China: Big beat in December activity data means growth could rebound in 2023

China's retail sales data was much stronger than expected in December even though this strong growth came mainly from food and medicines. The message is clear. If retail sales in 4Q22 can be this good, then retail sales in 1Q23 should be even better. We are revising our GDP forecast higher

Retail sales better than feared

Retail sales in December fell only 1.8%YoY, against our forecast of a 12.5% decline. Items that experienced strong growth were food (10.5%YoY), beverages (5.5%YoY) and medicines (39.8%YoY). And there was also a small lift from automobiles (4.9%YoY).

Industrial production grew 1.3%YoY, mainly due to gains in equipment manufacturing and chemicals. Chemicals could be related to the manufacture of medicines which are in strong demand during the current Covid wave.

Overall, fixed asset investment grew only 5.1%YoY in 2022, and transport-type infrastructure investment grew by only 1.7%YoY YTD. This type of expenditure is usually a growth engine when infrastructure investment is strong, though that was not the case in 2022 as local governments were busy tackling Covid and dealing with uncompleted home issues. But investment in equipment, which is a leading indicator for economic recovery, rose 42.6% for the full-year 2022.

As retail sales were so strong in December even with the big spike in Covid cases, we believe that retail sales will be even stronger in 1Q23. There could even be a jump in activity. For manufacturing, there is unlikely to be any further logistics disruption as we do not envisage any further lockdowns. And we expect local governments will be able to spend more time and fiscal resources on infrastructure investment.

Revising GDP forecast

GDP for the full year 2022 grew by 3%, following zero growth in the fourth quarter, which was surprisingly strong relative to expectations for a resounding decline. Our own expectation for 2022 growth by contrast was just over 2%.

With a stronger end to 2022 than we had expected, plus indications of stronger retail expenditure ahead, the outlook for GDP growth in 2023 has improved compared to our prior outlook. That is not to ignore the fact that China still faces considerable headwinds, including external demand, with recessions likely in the US and Europe this year.

Nevertheless, taking all these factors into account, we are revising our GDP growth (%YoY) forecasts modestly upward for 2023.

China GDP forecasts

GDP %YoY	1Q23F	2Q23F	3Q23F	4Q23F	2023
China	4.5	5.2	5.7	4.5	5.0

Source: ING

Little chance of loosening monetary policy

From this set of forecasts, we believe that the chance of loosening monetary policy, in terms of interest rate and required reserve ratio (RRR) cuts has declined. Even if there is an interest rate cut following the Chinese New Year holiday, the cut could be as small as 5bp and we do not anticipate any change in RRR.

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