

17 May 2021

Global Markets Research

Research Alert

China: A Lack of Further Thrust

China’s economic performances were stable, but lacked further improvements from March
 Our heatmap shows manufacturing and export growth look healthy, amid retail sales moderation
 The NBS noted some rising input price pressures on manufacturers

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	
-1.2	-1.2	-1.3	-1.3	-1.3	-1.0	-1.0	-5.7	-3.3	-2.2	-1.5	-1.0	-0.7	-0.5	-0.3	-0.2	0.0	0.0	0.1	3.6	2.3	1.6	FAI
-1.5	-1.7	-1.8	-1.9	-1.7	-1.3	-1.0	-1.1	-1.5	-1.9	-1.9	-1.6	-1.3	-1.1	-1.1	-1.1	-0.8	-0.3	0.0	0.6	1.7	2.5	PPI
-1.5	-1.1	-0.8	-0.6	-0.6	-0.6	-0.6	-4.6	-2.5	-1.2	-0.1	0.3	-0.7	0.7	0.6	0.4	1.1	1.1	1.0	2.8	2.6	2.3	Energy Use
-0.8	-0.9	-0.9	-0.7	-0.6	0.3	-1.7	-0.6	-2.0	-2.6	-1.2	0.1	0.4	0.1	-0.2	-0.2	-0.3	-0.4	2.6	3.1	2.0	1.8	Freight
-1.4	-1.5	-1.2	-1.6	-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	Manufacturing PMI
-2.0	-2.3	-0.4	-1.8	0.1	1.0	0.9	0.9	-4.9	-1.3	-0.9	-0.6	-0.6	0.0	0.8	0.8	0.9	1.0	1.0	1.0	3.9	1.7	IP
-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	Exports
0.7	0.1	0.4	0.6	0.3	0.9	1.4	-4.5	-0.6	0.6	1.4	0.6	1.2	1.1	0.1	1.0	1.7	1.7	1.1	0.0	-1.0	0.2	Trade balance
-1.3	-1.3	-1.4	-1.3	-0.7	0.5	-1.7	-0.1	-0.7	-1.7	-1.7	-0.3	-0.5	-0.6	0.6	0.0	0.0	0.2	1.9	1.1	2.5	2.6	Imports
-1.8	-1.8	-1.4	-1.8	-1.1	-1.0	-1.0	-0.9	-5.7	-3.1	-1.9	-1.6	-1.4	-1.1	-0.5	-0.3	-0.2	-0.2	-0.2	-0.2	3.9	1.5	Retail sales
-1.3	-1.2	-1.4	-2.8	0.0	-1.4	-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	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	Property prices
-1.6	-1.5	-1.8	-1.5	-0.9	-1.3	-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	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	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	Loan

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

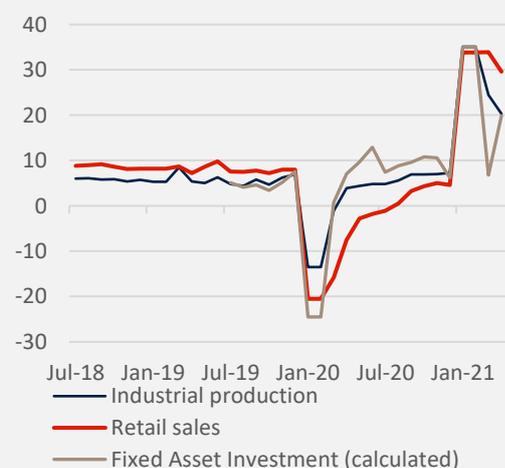
Summary

China’s recent strong pace of economic recovery moderated in April, compared to March. Notably, retail sales expansion fell below-expectations, with underlying growth similar to 4Q-2020 levels. Meanwhile, industrial production and fixed asset investment growth stayed relatively stable and resilient. This is likely inflated by elevated factory input prices.

Summarising China’s economic trends in April using a heatmap, we find that industrial activity continues to look solid. Energy consumption, PPI, freight activity, among others, are displaying some positive momentum for manufacturing and exports. Retail sales growth have moderated in April, even as import growth stayed strong.

In the meantime, property prices increases look capped as monetary conditions tightened and loan growth slowed. China’s

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



Source: Bloomberg, HL Bank

inflation still looks relatively benign for the time being, as food prices have come off.

Examining the Breakdown

China's **retail sales** grew by 17.7% y/y in April from 34.2% in March. Taking out base effects, retail sales grew by 4.3% over the period of April 2019 to April 2021, lower than the 6.3% increase a month ago. In our view, this appears coherent than the 4-5% y/y expansion that we observed in 4Q-2020.

In terms of y/y growth, retail sales expansion was supported by jewellery (48.3% y/y), restaurant/catering (46.4%) and construction materials (30.8%). Spending growth on automobiles (16.1% y/y from 48.7%) and on household electronics (6.1% y/y from 38.9%) notably slowed significantly.

The surveyed jobless rate continued to fall to 5.1% in April, from 5.3% prior. Levels are similar to that seen in 2019.

For **industrial production**, it increased by 9.8% y/y in April versus a 14.1% rise in March. Underlying expansion for the period of 2019-2021 showed an improvement to 6.8% y/y in April, from 6.2% prior. These numbers are slightly lower than the 7% seen in 4Q-2020, but better than 2019 figures when China's manufacturing was hindered by the US-China trade war.

In terms of major industries, industrial production was supported by machineries (22.6% y/y), pharmaceuticals (19%) and metal products (21%), with the latter likely lifted by higher prices. Manufacturing of telecommunications/computer rose by 10.4% y/y. Food and textile production growth were more subdued.

Fixed asset investments rose by 19.9% y/y YTD, from 25.6% a month ago. Underlying growth looks to have accelerated to 4.9% in April (for the period of 2019-2021), compared to 3.7% a month ago.

Property investments growth slowed to 21.6% y/y YTD, from 25.6% a month ago.

Policy Implications

After the data release, China's National Statistics Bureau (NBS) said that the recovery is intact, as employment conditions stayed stable. The Bureau also sees China's carbon goal to create new demand and become a growth driver, despite pressure to achieve the targets.

They noted that the surge in industrial product prices is affecting production and operations. The increase in commodity prices has been attributed to improved global demand, limited raw materials supply and loose monetary policy.

With the surge in input prices on their radar, authorities may take action to combat this trend if they view it as a persistent threat in the coming months. Markets had been anticipating China to tighten monetary policy further, to limit leverage risks in line with China's official position.

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 2022 and beyond
- Another round of US-China trade war / deteriorating US-China foreign relations

Source: HL Bank

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