

# China Economy in 1Q

## Consumption and investment strengthened in Mar

GDP growth in 1Q21 recorded 18.3% YoY on back of last year's low base, which was largely in line with consensus estimate. While economic recovery continues, its momentum is slowing down - QoQ GDP growth was 0.6% in 1Q21 and 2-year CAGR edged down to 5% in 1Q21 vs. 6.2% in 4Q20. Consumption and investment performance still lagged behind pre-pandemic levels in 1Q21 whereas industrial activities remained strong. Recent trends in Mar, however, indicated that industrial output decelerated whereas consumption and FAI strengthened.

- Industrial activities remained vigorous in 1Q21, though decelerated a bit in Mar.** Industrial output expanded 24.5% YoY or at 6.8% 2-year CAGR in 1Q21 (vs. 5.7% in 2019A). In Mar 2021, however, industrial output increased at 6.2% 2-year CAGR, down 1.9ppt from Jan-Feb 2021. This deceleration could be due to the staying put policies during the Chinese New Year, which boosted production in Jan-Feb but reduced the momentum of seasonal rebound in Mar. Several other factors could also decelerate growth momentum of industrial output, including 1) stabilizing global demand for Chinese exports, 2) surging PPI lifted prices of base materials and may squeeze profit for industrial firms.
- FAI exhibited trends of strengthening in Mar.** Urban FAI increased at 2.9% 2-year CAGR in 1Q21, slower than pre-pandemic growth at 5%-6%. However, Mar 2021 witnessed acceleration in 2-year CAGR across infrastructure, manufacturing as well as real estate FAI. While infrastructure and real estate investment nudged close to pre-pandemic pace of expansion, manufacturing FAI shrank at 1.5% 2-year CAGR in 1Q21, compared to +5% in 2019. We think future recovery of FAI would rely more on manufacturing investment, which could be under pressure from decelerating export demand, surging PPI, etc, but boosted by supportive policies and enlarged domestic demand.
- Consumption continued to trend well.** Retail sales increased 33.9% YoY in 1Q21. 2-year CAGR accelerated to 6.3% in Mar, up 3.1ppt from Jan-Feb 2021. MoM growth of retail sales has been accelerating, -0.92%/1.45%/1.75% in Jan/Feb/Mar, respectively.
- Future risks.** 1) Monetary policies need to strike a delicate balance between cooling down housing speculation and ensuring credit supply for those needed; 2) Consumption expansion may decelerate due to weak wage growth; 3) Credit risks and defaults.

### Data Summary

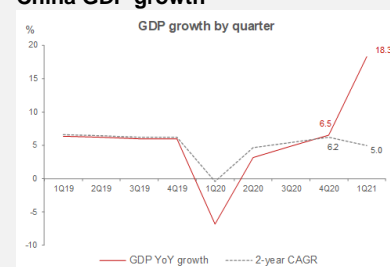
	YoY growth		2-year CAGR	
	Jan-Feb 2021	Mar-21	Jan-Feb 2021	Mar-21
Industrial output	35.1%	14.1%	8.1%	6.3%
Fixed asset investment	35.0%	25.6%	1.0%	2.7%
- Manufacturing FAI	37.3%	29.8%	-3.0%	-1.5%
- Infrastructure FAI	36.6%	29.7%	-3.3%	2.1%
- Real estate investment	38.3%	25.6%	7.6%	7.7%
Retail sales	33.8%	34.2%	3.2%	6.3%

Source: NBS, CMBIS estimates

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### China GDP growth

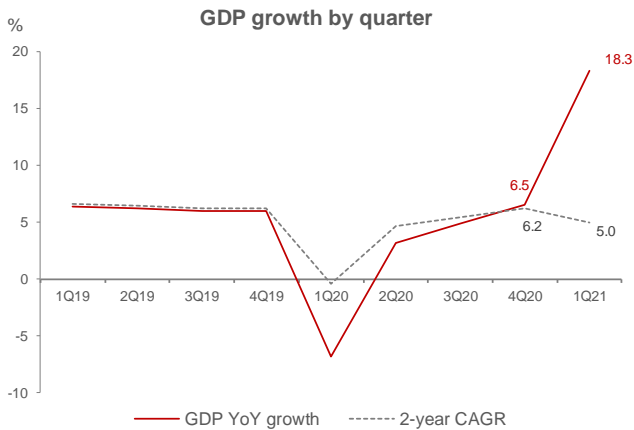


Source: NBS, CMBIS

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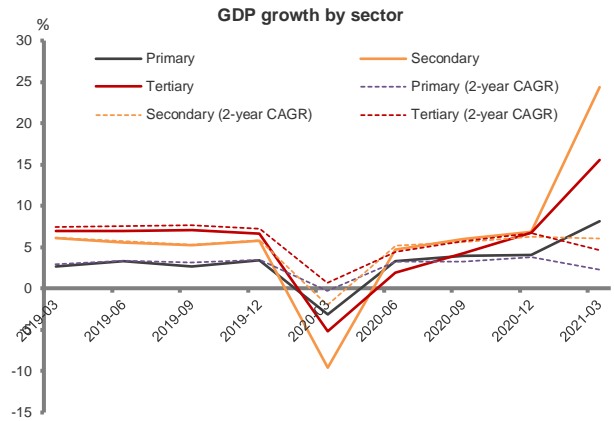
- China Government Work Report: Consolidate recovery and nurture new drivers, 8 Mar 2021
- Growth beat; resurgence of COVID-19 may complicate near-term business outlook – 19 Jan 2021
- China Trade in Dec 2020: Strong momentum continued – 15 Jan 2021
- China Economy in Nov 2020: Growth spurred by demand and supply – 16 Dec 2020
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**Figure 1: GDP increased 18.1% YoY in 1Q21, or at 5% 2-year CAGR**



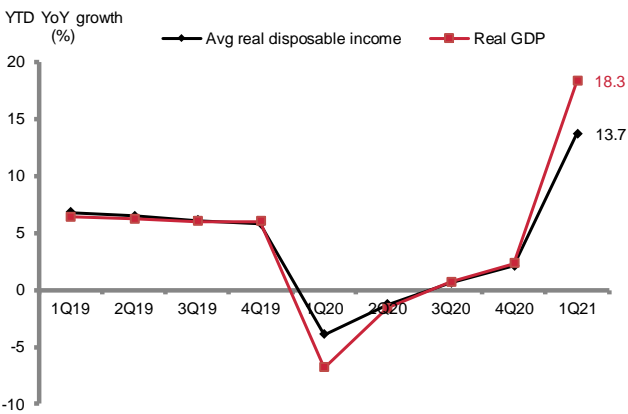
Source: NBS, Wind, CMBIS estimates

**Figure 2: In terms of 2-year CAGR, growth tamed for primary, tertiary as well as secondary sectors**



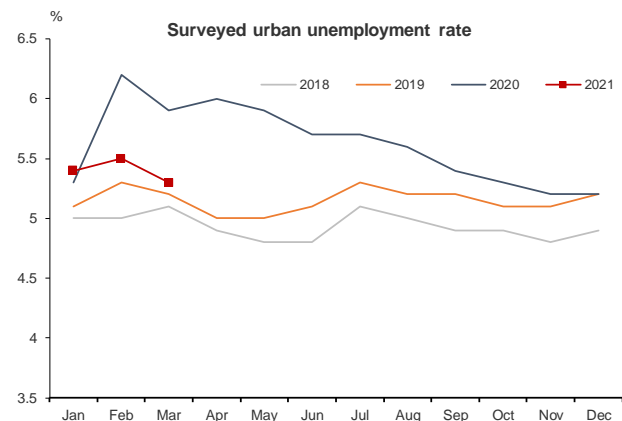
Source: NBS, Wind, CMBIS estimates

**Figure 3: Disposable income rose 13.7% in 1Q21 or at 4.5% 2-year CAGR, slower than real GDP growth**



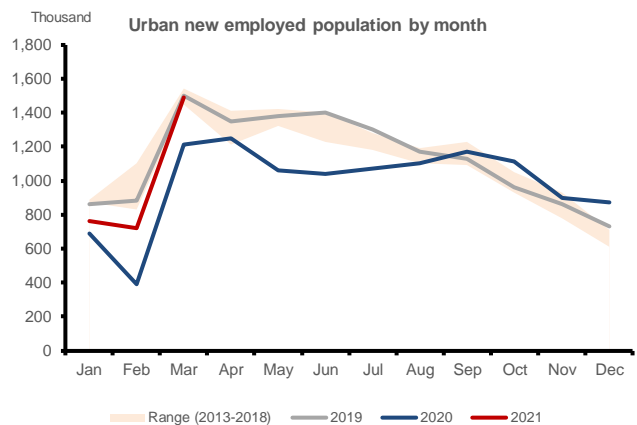
Source: NBS, Wind, CMBIS estimates

**Figure 4: Surveyed urban employment rate edged down to 5.3% in Mar 2021 (vs. 5.2% in Mar 2019)**



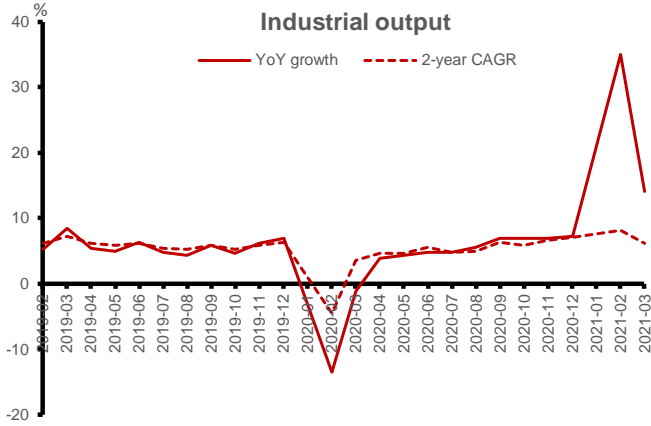
Source: NBS, Wind, CMBIS

**Figure 5: New employed population added 2.97 million, hitting 27% of the annual target**



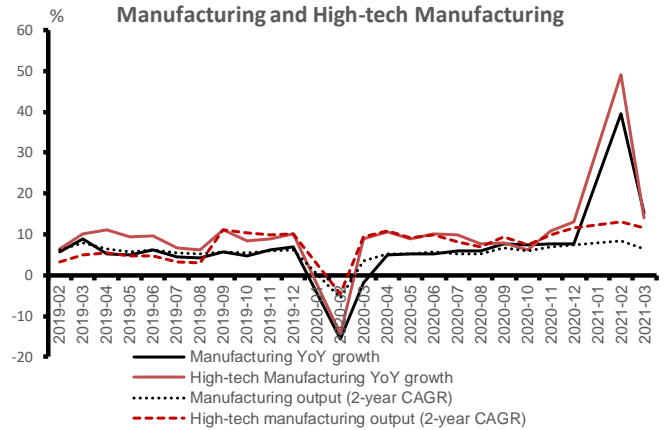
Source: NBS, Wind, CMBIS

**Figure 6: Momentum of industrial output expansion slowed in Mar 2021**



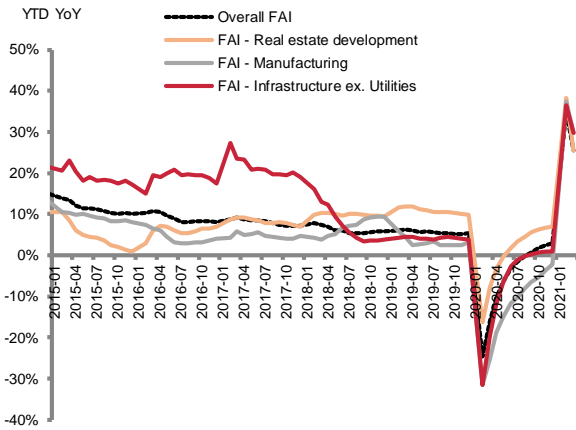
Source: NBS, Wind, CMBIS estimates

**Figure 7: High-tech manufacturing continued to outperform**



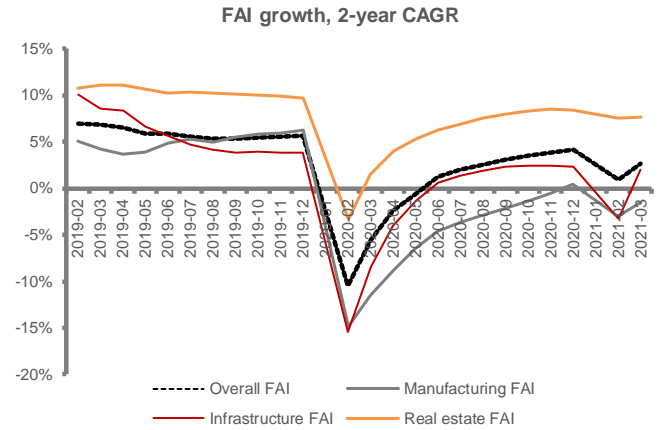
Source: NBS, Wind, CMBIS estimates

**Figure 8: FAI was up 25.6% in 1Q21**



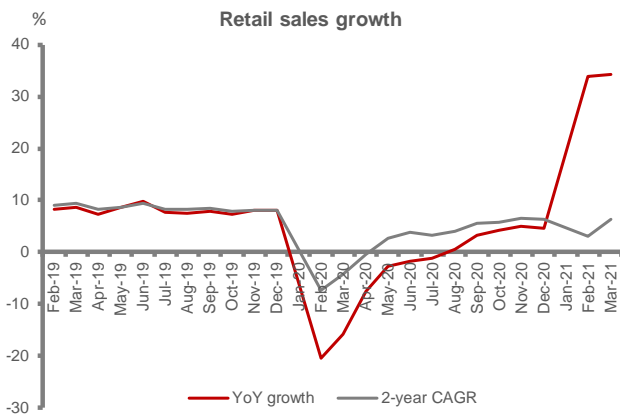
Source: NBS, Wind, CMBIS

**Figure 9: FAI increased at 2.9% 2-year CAGR in 1Q21, up 1.7ppt from Jan-Feb 2021**



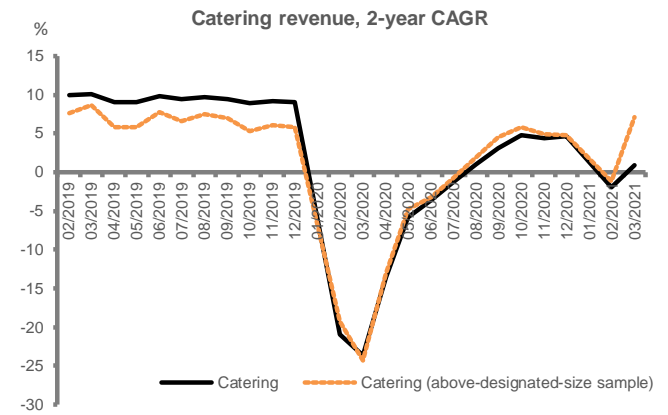
Source: NBS, Wind, CMBIS estimates

**Figure 10: Retail sales growth ticked up in Mar**



Source: NBS, Wind, CMBIS estimates

**Figure 11: Catering revenue rebounded in Mar**



Source: NBS, Wind, CMBIS estimates

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