

# A disappointing start to the year

The econ numbers for the start of 2023 have challenged the assumption that the end of zero-COVID would unleash a wave of revenge spending powered by the excess savings that households have accumulated. In reality, retail sales growth in January-February was barely above that of the pandemic period as a whole.

Need something?  
[hq@triviumchina.com](mailto:hq@triviumchina.com)

trivium

## Key takeaways

- Households still appear to be concerned about near-term economic prospects. Still-high unemployment rates haven't helped. As a result, household deposit growth has accelerated rather than declined this year.
- This all suggests that a stronger rebound in consumption first requires a pick-up in activity elsewhere in the economy to boost household confidence and encourage these entities to draw down their savings and increase spending.
- Beijing is trying to achieve that by frontloading infrastructure investment in the year's first half. Things have got off to a cracking start, with infrastructure fixed-asset investment expanding 12.2% in January-February.
- Real estate is also showing positive signs. Home sales expanded and property prices rose at the start of the year. This, however, may reflect pent-up demand from the end of 2022.
- So far, there is no sign of the economy going gangbusters following reopening. We believe the authorities are trying to use infrastructure investment to generate enough of an economic bounce to restore consumer confidence.

The assumption has been that the end of zero-COVID would unleash a wave of revenge spending powered by the excess savings that households have accumulated. That is not what the econ data for the first two months of 2023 shows.

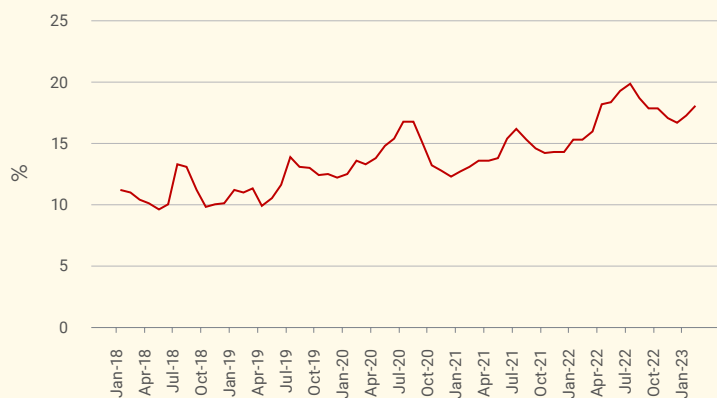
Retail sales did improve, but the y/y increase in spending was marginal. Retail sales growth moved from a 2.7% y/y contraction in 4Q22 to 3.5% y/y growth in January-February. A more telling comparison, however, is with the 3.2% y/y average recorded during the pandemic as a whole. Retail sales growth after China reopened was barely more than when the country was still subject to zero-COVID.

Another concern is that the rebound in retail sales growth at the start of the year rested on a surge in service sector activity as consumers rushed to participate in activities denied to them during the pandemic. Catering sales jumped 9.2% y/y in the first two months of 2023. That was well above the 1.2% y/y average growth recorded during the pandemic and similar to the 9.4% y/y pre-pandemic expansion rate in 2019.

In contrast, retail sales of consumer goods rose by only 2.9% y/y January-February – less than the 3.7% y/y growth seen during the pandemic and well down on 7.9% y/y growth in 2019.

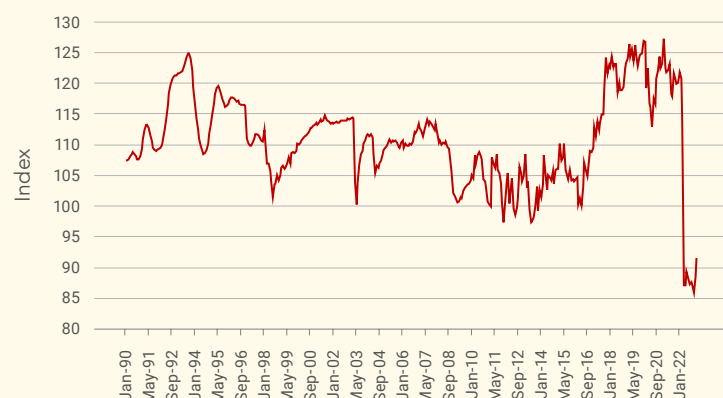
Households' still-restrained spending on goods (which did not surge during lockdowns, unlike in many western economies) appears to reflect the fact that people are still concerned about their employment and income prospects (see our March 14 note, [The consumption resumption: Beijing's three-prong strategy for putting consumption at the center of growth](#)). The urban unemployment rate was higher in February than at the end of last year: 5.6% versus 5.5%. Joblessness among graduates remains extremely high **[FIG 1]**.

**Fig. 1 – Urban unemployment rate: 16-24 year-olds**



Source: NBS, Trivium

Households also reported continued pessimism about the economic outlook in the January National Bureau of Statistics (NBS) Consumer Sentiment Survey (data for February has not been published yet) **[FIG 2]**. Consumers' caution can also be seen in the fact that net new household loans fell 8.1% y/y in January-February.

**Fig. 2 – Consumer Confidence Index**

Source: NBS, Trivium

Given this, it is unsurprising that households do not appear to be withdrawing the excess savings they built up during the pandemic – savings that we believe were largely precautionary. By the end of February, the outstanding value of household deposits was up 18.3% y/y, compared with 17.4% y/y growth at the end of 2022.

## Infrastructure stimulus?

The data for the household sector, therefore, suggests that a stronger rebound in consumption first requires a pick-up in activity elsewhere in the economy to make households more confident about their income and employment prospects, draw down their savings, and increase spending.

To achieve that, a frontloading in infrastructure investment in the first part of the year to get the economy going seemed a likely strategy for 2023. Here things are more positive. Infrastructure fixed-asset investment (FAI) grew at a cracking 12.2% y/y in the first two months of 2023, essentially unchanged from 12.3% y/y growth in 4Q22.

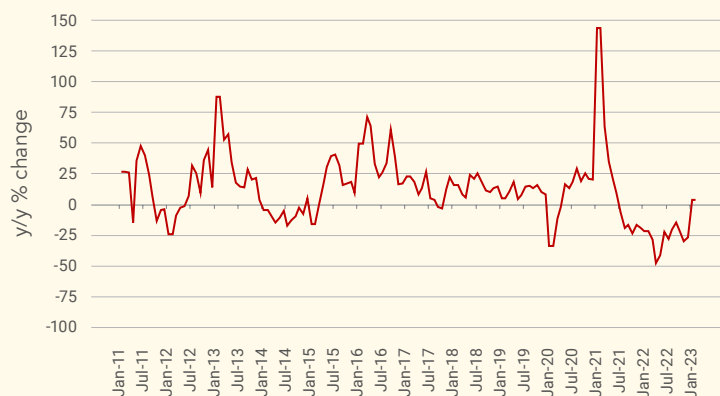
However, we are cautious about whether the pace will be maintained. Local governments issued RMB 800 billion in special-purpose bonds (SPBs) in the first two months of 2023 – 21% of this year's quota. However, that's less than the RMB 878 billion issued during the same period in 2022. Local governments are expected to deploy RMB 2.1 trillion worth of SPBs in the first half of the year, meaning they'll have plenty of dry powder in the coming months. But SPB issuance was also extremely aggressive in the first half of last year.

Infrastructure investment is all the more critical given that there's little sign of private sector capex taking up the slack. Private FAI was up only 0.8% y/y January-February. Manufacturing FAI by private firms was stronger, increasing 12.9% y/y, but with domestic demand still weak and exports falling, spending could turn down in the coming months.

## Property recovery on the horizon

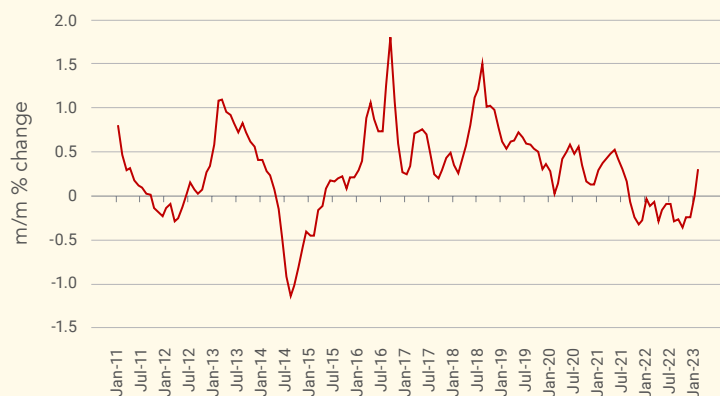
As for property, last year's policy loosening appears to be filtering through. Home sales increased 3.5% y/y January-February – the first time that growth has turned positive since June 2021 **[FIG 3]**. Home price growth in February also turned positive for the first time in 18 months, increasing 0.3% m/m **[FIG 4]**.

**Fig. 3 – Home sales value**



Source: NBS, Trivium

**Fig. 4 – New home prices**



Source: NBS, Trivium

The key questions are: How sustainable is this rise in transactions, and how much will it boost broader economic activity?

Part of the reason for stronger home sales at the start of this year is the fact that it was difficult to make purchases at the end of 2022, given zero-COVID disruptions. One sign of the role that pent-up demand played in this increase in home sales is that new mortgage lending at the start of this year appears to have remained weak. Net new medium- and long-term household loans fell 55.6% y/y January-February. This

suggests that property purchases in the first two months of 2023 were partly funded with mortgages issued over the prior months.

The other question is whether the increase in home sales will lead to more property construction. Floor space under construction in the real estate sector fell 4.4% y/y January-February. While this was a significant improvement on the 44.6% y/y contraction seen in 4Q22, it suggests that activity is just bottoming out rather than increasing.

One constraint on the feedthrough from the recovery in home sales to construction activity is that fewer of the properties being sold are off-plan units – developments that still need to be built. Off-plan units accounted for 83.8% of total floor space sold in the first two months of 2023, compared with 90.1% in the same period in 2021.

The other issue is funding. Despite the substantial credit lines made available to developers, these firms still reported a 15.2% y/y drop in funding in the first two months of 2023.

Over time, we believe that construction will be boosted by the ending of the practice of presales, which will move the real estate cycle from being demand- to construction-led (see our January 16 report, [Do new bank credit lines for developers signal the end of housing presales?](#)). For now, however, a large enough recovery in real estate construction to move the macro needle requires developers to be confident about the near-term outlook for sales – something that will require several months of sustained growth in property transactions and prices. The next few months will be crucial in that regard.

Putting this all together: There is no sign of the economy going gangbusters following reopening. Consumption has improved from late last year but will need to accelerate far more if it's going to help drive growth this year. In the meantime, authorities are using infrastructure investment to drive the economy in the hope that it will generate enough of a bounce to restore consumer confidence.