China GDP and activity data show mixed recovery from Covid

Third-quarter GDP pointed to faster-than-expected growth against the consensus forecasts. But data breakdown paints a mixed recovery picture, which is still Covid-measure driven

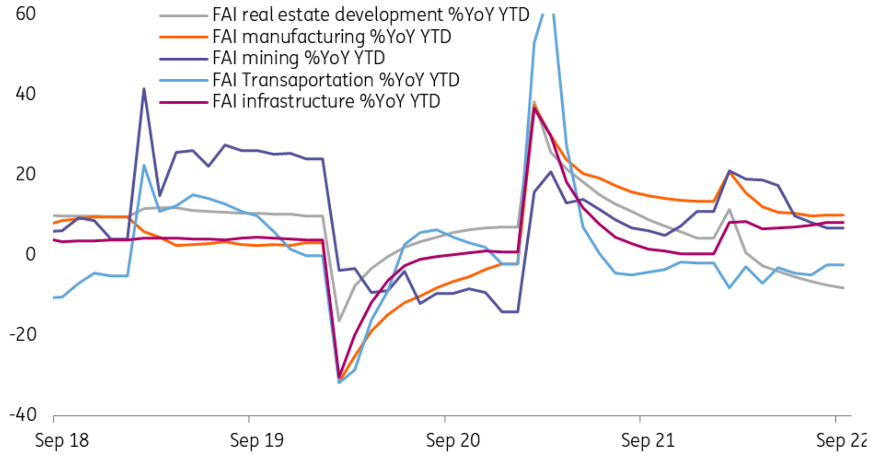
Future Covid outbreaks in China and subsequent lockdowns cannot be ruled out

GDP was better than consensus

GDP grew 3.9% year-on-year in the third quarter of 2022, faster than the consensus forecast of 3.3% YoY and 0.4% YoY in the second quarter. This is mainly a result of more flexible Covid measures after the long lockdown in Shanghai during March to May.

Among all the industries, information and software technology grew the fastest at 7.9% YoY and the financial services industry which grew 5.5% YoY, while real estate contracted 4.2% YoY due to uncompleted projects that almost paused activities from land bidding to housing starts in the industry.

China investments



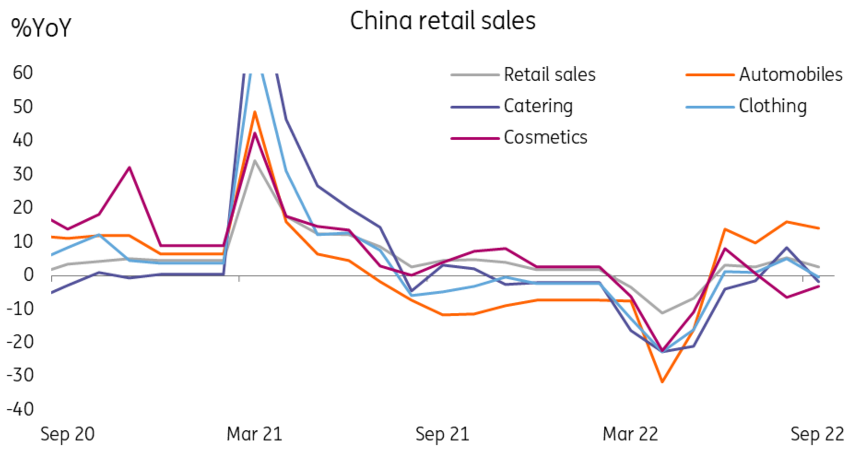
Source: Bloomberg, ING

Activity data is still affected by Covid

Activity data for September reflects that the partial recovery continues, but this time it was more a recovery in investments (5.9% YoY YTD in September from 5.8% in August) and industrial production (6.3% YoY in September from 4.2% YoY in August). The stronger growth in industrial production should be a result of reduced lockdowns in ports, which increases the speed of logistics and therefore a smoother supply chain delivery.

But there was a slower recovery in retail sales, which was affected by more quarantines in some residential and shopping areas in September. This reflected a contraction in sales of catering of 1.7% YoY. Covid measures now depends on the number of Covid cases, which is uncertain. This will continue to affect the job market and has a negative feedback effect on future retail sales.

China retail sales



Source: Bloomberg, ING

This set of data sends an important message that even Covid measures have become more flexible as it depends on the number of Covid cases, lockdowns are still a big uncertainty to the economy with the background of the real estate crisis. This uncertainty means the effectiveness of pro-growth policy would be undermined.