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China Economics Update: November data suggests industrial activities are on track to improve in 4Q, consumption still faces downward pressure

中国经济评论: 11 月数据显示四季度工业生产活动继续改善，消费仍然承压

Lulu Jiang
(852) 3911 8012
jianglulu@ccbintl.com

Li Cui
(852) 3911 8274
cuili@ccbintl.com

Ying Zhang
(852) 3911 8041
zhangying@ccbintl.com

中国 11 月的经济数据表明工业活动进一步改善，但由于疫情的拖累，消费仍旧低迷。工业生产较上月有所改善，高科技仍是主要支撑，而四季度以来能源限制的放松也有所帮助。 尽管制造业投资表现出韧性，但房地产和基础设施建设仍令投资活动显得疲软。在线销售仍继续引领消费，但餐饮消费再次收缩。

四季度工业生产活动继续改善。外部需求方面，中国出口表现出较强的韧性。近期国内政策调整也提振了能源进口，促进四季度工业活动的正常化。内需上，制造业投资保持稳健，房地产行业仍是拖累，基建投资落后于预期。由于部分地区疫情重现，为消费需求的复苏带来不确定性，零售仍面临下行压力。

未来几个月政策支持预计进一步提升，主要体现为财政支持和流动性的宽松。近期央行全面下调存款准备金率、并部分展期中期借贷便利（MLF），保持流动性环境的宽松。我们预计明年一季度将再次下调存款准备金率。与此同时，财政支持也有所提升，反映在提前下达的地方政府债券额度。财政支出加速也可能有助于缓解消费的疲软。

China's Nov data points to further improvement in industrial growth, but consumption remains sluggish due to the pandemic. IP improved from the prior month, high tech remained a major support, and the relaxation of energy restrictions since 4Q also helped. Investment activities remained soft due to real estate and infrastructure, though manufacturing FAI showed resilience. Consumption continued to be led by online sales but catering contracted again.

Industrial activities are on track to record a modest improvement in 4Q. On the external front, China's exports have demonstrated strong resilience. Recent domestic policy adjustments also boosted energy imports, contributing to the normalization of industrial activities in 4Q. Domestically, manufacturing investments held up steady, the property sector remained a drag and infrastructure has been behind curve. However, retail sales still face downward pressure as the re-emergence of regional pandemic breakouts brings uncertainty to the recovery of consumption demand.

Macro policy support could pick up in the coming months, especially in the fiscal area, supported by accommodative liquidity stance. The PBoC continues to maintain an accommodative liquidity environment as demonstrated in the latest RRR cut and partial rollover of medium-term lending facility (MLF). Another RRR cut in 1Q next year is in our baseline assumption. We also expect fiscal support to ramp up, reflected in the earlier allocation of government bond quota for next year. Accelerated fiscal spending may also help to cushion the weakness in consumption.

Nov IP and FAI came in-line with expectations, retail sales remained soft

Industrial production (IP) advanced from the prior month. IP rose by 3.8% YoY in Nov, in-line with market consensus and softer than our expectation (CCBIS: 4.3%, cons: 3.7%). On a sequential basis, IP picked up 0.4% MoM (4.5% annualized), similar to the pace in Oct. In the first 11 months of this year, IP has increased 10.1% YoY TTD. Performance varied from sector to sector (Fig 1).

- Growth edged up further for the mining sector; electricity and utility production maintained steady growth.
- Among manufacturing, energy-intensive sectors as a whole including metals and chemicals decelerated further and all grew slower than the headline IP.
- The high-tech and equipment sector continued to drive gains from industrial activities, maintaining double digit growth but eased moderately by 0.5ppt to 19.0% YoY YTD by Nov. Among which, equipment and electric machinery eased more than the hi-tech category, while the slowdown in computer and cellphone production was more modest (Fig 1).
- Automobile production continued to slow from the peak, dropping 1.5ppt from the prior month to 5.8% YoY YTD.

Retail sales slowed more than expected. Headline retail sales growth came in at 3.9% YoY for the month of Nov, much softer than our and market expectations (CCBIS: 4.9%, cons: 4.7%), the sequential growth was up only 0.2% MoM. Merchandise goods eased (-0.4ppt to 4.2% YoY in Nov), while catering contracted for the second time this year (-4.7ppt to -2.7% YoY in Nov). Online sales growth remained faster than the headline, but the pace also eased by 1.3ppt to 7.4% YoY in Nov (Fig 2).

Sales of major merchandise products were mixed. Sales growth in YoY temrs eased for communication appliances, but improved for housing-related items and auto sales. Base effect contributed partially for the development. If compared to pre-pandemic levels, consumer goods sales in general accelerated from the prior month, however catering was still in contraction.

FAI growth was dragged by soft property sector and traditional infrastructure investments, and countered by steady corporate growth. FAI rose 5.2% YoY in the first 11 months of the year, slightly lower than expected (CCBIS and Bloomberg cons: 5.4%). Based on our estimates, FAI declined 2.2% YoY in the month of Nov, but rose 7.3% compared with the same month in 2019 (pre-pandemic). Changes in major FAI categories included the following (Fig 3).

- Traditional infrastructure investment continued to contract, at an even faster pace: -3.6% YoY in Nov vs. -2.5% YoY in Oct. If compared with the pre-pandemic year of 2019, traditional infrastructure increased 1.5% YTD, edging down from Oct.
- Real estate investment declined 4.6% YoY in Nov, a little improved from the prior month (-5.5% YoY) but this was the third consecutive month of contraction. Nonetheless, given property investment had a solid start to the year, YTD property investment is still 13.2% higher than the same period in 2019.
- Manufacturing FAI growth remained steady, growing 10% YoY in Nov, little changed from the prior two months. Compared with 2019, manufacturing FAI picked up 9.7% YTD, while in recent years annual growth for manufacturing investments were generally below this level.

Other property indicators continued to cool. In YoY terms, property starts and sales data continued to fall, by 21% and 14% in Nov, respectively (Fig 4). The contractions were less severe than in Oct, but high frequency indicators such as land sales and home sales remained sluggish through mid-Dec.

Trade data released last week suggests still-strong global demand. Total exports rose 22% YoY in Nov (CCBIS: 17%, cons: 18%), with growth momentum remaining strong in China's major markets. Import growth also came in much stronger than anticipated at 31.7% YoY (CCBIS: 16.4%, cons: 22.0%), compared with 20.6% YoY in Oct. Aside from base effect, elevated commodity prices together with further acceleration in key commodity import volume such as coal and fuels also contributed to the strong import value (Fig 5).

Our view:

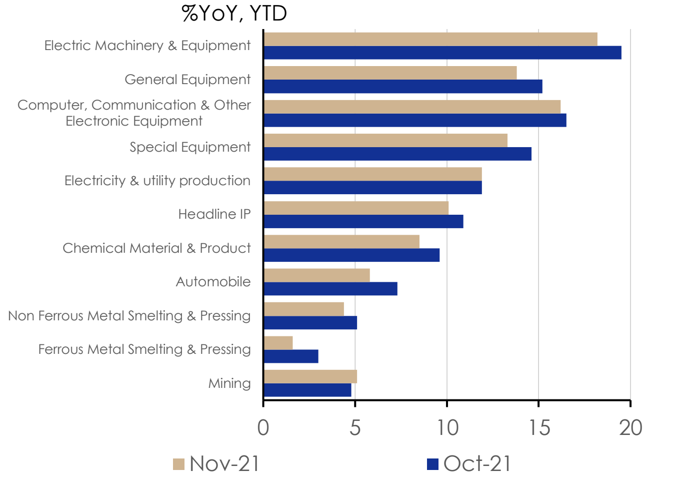
Nov economic data is consistent with a pick up in industrial momentum as we expected, but retail sales remain a drag. With domestic policy adjustments in recent months, and continued strong supports from external demand, industrial momentum recovered notably entering into 4Q. Corporate capex also stayed solid. Meanwhile, traditional infrastructure investment has been weak, suggesting that despite the recent increase of local government bond issuance, public investment is still guided by debt and efficiency considerations. Consumption weakness reflects on-going pandemic control measures.

Macro policy support could pick up, especially in the fiscal area, supported by accommodative liquidity policy. In recent weeks, high-level policy meetings all emphasized the importance of macro stability and further policy support. According to the media, MOF have allocated part of the special purpose bond quota next year for some provinces to advance infrastructure construction as required by CEWC. We expect the impact will start to reflect in infrastructure activities starting from early next year.

On the monetary front, the PBOC has stayed accommodative as the RRR cut announced last week took effect on Dec 15th. It previously stated that part of the RMB1.2t released by the Dec RRR cut will be used to return the MLF that expires this month, and some will be used by FIs to supplement long-term funds. As such, the PBOC today only conducted partial MLF rollover (RMB500b) compared to the total maturity of RMB950b, with unchanged interest rates, in-line with general market expectation and is thus an net liquidity injection so far for this month (Fig 6). Another RRR is likely to come in 1Q next year. Amid faster government bond issuance, credit growth has bottomed and showed stabilization towards the year-end. Some regions have loosened restrictive property measures on the margin, though we expect soft momentum in real estate sales and housing starts will persist in the near future.

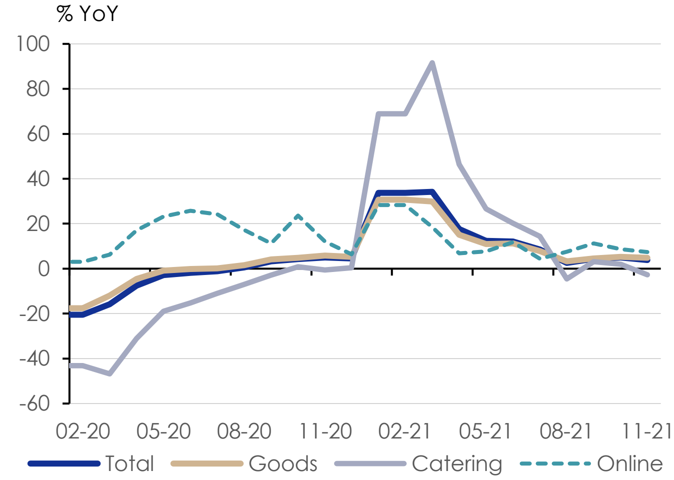
Consumption still faces downward pressure. Industrial data should maintain its strength, and our leading indicator shows that the strong trade momentum may continue to hold up into the middle of next year. Meanwhile, due to the re-emergence of local pandemic cases, some provinces have started to reapply travel restrictions. Therefore, consumption may continue to face some downward pressure in the near-term, particularly in services. Targeted fiscal support will be particularly helpful in offsetting the pressure in this area.

Fig 1: High energy-intensity sector IP grew at a much slower pace



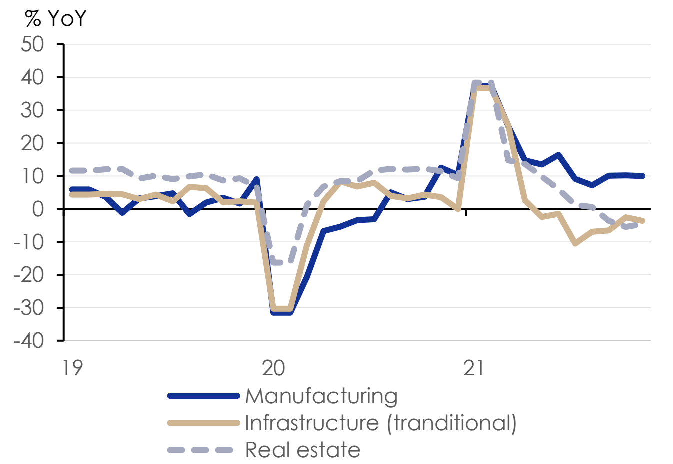
Source: NBS, CCBIS

Fig 2: Online sales were still leading headline retail sales growth but catering contracted again



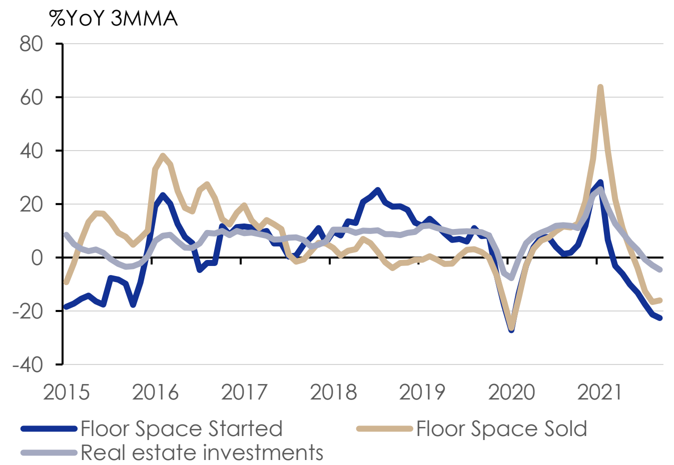
Note: 2021 growth was compared to 2019 levels. Source: NBS, CCBIS

Fig 3: Steady manufacturing investments, while real estate and infrastructure remained the drags



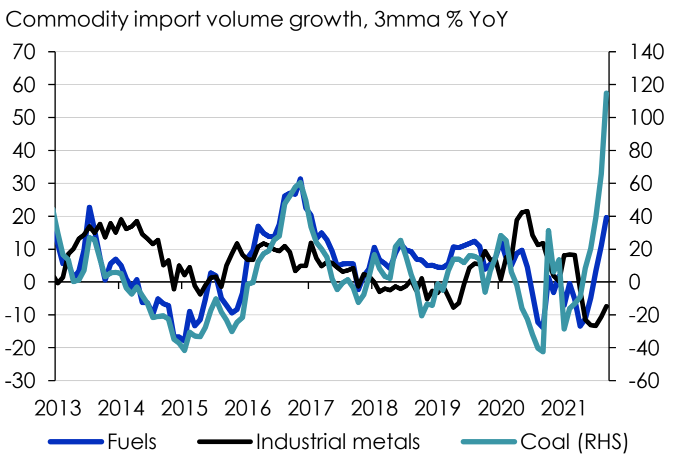
Source: NBS, CCBIS

Fig 4: Property indicators were still sliding in Nov, housing starts suggest continued softness ahead



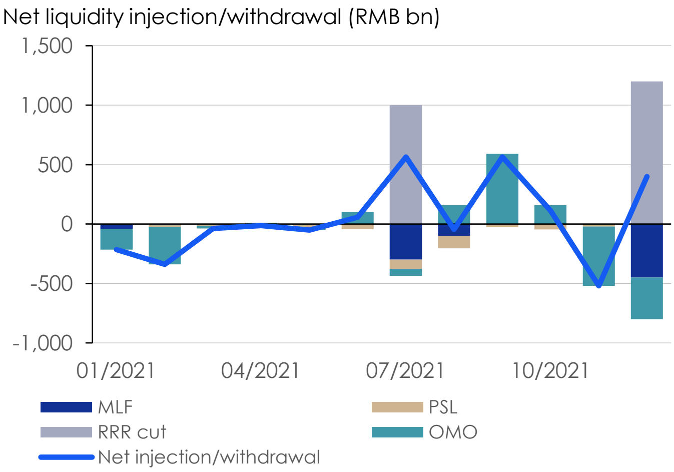
Source: CEIC, CCBIS

Fig 5: Import volumes in coal and fuels both accelerated in recent months



Source: CEIC, CCBIS

Fig 6: Latest RRR cut points to net liquidity injection to the system as of Dec 15th



Note: data ends in Dec 15th. Source: CEIC, CCBIS

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