

China Watch

Jan-Feb IP and FAI data beat expectations despite property market weakness

Exhibit 1: Jan-Feb activity data (announced: 18 March 2023)

Jan-Feb IP and FAI growth came in better than expected at 7.0% and 4.2% yoy, respectively

Jan-Feb	IP	FAI ytd	FAI*	Retail sales
	% yoy	% yoy	% yoy	% yoy
Actual	7.0	4.2	4.2	5.5
Previous	6.8	3.0	4.0	7.4
Consensus	5.2	3.2		5.6
BofA Global Research	5.0	2.5	2.5	4.8

Source: Bloomberg, NBS, BofA Global Research **Note:** *BofA calculation.

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Jan-Feb IP/FAI growth beat estimates; retail sales in line

China's key activity indicators registered solid growth in Jan-Feb, despite a higher base from last year when China just reopened. IP and FAI growth beat market expectations by a wide margin, while retail sales growth came roughly in line. The services sector gross output index increased by 5.8% in Jan-Feb (vs. +8.5% in Dec).

IP growth picked up to 7.0% yoy in Jan-Feb, as the manufacturing (7.7%) and utility (7.9%) sectors both saw faster growth, though utility IP growth softened (2.3%). By product, IP growth of new energy vehicles remained resilient (25.6%), while mobile phones (26.4%), integrated circuits (16.5%), metal cutting machines (19.5%) and chemical fibers (27.7%) also witnessed rapid yoy growth against a low base.

FAI growth improved to 4.2% yoy in Jan-Feb from 4.0% in Dec, far exceeding market expectations (3.2%). By sector breakdown, manufacturing FAI growth accelerated to 9.4% yoy (from 8.2%). Infrastructure FAI growth remained resilient at 9.0% yoy (vs. 10.7% in Dec), driven by higher investment growth related to electricity, gas and water (25.3%). On the other hand, property investment remained in contraction (-9.0%).

Nominal retail sales growth moderated to 5.5% yoy in Jan-Feb from 7.4% previously, against a high base from reopening, in line with consensus estimate (5.6%). By breakdown, the sales of goods increased by 4.6% yoy (vs. 4.8% in Dec). Meanwhile, catering sales continued to see a double-digit gain of 12.5% yoy (vs. 30% yoy in Dec). Within consumer goods categories, communication appliances led the gain (+16.2% yoy), followed by tobacco/liquor (+13.7%), as well as grain, oil & food (+9.0%). Auto sales growth picked up to 8.7%. On the flip side, office supplies contracted by 8.8% yoy.

Fiscal stimulus to bolster growth momentum

All in all, Jan-Feb activity growth data showed notable improvement in investment and industrial activities, adding to upside surprises from the recent trade and CPI data. This is in contrast against the perception from weekly commodity orders and PMI weakness. In our view, it is too early to turn much more optimistic on overall demand strength, esp. before total social financing growth stabilizes. That said, new policies on equipment renewals and consumer goods trade-ins will likely lend some modest support to investment and consumption growth in the coming months (see [report link](#)). If improvement on the industrial sides is proven sustainable in the coming months, China would be on track to achieve the annual growth target of around 5.0% this year.

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IP: Industrial production

FAI: Fixed-asset investment

Unemployment rate edged up in Jan-Feb

Labor market conditions deteriorated slightly in Jan-Feb, with the surveyed urban unemployment rate inching up to 5.3% (consensus at 5.1%) from 5.1% in Dec. For the major 31 cities, the unemployment rate also increased by a tenth to 5.1%.

The youth employment rate, which has been revised in definition and reintroduced in the December data release, will be published in 2-3 days, according to the NBS.

In addition, the services sector gross output index rose by 5.8% yoy in Jan-Feb (vs. 8.5% in Dec). The accommodation & dining (+12.1%) and IT (+10.4%) sectors held up well against a low year-ago base.

Property indicators weakened across the board

All property related indicators contracted further in Jan-Feb, partly due to a modestly higher base. Based on our calculated growth after adjusting for the NBS' new year-ago bases, new home sales contracted further by 24.8% yoy in volume terms (vs. -16.1% in Dec) and by 32.7% yoy in value terms (vs. -20.2% previously). Total floor space waiting for sales also increased to 405mn sqm (from 331.19mn sqm in Dec).

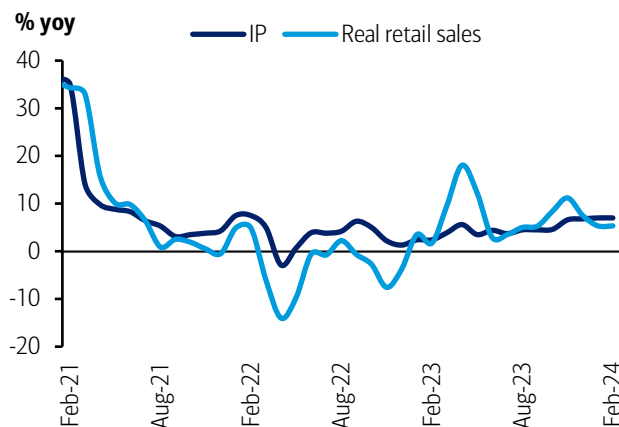
Along with weak home sales, home prices also continued the downward trajectory in Jan-Feb, across all city tiers. Among tier-1 cities, only Shanghai saw mom growth in housing prices.

Residential property investment stayed weak in Jan-Feb, though the contraction narrowed slightly on a low year-ago base (-9.7% yoy, vs. -13.8% in Dec). New home starts contracted more by 30.6% yoy (vs. -13.3% in the prior month). The total floor space completed dropped by 20.2% in Jan-Feb (vs. +14.8% in Dec). The area under construction also declined by 11.4% yoy ytd (vs. -7.7% previously).

The funding condition of property developers also worsened in Jan-Feb. The total fund available for developers contracted by 24.1% yoy (vs. -13.6% in Dec), with pre-sale proceeds (-34.9%) and mortgages (-36.6%) seeing the largest drop. The contraction in domestic loans (-9.9%) and self-raised funds (-15.3%) narrowed slightly compared with Dec.

Exhibit 2: IP and real retail sales growth

Jan-Feb real retail sales growth held up, while IP growth improved

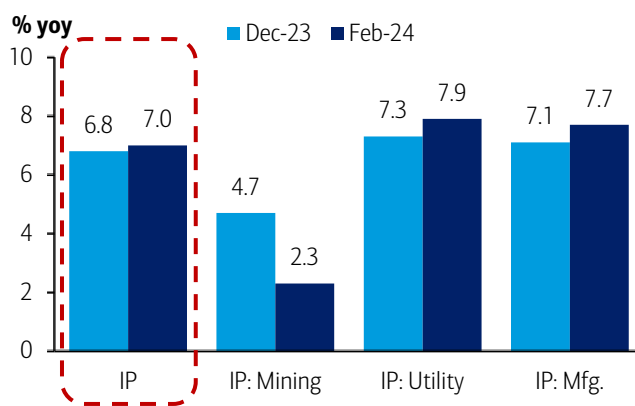


Source: BofA Global Research, CEIC, NBS

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Exhibit 3: IP by sectors

Mining IP growth moderated in Jan-Feb, while IP growth of utility and manufacturing picked up

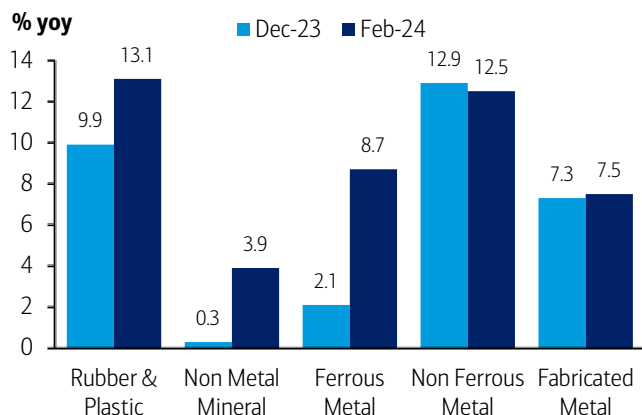


Source: BofA Global Research, CEIC, NBS

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Exhibit 4: IP of key industries (1)

IP growth of non-ferrous metals stayed robust in Jan-Feb, while that of ferrous metals improved

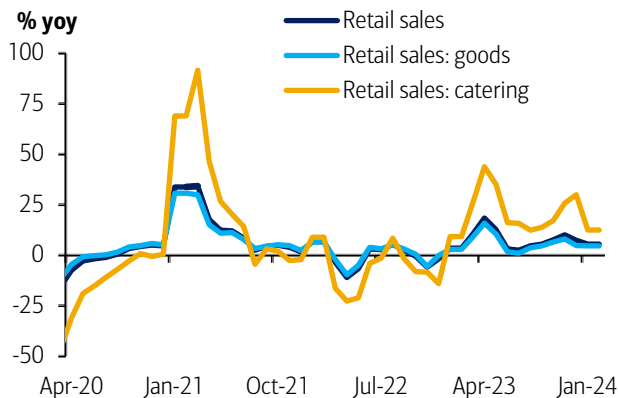


Source: BofA Global Research, CEIC, NBS

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Exhibit 6: Retail sales by category

Retail sales growth of catering softened in Jan-Feb

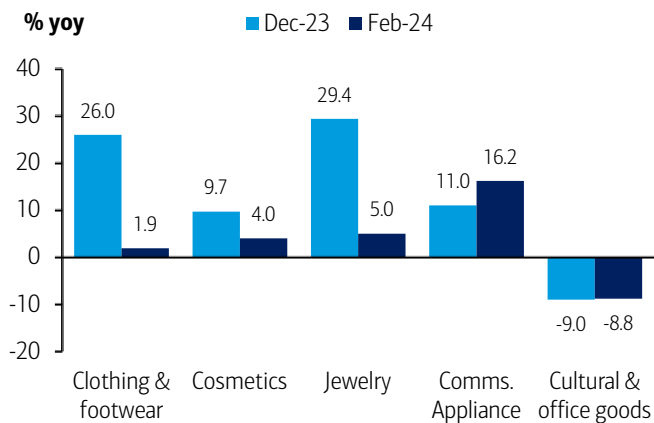


Source: BofA Global Research, CEIC, NBS

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Exhibit 8: Detailed breakdown of retail sales (2)

Sales of cultural & office goods remained in contraction, while sales growth of clothing & footwear moderated notably in Jan-Feb

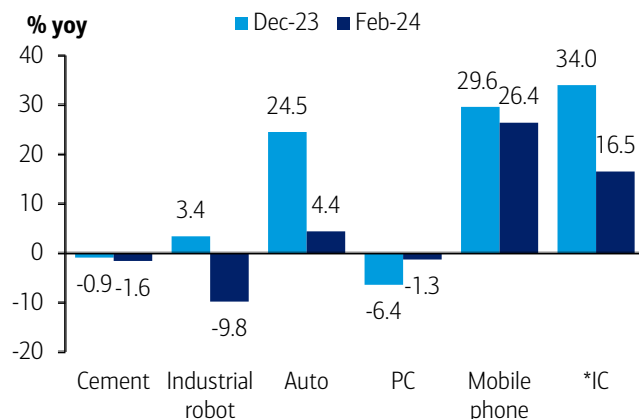


Source: BofA Global Research, CEIC, NBS

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Exhibit 5: IP of key products (2)

IP growth of mobile phones and ICs remained strong in Jan-Feb; while IP growth of PCs and industrial robots remained negative

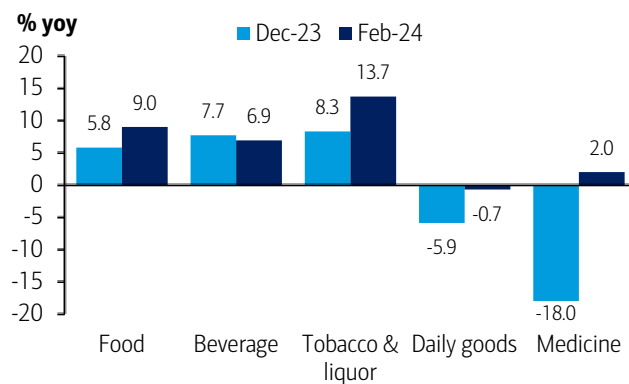


Source: BofA Global Research, CEIC, NBS Note: *IC refers to integrated circuits

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Exhibit 7: Detailed breakdown of retail sales (1)

Sales growth of tobacco & liquor remained strong in Jan-Feb, while that of food picked up

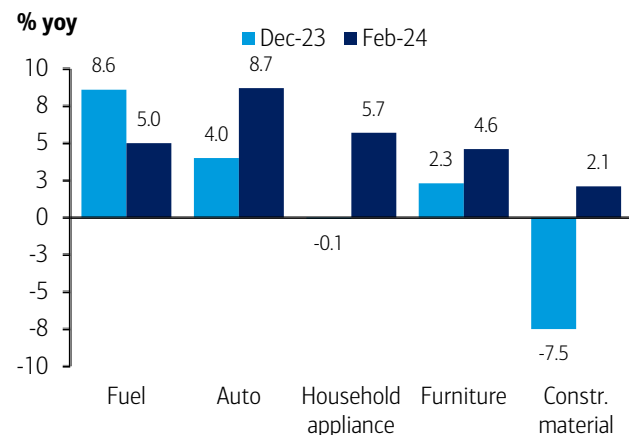


Source: BofA Global Research, CEIC, NBS

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Exhibit 9: Detailed breakdown of retail sales (3)

Sales of construction materials rebounded in Jan-Feb, while sales of auto and fuel rose

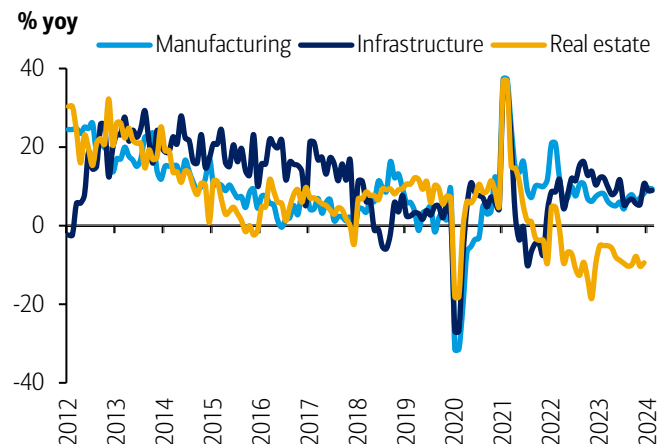


Source: BofA Global Research, CEIC, NBS

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Exhibit 10: FAI by sectors

Infrastructure FAI growth moderated in Jan-Feb, while manufacturing FAI growth trended up

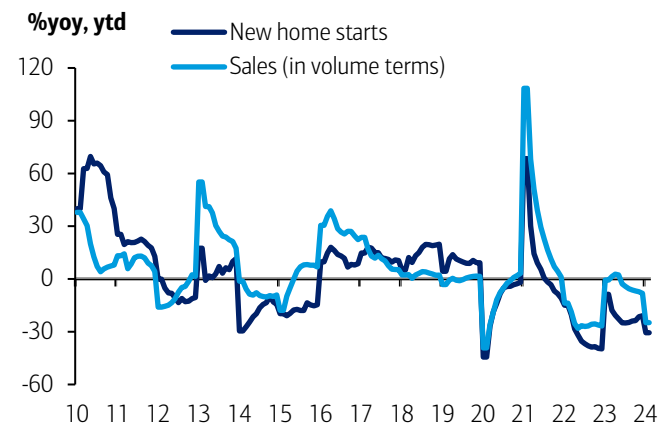


Source: BofA Global Research, CEIC, NBS

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Exhibit 12: New home starts vs new home sales

New starts remained in deep contraction

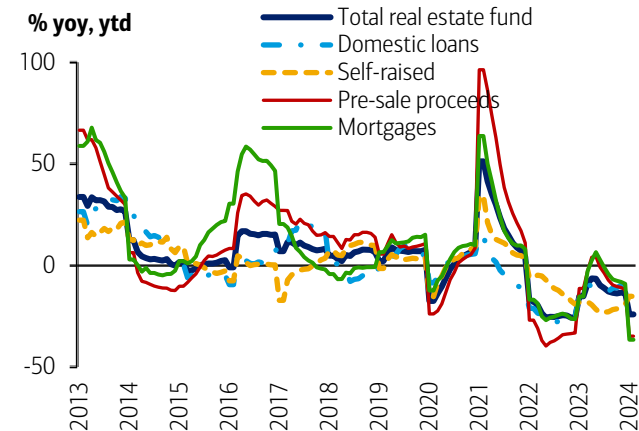


Source: BofA Global Research, CEIC, NBS

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Exhibit 14: Source of real estate funding

Funding condition for developers deteriorated further in Jan-Feb

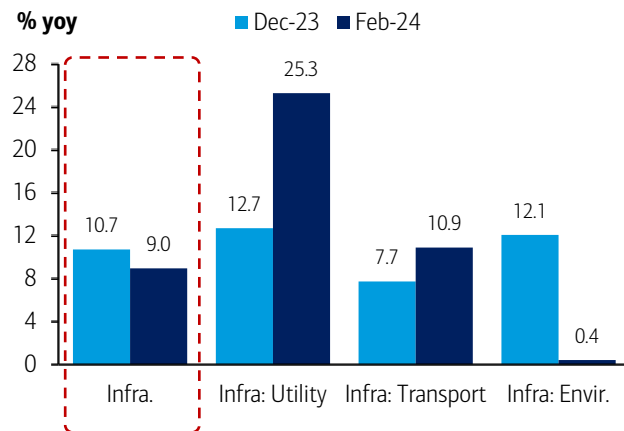


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Exhibit 11: Infrastructure FAI breakdown

Utility sector FAI remained strong in Jan-Feb while transport sector improved

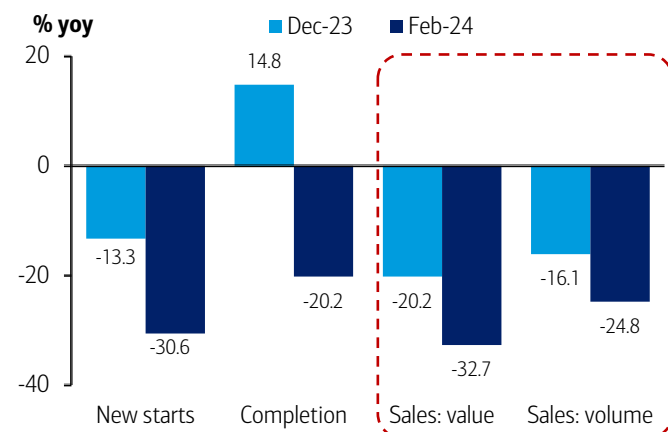


Source: BofA Global Research, CEIC, NBS

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Exhibit 13: Property sector: new starts, completion and sales

Home completion dropped in Jan-Feb, while sales remained sluggish

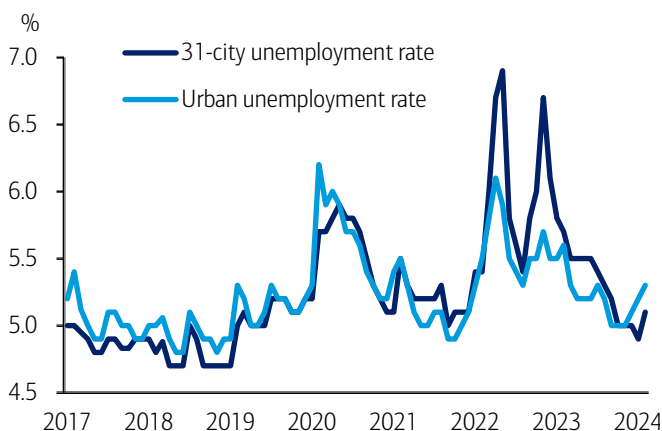


Source: BofA Global Research, CEIC, NBS

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Exhibit 15: China's 31-city surveyed unemployment rate

31-city and urban unemployment rates ticked up in Jan-Feb



Source: BofA Global Research, CEIC, NBS

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