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China Economics Update: April data disappoints but policy support is on the way

中国经济评论: 四月经济数据大幅低于预期；政策支持继续提速

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4 月工业生产及社会零售销售受疫情影响急剧降温,投资则较为稳健。制造业生产主要受汽车和设备行业拖累，而上海是这些行业的重要生产中心。零售方面，受疫情和防控措施影响线下服务和在线销售全线走低。相比之下，企业资本支出和公共投资依然强劲，抵消了房地产投资进一步放缓的影响。

短期内政策可能将侧重于控制风险，预计下半年稳增长政策效果更为明显。近期货币政策更多通过行业定向支持，包括地产政策调整支持经济，减少行业流动性压力。价格回升则是大规模流动性宽松和降息的制约因素，财政支持也在提速，包括给中小企业减税延租，加大公共投资等。我们预计近期经济政策将侧重于稳定供应链和就业市场并管理行业的流动性压力。疫情受控后增长则有望在政策支持下强力反弹。

经济数据的回暖仍需时间，我们下调今年增长预测。虽然新增确诊病例已过峰值，经济和行业已进入复苏期。但疫情全面受控仍需要时间，失业率上升对经济复苏也将有所延迟。疫情受控后，我们仍预计稳增长政策将支持下半年经济活动强劲反弹。我们将 2022 年第二季度和全年增长同比预测分别从之前的 4.5% 和 5 % 下调至 3.7% 和 4.8%。

Production and retail sales declined sharply in April as Covid controls took a toll, even as investment held up. The decline in IP was led by auto and equipment, sectors for which Shanghai is a main production hub. Retail sales also declined across the board, including both offline services and online sales, pointing to the impact of stringent control measures. By comparison, corporate capex and public investment remained strong, offsetting further slowdown in property investment.

Policy likely to focus on containing risk in the near-term, with a growth push expected to take place later in the year. Monetary policy eased through targeted sectoral support, including to housing, although price pressure remains the constraint on large liquidity easing and/or a rate cut. On the fiscal side, the government has announced relief measures to assist SMEs, and public investment has stayed strong. We expect near-term economic policy to focus on stabilizing supply chains and the job market while managing liquidity pressure, as the government prioritizes its "zero-Covid" strategy. A robust pro-growth strategy remains on the cards, in our view, awaiting the moment the Omicron variant is deemed to have been brought under control.

We expect data improvement to take time, and so mark down our annual growth forecast. As daily new confirmed Covid cases were reported have already passed a recent peak, the recovery is likely already underway. However, a full exit will take time, and the rise in the jobless rate may delay the recovery. We continue to expect a strong rebound in activities in 2H assuming solid fiscal support and corporate capex. We lower our 2Q and full-year GDP forecasts to 3.7% and 4.8% YoY, respectively, from our earlier forecasts of 4.5% and 5.0% YoY.

Industrial activity and retail sales plummet in April

Industrial production (IP) contracted 2.9% YoY in April, a much weaker reading than the market expectation of 0.5% YoY growth and 5.0% YoY growth in March. The result is also well below the 1.1% YoY decline witnessed in March 2020. On a sequential basis, IP plunged 7.1% MoM, against an average pace of 0.4% MoM in January-March. Changes by sector include the following.

- **Mining** delivered the strongest growth among the sectors at 9.5% YoY in April, a modest slowdown from 12.2% in March. Electricity and utility production was soft, rising only 1.5% YoY, down from 4.6% YoY the previous month.
- **Manufacturing production** plummeted 4.6% YoY, down from a 4.4% YoY gain in March, likely reflecting stringent Covid control measures and supply disruptions. IP growth in energy-intensive sectors declined slightly from already low growth. Sectors that were on solid growth tracks in previous months also fell (Fig 1). For instance, general equipment manufacturing fell 15.8% YoY while electric machinery and computer and electronic equipment manufacturing growth eased notably from the prior month.
- **Automobile production** growth declined 31.8% YoY in April versus a 1% decline in March., although production of new energy vehicles held up with strong 42.2% YoY growth in April.

Retail sales weakened further. Headline retail sales fell further into contraction territory, down 11.1% YoY in April after contracting 3.5% in Mar, short of the downbeat market expectation of a 6.2% YoY decline. The declines were broad-based: sales of merchandise goods plunged 9.7% YoY in April while catering contracted 22.7% YoY. Online sales swung to a 1.0% YoY contraction in April, compared with a 2.7% YoY expansion in Mar (Fig 2).

Compared with March, the deceleration in consumer goods sales was seen across most categories, including household electric appliances, auto sales, cultural & office goods, and petro-related products. The only exceptions were Covid-related categories such as food & beverage, and Chinese & western medicine, reflecting strong stay-at-home demand.

FAI growth sustains

April FAI data came in at 6.8% YoY YTD, down from a gain of 9.3% in March but roughly in line with the market expectation of 7.0%. In April alone, FAI growth eased moderately to 6.6% YoY from 7.1% YoY in March. By category, we noted the following changes (Fig 3):

- **Traditional infrastructure** (such as transportation, postal services, water and environmental infrastructure) investment picked up 3.0% YoY in April versus 8.8% YoY in March. Investment in electricity, gas, and water production & supply slowed dramatically to 2.3% YoY after having surged 24.4% YoY in March. Broad infrastructure investment(which includes electricity, gas & water production and supply in addition to traditional infrastructure) was up 2.8% YoY, but down 8.6ppt from growth March.
- **Real estate investment** contracted by a further 10.1% YoY in April, deepening the 2.4% YoY loss the prior month. For the first four months of this year, real estate investment plunged 2.7% YoY YTD despite the recent relaxation in property policy.
- **Manufacturing FAI** growth was solid although momentum cooled. Investment rose 6.4% YoY in April compared with 11.9% in March. Expansion in high-tech manufacturing investment is still strong, picking up 22% YoY YTD in January-April.

Property indicators slump

In YoY terms, property starts and sales contracted further, falling 44.2% and 39% YoY in April, respectively, much worse than the declines in March as Covd-related lockdown measures sapped housing demand despite further policy relaxation.

Our view:

The sharp slowdown in IP and retail sales reflect Covid restrictive measures that have interrupted logistics. Given the lockdown in Shanghai and more stringent Covid-related measures applied to major cities, faltering April activity was to be expected, although the severity clearly overshot market expectations. For instance, the sharp contraction in auto production was consistent with reported shutdowns at auto factories in and around Shanghai, which account for around 10% of national production capacity. Similarly, as Shanghai and the Yangtze River Delta are production hubs for electronics and equipment, the logistics disruptions in those regions had an outsized effect on equipment and electronics production and exports last month. Meanwhile, corporate capex, esepecially in high-tech areas has held up, suggesting that structural force in support of growth remains in place.

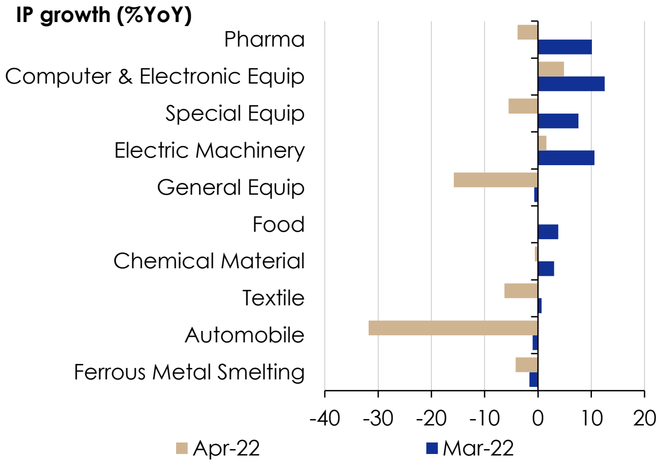
Improvement in the data will take time. The number of new cases and symptomatic cases in China both fell by more than 30% from a day earlier on 15 May. Over the weekend, Shanghai announced it would begin reopening businesses gradually starting from 16 May, which would allow for some normalization of activities. In fact, freight and logistics have already seen moderate improvement (Fig 4). It was reported that daily container throughput at the Port of Shanghai had reached 3.09mn TEU in April, or 82.4% of the same month last year, with throughput continuing to recover in May. However, a full exit from the lockdown will take time, and so activities in May are likely to remain under pressure. The weak job market will also delay the rebound in private demand. The surveyed jobless rate climbed to 6.1%, its highest level since February 2020 (Fig 5), which will limit household income and consumption growth, and likely dent the recovery in the housing market (Fig 6).

More policy support to manage near-term risks and shore up growth. Government bond issuance and infrastructure activities have been strong so far this year. Indeed, infrastructure investment remained solid in April, consistent with the uptick in fiscal support. Targeted support for SMEs, including options to delay rental fee payments, a move that could alleviate the cost burden on enterprises by over RMB90b, has been rolled out. We believe targeted policy measures will continue to be rolled out in the coming months, which will likely prioritize stabilizing supply chains and job market, as well as to provide the necessary liquidity support for the economy.

Monetary policy will likely to stay accommodative, although the inflation trend will limit the scope for further liquidity easing or rate cuts. Instead, more structural tools such as relending have been deployed to support industrial sectors and alleviate logistics bottlenecks. Housing policies have also eased: over the weekend the PBoC lowered the floor for new mortgage loan interest rates for first-home buyers to 4.4%, from 4.6% previously. In our view, recent housing policies continue to aim at cushioning the liquidity crunch facing developers, rather than signaling a turn in policy towards stimulating the housing market.

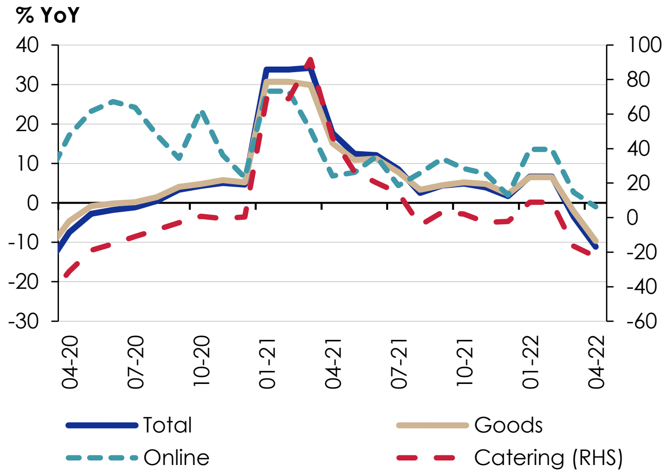
We lower our GDP forecast in view of today's weak data. In particular, we mark down our forecast for 2Q GDP growth to 3.7% YoY, from 4.5%YoY. Strong fiscal support points to growing momentum post lockdowns, with growth likely to rebound strongly in 2H. Overall, we expect GDP growth to slow down to 4.8% YoY this year, compared with our earlier forecast of 5.0% YoY.

Fig 1: Manufacturing activities hit hardest by lockdown measures



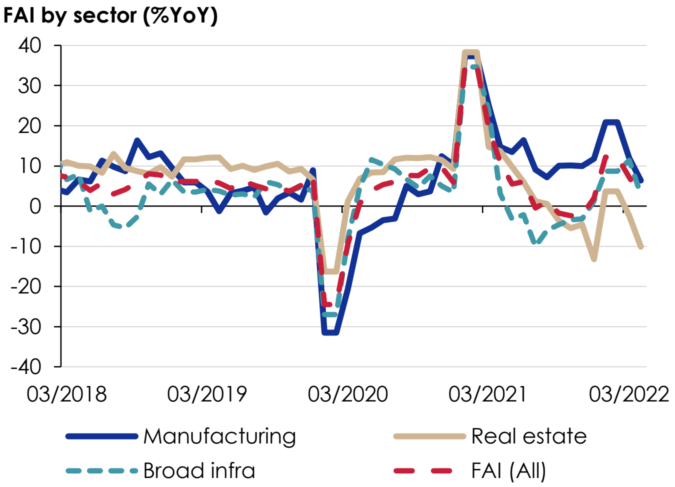
Source: NBS, CCBIS

Fig 2: Retail sales weaken across board in April



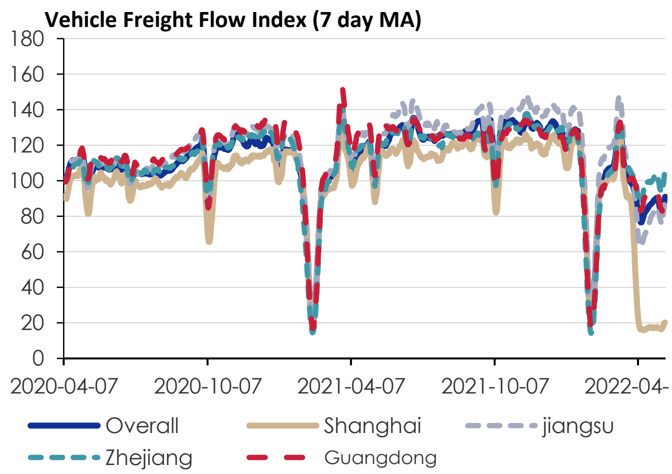
Source: NBS, CCBIS

Fig 3: Despite slowing slightly, ex-property FAI growth has proven resilient



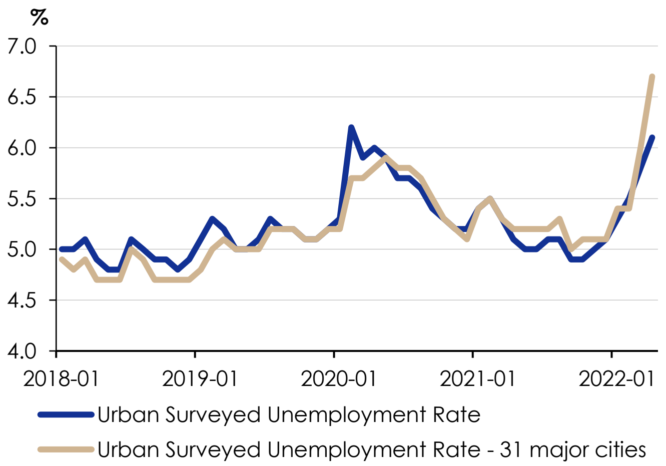
Source: NBS, CCBIS

Fig 4: Road transportation is on track to recover



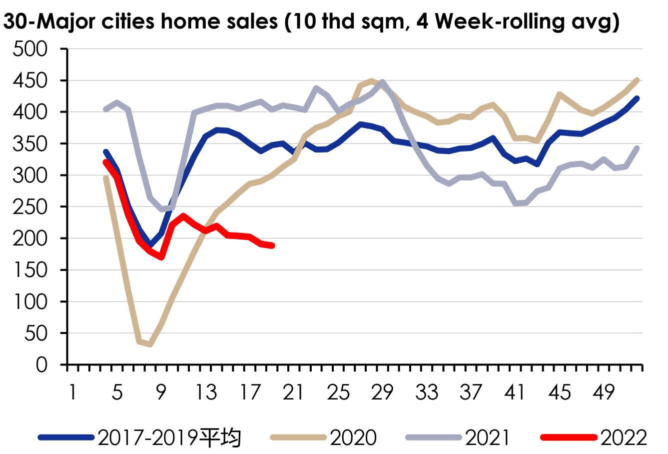
Source: CEIC, CCBIS

Fig 5: Unemployment rate picked up further



Source: CEIC, CCBIS

Fig 6: Home sales continued to weaken



Source: Wind, CEIC, CCBIS

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