

China: Strong Consumer Spending

GDP growth came in within expectation ranges in 1Q, highlighting that recovery is on track

Growth in consumer spending and fixed asset investment picked up

Authorities are likely to focus on combating leverage risks, as growth concerns fade

Summary

China's 1Q GDP and March data indicators were buoyed by base effects. GDP expanded by 18.3% y/y in 1Q, from 6.5% in 4Q-2020. However, growth compared to the previous quarter was more modest, at 0.6% q/q.

Post-data release, the National Statistics Bureau's spokesperson Liu Aihua gave a constructive tone to China's recent economic performance. She highlighted strong growth in high-tech manufacturing, new energy vehicles and semi-conductor production sectors. She downplayed some concerns of inflationary pressures, given no foundation for strong rallies for industrial goods and pork/grain prices now under control. Liu pointed out small and micro-sized enterprises, alongside services sectors, remain as weak links to the economy.

In our view, China is exhibiting strong consumer spending in March. Improving labour market fundamentals are also supportive of this in the coming months. Industrial production moderated in contrast. Fixed asset investment growth was also relatively constructive. We maintain our 9.2% GDP growth forecast for 2021, meaning that China is on track to beat its 6% or higher GDP growth target.

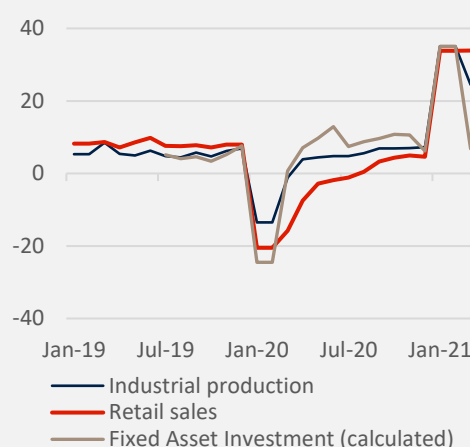
Examining the Breakdown

Excluding base effects, GDP growth was 5% CAGR for 1Q-2019 to 1Q-2021. This is down from the 6.5% growth in 4Q-2020. Growth was supported by second industry (manufacturing and construction), up by 24.4% y/y. Meanwhile third industry (mainly services) also grew 15.6% y/y. Primary industry expanded 8.1% y/y.

Retail sales surprised (34.2% y/y in March) on the upside. Discounting base effects, this meant that March retail sales grew 6.3% CAGR for 2019-2021, up from January-February's 3.1%.

The breakdown highlighted the impact of the pandemic. Restaurant / catering grew by 91.6% y/y as a result of the reduced activity last year. Some encouraging signs we saw were strong expansions in jewelry (83.2% y/y), clothing (69.1%), household electronics (38.9%), cosmetics (42.5%), and consumer goods (29.9%). This is indicating that discretionary spending is rising. This, coupled with

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



Source: Bloomberg, HL Bank

Figure 2: Key forecasts

	2021F	2022F
GDP	9.2	5.7
Inflation (avg)	1.3	2.5
USD/CNY	6.35	-

Source: HL Bank

Figure 3: Risks to our views

Upside:

- More international cooperation
- Domestic demand / labour market improves

Downside:

- Prolonged disruption from Covid-19 virus to 2021 and beyond
- Another round of US-China trade war / deteriorating US-China foreign relations

Source: HL Bank

strong import performance in March, bodes well for global exporters to China.

China's surveyed jobless rate fell to 5.3% from 5.5% prior. This is likely to be a positive for consumer spending in the months ahead.

In contrast, industrial production fell below expectations (14.1% y/y). Discounting base effects, March industrial production expanded by 6.3% y/y CAGR for 2019-2021, down from January-February's 8.1%.

Industrial production was supported by auto manufacturing (40.4% y/y), machineries (24.1%), and certain commodity produces (metals and non-metals). This is partly supported by rising prices. Telecommunications / computer (12.2% y/y) was relatively more subdued.

Fixed asset investments grew by 25.6% y/y in 1Q (from 35% in January-February), which translates to a 6.8% y/y increase in March. We discerned a pickup of underlying momentum, excluding all the distortionary base effects. This was supported by pharmaceuticals.

Meanwhile, new home prices rose by 0.41% m/m from 0.36% in March. This translates to a 4.37% y/y increase. First and second tier cities saw the bulk of the increase. Property investments grew 25.6% in 1Q, from 38.3% in January-February.

Policy Implications

With strong economic fundamentals, markets are starting to expect some tapering of monetary support by the People's Bank of China. In our view, China may be unwilling to allow accommodative monetary conditions to push up leverage risks. This may favour a neutral stance for now, but a tightening stance may be on the cards by the end of 2021.

Hong Leong Bank Berhad

Fixed Income & Economic Research, Global Markets
Level 8, Hong Leong Tower
6, Jalan Damanela
Bukit Damansara
50490 Kuala Lumpur
Tel: 603-2081 1221
Fax: 603-2081 8936
Email: HLMarkets@hlbb.hongleong.com.my

DISCLAIMER

This report is for information purposes only and does not take into account the investment objectives, financial situation or particular needs of any particular recipient. The information contained herein does not constitute the provision of investment advice and is not intended as an offer or solicitation with respect to the purchase or sale of any of the financial instruments mentioned in this report and will not form the basis or a part of any contract or commitment whatsoever.

The information contained in this publication is derived from data obtained from sources believed by Hong Leong Bank Berhad ("HLBB") to be reliable and in good faith, but no warranties or guarantees, representations are made by HLBB with regard to the accuracy, completeness or suitability of the data. Any opinions expressed reflect the current judgment of the authors of the report and do not necessarily represent the opinion of HLBB or any of the companies within the Hong Leong Bank Group ("HLB Group"). The opinions reflected herein may change without notice and the opinions do not necessarily correspond to the opinions of HLBB. HLBB does not have an obligation to amend, modify or update this report or to otherwise notify a reader or recipient thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

HLB Group, their directors, employees and representatives do not have any responsibility or liability to any person or recipient (whether by reason of negligence, negligent misstatement or otherwise) arising from any statement, opinion or information, expressed or implied, arising out of, contained in or derived from or omission from the reports or matter.

Potential and actual conflict of interest may arise from the activities of HLB Group. HLB Group constitute a diversified financial services group. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, hedging transactions and other activities for their own account or the account of others. In the ordinary course of their business, HLB Group may effect transactions for their own account or for the account of their customers and hold long or short positions in the financial instruments. HLB Group, in connection with its business activities, may possess or acquire material information about the financial instruments. Such activities and information may involve or have an effect on the financial instruments. HLB Group have no obligation to disclose such information about the financial instruments or their activities.

The past performance of financial instruments is not indicative of future results. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Any projections or forecasts mentioned in this report may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information. No assurance can be given that any opinion described herein would yield favorable investment results. Recipients who are not market professional or institutional investor customer of HLBB should seek the advice of their independent financial advisor prior to taking any investment decision based on the recommendations in this report.

HLBB may provide hyperlinks to websites of entities mentioned in this report, however the inclusion of a link does not imply that HLBB endorses, recommends or approves any material on the linked page or accessible from it. Such linked websites are accessed entirely at your own risk. HLBB does not accept responsibility whatsoever for any such material, nor for consequences of its use.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This report is for the use of the addressees only and may not be redistributed, reproduced or passed on to any other person or published, in part or in whole, for any purpose, without the prior, written consent of HLBB. The manner of distributing this report may be restricted by law or regulation in certain countries. Persons into whose possession this report may come are required to inform themselves about and to observe such restrictions. By accepting this report, a recipient hereof agrees to be bound by the foregoing limitations.