

China: Covid, autos and chip shortages hit May activity data

The combined hit from Covid, chip shortages and weak auto sales hit investment, production and retail sales in May. This will continue into June



Visitors observe various kinds of chips are exhibited at different booths by semiconductor companies at the 18th China International Semiconductor Expo, Shanghai, China

Source: Shutterstock

Cars hit retail sales, not Covid

The timing of the Covid resurgence in China is important. Though retail sales slowed down to 12.4% year-on-year in May from 17.7% a month ago, this was mainly due to very slow growth in car sales of 6.3% YoY. Other sales items were largely unscathed by this new wave of the virus, which came after the Golden Week holiday in the first week of May. As such, jewellery sales grew 31.5% YoY.

Industrial production sees double whammy from Covid and automobiles

In Guangdong province, an area which specialises in electronic manufacturing, Covid cases peaked at around 20 cases per day, but this was enough to hit industrial production, which grew 8.8% YoY in May, down from 9.8% YoY in April. Workers lined up for testing and some local areas were locked

down to stop the virus from spreading. Moreover, automobile production contracted by 4% YoY due to a lack of chips.

Later this month, we will also see the hit from Covid on China's exports and imports.

Cars, again, hit investment

From the detailed breakdown of the fixed asset investment data, it seems that Covid did not affect fixed asset investment too much, with growth of 15.4% YoY in May from 19.9% YoY a month ago. The slower growth of the headline number was mainly a result of a 3.7% YoY year-to-date contraction in automobiles. It is now clear just how much chip shortages have hit the automobile industry.

Other important areas of fixed asset investment, e.g. transportation equipment and computers, continued to grow at 34.2% YoY YTD and 27.6%YoY YTD, respectively.

In short, it seems that only automobiles have been affected by chip shortages so far.

What to expect from the June data and our GDP forecast

Covid affected two weeks of activity in June and while this has now subsided, restrictions on movement will continue to be tight for the whole of June and will be gradually relaxed from there. So Covid will impact June's activity data.

Chip shortages are now an obvious problem for the automobile industry. We will closely monitor the impact of this on other industries, such as the production of smartphones and other consumer devices because sales of these items should pick up as US and Europe starts to recover from Covid and the summer shopping spree is on the way.

We maintain our forecast for China GDP at 8.7% for 2021.