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Global Markets Research

Research Alert

China: Faster than expected pick-up in 1Q GDP growth

Uneven but sure recovery; supported by consumption & government infrastructure

Risks from complex and volatile external demand, insufficient domestic demand

No change to our call for status quo in rates; focus on ensuring sufficient liquidity

Background

The slew of economic data released from China was mixed, but 1Q GDP did pick up more than expected to +4.5% y/y in 1Q (4Q: +2.9% y/y), reaffirming expectations that the recovery post-reopening is on track, albeit uneven, and our expectations that key policy rates will be maintained in the near term. At 4.5% y/y, this is also the fastest growth pace in one year.

Powered by consumer spending and state infrastructure investment

As mentioned earlier, data released this morning and recently has been mixed. Consumer spending and government infrastructure investment has picked up towards March and has supported the economy. On the consumer side, retail sales jumped more than expected by 10.6% y/y, boosted by pent-up demand post opening as well as a favourable labour market as seen in unemployment rate easing to 5.3% y/y. Moving forward, consumer spending in expected to remain strong, especially for the services sector like travel, while the Golden Week holiday in May, will continue to support consumption in 2Q. In fact, the latest PMI-services corroborate with our view, with both the official and Caixin Services posting multi-year highs.

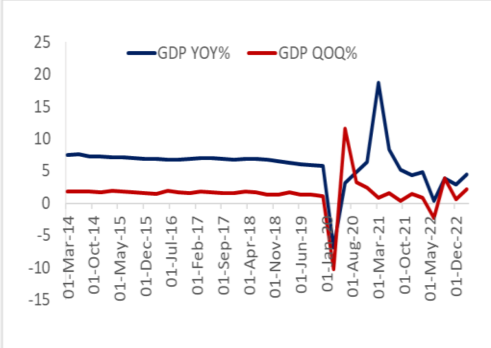
On the flip side, industrial output increased slower than forecast at 3.9% y/y, but with notable growth seen in cement, steel and motor-vehicle production. Fixed asset investment missed estimate at +5.1% y/y (J-F: +5.5% y/y) and we noted that it was primarily powered by state-owned enterprises rather than the private sector, as seen by the latter registering dismal less than 1.0% y/y growth while the former charting double-digit growth. Notably, property investment continued to contract, falling 5.8% y/y.

Complex and volatile external demand, insufficient domestic demand

Given concerns on the external demand in view of slower global growth prospects as well as geopolitical tensions and trade fragmentation with the US, it remains questionable if actual economic growth could lag behind the government's target of 5.00%. In fact, NBS spokesman Fu Linghui, in describing the 1Q data, commented that the economy is in steady recovery but added that the economy is still facing headwinds from an inadequate domestic demand as well as a complex and volatile external sector. As it is, exports were contractionary until the recent blip.

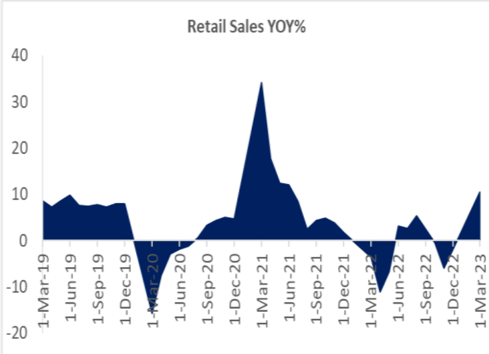
As such, we expect the government to continue to unveil stimulus measure to boost its infrastructure investments, consumption and even trade, as well as continue to focus on providing sufficient liquidity in the financial, lending and property market. In terms of interest rates, the People's Bank of China (PBoC) maintained the 1-year medium-term lending facility rate (MLF) unchanged at 2.75% yesterday but the amount of liquidity injections was smaller than market had anticipated at 170bn yuan (Previous: 481bn yuan). The two policy decisions, coupled with a recovery in the Chinese economy recently suggests that the central bank will most likely keep its 1- and 5- year loan prime rates unchanged at 3.65% and 4.30% respectively tomorrow and in the near term, but at the same time, closely monitoring and finetuning its other growth supportive policy measures.

Figure 1: GDP growth beat expectation



Source: Bloomberg

Figure 2: Retail sales boosted by pent-up demand



Source: Bloomberg

Figure 3: Services sector will support growth

Source: Bloomberg

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