



CCBI SECURITIES | RESEARCH

China Economics Update: Activity data beat expectations across the board; impact of fiscal policies clearly seen

中国经济评论: 经济数据超预期; 财政支持效果初现

年初经济活动数据整体超出预期。1-2月工业生产好于市场预期, 受益于强劲的外部需求和强劲的企业资本支出。尽管基数较高, 但随着货币和财政支持加速, 基础设施投资也强劲回升。消费扭转了12月的疲态, 创下自去年8月以来最强劲增长。

超预期的数据或受益于财政支持步伐加快。基础设施投资的改善速度快于我们的预期, 表明今年政府债券的投资效率有所提高。随着2022年有效财政赤字的扩大, 我们预计基础设施活动将从去年的低增长中回升, 未来几个月社融增速有望进一步企稳。

进一步的货币宽松政策可能有限。在国内经济数据强于预期的背景下, 央行在今天维持对金融机构的中期借贷便利(MLF)贷款利率不变。我们预计短期内货币立场将保持宽松, 助力稳增长的趋势, 不排除二季度再次降准。但我们认为, 1-2月强劲的经济数据和不断上升的价格压力令央行进一步降息的可能性较小。

Activity data surprised on the upside. Jan-Feb industrial production beat market expectation, benefiting from solid external demand and strong corporate capex. With accelerated monetary and fiscal support, infrastructure investments also picked up strongly, despite a high base. Consumption reversed its weakening trend from Dec, posting the strongest growth since Aug last year.

Fiscal support has picked up pace. Infrastructure investment improved more quickly than we expected, suggesting rising investment efficiency of government bonds this year. With a wider effective fiscal deficit in 2022, we see further infrastructure activity to pick up from the low growth last year, as well as further stabilization in TSF growth in the coming months.

Further monetary easing likely limited. Today, the PBoC kept the rate on medium-term lending facility (MLF) loans to financial institutions unchanged, on the backdrop of stronger-than-expected domestic activity data. We expect monetary stance to remain accommodative in the near-term, cushioning the stabilization. Another RRR cut in 2Q cannot be ruled out. However, strong data from today and rising price pressure suggests a further interest rate cut is less likely, in our view.

Lulu Jiang

(852) 3911 8012
jianglulu@ccbintl.com

Li Cui

(852) 3911 8274
cuili@ccbintl.com

Ying Zhang

(852) 3911 8241
zhangying@ccbintl.com

Jan – Feb activity data beat expectations across the board

Industrial production (IP) rose from the prior month and beat expectations. IP rose 7.5% YoY YTD in Feb, higher than market consensus and our expectation (CCBIS and cons: 4.0%). On a sequential basis, IP picked up by an average of 0.3% MoM (4.2% annualized) in Jan-Feb, lower than the pace in 4Q. Performance varied from sector to sector.

- Mining sector delivered the strongest growth among sectors at 9.8% YoY YTD in Feb; electricity and utility production was relative softer but still managed to grow 6.8% YoY YTD (Fig 1).
- Within the manufacturing sector, IP growth in energy-intensive sectors remained below headline: chemicals continued to decelerate, while IP for ferrous metal smelting contracted in the first two months of the year.
- The high-tech and equipment sector continued to achieve gains from industrial activity, maintaining double digit growth, rising 14.4% YoY YTD in Feb, 2.3ppts higher than Dec-2021. Among which, equipment (general and special), electric machinery as well as computer and cellphone production growth all picked up in the first two months compared to Dec-2021 (Fig 2).
- Automobile production growth turned up from Dec, rising 7.2% YoY YTD in Feb. Among which, IP for new energy vehicles increased by 150.5% YoY YTD.

Retail sales much stronger than expected. Headline retail sales growth came in at 6.7% YoY in Jan - Feb, stronger than our and market expectations (CCBIS: 2.5%, cons: 3.0%). Sequential growth accelerated for an average of 0.6% in Jan – Feb, faster than the average of 0.4% in 2021. The improvement was broad-based when compared to the Dec softness: sales of merchandise goods picked up (4.2ppts to 6.5% YoY in Jan-Feb), and catering increased strongly (+11.1ppts to 8.9% YoY in Jan-Feb). Online sales growth also accelerated by 11.7ppts to 10.2% YoY in Jan-Feb (Fig 3).

If compared to Dec 2021, growth in consumer goods accelerated for most categories YTD (Fig 4). In particular, gold, silver and jewelry (+19.7ppts to 19.5% YoY YTD), household electric appliances (+18.7ppts to 12.7% YoY YTD), auto (+11.3ppts to 3.9% YoY YTD) and petro-related products (+9.0ppts to 25.6% YoY YTD) saw faster pickup when compared to their Dec growth. On an absolute level, petro and its related products were the fastest growing sales category, rising 25.6% YoY YTD, likely reflecting the strong trend in energy prices.

FAI growth delivered the most upside surprise, growing by 12.2% YoY YTD in Feb. The headline growth was much higher than our and market expectations (CCBIS: 3.7%, cons: 5.0%). Based on our estimates, FAI rose 14.4% if compared with the same month in 2019 (pre-pandemic). Changes in major FAI categories included the following (Fig 5).

- Traditional infrastructure investment rose 8.1% YoY YTD in Feb vs. -0.6% YoY in Dec or only 0.4% growth in full-year 2021.
- Real estate investment rose 3.7% YoY YTD in Feb, reversing from a significant contraction in Dec of -13.9% YoY. However, Jan-Feb growth continued to ease from the 4.4% full-year growth in 2021.
- Manufacturing FAI growth remained the key driver of total FAI, growing 20.9% YoY YTD in Feb, compared to 11.8% YoY in the month of Dec, or 13.5% growth for full-year 2021.

Other property indicators were in negative territory, but showed signs of bottoming (Fig 6). In YoY terms, property starts and sales data continued to fall, dropping 12.1% and 9.6% YOY YTD in Feb, respectively. Despite the declines, the pace of slowdown has eased compared to the Dec level, which could point to gradual stabilization in property investment figures in the coming months.

Trade data released last week suggests still-strong global demand. Total exports rose 16.3% YoY YTD in Feb (CCBIS: 16.8%, cons: 14%), with growth momentum remaining strong in China's major markets. Import growth however was lower than anticipated at 15.5% YoY (CCBIS: 19.6%, cons: 17%), slowing from 22.2% YoY in Dec.

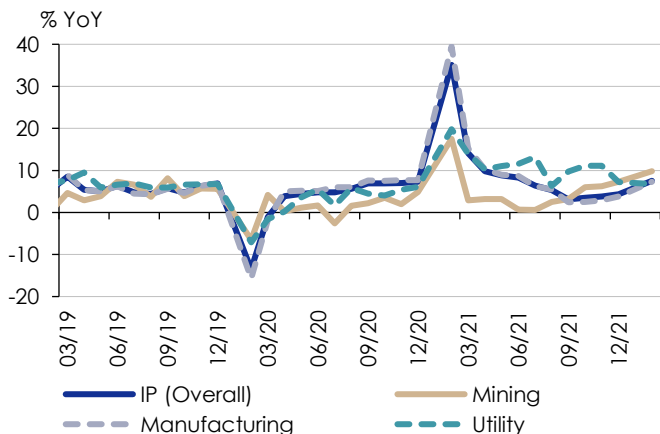
Our view:

The data surprise is likely to have reflected faster feedthrough of policy support. Aside from the solid manufacturing and trade data, soft consumption, especially the weakness in catering services dragged by the pandemic measures, also showed significant rebound early this year. In our view, the upside surprise may have reflected the feedthrough of fiscal support to the real economy, and some effects of higher prices on retail sales.

Fiscal support has now translated into infra spending Today's data suggests that delayed infrastructure activities that held back FAI growth late last year improved sharply entering into 2022. Therefore, not only government bond issuance ramped up quickly in early 2022, the feedthrough to real investment activities has been more efficient in order to stabilize growth. According to NDRC, the SPB proceeds this year will mainly be devoted to projects in transportation, power, livelihood and new infrastructure (e.g. industrial internet, 5G networks, large data centers, etc.). Given the pro-growth fiscal stance ([Budget report—more supportive fiscal stance for 2022](#), Mar 2022), and with increased efficiency in funding these projects, infrastructure investments could see moderate upside for the full year than we earlier anticipated (4% growth in our baseline assumption).

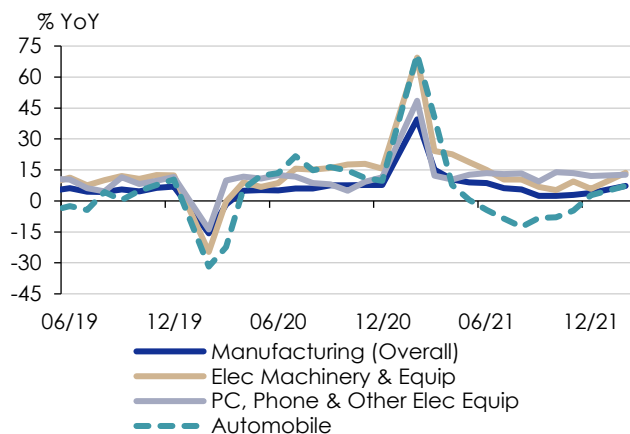
Strong activity data along with rising price pressure to reduce the chance of near-term easing. Today, the PBoC launched a RMB200b medium-term lending facility (MLF) operation and a RMB10b open market reverse repurchase operation, with a net liquidity injection to the open market at RMB100b, same as in Feb. PBOC kept the interest rates unchanged for MLF and OMO at 2.85% and 2.10% respectively, defying expectation of monetary easing given the soft loan data and renewed pandemic restrictions in recent days. Today's activity data beat market expectation, which will reduce the urgency for further PBOC easing. In our view, while another RRR cut cannot be ruled out in 2Q, strong data and rising price pressure amid the global commodity price surge suggests that the chance of a further interest rate cut is limited.

Fig 1: While manufacturing and utility sectors maintained solid growth, IP for mining picked up quickly



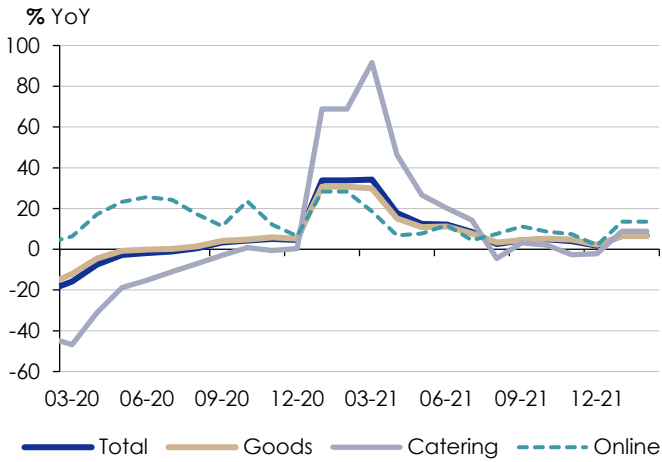
Source: NBS, CCBIS

Fig 2: Manufacturing activities picked up moderately with hi-tech sector incl. auto the main drivers for the improvements



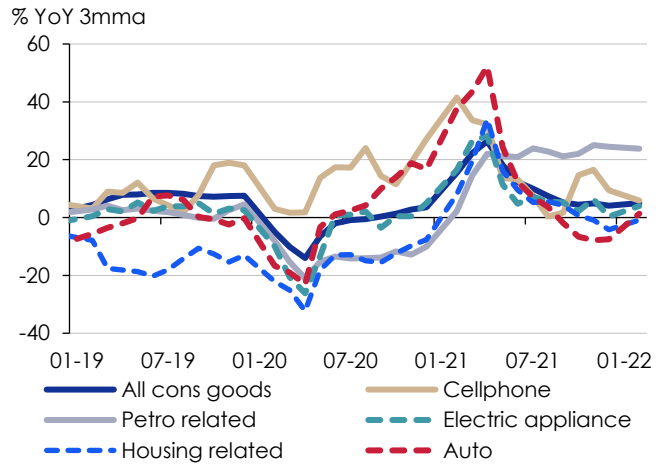
Source: NBS, CCBIS

Fig 3: In Jan – Feb, retail sales came in stronger than expected, especially for catering and online sales



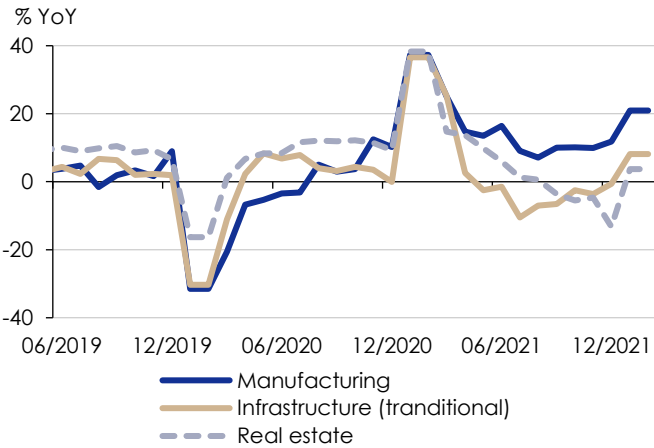
Source: NBS, CCBIS

Fig 4: Retail sales growth in merchandise goods improved for the major items vs. Dec-2021



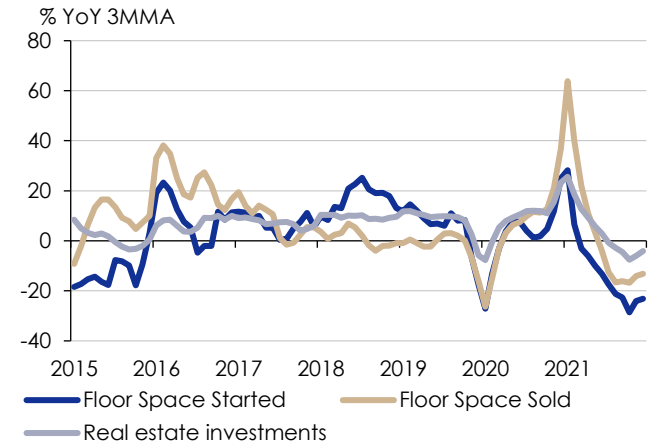
Source: CEIC, CCBIS

Fig 5: FAI growth beat market expectation the most, with infra and property both turned up in early 2022



Source: CEIC, CCBIS

Fig 6: Housing starts and sales still in contracting, but appeared to bottom out



Source: Wind, CEIC, CCBIS

Analyst certification:

The author(s) of this document, hereby declare that: (i) all of the views expressed in this document accurately reflect his/her personal views about any and all of the subject securities or issuers and were prepared in an independent manner; (ii) no part of any of his/her compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this document; and (iii) he/she receives no insider information/non-public price-sensitive information in relation to the subject securities or issuers which may influence the recommendations made by him. The author(s) of this document further confirm that (i) neither he/she nor his/her respective associate(s) (as defined in the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission issued by the Hong Kong Securities and Futures Commission) has dealt in/traded or will deal in /trade the securities covered in this document in a manner contrary to his/her outstanding recommendation, or neither he/she nor his/her respective associate(s) has dealt in or traded in the securities covered in this document within 30 calendar days prior to the date of issue of this document or will so deal in or trade such securities within 3 business days after the date of issue of this document; (ii) neither he/she nor his/her respective associate(s) serves as an officer of any of the companies covered in this document; and (iii) neither he/she nor his/her respective associate(s) has any financial interests in the securities covered in this document.

Disclaimers:

This document is prepared by CCB International Securities Limited. CCB International Securities Limited is a wholly-owned subsidiary of CCB International (Holdings) Limited ("CCBIH") and China Construction Bank Corporation ("CCB"). Information herein has been obtained from sources believed to be reliable but CCB International Securities Limited, its affiliates and/or subsidiaries (collectively "CCBIS") do not guarantee, represent and warrant (either express or implied) its completeness or accuracy or appropriateness for any purpose or any person whatsoever. Opinions and estimates constitute our judgment as of the date of this document and are subject to change without notice. CCBIS seeks to update its research as appropriate, but various regulations may prevent it from doing so. Besides certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate according to the analyst's judgment. Forecasts, projections and valuations are inherently speculative in nature and may be based on a number of contingencies. Readers should not regard the inclusion of any forecasts, projections and valuations in this document as a representation or warranty by or on behalf of CCBIS that these forecasts, projections or valuations or their underlying assumptions will be achieved. Investment involves risk and past performance is not indicative of future results. Information in this document is not intended to constitute or be construed as legal, financial, accounting, business, investment, tax or any professional advice for any prospective investors and should not be relied upon in that regard. This document is for informational purposes only and should not be treated as an offer or solicitation for the purchase or sale of any products, investments, securities, trading strategies or financial instruments of any kind in any jurisdiction. CCBIS makes no representations on the availability of the securities covered in this document (or related investment) to the recipients. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Neither CCBIS nor any other persons accept any liability whatsoever for any loss or damages (whether direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential) arising from any use of this document or its contents or otherwise arising in connection therewith. Securities, financial instruments or strategies mentioned herein may not be suitable for all investors. The opinions and recommendations herein do not take into account prospective investors' financial circumstances, investment objectives, or particular needs and are not intended as recommendations of particular securities, financial instruments or strategies to any prospective investors. The recipients of this document should consider this document as only a single factor in making their investment decision and shall be solely responsible for making their own independent investigation of the business, financial condition and prospects of companies referred to in this document. Readers are cautioned that (i) the price and value of securities referred to in this document and the income derived from them may fluctuate; (ii) past performance is not a guide to future performance; (iii) any analysis, ratings and recommendations made in this document are intended for long-term (at least for 12 months) and is not linked to a near-term assessment of the likely performance of the securities or companies in question. In any event, future actual results may differ materially from those set forth in any forward-looking statements herein; (iv) future returns are not guaranteed, and a loss of original capital may occur; and (v) fluctuations in exchange rates may adversely affect the value, price or income of any security or related instrument referred to in this document. It should be noted that this document covers only those securities or companies as specified herein and does not extend to any derivative instruments thereof, the value of which may be affected by many factors and may not correspond with the value of the underlying securities. Trading in these instruments is considered risky and are not suitable for all investors. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the forward-looking statements, opinions and expectations contained herein are based on fair and reasonable assumptions, CCBIS has not been able to verify independently such facts or assumptions and CCBIS shall not be liable for the accuracy, completeness or correctness thereof and no representation or warranty is made, express or implied, in this regard. All pricing referred to in this document is as of the close of local market for the securities discussed, unless otherwise stated and for information purposes only. There is no representation that any transaction can or could have been effected at those prices, and any prices do not necessarily reflect CCBIS' internal books and records or theoretical model-based valuations and may be based on certain assumptions. Different assumptions could result in substantially different results. Any statements which may be contained herein attributed to a third-party represent CCBIS' interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation have not been reviewed or endorsed by the third party. Reproduction and distribution of these third party contents in any form is prohibited except with the prior written consent of such third party. The recipients must make their own assessments of the relevance, accuracy and adequacy of the information contained in this document and make such independent investigation as they may consider necessary or appropriate for such purpose. Recipients should seek independent legal, financial, accounting, business, investment and/or tax advice if they have any doubt about the contents of this document and satisfy themselves prior to making any investment decision that such investment is in line with their own investment objectives and horizons. Use of hyperlinks to other internet sites or resources (if any) as referred to in this document is at users' own risk. They are provided solely for the purpose of convenience and information and the content of these internet sites or resources does not in any way form part of this document. The contents, accuracy, opinion expressed, and other links provided at these sites are not investigated, verified, monitored, or endorsed by CCBIS. CCBIS expressly disclaims any responsibility for and does not guarantee, represent and warrant (either express or implied) the completeness, accuracy, appropriateness, availability or security of information found on these websites. Users of these websites are solely responsible for making all enquiries, investigation and risk assessment before proceeding with any online or offline access or transaction with any of these third parties. All activities conducted by users via or at these websites are at their own risk. CCBIS does

not guarantee the security of any information users may forward or be requested to provide to any third parties via these websites. Users are deemed to have irrevocably waived any claims against CCBIS for any loss or damage suffered as a result of any access to or interaction with any of these websites. Upon request CCBIS may provide specialized research products or services to certain customers focusing on the prospects for specific securities as compared with other covered securities over varying time horizons or under differing market conditions. While the views expressed in these situations may not always be directionally consistent with the long-term views expressed in the analyst's published research, CCBIS has procedures in place to prevent selective disclosure and will update the relevant readers when our views has changed. CCBIS also has procedures in place to identify and manage potential conflicts of interest that may arise in connection with its research business and services. Chinese Wall procedures are also in place to ensure that any confidential and/or price sensitive information is properly handled. CCBIS will use its best endeavors to comply with the relevant laws and regulations in this respect. Nevertheless, the recipients should be aware that CCB, CCBIS, their affiliates and/or their officers, directors and employees may do business with the issuer(s) of the securities covered in this document, including investment banking business or direct investment business or may hold interest in (and/or later add or dispose) such securities (or in any related investment) for themselves and/or on behalf of their clients from time to time. As a result, investors should be aware that CCBIS may have a conflict of interest that could affect the objectivity of this document and CCBIS will not assume any responsibility in respect thereof. Further, the information contained herein may differ or be contrary to opinions expressed by other associates of CCBIS or other members of the CCB or CCBIH group of companies. Where this document refers to any products, investments, securities, financial instruments or industry sectors, this is for the information of the institutional and professional customers of CCBIS only and this document should not be distributed to retail customers. This document is not directed at you if CCBIS is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that CCBIS is permitted to provide research material concerning investments to you and that you are permitted and entitled to receive and read the document under relevant legislation and regulations. In particular, this document is only distributed to certain US Persons to whom CCBIS is permitted to distribute according to US securities laws, but cannot otherwise be distributed or transmitted, whether directly or indirectly, into the US or to any other US person. Any US person (as defined under the Exchange Act or the U.S. Internal Revenue Code of 1986, as amended) who is a recipient of this material wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided herein should direct such transaction exclusively to and such transaction shall be effected only through CCB International Overseas (USA), Inc. This document also cannot be distributed or transmitted, whether directly or indirectly, into Japan and Canada and not to the general public in the People's Republic of China (for the purpose of this document, excluding Hong Kong, Macau and Taiwan) unless under applicable laws. Any unauthorized reproduction or redistribution by any means to any persons, in whole or in part of this document is strictly prohibited and CCBIS accepts no liability whatsoever for the actions of third parties in distributing this research report. If this document has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. CCBIS therefore does not accept liability for any errors or omissions in the contents of this document, which may arise as a result of electronic transmission. The disclosures contained in this document prepared by CCBIS shall be governed by and construed in accordance with the laws of Hong Kong.

Distribution in Singapore: The information/research herein is prepared by CCB International Securities Limited ("CCBIS"), a foreign affiliate of CCB International (Singapore) Pte Ltd ("CCBISG") (Co. Reg. No. 201531408W). CCBISG holds a capital markets services licence from the Monetary Authority of Singapore for fund management, dealing in capital market products (specifically securities and collective investment schemes) and providing custodial services, and is an Exempt Financial Adviser under the Financial Advisers Act in respect of advising others by issuing or promulgating research analysis or research reports. CCBIS may distribute information/research pursuant to an arrangement with CCBISG under Regulation 32C of the Financial Advisers Regulations. CCBIS is licensed in Hong Kong to provide such information/research reports. Singapore recipients should contact CCBISG at +65-68071880 for matters arising from, or in connection with the information distributed.

Copyright 2022 CCBIS. The signs, logos and insignia used in this research report and the company name "CCB International Securities Limited" are the registered and unregistered trademarks of CCB, CCBIH and/or CCBIS. All rights are hereby reserved. All material presented in this document, unless indicated otherwise, is under copyright to CCBIS. This document or any portion hereof may not be reproduced, sold or redistributed without the written consent of CCBIS.

CCB International Securities Limited
12/F, CCB Tower, 3 Connaught Road, Central, Hong Kong
Tel: (852) 3911 8000 / Fax: (852) 2537 0097s