

## Good MornING Asia - 18 April 2018

China's GDP grew strongly in 1Q18. The future for GDP growth rests on the uncertainty of trade and related industries

### In this bundle



#### China

##### **China's GDP grows 6.8% but the devil's in the detail**

China's GDP grew strongly in 1Q18. But we underestimated the spending power of consumers and overestimated the role of fixed asset investments. The...



#### Singapore

##### **Singapore: Non-oil domestic exports disappoint**

Singapore's non-oil domestic exports (NODX) are always volatile but anyway you cut this data, it doesn't look good

By Robert Carnell

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## Consumption is strong

As we expected, consumption was the main driver of China's economy in 1Q18, with fixed asset investment the supporting pillar, delivering a GDP growth rate of 6.8%. Nevertheless, we underestimated the purchasing power of consumers. Consumption growth contributed 77.8% of GDP growth in 1Q. Retail sales came in at 10.1%YoY in March and 9.8%YoY in 1Q18. Most of the growth came from daily consumption items, e.g. cosmetics, drugs, and clothing grew at 16.1%YoY, 10.4%, and 9.8% respectively in 1Q. Automobiles, though obviously not a daily consumption good, also grew strongly at 7.4%YoY in 1Q. The retail sales data paints a blooming consumption picture, which also implies that wage growth was decent (urban disposable income grew 8.8%YoY) and employment was steady (the Statistics Bureau announced its official unemployment rate at 5.1% in March, which is not particularly high). It also implies that the service sector is now more important than manufacturing for the economy.

## Fixed asset investments not as resilient as expected

Some industries did see a fall into negative growth in fixed asset investments, which was a surprise to us. For example, investment in rail transport fell 5.1%YoY in 1Q, and in the drugs industry, investment fell 12.5%. In other areas., however, such as computation and communication equipment, water management, rail\ship\spacetransport equipment, investment continued to grow as expected. The investment backdrop could have changed due to a decline in foreign inward investment in China during 1Q.

Among all investments, domestic corporate investments grew 8.4%YoY in 1Q but investments from offshore, including investments from Hong Kong, Macau and Taiwan, shrank in the same period. As trade tension between China and the US started in late March, we do not believe that the fall in investment from offshore entities was a result of recent trade tension.

## Robust manufacturing growth in high-tech areas though overall growth not particularly sturdy

Industrial production grew 6.0%YoY in March and 6.8%YoY in 1Q, which was lower than we expected.

But we still see strong growth in high-tech industries. Industrial robot production, for example, grew 29.6%YoY, and new energy automobiles grew 139.4%YoY in 1Q. This points to a trend that China has shifted from low-value-added production to high-tech products and parts production.

We believe that this trend will continue. That is, high-tech production will continue to make up the majority of growth in industrial production in China. Even if trade tensions escalate, we do not believe that this will change China's focus on high-tech production because local companies are already often the leading global companies in their area.

## Trade tension is the risk for coming quarters

Trade is far more than the net sum of exports and imports. It affects production chains, employment, investment and prices and therefore profit margins.

If trade tensions between China and US escalate, both economies will face tougher business environments. It will be a lose-lose result for any parties involved in a material trade war.

### Baseline: China GDP to grow at 6.8% in 2018

Our base case is that China's GDP will grow by 6.8% in 2018, and consumption will continue to be the main driver supported by fixed asset investments and high-tech manufacturing. In particular, we expect retail sales could grow at around 10% for the whole of 2018.

Given such strong growth, we expect the Chinese central bank, the PBoC, to follow the Fed's rate hike profile, but by only five basis points for each of the Fed's 25bp hikes, given that short-end interest rates will also rise because of the PBoC's own tightening of liquidity through daily open market operations.

USD/CNY should continue to appreciate, but this should not weigh on trade substantially

(click [here](#) for further discussion) We keep our forecast of USD/CNY at 6.10 for the end of 2018.

# Singapore: Non-oil domestic exports disappoint

Singapore's non-oil domestic exports (NODX) are always volatile but anyway you cut this data, it doesn't look good



Source: Shutterstock

## Headline weaker than expected

When you have a series as volatile as Singapore's non-oil domestic exports (NODX), missing a consensus number isn't a big deal, unless you miss it by miles. And the -2.7%YoY March figure for NODX is not all that far off the 1.2% gain expected by forecasters. This is well within the probable forecasting error range to ignore. But we can't leave it there. The Monetary Authority of Singapore (MAS) moved to an appreciating trend earlier in the month with respect to the nominal effective exchange rate for the Singapore dollar (SGD NEER), so we need to dig into the export figures a little more to see whether this trade data provides some vindication for what was, in our view, a very marginal decision.

**-2.7%**

Non-oil domestic exports (YoY)

Worse than expected

## What, no electronics!

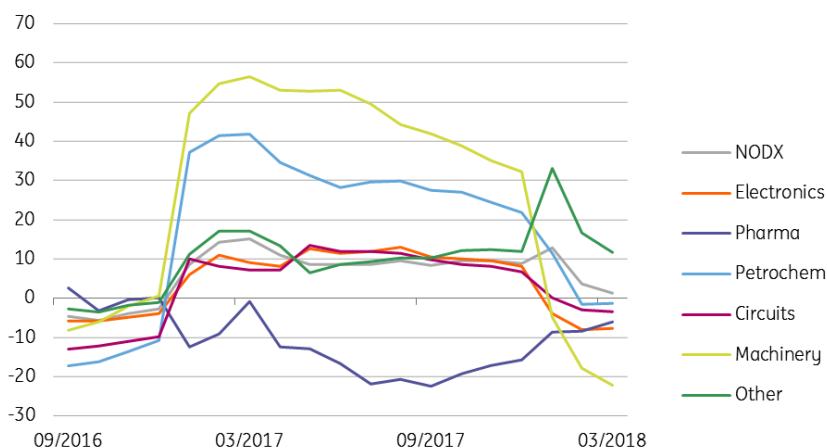
In order to make some sense of the NODX figures, we look at its constituent parts and try to pull out any emerging trends. This month, the one saving grace of the export data was the sizeable "other" segment, which doesn't help analysis much.

Most analysts look at year-on-year growth for NODX, though this is usually dominated by the previous 12m history of the figures and doesn't always reveal very much. Right now, this shows exports of machinery down about 30%YoY, with all other components also down from a year ago, except again for the "other" category of miscellaneous goods. Year-to-date year-on-year figures tell much the same story - machinery is well down, and most categories are a bit softer year-to-date, with the exception of "other" and petrochemicals.

Another way of breaking down the data is by looking at the 3m sum on the previous 3m sums annualised, or 6m on 6m annualised. This encounters seasonality issues, but bears out the other data, with the only addition that the pharmaceutical industry, the sick-child of 2017, seems to be staging a recovery of sorts, though as it accounts for only about 12-13% of total exports, it will have to outperform spectacularly to offset weakness elsewhere.

But perhaps the most interesting part of this data is electronics. Accounting for about 30% of total non-oil domestic exports, electronics are down whatever way you measure them. And having been one of the strongest elements of the Asian export story for 2017, this is a little worrying.

## Non-oil domestic exports - major components Year-to-date year-on-year



## MAS decision needs a firming domestic story

So returning to our original question, do these data vindicate the recent MAS tightening decision? The answer is no. That does not mean this decision was misplaced, but that we need to find justification in other areas of the economy, namely domestic demand to justify this decision. For example, recent strength in retail sales will need to persist if we are not to see the MAS reverting to a flat NEER trend later this year.

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