

China: contraction in retail sales could recover with eased Covid measures

Industrial production and fixed asset investment growth in October are in line with the consensus forecasts. But retail sales were weaker than expected and in contraction. The recent easing of Covid measures could be a critical factor for retail sales to return to positive growth



China's retail sales were hit by Covid restrictions in November

Retail sales in contraction in October but should pick up with eased Covid measures

Industrial production grew 5.0%YoY and fixed asset investment grew 5.8%YoY YTD. Both data are in line with consensus forecasts. But retail sales contracted by 0.5%YoY, which is surprising.

Within the total for retail sales, sales that are related to moving into a new home, namely consumer electronic goods, decorations and furniture, contracted 14.1%YoY, 8.7% and 6.6%, respectively. It also looks as if consumers were reluctant to upgrade telecommunication devices. Sales of these contracted by 8.9%YoY. Catering in October contracted by 8.8%YoY. In contrast, medicines and fresh food grew 8.9%YoY and 8.3%, respectively. Spending on automobiles grew at 3.9%YoY benefiting from government subsidies.

The picture shows that Covid measures in October affected consumer behaviour even though it was a month containing long holidays.

Covid measures were eased on 11 November, which should help retail sales to recover moderately.

Details in fixed assets investment shows advancing technology in progress

Among all the components of fixed asset investment, electronic machinery and equipment increased the most, rising by 39.7%YoY YTD. This implies that the government's call for advancing technology is progressing.

But, infrastructure investments in railways declined by 1.3%YoY YTD, indicating that local governments continued to focus their efforts on helping uncompleted residential property projects rather than committing to transportation infrastructure projects.

We believe that local governments will continue to focus on uncompleted residential property projects until they have successfully turned around enough units that public anxiety about this sector eases.

Semiconductor production shrank even though overall industrial production expanded

Integrated circuits contracted 26.7%YoY, the biggest contraction among all items in industrial production. Integrated circuits represent the biggest share of exports in China. It is an indicator of global economic growth.

The big contraction in this item gives us an important signal that the external environment for China is slowing, and will affect exports and related manufacturing activity as well as the jobs market and wages in the manufacturing industry.

With policies in place, exports should be the main concern

The recent easing of Covid measures should be positive for retail sales and therefore some service sectors. Local governments should be able to finish some uncompleted home projects with preferential policies on bank lending to developers. As such, uncertainties for next year should be more on the export sector than the domestic market.