Chinese economic growth beats forecasts

Chinese economic data; Reserve Bank Board minutes; Consumer sentiment

- The Chinese economy grew at a 6.8 per cent annual rate in the March quarter (forecast: +6.7 per cent). The economy grew at 1.4 per cent pace in the March quarter (forecast: +1.5 per cent).
- Chinese retail sales rose at a 10.1 per cent annual rate in the year to March (forecast: +9.9 per cent) – the strongest annual growth rate in four months. Retail sales grew by 9.7 per cent in February.
- Chinese industrial production rose at a 6.0 per cent annual rate in March, below the forecast average (+6.2 per cent). Production grew by 7.2 per cent in February.
- Fixed asset investment grew by 7.5 per cent annual growth rate in March, below forecasts for 7.6 per cent. Investment grew by 7.9 per cent in February.
- The unemployment rate in China’s large cities was 5.1 per cent at the end of March, edging-up from 5 per cent in February.
- Reserve Bank Board minutes: The minutes from the April 3 Board meeting were issued. The Board’s neutral monetary policy stance remains intact with no change in the official cash rate likely in the foreseeable future. However, “members agreed that it was more likely that the next move in the cash rate would be up, rather than down. As progress in lowering unemployment and having inflation return to the mid-point of the target was expected to be only gradual, members also agreed that there was not a strong case for a near-term adjustment in monetary policy.”
- Consumer confidence: The weekly ANZ/Roy Morgan consumer confidence rating rose by 0.8 per cent to 116. Confidence is up by 4.3 per cent over the year and above the average of 113.6 since 2014 and average of 112.9 since 1990.

The Chinese data is important for exporters, especially rural producers, consumer goods, mining and energy companies. The Reserve Bank Board minutes provides guidance on interest rate settings. The consumer confidence figures have implications for retailers, and other consumer-focused businesses.

What does it all mean?

- According to China’s National Bureau of Statistics today the “National economy achieved a good start in the first quarter”.
- It’s extremely rare for the quarterly economic growth (GDP) print not to be near market expectations when released. The March quarter was no exception. Economic activity remains firm.
- And the Chinese economy continues to rebalance, defying dire predictions of a debt-fuelled ‘hard landing’.
- Policymakers have expressed a preference for more sustainable growth, preferring ‘quality’ over ‘quantity’ growth outcomes. The fight against pollution and financial sector risks continues. And strong employment growth is a key focus.
- Household consumption is increasingly taking over as the key contributor to economic output in preference to investment and

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export-led growth. Consumption accounts for around 65 per cent of China’s GDP growth.

- China is the home of ‘new retail’ and accounts for 42.4 per cent of total worldwide retail e-commerce transaction values and US$790 billion of all mobile payments according to the World Economic Forum.
- Consumer confidence is near 20-year highs, so it’s little wonder that retail spending rebounded in March. Spending on cosmetics, jewellery and personal care items are elevated. L’Oréal reported like-for-like sales growth of 21.1 per cent in its Asia-Pacific segment overnight, highlighting Chinese consumers’ aspirations for iconic brands.
- State-led investment in fixed capital, especially infrastructure and urban development is diminishing in importance as contributors to overall growth. However, the US$1 trillion ‘One Belt, One Road’ infrastructure building initiative suggests that construction activity will remain strong in the coming years. And property investment accelerated in the March quarter to three-year highs.
- The Reserve Bank’s April Board Minutes re-affirmed the Board’s neutral monetary policy bias. However, policymakers reiterated that “the next move in the cash rate would be up, not down”, reflecting an expected improvement in domestic economic activity and a gradual pick-up in inflation.

What do the figures show?

Chinese Economy

- The Chinese economy grew at a 6.8 per cent annual rate in the March quarter (forecast: +6.7 per cent).
- GDP grew by 1.4 per cent in the March quarter (forecast: +1.5 per cent) after lifting 1.6 per cent in the December quarter.
- Chinese retail sales rose at a 10.1 per cent (forecast: +9.9 per cent) annual rate in year to March – the strongest growth rate in four months.
- Annual retail growth rates were: cereals and oils, foodstuffs (up 11.2 per cent); beverages (up 11.3 per cent); tobacco and alcohol (up 8.6 per cent); medicines (up 10.9 per cent); garments (up 14.8 per cent); cosmetics (up 22.7 per cent); jewellery (up 20.4 per cent); personal care (up 16.9 per cent); home appliances (up 15.4 per cent); office supplies (up 12.6 per cent); furniture (up 10.9 per cent); telecom (up 1.6 per cent); oil products (up 9.1 per cent).
- Chinese industrial production rose at a 6.0 per cent annual rate in March, below the forecast average (+6.2 per cent). The capacity utilisation rate was 76.5 per cent, an increase of 0.7 percentage points from the December quarter.
- Across industries, annual growth rates were: textiles (up 0.8 per cent); chemicals (up 4.3 per cent); non-metal minerals (down 0.8 per cent); ferrous metals (up 5.2 per cent); general equipment (up 6.8 per cent); transport equipment (up 4.2 per cent); machinery (up 8.4 per cent); communication (up 12.8 per cent); electricity and heat production (up 5.1 per cent).
- Chinese urban investment rose by 7.5 per cent annual growth rate (year-to-date) in the March quarter (forecast: +7.6 per cent), decelerating from 7.9 per cent in February.
- The unemployment rate in China’s large cities was 5.1 per cent at the end of March, edging-up from 5 per cent in February.

Reserve Bank March Board minutes:

- Last paragraph: “Taking into account the available information, the Board judged that holding the stance of monetary policy unchanged at this meeting would be consistent with sustainable growth in the economy and achieving the inflation target over time.”
Overall: “Over 2018, GDP growth was expected to exceed potential growth and CPI inflation was expected to increase gradually to be a little above 2 per cent.”

Growth outlook improving: “Domestically, the recent data had generally been consistent with the forecast for a gradual improvement in growth...The outlook for non-mining business investment growth remained positive, supported by solid domestic demand conditions, the spill over from public infrastructure work and the pipeline of non-residential building work to be completed.”

Strong labour market, but spare capacity remains: “The unemployment rate had been little changed over the preceding six months at around 5½ per cent and measures of underemployment had remained at relatively high levels. Taken together, these indicators suggested that there was still some spare capacity in the labour market. Leading indicators continued to point to above-average growth in employment in the period ahead.”

Gradual wages growth: “Forward-looking indicators suggested that spare capacity in the labour market would continue to decline gradually over 2018. Consequently, wages growth was expected to rise gradually from its current low rate.”

Retail deflation: “Low growth in labour costs in combination with strong competition in the retail sector suggested that inflation would remain low for some time before also picking up gradually as the economy and labour market strengthen.”

Housing market rebalancing: “In the residential housing market, dwelling investment had declined a little over 2017 but was expected to remain at a high level over the following year or so, supported by the large pipeline of residential construction work yet to be completed associated with the increase in residential building approvals over 2017.”

“Members noted that Sydney housing prices had declined by a little under 5 per cent since their peak in mid-2017. Members also noted that declines in housing prices of around 10 per cent in some cities had occurred several times over the preceding 15 years or so.”

Non-mining business investment strong: “Members noted that most components of business investment had increased over 2017, with the exception of construction activity in the mining sector. Private non-mining business investment had increased by more than 12 per cent. Public spending had supported growth in economic activity over 2017 and this momentum was expected to continue in the period ahead... survey measures indicated that business conditions had been around record highs and above average in all industries and states.”

Trade outlook: “The decline in coal exports was expected to reverse gradually over the first half of 2018 as shipments from Queensland recover following a number of temporary disruptions... Members noted that the spot prices of iron ore and coal had declined significantly since the previous meeting, reflecting concerns about the resilience of Chinese iron ore and coal demand after the Chinese New Year holiday period”.

Trade protectionism: “The possibility of an escalation in trade restrictions represented a risk to the global outlook that needed to be monitored closely.”

Higher short-term borrowing costs: “Members noted that the developments in US money markets had flowed through to higher short-term borrowing costs in financial markets in Australia. In part, this reflected the use by Australian banks of funds raised in US markets to finance their domestic assets, in contrast to banks from other jurisdictions, which funded US dollar assets with the funds raised.”

Equity market volatility: “Equity market volatility had increased from very low levels, partly because of concerns about the direction of trade policy internationally.”
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- **Australian dollar**: “The Australian dollar had declined a little since the previous meeting.”

**Consumer Sentiment**
- **The weekly ANZ/Roy Morgan consumer confidence** rating rose by 0.8 per cent to 116. Confidence is up by 4.3 per cent over the year and above the average of 113.6 since 2014 and average of 112.9 since 1990.
- **Four of the five components** of the index increased in the latest week:
  - The estimate of family finances compared with a year ago was up from +4.0 to +8.8;
  - The estimate of family finances over the next year was up from +22.9 to +27.2;
  - Economic conditions over the next 12 months was up from +3.4 to +3.9;
  - Economic conditions over the next 5 years was up from +8.3 to +9.3;
  - The measure of whether it was a good time to buy a major household item was down from +36.8 to +30.9.
  - The measure of inflation expectations 2 years ahead increased to 4.6 per cent from 4.4 per cent.

**What is the importance of the economic data?**
- **China's National Bureau of Statistics** releases its monthly economic statistics around mid-month. Quarterly GDP data is released around the 19th of January, April, July and October. China's Customs Office releases trade data, and the People's Bank of China releases financial statistics, around the 10th of each month. China is Australia's largest trading partner and changes in the Chinese economy have major implications for the Aussie economy.
- The **Reserve Bank** releases minutes of its monthly Board meeting a fortnight after the event. The minutes give a guide to Reserve Bank thinking on interest rate settings.
- The **ANZ/Roy Morgan weekly survey of consumer confidence** closely tracks the monthly Westpac/Melbourne Institute consumer sentiment index but the former measure is a timelier assessment of consumer attitudes and is now closely tracked by the Reserve Bank.

**What are the implications for interest rates and investors?**
- The Chinese economy continues to mature, and as a result growth rates continue to slow. But solid momentum continues with growth of 6.8 per cent at the beginning of 2018, above expectations. Domestic demand remains firm.
- As always policymakers are well on track to achieve their GDP target of ‘around 6.5 per cent’ by year-end. We expect potential policy tightening and campaigns to curb pollution and financial risk to weigh on growth a little.
- Household consumption is strengthening, as evidenced by double-digit retail sales growth. While investment and production continue to decelerate as the economy pivots towards the consumer and weans itself off credit.
- Australia is benefiting from China’s ever-growing and wealthier middle class. Just yesterday industry body Wine Australia reported that the value of Australia’s wine exports to China had risen by a staggering 51 per cent to $1.04 billion over the year to March.
- Any escalation in trade tensions between China and the US could adversely impact the Australian growth outlook. Nevertheless, the Reserve Bank appears confident that the domestic economy will continue to pick-up this year, supported by non-mining business investment, government spending on infrastructure and strengthening natural gas export volumes.
- All eyes will be on Thursday’s jobs report for future evidence of wages growth.
- CommSec expects interest rates to be unchanged until at least the December quarter.

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