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China Economics Update: April data points to slower recovery following the post-pandemic rebound

中国经济评论: 4月数据显示经济复苏步伐放缓

April data points to softer growth momentum following 1Q, as we expected. Year-on-year growth in industrial production and retail sales jumped because of base effects. However, sequentially, industrial production contracted, consistent with softer domestic and global demand, although auto and high-end manufacturing remain bright spots of industrial growth. Sequential retail sales growth slowed following the release of pent-up demand. In-person consumption and auto continued to lead the consumption recovery. Solid growth in infrastructure investment has continued, while property indicators point to weaker momentum than at the start of the year.

We expect a further recovery albeit at a modest pace. Solid capex, infrastructure investment, and further normalization of consumption will remain key drivers of a recovery in growth this year. Targeted policy support for housing, consumption, and employment are likely to continue. We also expect broadly supportive fiscal and monetary policy, though no outright rate cuts.

如我们预期，4月经济数据显示在1季度之后增长势头放缓。受基数效应影响，工业生产和社会消费品零售总额同比增速显著回升。但工业生产环比萎缩，与国内外需求疲软一致。汽车和高端制造业仍然是工业生产增长的亮点。随着被压抑的需求前期释放，4月社会消费品零售总额环比增长放缓。个人消费和汽车继续引领消费复苏。基础设施投资继续稳步增长，而房地产指标显示增长势头较年初有所减弱。

我们预计经济持续温和复苏。稳健的资本支出和基础设施投资以及消费的进一步正常化仍将是今年增长复苏的主要助手。针对住房、消费和就业的支持性政策预计将会继续。我们仍然财政和货币政策仍保持支持取向，但料央行不会降息。

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Apr activity data weakens across the board

Industrial production (IP) growth accelerated from 3.9% YoY in Mar to 5.6% in Apr, but missed the Bloomberg consensus expectation of 10.9% YoY. The low base last year accounts for the rebound in the year-on-year growth figure. The sequential growth rate slowed from 0.3% MoM in Mar to a contraction of 0.5% MoM in Apr, consistent with a weakening in the Apr official manufacturing PMI.

By ownership category, IP growth from private enterprises eased from 2% YoY to 1.6% YoY in Apr, suggesting waning growth momentum among private businesses even with a low base.

By sector, mining output was flat following a meager 0.9% YoY expansion in Mar. Manufacturing production growth accelerated 2.3ppt to 6.5% YoY, mainly because of base effects. In particular, automobile production jumped 44.6% YoY following a 31.8% YoY contraction in Apr 2022 (Fig 1). Equipment manufacturing, in particular electric equipment, held up well, in contrast with softer growth in upstream sectors and light industries. Growth in electricity and utility production output accelerated slightly to 17.3% YoY in Apr.

In-person consumption and car sales continued to lead the recovery in retail sales. Year-on-year growth jumped to 18.4% YoY in Apr, though the result was still below the expectation of a 21.9% YoY increase. Catering and car sales surged 43.8% YoY and 26.6% YoY, respectively, leading the rebound in retail sales (Fig 2). We estimate housing-related spending tumbled 36.4% YoY, indicating a sluggish recovery in the property sector.

Sequential retail sales growth eased for the second consecutive month to 0.5% MoM in Apr 2023, below the average of 0.7% MoM in 2019 prior to the pandemic.

Fixed-asset investment (FAI) growth slowed for the second consecutive month to 3.9% YoY in Apr by our estimate (Fig 3), with property investment remaining the main drag. By category:

- **Infrastructure investment growth remains solid.** We estimate investment in traditional infrastructure sectors such as utilities management, transportation, and postal services, rose 7.9% YoY in Apr, slower than the pace in 1Q. However, growth in broad infrastructure investment, including power production and supply, accelerated to 10.5% YoY. We continue to expect solid infrastructure investment growth ahead as the green transition and industrial upgrades are the key medium-term policy theme.
- **Manufacturing investment growth slowed** by 0.9ppt to 5.3% YoY in Apr. However, investment in high-tech, machinery, and auto continued to enjoy solid growth. High-tech manufacturing investment growth accelerated to 15.3% YoY over the past four months. [Our view](#) remains that industrial upgrades, indigenous technology, digitalization, etc., are supporting a new capex cycle in China.
- **Real estate investment remains weak,** contracting 16.2% YoY in Apr by our estimate. Liquidity pressure among developers has eased notably because of policy support and some rollback of tight regulations. However, property developers remain cautious about the sector outlook, and expansion remains timid.

Other property indicators also point to soft sentiment within the property sector. On the one hand, growth in property completions accelerated to 37.3% YoY in Apr, buoyed by policy measures designed to ensure housing project completions. On the other hand, forward-looking indicators were weak. The year-on-year contraction in property starts and floor space under construction remains wide at 28.3% YoY and 29.2% YoY in Apr, respectively. The weak property starts data is consistent with a cautious sector outlook by developers, as mentioned above. The contraction in property sales widened from 3.5% YoY to 11.8% YoY in Apr, consistent with the recent slowdown shown in high frequency sales data (Fig 4).

The unemployment rate fell but youth unemployment pressure persists. The downtrend in the surveyed jobless rate continued, falling 0.1ppt to 5.2% in Apr (Fig 5), its lowest level since Dec 2021. However, the unemployment rate among young people rose to an all-time high of 20.4%. A soft recovery and the large cohort of graduates this year contributed to unemployment pressure among young people.

On trade, softer global growth will weigh on the export-exposed business outlook. Sequential export growth contracted by 6.4% MoM in Apr following a strong showing in Mar, pointing to the impact of soft demand in advanced economies.

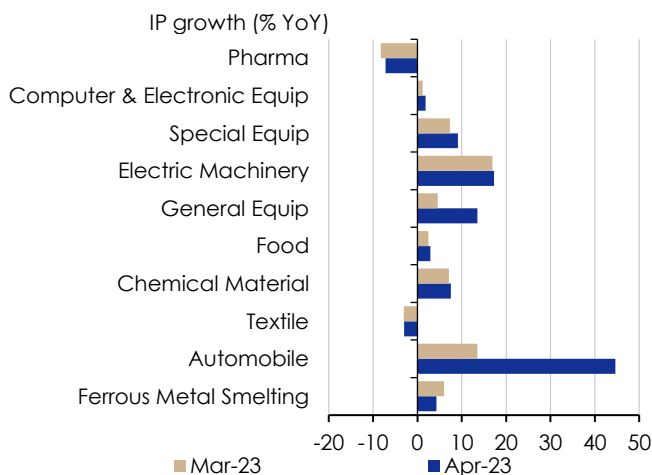
Our view:

Softer-than-expected Apr data confirms a slowdown in the pace of the recovery following reopening-driven momentum in 1Q (read [here](#) for details on 1Q GDP). While consumption has continued to improve, sequential growth in retail sales remains slower than the pre-pandemic trend, suggesting consumers are reluctant to spend amid a soft economic outlook. We hold the view that a stronger recovery in consumption will hinge on the improving outlook for household income and employment. Easing manufacturing growth is consistent with softer global demand compared with the start of the year, although auto and industrial upgrades remain engines of growth.

We expect a continued, albeit still gradual economic recovery, as policies stay supportive. Solid capex and infrastructure investment, and further normalization of consumption will remain key growth drivers this year. On macro policy, the Apr Politburo meeting re-iterated a supportive macro policy stance (read [here](#) for details). Media reports indicate half of the 2023 local government special bond quota has been used so far this year. We expect the pace of special bond issuance to remain solid in coming months. Targeted policies to support housing demand, consumption (such as subsidies for EVs), and employment support are likely to continue.

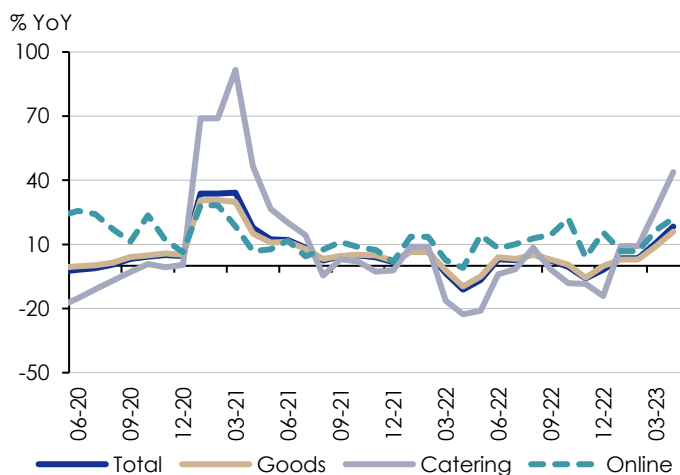
We also expect the PBoC to maintain an accommodative monetary policy stance amid global growth uncertainty and soft domestic demand. The PBoC added a net amount of RMB25b of the one-year Medium-term Lending Facility (MLF) on 15 May, with the rate unchanged at 2.75%. The net long-term liquidity injection slowed in 2Q compared with 1Q, suggesting the threshold for more easing is higher. We do not expect an interest rate cut amid the recovery.

Fig 1: Output growth in auto and electric machinery jumped from a low base last year



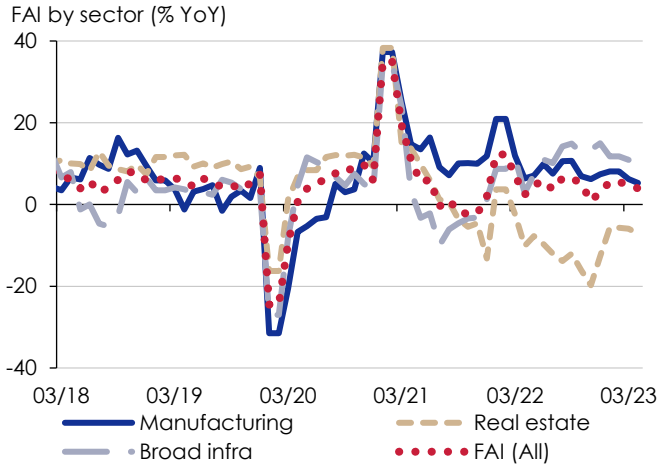
Source: NBS, CCBIS

Fig 2: Catering and auto continued to lead the rebound in retail sales



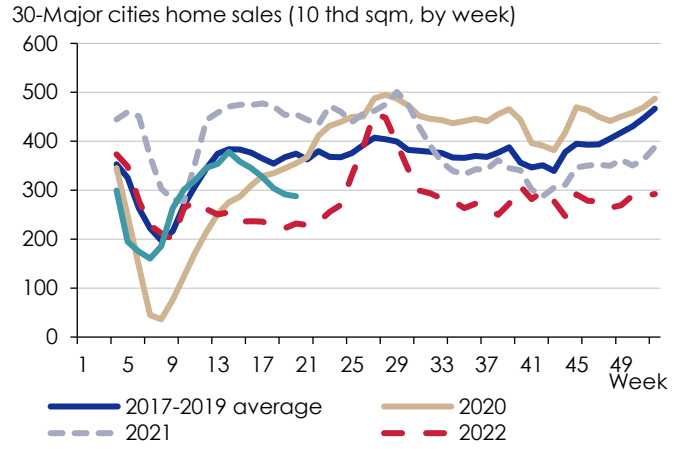
Source: NBS, CCBIS

Fig 3: Solid infrastructure investment growth while property investment remains a drag



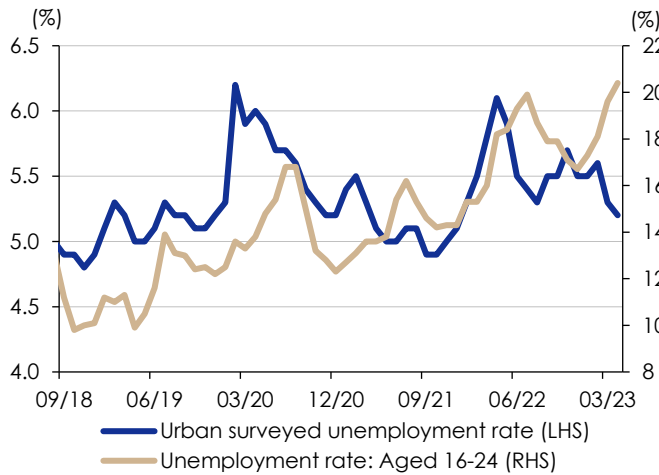
Source: NBS, CCBIS

Fig 4: Housing sales slowed in recent weeks



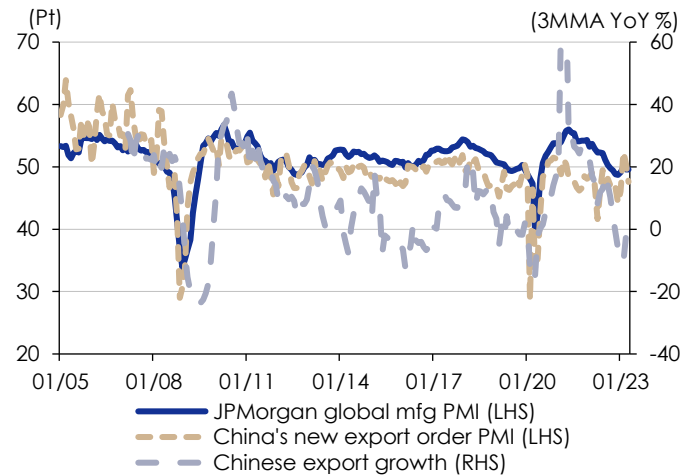
Source: NBS, CCBIS

Fig 5: The overall unemployment rate fell but youth unemployment remains high



Source: NBS, CCBIS

Fig 6: The sluggish global growth outlook remains a drag on exports



Source: CEIC, CCBIS

Analyst certification:

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