

## Chinese industrial production hits 4½-year high Real estate investment the highest in 4 years

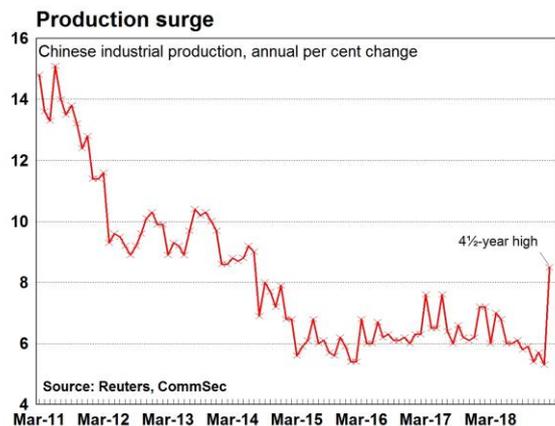
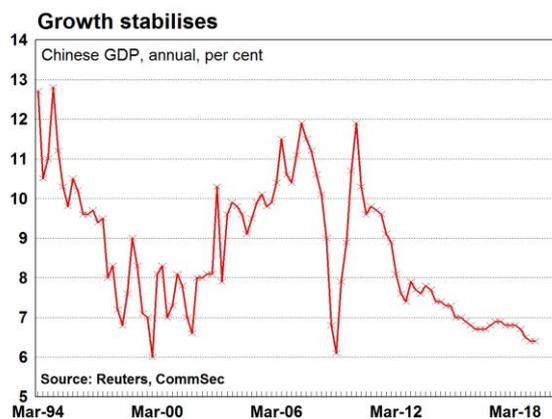
### China data

- **China GDP:** The Chinese economy grew by 1.4 per cent in the March quarter, in-line with consensus expectations. But the annual growth rate was unchanged at 6.4 per cent in the March quarter, beating market expectations for 6.3 per cent.
- **Chinese retail sales** rose at an 8.7 per cent annual rate in the year to March, (forecast: +8.4 per cent), up from 8.2 per cent annual rate in the year to January/February.
- **Chinese industrial production** rose at a 8.5 per cent annual rate in March – the strongest growth rate in 4½-years - above the forecast average (+5.9 per cent). Production had risen by 5.3 per cent in the year to January/February.
- **Chinese fixed-asset investment** rose by 6.3 per cent in the three months to March on a year earlier (forecast: +6.3 per cent), up from 6.1 per cent growth in the two months to February.
- **Unemployment** fell by 0.1 per cent to 5.2 per cent in March.

*The Chinese data is important for exporters, especially rural producers, consumer goods, mining and energy companies.*

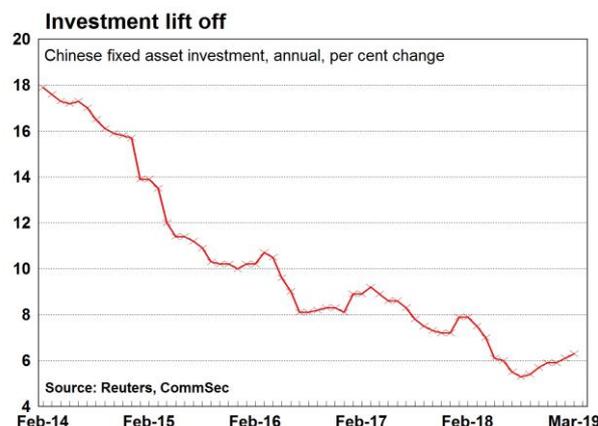
### What does it all mean?

- China's economy is stabilising after weak domestic demand, debt deleveraging and US tariffs on its exports slowed annual economic growth to 6.6 per cent in 2018.
- Recent data, however, has been more encouraging. Business surveys for manufacturing, services and small-medium sized firms all rebounded in March after output contracted between December and February. Now industrial production and real estate investment are growing at the fastest rate in four years. And retail spending and overall economic growth have recovered from their 'soft patch'.



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- China's National People's Congress has signalled a co-ordinated approach to support 'slower' economic growth of 6-6½ per cent this year through fiscal stimulus (targeting a budget deficit of 2.8 per cent of GDP) and a prudent monetary policy.
- A pick up in spending on railways, highways, airports and water-related infrastructure projects has lifted China's credit impulse and boosted commodity demand. Australia has been a beneficiary with our trade surplus at record highs in February.
- Spending by consumers has also improved. While the government has returned to 'old' sources of growth (i.e. infrastructure spending) to prop-up the economy in the near term, the pivot towards household consumption is the end goal as the economy matures and develops.
- Around US\$300 billion of tax cuts has been announced, including higher tax thresholds and increased flexibility around tax deductions. Bloomberg has calculated these combined measures have the potential to raise households' income by 3-4 per cent in an environment where consumer prices are contained.
- So it's little surprise that real household consumption has strengthened. Consumer confidence is hovering around 23-year highs with the run-up in the sharemarket (Shanghai Shenzhen CSI 300 index is up by around 36 per cent in 2019) and progress on US trade talks boosting sentiment.



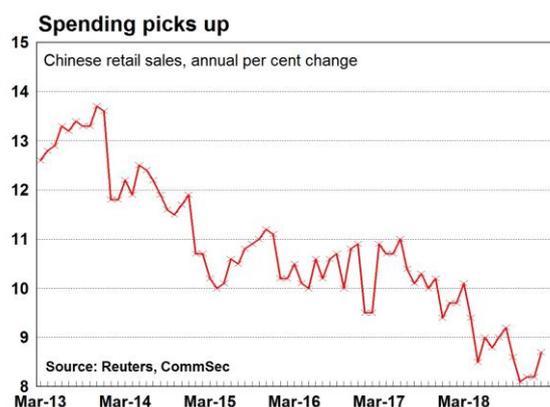
## What do the figures show?

### Chinese economic data

- **The Chinese economy grew** by 1.4 per cent in the March quarter, in-line with consensus expectations. But the annual growth rate was unchanged at 6.4 per cent in the March quarter, beating market expectations for 6.3 per cent.
- **Retail sales** rose at an 8.7 per cent annual rate in the year to March, (forecast: +8.4 per cent), up from the 8.2 per cent annual rate in the year to January/February. Spending was strongest for household electronics (up 15.2 per cent), cosmetics (up by 14.4 per cent) and communications appliances (up 13.8 per cent). However, spending on cars (down 4.4 per cent), office supplies (down 4.0 per cent) and jewellery (down 1.2 per cent) all fell.
- **Online retail sales** rose at a 15.3 per cent annual rate, 1.7 percentage points higher than the growth rate in January/February.
- **Industrial production** rose at a 8.5 per cent annual rate in March – the strongest growth rate in 4½-years - above the forecast average (+5.9 per cent). Production had risen by 5.3 per cent in the year to January/February. Mining (up 4.6 per cent), manufacturing (up 9.0 per cent) and electricity (up 7.7 per cent) all lifted.
- By industry, output rose most for specially-used equipment (up 16.4 per cent), non-mineral metal products (up 15.4 per cent) and machines (up 15.2 per cent). Food production (up 4.8 per cent) saw the weakest growth.
- **Fixed-asset investment** rose by 6.3 per cent in the three months to March on a year earlier (forecast: +6.3 per cent), up from 6.1 per cent growth in the two months to February. Investment by state-owned enterprises rose by 6.7 per cent (up from 5.5 per cent), ahead of the private sector, up by 6.4 per cent (down from 7.5 per cent).
- **Chinese property investment** rose by 11.8 per cent in the year to March – the strongest annual growth rate in 4 years - up from 11.6 per cent in the year to January/February.
- **The unemployment rate** (nationwide survey-based jobless rate) fell to 5.2 per cent in March from 2-year highs of 5.3 per cent in February.

## 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.

### What are the implications for interest rates and investors?

- China’s economic indicators are showing tentative signs of improvement, but the world’s second largest economy is not ‘out of the woods’ just yet. Car sales are still falling, the outbreak of African swine fever is ravaging the pig herd, trade tensions with the US remain unresolved and elevated indebtedness all threaten GDP growth.
- The Chinese government will also be keen to see the urban unemployment rate stay below its target of “around 5½ per cent”, especially with the sensitive 30<sup>th</sup> anniversary of the Tiananmen Square protests ahead on June 4.
- Commonwealth Bank economists anticipate that the People’s Bank of China will maintain an accommodative monetary policy stance to support the economy. We expect China’s central bank to cut the amount of cash that banks have to hold on reserves (i.e. reserve requirement ratio) later this month to boost liquidity and lending activity.
- While developments in China’s economy have no immediate implications for the interest rate outlook in Australia, Reserve Bank Deputy Governor Guy Debelle recently devoted a paragraph in his speech to China’s contribution to slowing global economic growth in late 2018. In reference to impact of China’s policy stimulus on Australia, Dr. Debelle said, “a crude characterisation is that the Australian economy will benefit from the infrastructure spending.”
- CommSec expects Australia’s official interest rate settings to remain on hold for the foreseeable future.

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