

China: Questioning slower retail sales growth

April's activity data is all as expected except for much slower than consensus retail sales growth. What happened?



Woman wearing a face mask to help curb the spread of Covid-19 as her friends prepare to set up a picnic cloth on a scenic mountain in Yanqing, outskirts of Beijing, China

Source: Shutterstock

A recovery picture with stains on retail sales

Retail sales surprised us on the downside, growing by only 17.7%YoY in April when the consensus estimate was for growth of 25%.

Looking at this by item, the slowdown was moderate in almost every item, except for a faster slowdown in cosmetics, jewellery, and home appliances.

We believe that this reflects **postponed consumption to save for discounts in the Golden Week holiday in May**, during which sellers offer more discounts on online shopping platforms. So, this could be a temporary slowdown, and if so, we should see a moderate rebound in May.

Deleveraging continued to slow property development growth

Fixed asset investment grew 19.9%YoY YTD in April from 25.6%YoY in the prior month mainly due to

1. Slower growth in property development of 21.6%YoY YTD in April from 25.6%YoY YTD in March, which is a consequence of **deleveraging reform**;
2. 3.0%YoY YTD investment contraction in the automobile sector, which could be a result of **disruption in semiconductor chip supply, with automobile producers predicting slower sales in the future and therefore reviewing further investment.**

In contrast, the technology-related sector grew 30.8%YoY YTD, which shows that the government continues to focus on technology self-reliance.

Production has started to be affected by net zero carbon emission policies

Industrial production increased 9.8%YoY in April from 14.1%YoY in March. There are three eye-catching points:

1. **Anti-pollution policies** could have affected the mining of coal, which fell by -1.8%YoY after -0.2%YoY in March. This is just the start, we should see this become a trend as China needs to achieve its net-zero carbon emissions by 2060.
2. Production of passenger cars contracted 3.5%YoY in April from a growth of 64.8%YoY in March. This could be a result of **chip shortages**.
3. Integrated circuits production rose 29.4%YoY in April after 37.4%YoY a month ago. Discounting the base effect, this is still a fast growth rate. We expect that some Taiwanese semiconductor companies have increased production in Mainland China.

GDP forecast unchanged

We are keeping our GDP forecast for 2Q21 at 5.5%YoY and for the full year at 8.6% (unchanged).

The impacts of deleveraging reform have been included in our calculation.

The main uncertainty in our forecast lies in semiconductor chip shortages, which may affect car sales, though but no big impact has been seen so far. Another uncertainty is the deleveraging in Fintechs, which may slow down credit growth. We will keep an eye on this to see if we need to revise the growth forecast lower.