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China Economics Update: Mixed April economic data points to gradual recovery

中国经济评论: 四月数据显示经济逐步复苏

April economic data was mixed, consistent with a gradual recovery. Industrial production has benefited from support for domestic demand and improved external demand, as strong manufacturing investment has sustained. Despite soft retail sales growth in April, we expect spending on catering, travel, and entertainment to continue to support a consumption recovery.

Policy measures expected to remain supportive. The issuance of special sovereign bonds provided fiscal support for infrastructure investment. Furthermore, policy initiatives such as large-scale equipment upgrades and consumer goods trade-ins will augment investment and consumption demand. We expect current accommodative monetary policies to remain in place.

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四月份经济数据好坏参半，与经济缓慢复苏的预期相符。工业生产受益于内需支撑和外需改善，制造业投资依然强劲。尽管 4 月社零增长疲软，但我们预计餐饮、旅游和娱乐支出仍将支持消费持续复苏。

预计保增长政策持续。发行特别主权债券将为基础设施投资提供财政支持。此外，大规模装备升级、消费品以旧换新等政策举措也将有利于支撑投资和消费需求。我们继续预计宽松的货币政策立场将保持不变。

Industrial production beats expectations but retail sales and investment disappoint

Industrial production (IP) growth picked up to 6.7%YoY in April (previous: 4.5% YoY; consensus: 5.5% YoY). Furthermore, sequential IP growth rebounded to 1.0% MoM after contracting in March.

The IP rebound was broad-based (Fig 1), with hi-tech related manufacturing remaining the driver. Output in computer & electronics equipment and auto manufacturing continued with strong 16.3% and 15.6% YoY growth. Both industries have been key beneficiaries of manufacturing upgrades and green investment.

Retail sales growth slowed to 2.3%YoY in April, below the consensus expectation of a 3.7% YoY rise. Seasonally adjusted sequential growth also eased to a flat outcome. Despite slower overall growth in consumer goods consumption, spending growth on fuel picked up, driven by rising energy prices and travel demand. Spending on electric appliances rebounded thanks to trade-in policies. Car sales grew a modest 5.5% YoY following a contraction. Catering spending slowed to 4.4% YoY, still above overall retail sales growth.

Fixed-asset investment (FAI) growth slowed to 3.6% YoY in April by our estimate (Fig 3), due to a larger drag from real-estate investment. Despite some moderation, manufacturing and infrastructure investment remains solid. By category:

- **Broad infrastructure investment growth was a robust 8.2% YoY in April,** despite stepping down from a 13-month high of 11.7% YoY in March. Traditional infrastructure investment slowed to 5.1% YoY. However, investment in China's power sector remains robust at 21% YoY in April amid the green investment push.
- **Strong manufacturing investment of 9.3% YoY.** Strong growth underscores the theme of industrial upgrades, especially in key sectors, such as transportation equipment, electrical machinery & equipment, and nonferrous metals.
- **The contraction in real-estate investment widened to 10.5% YoY in April** by our estimate, the largest year-on-year contraction this year**.** The year-on-year contraction in funding remains wide at 21% YoY amid broad-based weakness.

Volume-based property indicators improved across the board in April due to a low base, but the outlook remains soft. Property under construction rose 35%YoY in April, the first year-on-year rise in the past five months thanks to the low base in 2023. The contraction in property starts and property completions narrowed to 12.3% YoY and 15.4% YoY in April while property sales contracted 14.4% YoY. April also saw the decline in the average price of a new property in the 70 largest Chinese cities accelerate to 0.6% MoM, with similar declines across all tiers.

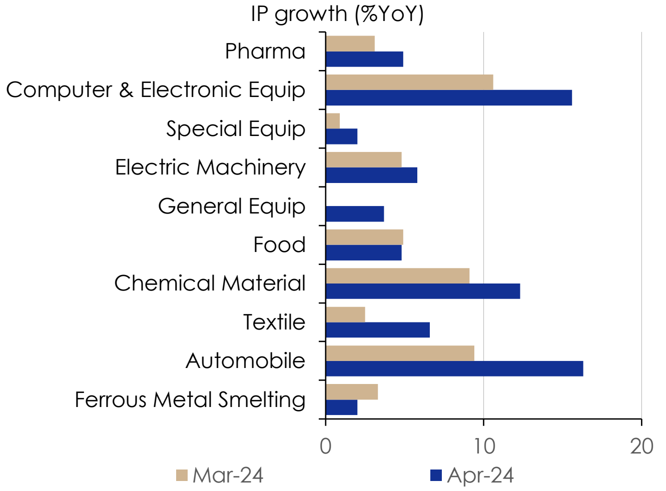
Our view:

The mixed economic data from April reflects an imbalance in the recovery, namely robust industrial performances but only gradual improvement in consumption. After a brief sequential contraction, IP rebounded, helped by government efforts to foster new growth drivers. Improving external demand for Chinese manufacturing products also lent a hand. The consumption recovery remains soft as China's sluggish property market continues to weigh on consumer sentiment. However, we expect spending on catering, travel, and entertainment to remain supportive.

The Politburo meeting held on 30 April emphasized the need to front-load supportive pro-growth policies given the challenges facing the economy. Towards this end, a first batch of ultra-long special sovereign bonds was issued today (17 May). The availability of funding will encourage public investment and related expenditure. Additional details on new policy initiatives such as large-scale equipment upgrades and consumer goods trade-ins will be forthcoming over the next few quarters, fueling investment and consumption demand.

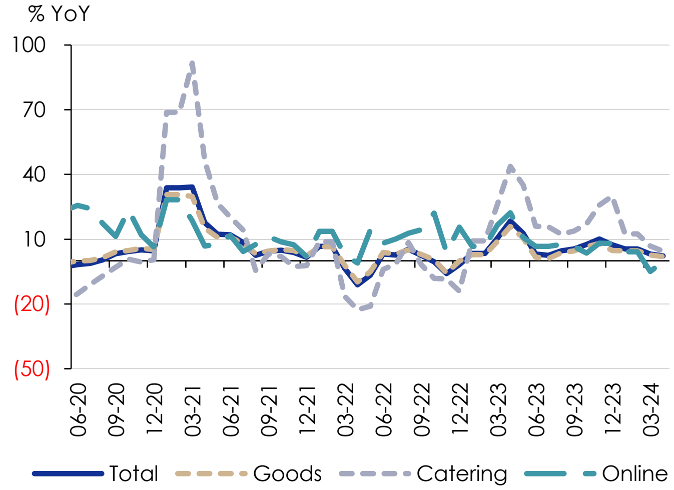
In our view, the PBoC's focus on monetary easing will ensure sufficient liquidity to accelerate bond issuance. Hence, we continue to expect a 25bp cut to the RRR in 2Q24F. However, near-term interest rate cuts are unlikely given the strong US dollar.

Fig 1: Strong output growth in auto, computers & electronics, and chemicals



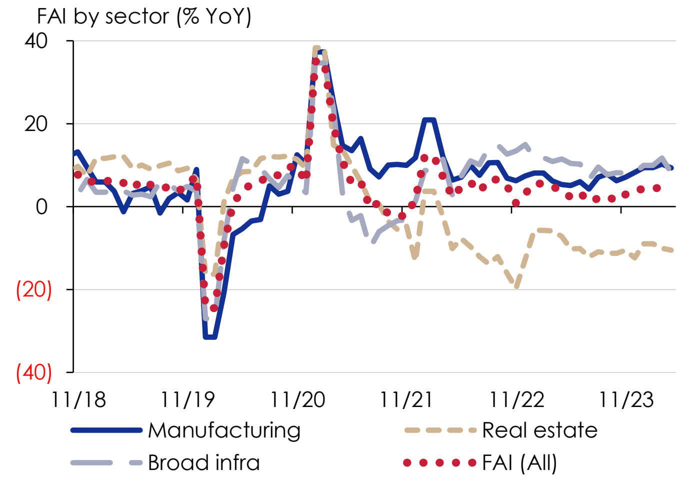
Source: NBS, CCBIS

Fig 2: Easing retail sales growth



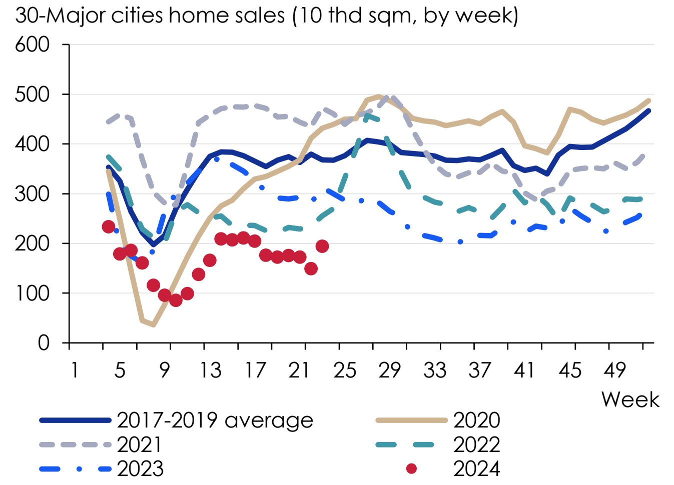
Source: NBS,CEIC, CCBIS

Fig 3: Solid manufacturing and infrastructure investment growth



Source: NBS, CCBIS

Fig 4: Sluggish property sales



Source: NBS,Wind, CCBIS

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