



THE ASIA ECONOMIC MONITOR

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China's real retail sales activity likely stabilised in April, after food inflation eroded purchasing power.

Industrial production continues to show signs of recovery after winter shutdowns.

FAI growth possibly picked up in Q1, but faces headwinds as PPI inflation slows.

Chinese Retail Sales Volumes Stabilised in April; Q1 was Weak

Chinese April retail sales growth slowed sharply in value terms, to 9.4% year-over-year, from 10.1% in March. This took growth back to a rate last seen in December, before the noise triggered by Chinese New Year. This April dip is not a disaster; we reckon March sales were inflated by price effects, as CPI inflation picked up early in the year, even after adjusting for holiday effects, mainly thanks to faster food price inflation. Still, we think that the erosion of purchasing power has taken its toll on year-over-year volumes growth, though the data are internally inconsistent.

This softening doesn't show up at the headline level. Official *real* retail sales growth was 7.9% in April, *up* slightly from December. But deriving real retail sales growth from headline value rates and CPI inflation implies growth was stable, at 7.6%. The authorities also provide the *level* of retail sales values

but, bizarrely, the year-over-year rates calculated from these data show a starkly different picture from the headline rates of growth. On this basis, growth was just 4.6% in April, continuing the decline from March and tumbling from the 9.4% rate prevailing in December. Volume growth on this measure is a shockingly low 2.8%, down from 7.6% in December.

*Data from listed companies tell yet another story, though we think the trends are more consistent with the picture from the levels data. Sales revenue for consumer staples firms listed on the Shanghai Stock Exchange picked up year-over-year in Q1, in keeping with our impression of faster adjusted food price inflation during the quarter. At the same time, though listed company data show a slowdown in sales revenues of consumer durables firms in Q1, though the reported growth rate is much higher than is implied by the official sales levels data, at 12.3%, compared with 15.0% in Q4. **We can't rely on any one of these data sets but putting them all together, the most likely explanation is that food inflation has eroded purchasing power, depressing Q1 volume growth.***

The official data suggest that volume growth stabilised, at the margin, in April. On our calculations, volumes grew at an annualised rate of 2.3% in the three months to April compared with the previous three months, seasonally adjusted, and up from 1.7% in March. Note that we have to interpolate numbers for January and February, when the authorities provide no data. Again, the listed company data suggest that growth could be faster, but concur with the message of a slowdown between Q4 and Q1. *The stabilisation makes sense, given food inflation subsided in April.*

Going forward, we see headwinds, not least if upside risks to food inflation materialise, though the upside mainly is due to base effects from last year, and shouldn't last long. *More fundamentally, slowing services inflation implies weakening wage growth in the sector, which has acted as a sponge for displaced manufacturing labourers. Job growth is unlikely to*

THE HEADLINES SOMETIMES JAR WITH THE UNDERLYING DATA



come to the rescue; the services PMI points to slower employment growth. At the same time, the authorities have cracked down on funding for micro-loans since December, likely damaging consumer credit growth. Granted, the flow of new loans in April bounced back, casting doubt on the tough rhetoric on household debt. But conventional household debt growth continues to slow. *Finally, confidence has levelled off since the triumphalist atmosphere around the Party Congress in October last year.* Negative wealth effects also will contribute to waning confidence in coming months.

The industrial production recovery continues

Industrial production growth rebounded to 7.0% year-on-year in April, from 6.0% in March. Year-over-year growth is volatile and probably will correct down again in coming months. But the story at the margin makes sense. Our compiled index shows that growth strengthened in Q1, compared with lows in Q4. ***That recovery continued in April, when production rose by an adjusted 0.6% month-on-month, after averaging 0.5% in Q1.***

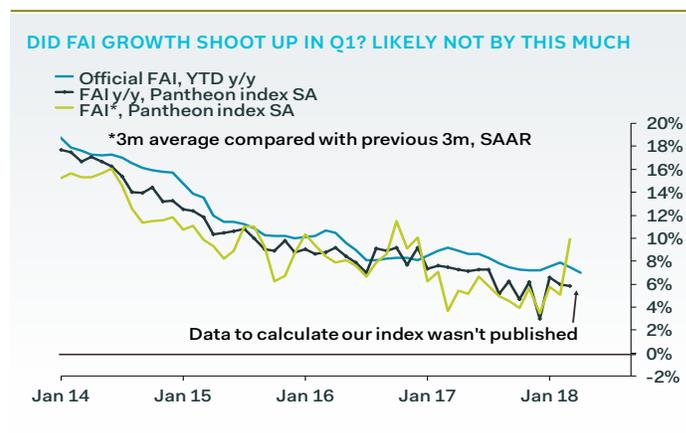
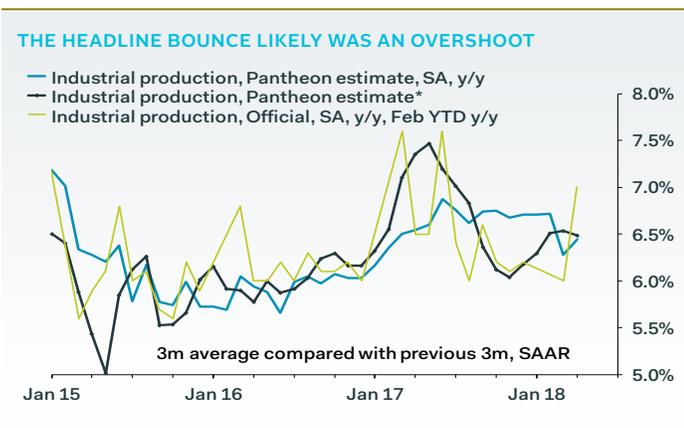
These data present further evidence that anti-pollution production shutdowns have caused macro-volatility since mid-way through last year. The curbs initially were billed to remain in place from October-to-March. Production was then brought forward ahead of October. Subsequently, some factories were brought back online *ahead* of schedule, during Q1, while we see evidence that cities outside the northern curbs zone ramped up production starting late last year. April's data suggest that some factories did wait for the full official winter period to elapse, implying that early Q2 activity continued to make up for lost

time. *Key cities have announced plans to extend the production curbs, however, and environmental targeting is here to stay, under a beefed-up Ministry of Environment, and with President Xi onside.*

FAI growth faces headwinds as PPI slows

Chinese fixed asset investment growth slowed to 7.0% year-to-date, year-over-year, in April, from 7.5% in March. The headline is only ever produced in this format, as the authorities have concerns that activity often is attributed to the wrong month. We create an index to see where the shorter term trend is going. Last year, this implied that year-over-year growth was trending sharply down, before the YTD calculation reset this year. But the headline *jumped* in February—the first data point for this year—jarring with the implied downtrend of last year. *The slowdown in March and April brings the headline closer to the story from the underlying data, though it remains out of whack.*

Some of the breakdowns are not yet available for April, while others have been discontinued. But data for March point to a sharp pick-up in growth, at the margin, with quarterly annualised rise of 9.9% in Q1, compared with just 3.5% in Q4. In reality, growth likely didn't shoot up by this much. But we can't dismiss this evidence of stronger growth in Q1; we reckon activity rebounded as anti-pollution production curbs were lifted. ***Going forward, however, slowing PPI inflation and the ongoing deleveraging drive present real headwinds to FAI growth.***



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THIS WEEK IN BRIEF

Data and events covered in the Asian Data Wrap.

Monday, May 14

- **No major data released.**

Tuesday, May 15

- **China: Retail sales (4) 10:00 CST**

Retail sales growth slowed to **9.4%** y/y in April, from 10.1% in March, below the consensus, 10.0%. The underlying levels data still show much slower growth, but volumes growth likely stabilised at the margin, as food inflation subsided.

- **China: Industrial Production (4) 10:00 CST**

Industrial production growth shot up to **7.0%** y/y in April, above the consensus 6.4%, after growth of 6.0% in March undershot the trend. Factories have continued to come back online after the winter's anti-pollution shutdowns.

- **China: FAI ex Rural (4) 10:00 CST**

The headlines so far this year have been difficult to reconcile with the underlying data. Growth slowed to **7.0%** YTD y/y in April, from 7.5% in March, below the consensus, 7.4%. But breakdowns for March point to a pick-up in growth.

- **Japan: Tertiary Index (3) 08:50 JST**

The index *fell* by 0.3% m/m in March, after a minimally-revised 0.1% *rise* in February, below the consensus for a 0.2% *fall*. The index remains substantially below recent trends.

Wednesday, May 16

- **Korea: Unemployment Rate (4) 08:00 KST**

The jobless rate should drop back to **3.6%** in April, after an erratic leap to 4.0% in March. This should give the BoK the confidence to hike in May. The unemployment rate should remain stable around the 3.6% rate in coming months.

Consensus: N/A.

- **Japan: GDP (1Q) 08:50 JST**

Real GDP likely *fell* by **0.2%** q/q in the preliminary reading for Q1. Survey data held up well from Q4's sturdy rates. But the hard data, particularly relating to household expenditures, have been weak. Early signs point to a rebound in Q2.

Consensus: 0.0%.

Thursday, May 17

- **No major data released.**

Friday, May 18

- **Japan: National CPI (4) 08:30 JST**

CPI inflation likely slowed to **0.9%** in April, from 1.1% in March. The Tokyo gauge—released ahead of the national version—slowed more substantially in April. But the decline was driven by food prices. As the Tokyo measure often undershoots the national measure on account of food inflation, we reckon the latter will fall by less. **Consensus: 0.7%.**

CHINA ECONOMIC FORECASTS

GDP	q/q			y/y	
	Official	PM est.		Official	PM est.
Q1 2017	1.5%	1.8%	2015	6.8%	5.0%
Q2 2017	1.8%	1.2%	2016	6.8%	5.8%
Q3 2017	1.8%	1.5%	2017	6.8%	6.8%
Q4 2017	1.6%	1.4%	2018	6.4%	4.5%
Q1 2018	1.4%	1.5%			

	CPI, y/y		PPI, y/y
	Headline	Non-food	Headline
Mar-18	2.1%	1.8%	3.1%
Jun-18	2.0%	1.6%	4.2%
Sep-18	1.0%	1.5%	1.9%
Dec-18	0.8%	1.3%	2.0%

JAPAN ECONOMIC FORECASTS

GDP	q/q SAAR	CPI	Headline	Core*
Q2 2017	2.9%	Mar-17	1.1%	0.3%
Q3 2017	2.5%	Jun-18	0.9%	0.5%
Q4 2017	1.6%	Sep-18	1.1%	0.6%
Q1 2018	-0.2%	Dec-18	0.5%	0.7%

*Excluding food and energy

KOREA ECONOMIC FORECASTS

GDP	q/q	CPI	Headline	Core
Q3 2017	1.5%	Mar-17	1.3%	1.4%
Q4 2017	-0.2%	Jun-18	1.3%	1.4%
Q1 2018	1.1%	Sep-18	1.0%	1.4%
Q2 2018	0.8%	Dec-18	1.3%	1.4%

ASIAN YIELDS

		Mar	Jun	Sep	Dec
10-year, %	China	3.80	3.50	3.60	3.60
	Japan	0.00	0.00	0.20	0.20
	Korea	2.60	2.75	2.90	2.90

ASIAN MONETARY POLICY FORECASTS

China Mini-hikes to interest rate corridor around Fed hikes, combined with RRR cuts

Japan Policy balance rate to 0.0% before Q4, from -0.1%; 10-year target to 0.2% from 0.0%

Korea 7-day repo rate to 1.75% in May from 1.50%.