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Global Markets Research

Research Alert

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.

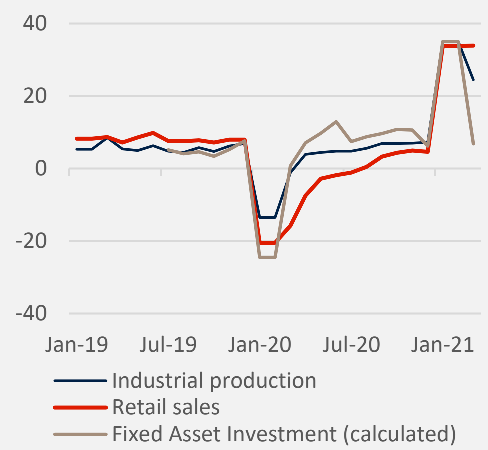
Examining the Breakdown

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 at 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 Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel: 603-2081 1221
Fax: 603-2081 8936
Email: HLMarkets@hlbb.hongleong.com.my