasonally adjusted m/m terms. Manufacturing investment remained strong while infrastructure investment increased thanks to the front-loading of fiscal support. (See Chart 2.) These more than offset a further contraction in property investment.

- The tepid recovery in home sales following reopening has already levelled off. And high frequency data point to a contraction during the first half of May. As a result, developers are turning more cautious again. The uptick in housing starts at the start of the year is now unwinding. (See Chart 3.) And the depressed level of starts points to a further fall in property construction in the coming months as more existing projects are completed.

- **Meanwhile, industrial output softened last month, contracting 0.3% m/m.** (See Chart 4.) **Weakness in foreign demand appears mostly to blame.** Even though customs reported that exports were still strong in April, there was a partial reversal of March's jump. And more reliable figures on industrial exports sales published today suggest that foreign demand was at its weakest in 28 months in April. (See Chart 5.)

- **Looking forward, we think the reopening recovery still has legs left.** Sales among large retail and catering firms rose 18.9% during the Labour Day holiday, similar to the 19.0% y/y gain last month. That's despite base effects being less favourable in early May compared to April, implying that consumer spending was still strengthening at the start of this month. And with the labour market tightening – the unemployment rate dropped back further in April (see Chart 6) – we expect income growth to pick up, helping to underpin further gains in consumption.

- **Our forecast for GDP growth of 6.5% this year still looks achievable**, especially given the weak base for comparison from last year's downturn. **However, the recovery is likely to fizzle out during the second half of the year.** Fiscal support will be pared back later this year to meet budget targets. The rebound in credit growth is already stalling and the housing market appears to be struggling for momentum again. Meanwhile, the challenging global picture will prevent much of a pick-up in Chinese exports.

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Chart 1: Retail Sales (Dec. 2019 = 100, seas. adj.)

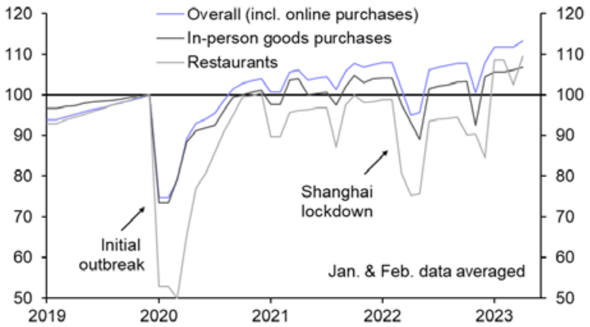


Chart 2: Fixed Investment (Dec. 2019 = 100, seas. adj.)

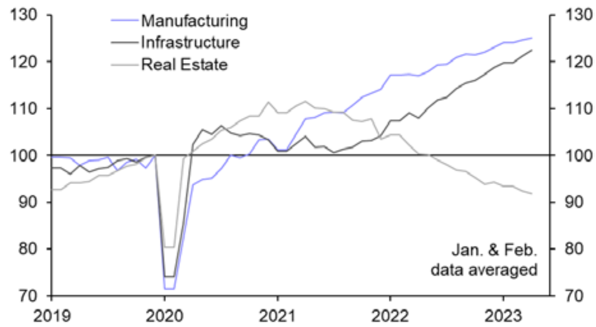


Chart 3: Residential Real Estate Activity (seas. adj.)

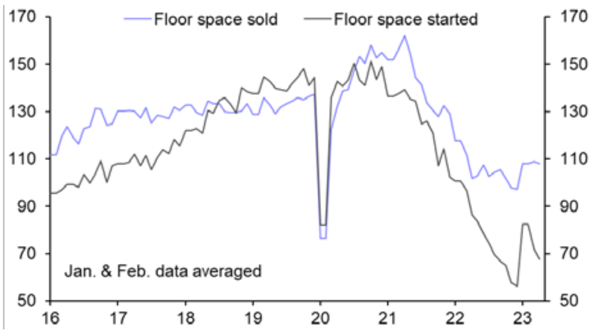


Chart 4: Industrial Output (% m/m annualised, CE seas. adj., Jan. & Feb. averaged)

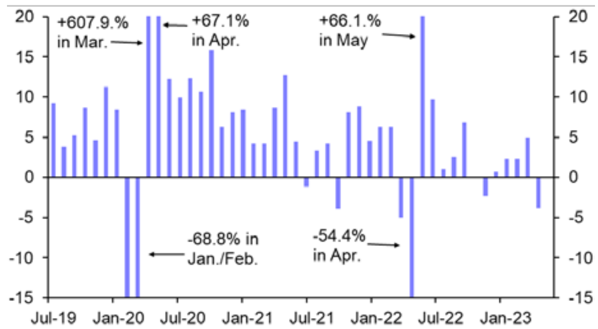
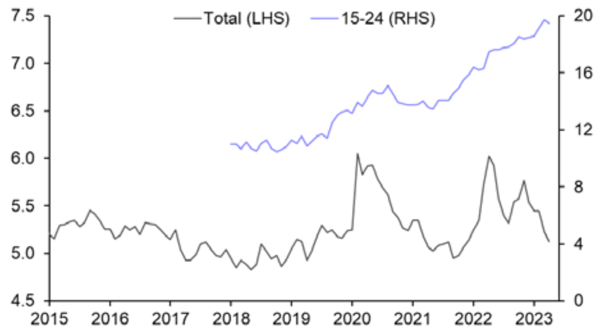


Chart 5: Exports & Industrial Export Sales ($, Dec. 2019=100, CE seas. adj.)

Chart 6: Surveyed Unemployment Rate (%, seas. adj.)



Sources: CEIC, WIND, Capital Economics

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