

China: base effects blur the substance of the data jump

Fixed asset investment, industrial production, and retail sales jumped above 30% YoY YTD. These very big jumps were mainly because of low base effects from last year's Covid-19 lockdowns. This masks the substance of growth in the economy, the details of which we will dig through in what follows



Chinese visit a normally bustling, international luxury shopping plaza in Beijing.

Source: Shutterstock

High growth in economic activity

Fixed asset investment (35%), industrial production (35.1%), retail sales (35.8%). All these growth rates are in year-on-year, year-to-date format for February data.

Such high growth rates were mainly due to last year's lockdown due to the Covid-19 pandemic. We can say with confidence that the economy grew faster after the lockdowns were ended, and has recovered above pre-lockdown levels in most sectors. But we have to dig into the details to find out the substance of this growth.

We will start with the most interesting data, retail sales.

Retail sales - the most meaningful data in this release

We can't really learn too much about the economic growth situation in China from fixed-asset investment and industrial production. But retail sales data did show something interesting.

The top three growth items were jewelry (98.7% YoY YTD), automobiles (77.6%) and catering (68.9%).

These three items tell us that Chinese consumers spent lavishly during the Chinese New Year holiday.

Catering is an item that was hurt very badly during Covid's social distancing measures. And although there are still social distancing measures for catering in place, the high growth rate means that it is recovering from Covid.

Fixed asset investment - still growing in healthcare and technology

Investment in healthcare production grew 64% YoY YTD and in special equipment, it grew 60.2%.

The former is likely the result of investment to produce more vaccines for the 1.4 billion population as well as for exports. The latter is likely related to technology, which partly could be an expansion of semiconductor production lines.

Industrial production - automobiles and chips

For industrial production, the biggest areas of growth were in automobiles (70.9% YoY YTD) and micro-processors (111.9%).

Automobile production has been driven by both domestic and export sales following policies to transition from internal combustion engines to e-vehicles. It is obvious that chip shortages have driven the production of micro-processors.

Overall a positive data report

All in all, this set of data shows the Chinese economy is recovering from Covid, especially in terms of consumption.

But the very low base also masked the degree to which these strong figures are driven by underlying growth. These low base-effects could last until April as economic activity started to pick up in May last year.

We are keeping our GDP forecast at 12.0%YoY for 1Q21.

Author

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com