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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

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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。但我们也认为，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.

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 pf 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.

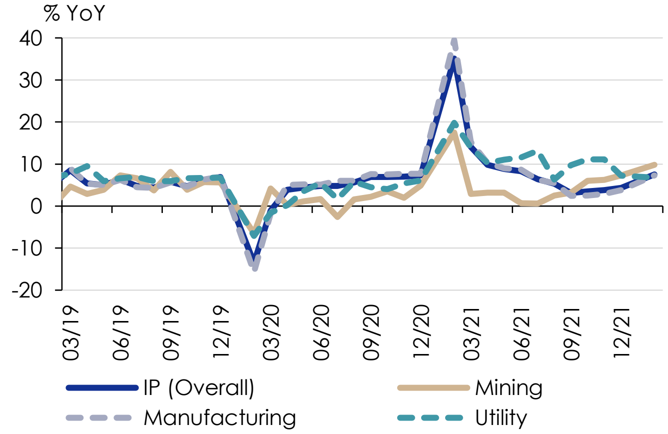
Our view:

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).

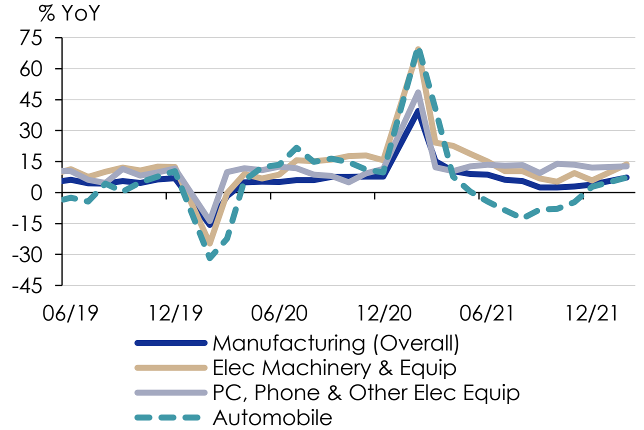
Strong activity data along with rising price pressure to reduce the chance of near-term easing. Today, the PBoC launched a RMB200b medium-term lending facility (MLF) operation and a RMB10b open market reverse repurchase operation, with a net liquidity injection to the open market at RMB100b, same as 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



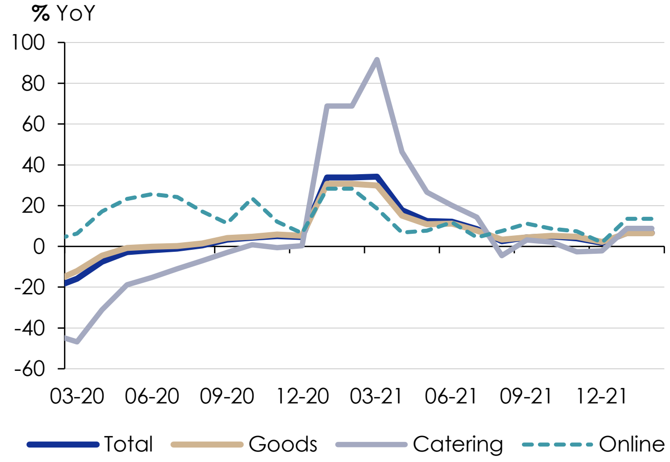
Source: NBS, CCBIS

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



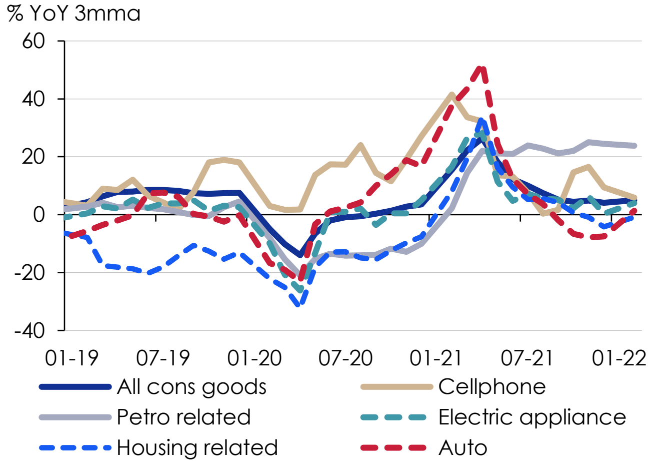
Source: NBS, CCBIS

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



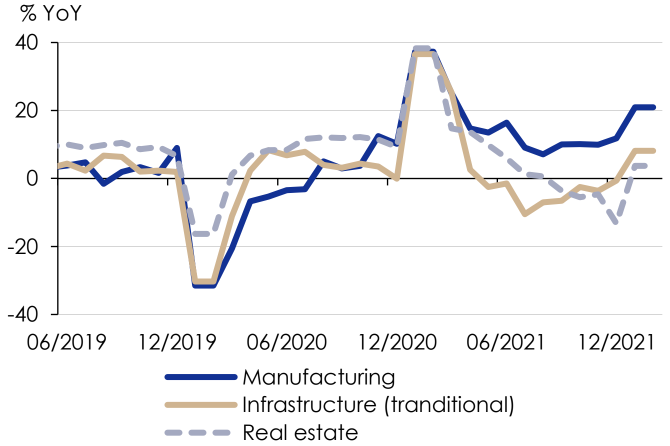
Source: NBS, CCBIS

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



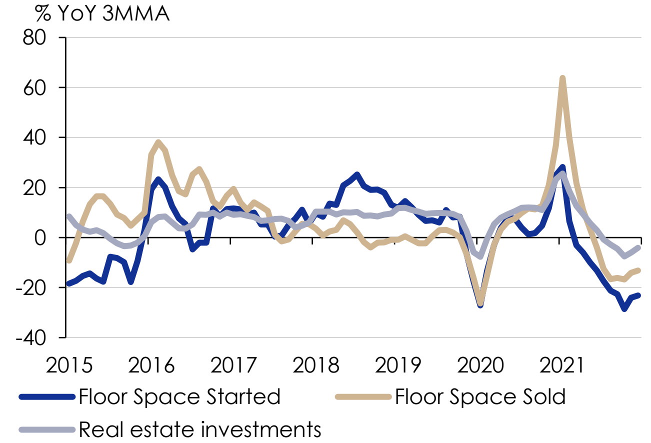
Source: CEIC, CCBIS

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:

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