

## China: Data shows fiscal stimulus is working

Infrastructure investment and real estate development has supported the economy while retail sales growth has stabilised. We don't read too much into the industrial production data as factory closures due to the Chinese New Year fell in a different month this year, which distorted the figures



Source: Shutterstock

### Fiscal stimulus on infrastructure investment is working

Fixed asset investment increased by 6.1% year-on-year, year-to-date in February, faster than the 5.9% rate in December.

Infrastructure investment grew 4.3%YoY YTD in February, 0.5 percentage points higher than the average rate in 2018. Road and transport investment, which is the main category of investment funded by local government special bonds, rose 13%YoY YTD, an increase of 4.8 percentage points from the average 2018 rate.

Faster growth in these areas helped to mitigate slower growth in the manufacturing sector.

The impact of fiscal stimulus on infrastructure investment is likely to become even more obvious as the year goes on, and will be the main driver of economic growth in 2019. This will be particularly true if there is no imminent agreement on a trade deal.

## Strong real estate development growth

Real estate development rose by 11.6%YoY YTD in February from 9.5% in December. Within that, residential property development grew 18.0%YoY YTD, making up 72.1% of total real estate development. This is due to the fact that some local governments have started to relax home buying measures, with lower mortgage rates, taxes and down payments as well as fewer purchasing restrictions.

We are likely to see more local governments relax home buying policies to support growth.

**18%** Residential property developments (YoY YTD)  
Feb 2019

## Retail sales stabilised but big ticket items are weak

Retail sales growth was flat at 8.2%, with consumers more cautious about buying expensive items; jewellery grew just 4.4%YoY YTD and auto sales essentially shrank by 2.8%YoY YTD.

Consumers spent more on catering, which grew at 8.7%YoY YTD, although this could be a Chinese New Year effect.

## A surprisingly high jobless rate but is it another Chinese New Year effect?

We monitor the correlation between retail sales and China's surveyed unemployment rate in urban areas, which rose to 5.3% in February from 4.96% in December.

For the first two months of 2019, there seems to have been a slight bifurcation in these two data points. But we will keep monitoring them because we're surprised that the unemployment rate jumped quite quickly. Again, this could be due to the Chinese New Year effect, with some factory workers staying in their rural home towns to find jobs or to set up their own businesses. So we will have to wait another month to confirm if the deterioration in the job market is really that severe.

## Long factory holiday during Chinese New Year may distort the picture for industrial production

Taking into account the Chinese New Year, industrial production grew 6.1%YoY YTD. If you exclude this factor, however, the growth rate went down to 5.3%YoY, while the previous data was 5.7%YoY.

Our preferred gauge, the production of industrial robots fell 11.0%YoY YTD, and production of automobiles continued to shrink, by 5.3%YoY YTD, while new energy vehicle production rose 53.3%YoY YTD.

We are cautious about this data because factories close for three weeks or more during the Chinese New Year, and the holiday fell into different calendar months for 2018 and 2019, so the base effect is an issue when calculating year-on-year numbers. We can draw better conclusions about the manufacturing sector's growth rate when we have the March data.

## **The economy will need to rely on fiscal stimulus if a trade deal is delayed**

Overall, the activity data shows us that the economy has started to rely on fiscal stimulus, especially for infrastructure investment. This will continue for the rest of 2019, and will be particularly important if a trade deal comes later than expected.

The data was somewhat weak but that could be a result of the Chinese New Year's base effect. We suggest waiting for March to confirm this weakness.

Looking at the data as a whole, our GDP growth forecasts at 6.3% for 2019 and 6.2% for 1Q19 remain intact.