

## China's retail sales shrank further in November, and December could be weak too

China's activity data shows that retail sales shrank further last month due to Covid, and production grew at a slower pace amid weak external demand. This is likely to continue in December as Covid cases climb and the issue of labour shortages affects economic activity. But we believe that the Chinese New Year could bring some growth for retail sales



### Activity data shows slower economic growth

Activity data points to worse-than-expected economic growth in November in terms of retail sales, industrial production and property investment. Home prices fell less than expected, which hints at a possible bottom for home prices. But this bottom may last for several months as Covid cases climb.

## Retail sales led the slump

China's retail sales fell 5.9% year-on-year in November from a 0.5% YoY drop in October. It was the worst performing indicator in November; bear in mind that the government only eased Covid measures on 7 December. As such, it was quarantine that limited retail sales activity.

All categories experienced yearly contraction except medicines and food. This pattern might improve slightly as residents bought train and air tickets for Chinese New Year travel within the country.

But the overall situation could be worse in December as there were fewer Covid tests and therefore the reported [number](#) of Covid cases should be less than the number of infections in China. This could mean labour shortages and retail sales could therefore be adversely affected.

## Industrial production mostly affected by external environment

Industrial production grew at only 2.2% year-on-year in November after a 5.0% rise in October.

Looking at the details of industrial production, we observe that export-related industries, namely integrated circuits (-15.2% YoY), smartphones (19.8%) and microcomputing equipment (-27.9%) experienced a deeper contraction than other industries.

Industries for domestic consumption experienced more growth than their export peers. New energy vehicles grew 60.5% YoY in November. Metals also grew between 7% YoY to 10% YoY, indicating that construction activity should have picked up for unfinished home projects. This is also confirmed by the data on residential property completion.

## Fixed asset investment focus more on equipment

Fixed asset investment grew 5.3% YoY year-to-date in November compared to 5.8% a month ago. Most of the items grew steadily. Equipment investment continued to outpace the rest and grew faster in November (41.4%YoY YTD in November vs 39.7% in October). This highlights that China has invested more on equipment, partly echoing the government's call for investment in technology and partly servicing its own needs for equipment as the US continues to call for stopping advanced equipment exports to China.

## December could continue to be bad

Activity data in December may not be a lot better with Covid cases climbing.

Parts of the labour force could be sick, and this could affect labour-intensive industries. However, we do not expect there to be a shut down of ports as these have contingent plans in place after the lockdowns back in March to May. Land logistics could be affected by labour shortages. As the peak export season has passed, the impact on the export-related supply chain should be mild. As it comes nearer to the Chinese New Year, manufacturing activity could be slower in December and January.

Retail sales in December may be higher in December due to travel activity over the Chinese New Year.

**In short, the economy is slowly picking up but it is difficult to be optimistic about growth in the**

**fourth quarter of 2022 and first quarter of next year. We maintain our GDP forecasts at -0.4% YoY and 3.4% YoY, respectively.**