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# China's 2022 econ data raises more questions than it answers

China has been in something of a macro data vacuum since the start of this year. However, the publication of the combined data for the first two months has done little to illuminate investors.

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hq@triviumchina.com

# Key takeaways

- The data came in so much above expectations that it has raised serious questions about whether China's statisticians are massaging the numbers to give an overly positive picture of the economic situation at the start of the year.
- These concerns are further fueled by the discrepancies between the broad economic indicators published by the stats bureau and more micro-level data. Across industrial output, retail sales, and fixed asset investment, more granular data paints a far less positive picture of economic activity at the start of this year.
- Even if the more positive picture of the economy is an accurate one, it is doubtful how long this recovery can last given the pressures now bearing down on the economy. This includes rising COVID-19 cases and lockdowns, further input cost pressures from the increase in commodity prices, and increased business uncertainty due to the uncertain global economic outlook and the wild swings on domestic stock markets.
- The likelihood, therefore, is that growth in both household and business spending starts to retreat in the coming months. That will leave the economy more exposed to the continued weakness in real estate.
- Whichever way you cut it, the seemingly positive numbers for the start of 2022 need to be taken with some caution. Either the data is misrepresentative of China's actual economic reality, or accurate but out of date and the positive trends depicted have already gone into reverse.

China’s econ numbers for the first two months of the year raise a lot more questions than they answer. The main economic indicators came in above expectations – by a significant margin:

- Retail sales rose 6.8% y/y in the first two months of the year, versus a consensus forecast of 3.0% y/y growth.
- Fixed-asset investment (FAI) increased 12.2% y/y, compared with expectations of a 5.0% y/y increase.
- Value-added output at industrial firms rose 7.5% y/y. It was expected to come in at 3.9% y/y.

The data also suggests that the economy staged a meaningful recovery at the start of this year:

- The 6.8% y/y increase in retail sales in the January-February period compares with 3.5% y/y growth in the final three months of 2021 [FIG 1].
- FAI accelerated from a 1.1% fall in 4Q21 to a 12.2% y/y expansion [FIG 2].
- The 7.5% y/y rise in value-added output at industrial firms was up from 4.3% y/y growth in December [FIG 3].

**Fig. 1 - Retail sales**

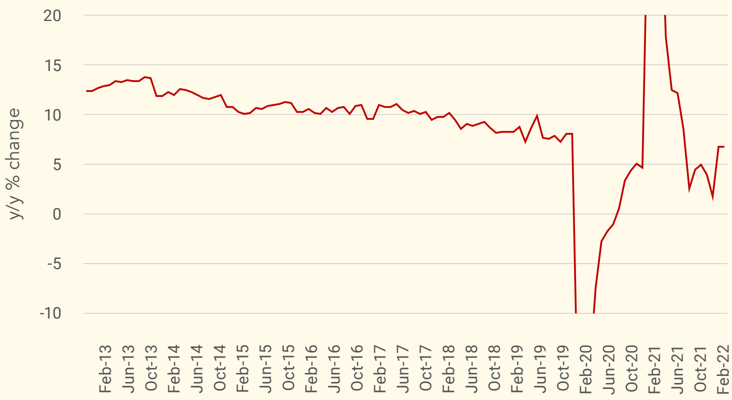



**Fig. 2 - Fixed-asset investment**

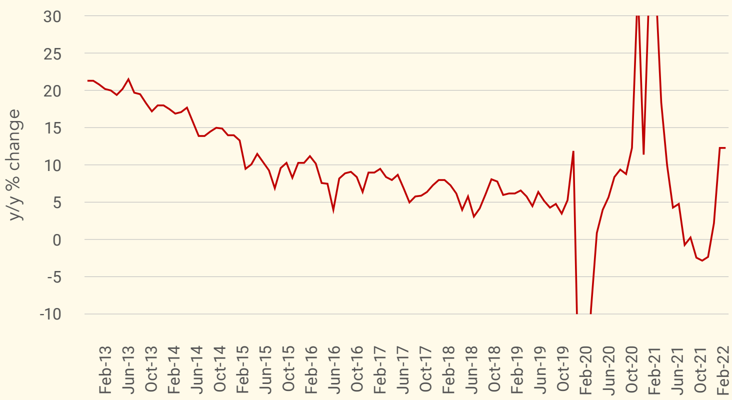
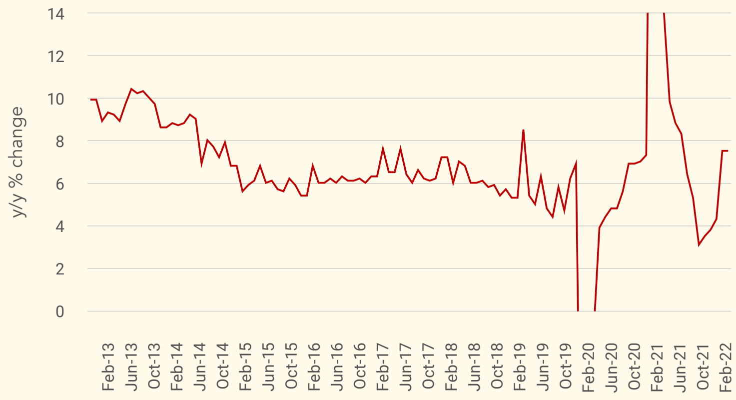


Fig. 3 - Value-added output at industrial firms




The disconnect between the numbers and consensus forecasts, as well as the gap with economic trends last year, has raised the question of how accurately this data represents the economic reality.

There have always been lingering doubts about the accuracy of Chinese econ data, but in the past few years, the main indicators have generally tracked expectations. Most importantly, they have also been consistent with micro-level data.

That wasn't the case with the recent 2022 numbers, however.

For example, while growth in industrial value-added output rose to a seven-month high of 7.5% y/y in the first two months of the year, other data for the industrial sector pointed to less of a rebound. Electricity consumption in the industrial sector increased 3.6% y/y in the January-February period, versus 1.4% y/y growth in 4Q21. Freight activity rose 4.0% y/y in the first two months of the year, compared with 1.7% y/y in the final quarter of 2021.

There were also inconsistencies in the real estate data. Real estate investment rose 3.7% y/y in January-February – the fastest rate since June of last year and up sharply from the 7.6% y/y fall in spending in 4Q21. Real estate developers' funding fell 17.7% y/y, however – a bigger drop than the 12.4% y/y fall recorded in 4Q21.

The increase in real estate investment appears to have been driven by more spending on construction. Floor space under construction rose 1.8% y/y in the first two months of the year, up from a 29.4% y/y contraction in the final quarter of last year. This increase in construction activity did not filter through into a recovery in downstream industries, however. Production of cement fell 17.8% y/y at the start of 2022. Steel output dropped 10.0% y/y. We would have also expected to see an increase in output of buildings materials given the recovery in infrastructure investment, which rose 8.6% y/y in the first two months of 2022, compared with a 2.9% y/y fall in 4Q21.

## Consumption discrepancies

The recovery in retail sales is also puzzling. The 4Q21 household income data showed that consumer finances were still under pressure, with growth in disposable income per capita in urban areas slowing from 5.9% y/y in 3Q21 to 4.1% y/y in 4Q21. COVID-19 cases in China also began rising at the start of the year, prompting restrictions in some parts of the country. In the past, these periods have corresponded to a pullback in consumer spending. Despite this, retail sales in the first two months of 2022 recorded the fastest rate of expansion since last July.

Moreover, the main driver of the increase in retail sales was catering [FIG 4]. This sits oddly with the increase in COVID-19 cases during this period, but it also is not reflected in other data. The National Bureau of Statistics' (NBS) PMI readings for the service sector for the first two months of this year were the lowest since last August. The NBS' Service Production Index was also weak [FIG 5].

**Fig. 4 - Retail sales breakdown**

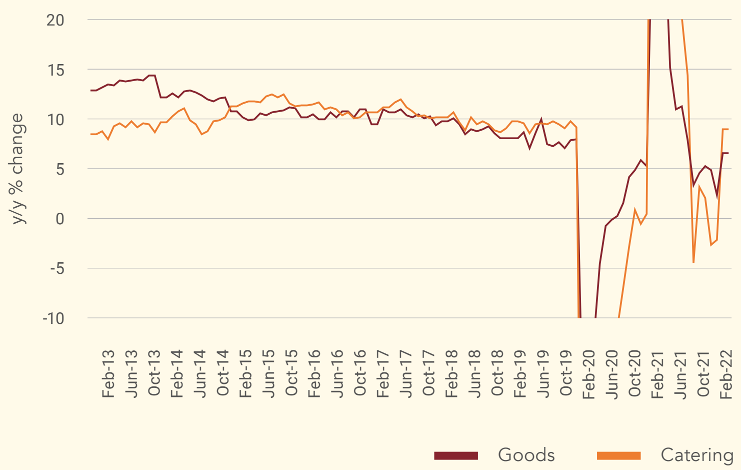
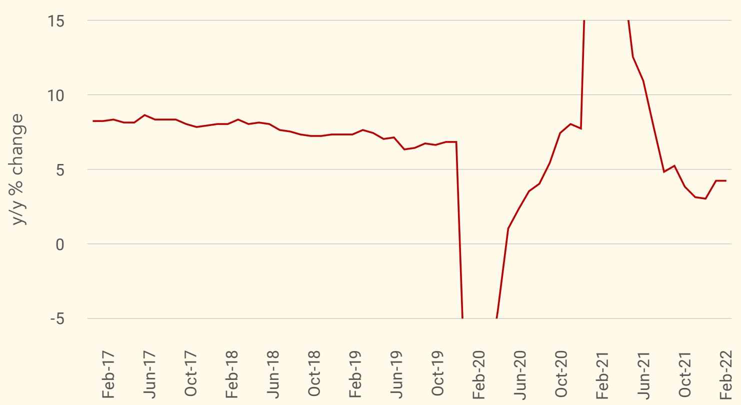



**Fig. 5 - Value-added output at industrial firms**




The goods element of the retail sales data, however, was more in line with other numbers – with the 6.5% y/y growth seen here below the 12.3% y/y growth reported in online purchases of goods for the first two months of the year.

There was also a disconnect between the econ numbers and the credit data. The retail sales numbers suggest that consumers were growing more confident at the start of the year. But the household lending numbers for this period plummeted. Short-term household loans crashed 425% y/y in January-February. Medium- and long-term household loans dropped 48.6% y/y.

Meanwhile, the pick-up in manufacturing FAI contrasts with the 17.0% y/y fall in net new medium- and long-term corporate loans for the first two months of 2022. More broadly speaking, there is also a contradiction between the 12.2% y/y rise in FAI and the 1.3% y/y fall in funding for FAI that the NBS reported for the January-February period.

## Other concerns

The disconnect between the positive broad economic indicators and the more negative granular data is not the only concern we have with the bullish picture of the Chinese economy in the first two months of 2022 suggested by the headline data.

Another issue is that these numbers are looking in the rear-view mirror. A lot has changed since the period covered by this data:

- China's COVID-19 domestic case count has jumped from a weekly average of 119 per day in the final week of February to 2,644 per day in the most recent seven days.
- The Ukraine conflict has sparked a spike in global commodity prices.
- Domestic stock markets have whipsawed as investors fret about the potential for secondary sanctions on Chinese companies if the country offers economic or miliary support to Russia, as well as the risk of Chinese ADR delistings.

The last point is worth dwelling on. Many have looked to the special meeting of the Financial Stability and Development Commission (FDSC) held on Wednesday – which pledged improved policy coordination and implementation to support the economy and stock markets following the precipitous drop in markets Monday-Tuesday – as evidence that China might be about to change tack in economic management and adopt a more stimulatory policy stance. However, we think this is over-reading the FSDC's comments. Better policy coordination does not mean massive stimulus – the policy support playbook clearly outlined less than two weeks ago in the Government Work Report isn't about to change, based on our reading of the FDSC meeting – and the broader headwinds and risks bearing down on the Chinese economy remain in place.

The developments above, even given the FDSC's reassurances, put a dampener on the prospect that the economic momentum seen in the NBS's broad economic indicators for the start of 2022 can be sustained in coming months.

The increased restrictions on mobility to manage local COVID-19 outbreaks is going to affect household consumption, particularly spending in areas like restaurants that underpinned the strong retail sales data for the January-February period.

There is also potential for disruption to manufacturing activity. Officials are keen to mitigate this as much as possible, with authorities in locked-down Shenzhen implementing bubble schemes to keep some factories operating. But the disruption to the broader economy – in particular logistics – is inevitably going to have some impact on industrial output.

The increase in COVID-19 cases is also going to weigh on business sentiment, which will have been further affected by the stock market gyrations, as well as concerns around the global economic outlook. Businesses also face a further increase in cost pressures due to the rise in commodity prices. Given all this, it is hard to see how the level of capex seen in the first two months of this year can be sustained.

The likelihood, therefore, is that growth in both household and business spending starts to retreat in the coming months. That will leave the economy more exposed to the continued weakness in real estate, which was buffered somewhat by the strength in retail sales and broad FAI at the start of the year.

The real estate sector was one part of the economy where the data did not surprise to the upside in January-February. Home sales remain very weak, falling 22.1% y/y in this period, compared with the 20.1% y/y drop seen in 4Q21. Developers are also halting new projects. New construction starts fell 12.2% y/y. Land purchases dropped 42.3% y/y.

Whichever way you cut it, therefore, there are not a lot of positives left in the econ numbers once you start looking under the hood. Either the major indicators were massaged to give a more positive impression of growth at the start of 2022, or this is a genuinely accurate representation of the economic situation, but one which is out of date as it doesn't reflect the pressures that are now bearing down on the Chinese economy.