

China: Steady, but Unspectacular, Growth

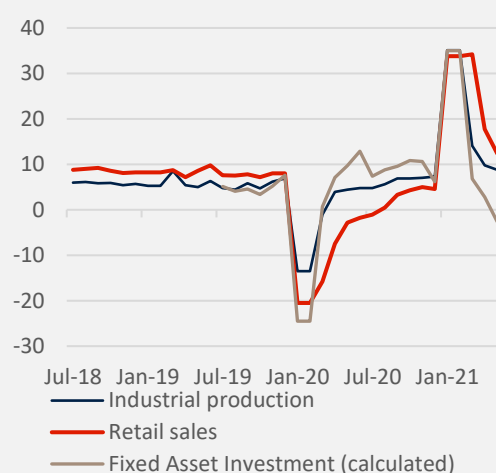
- China’s underlying retail sales trend slightly improved, but industrial production moderated
- We think that China is experiencing a K-shaped economic recovery from 2020
- Authorities continue to actively manage growth and prices to limit risks

Summary

China’s key May data showed that the economy continues to expand at a steady pace, without much improvements or deterioration compared to April. Retail sales saw slight improvements in its momentum, but industrial production growth moderated. While fixed asset investments continued to be supported by the private sector, state own enterprises investments have come off. We think that there is some degree of K-shaped recovery in China, with some sectors coping better after the downturn brought about by Covid-19.

From our heatmap, we can discern that growth rates continues to be relatively healthy in May, buoyed by base effects last year. Underlying growth is relatively stable compared to a month ago. Factory prices (PPI) and imports see the strongest growth rates compared to the past three years. Meanwhile, loan growth, property prices and consumer inflation are relatively more subdued.

Figure 1: China’s key monthly metrics (% YOY)



Source: Bloomberg, HL Bank

Heatmap on Key China Economic Metrics

2019						2020												2021					
Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	
-12	-12	-13	-13	-13	-10	-10	-5.7	-3.3	-2.2	-15	-10	-0.7	-0.5	-0.3	-0.2	0.0	0.0	0.1	3.6	2.3	1.6	1.1	FAI
-15	-17	-18	-19	-17	-13	-10	-11	-15	-19	-19	-16	-13	-11	-11	-11	-0.8	-0.3	0.0	0.6	1.7	2.5	2.9	PPI
-15	-11	-0.8	-0.6	-0.6	-0.6	-0.6	-4.6	-2.5	-12	-0.1	0.3	-0.7	0.7	0.6	0.4	1.1	1.1	10	2.8	2.6	1.3	1.3	Energy Use
-0.8	-0.9	-0.9	-0.7	-0.6	0.3	-17	-0.6	-2.0	-2.6	-12	0.1	0.4	0.1	-0.2	-0.2	-0.3	-0.4	2.6	3.1	2.0	2.4	2.2	Freight
-14	-15	-12	-16	-0.6	-0.6	-0.8	-5.5	0.6	0.2	0.1	0.3	0.3	0.3	0.5	0.5	0.7	0.7	0.4	0.2	0.6	0.3	0.3	Manufacturing PMI
-2.0	-2.3	-0.4	-1.8	0.1	1.0	0.9	0.9	-4.9	-13	-0.9	-0.6	-0.6	0.0	0.8	0.8	0.9	1.0	10	10	3.9	1.7	1.2	Ind. production
-0.2	-0.6	-0.9	-0.7	-0.7	0.2	-0.9	-3.7	-0.9	-0.1	-0.6	-0.3	0.2	0.4	0.4	0.5	1.3	1.0	1.5	5.3	0.8	0.8	0.6	Exports
0.7	0.1	0.4	0.6	0.3	0.9	14	-4.5	-0.6	0.6	14	0.6	1.2	1.1	0.1	1.0	1.7	1.7	1.1	0.0	-1.0	0.2	0.3	Trade balance
-13	-13	-14	-13	-0.7	0.5	-17	-0.1	-0.7	-17	-17	-0.3	-0.5	-0.6	0.6	0.0	0.0	0.2	1.9	1.1	2.5	2.6	2.8	Imports
-18	-18	-14	-18	-11	-10	-10	-0.9	-5.7	-3.1	-19	-16	-14	-11	-0.5	-0.3	-0.2	-0.2	-0.2	-0.2	3.9	1.5	0.8	Retail sales
-13	-12	-14	-2.8	0.0	-14	-0.4	-5.8	-0.3	-0.1	0.0	0.2	0.2	0.4	0.6	0.6	0.7	0.5	-0.3	-0.5	0.6	0.3	0.4	Non-manuf. PMI
0.6	0.1	-0.1	-0.3	-0.6	-0.8	-0.9	-1.1	-1.2	-1.3	-1.3	-1.3	-1.2	-1.2	-1.2	-1.3	-1.4	-1.4	-1.4	-1.2	-1.0	-1.0	-1.0	Property prices
-16	-15	-18	-15	-0.9	-13	-0.9	-5.6	0.4	0.5	0.3	0.3	0.2	0.3	0.5	0.5	0.4	0.4	0.0	0.0	0.7	0.4	0.3	Employment
1.7	1.6	1.8	2.8	3.2	2.7	3.1	2.6	1.7	0.7	-0.2	-0.1	0.1	-0.2	-0.9	-2.0	-2.6	-1.9	-2.1	-1.9	-1.4	-1.0	-0.7	CPI
-1.7	-2.1	-1.6	-1.8	-1.7	-1.7	-2.1	-2.1	-0.5	0.5	0.7	0.6	0.2	0.1	0.1	0.0	-0.2	-0.3	-0.5	0.0	-0.7	-1.4	-1.6	Loan

Note: Measured in standard deviations from mean over the past three years (June 2018 to May 2021). Positive (negative) number indicates higher (lower) than mean. Source: Bloomberg, HL Bank

The result is in line with our view that the economy may still see an elevated growth rate in 2Q (1Q: 18.3% y/y), although underlying

growth stays relatively subdued. This means that the era of rapid growth from lower hanging fruits may have ended.

Examining the Breakdown

Retail sales growth slowed to 12.4% y/y in May, from 17.7% in April. Underlying expansion continued to improve from a month ago, at around 4.5% (2019-2021 CAGR), compared to 4.3% prior. May's y/y retail sales growth was supported by restaurants/catering (26.6% y/y), construction materials (20.3%), petroleum (20.3%) and jewellery (31.5%). These items were likely inflated by low price and base effects last year. In contrast, demand for household electronics (3.1% y/y), automobiles (6.3%), medicine (7.3%) and communication devices (8.8%) showed a more subdued expansion compared to a year ago.

Industrial production eased to an 8.8% expansion, slower than the 9.8% previous print. Underlying growth eased to 6.6% (2019-2021 CAGR) from 6.8% prior. Growth for pharmaceuticals (34% y/y) and telecommunications/computers (12.7%) quickened. Price effects also showed up in expansions for raw and intermediate products. In contrast, auto manufacturing grew a mere 0.5% y/y, from 7.7% a month ago. A chip shortage and weakening domestic demand has led to a slowdown in automobile production to 2.1mn units in May, from 2.3mn units in April.

Fixed asset investments registered a 15.4% y/y YTD rise, but the pace was significantly lower than the 19.9% result prior. This meant that fixed asset investment may have contracted in May on a y/y basis. Underlying growth between 2019 to 2021 also showed a significant slowdown in May compared to April (3.4% from 4.9%). The slowdown was mainly from the public sector. Private companies saw a 18.1% y/y YTD increase (previous: 21%), while state owned investment growth slowed to 11.8% (previous: 18.6%).

Implications

Post data release, a spokesman from the National Statistics Bureau has commented that the domestic economic growth is unbalanced, which we agree. High end retail sales are seeing positive growth, as the surveyed jobless rate fell further (5.0% from 5.1%). Private investment is also positive. However, some chip shortages are weighing on automobiles.

From the NBS view, downstream companies are facing price pressures from the upstream. NBS is also concerned about fresh graduates having difficulty finding jobs while companies struggling to recruit suitable workers.

Overall, from official rhetoric, China continues to actively manage growth, prices and capital allocation. This is meant to limit risks (e.g. leverage) from current imbalances. We view that China will prefer to maintain some stability in its currency, and anticipate a range of 6.30 to 6.50 for USD/CNY over the coming quarters.

Figure 2: Key forecasts

	2021F	2022F
GDP	9.2	5.7
Inflation (avg)	1.3	2.5
USD/CNY (end-period)	6.40	6.55 (June 2022)

Source: HL Bank

Figure 3: Risks to our views

<p>Upside:</p> <ul style="list-style-type: none"> - More international cooperation - Domestic demand / labour market improves
<p>Downside:</p> <ul style="list-style-type: none"> - Prolonged disruption from Covid-19 virus to 2022 and beyond - Another round of US-China trade war / deteriorating US-China foreign relations

Source: HL Bank

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