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We have good reason to be more bullish on China's retail sales, fixed asset investment and industrial production data

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Surprise CPI points to solid retail sales

Inflation data surprised the market at 2.9%, though we're convinced part of the reason for this is the timing of the Chinese New Year, which fell in February this year compared to January in 2017, meaning the base effect played a large role. Despite this, 2.9% is a lot higher than our 2.0% forecast.

Digging into the details of the CPI, we find that many consumption items saw very high inflation. This signals that the Chinese New Year has become an important spending season in China. The tourism CPI sub-index showed a 13.5% YoY increase in February.

The increase in consumption around the Chinese New Year in Jan-Feb 2018 (consensus 9.8% YoY, prior (Dec) 10.2% year-to-date YoY) suggests retail sales are likely to gain 10% YoY.

More investment from infrastructure and high-tech manufacturing

Infrastructure is the main engine behind China's investment growth, with spending on water management, environmental protection and public utilities growing at more than 20% in 2017.

Another engine for investment comes from high-tech manufacturing, which needs to install equipment to cater to increasing demand for goods and services that require advanced technologies. Investment in high-tech manufacturing grew 17% in 2017.

Even with the Chinese New Year around January and February, growth momentum is likely to continue from last year. We forecast 7.5% YoY growth in fixed asset investments (consensus 7.0%YoY, prior 7.2% YTD YoY).

17% Investment for high-tech manufacturing

2017

Strong growth of industrial production likely to come from high-tech, too

Though factories were closed for most of the time in January and February, on a year-on-year basis, we are looking for very good growth in industrial production.

That growth will probably come from high-tech sectors, including industrial robots (+68.1% in 2017), new energy cars (+51.1%) and integrated circuits (+18.2%). The cold winter is also likely to increase production of electricity. These areas will probably cushion the loss of production from capacity-cuts in cement, coke and crude oil.

All in all, we forecast a 7.0%YoY growth of industrial production in Jan-Feb (consensus 6.2 YoY%, prior (Dec) 6.6%YTD YoY).

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