Source: South China Morning Post
Date: 16/6/2022

INITIAL SIGNS OF PICK-UP BUT MORE EASING URGED

Key indicators for manufacturing and consumption improve marginally but overall growth remains fragile and pressure on labour market persists

Orange Wang
orange.wang@scmp.com

China's economy showed initial signs of recovery in May in the wake of efforts to stem downturn risks, while overall growth remained fragile and analysts called for strong support measures to sustain a solid rebound.

Key indicators for manufacturing and consumption improved marginally last month, but pressure on the labour market persisted.

Industrial production, a gauge of activity in the manufacturing, mining and utilities sectors, beat market expectations and reversed April's drop to rise by 0.7 per cent year on year in May, the National Bureau of Statistics said.

Vehicle production also picked up as pandemic controls were eased and manufacturing returned to major production regions such as Shanghai and Jilin province.

Retail sales continued to contract by 6.7 per cent, but the pace was slower than the steep fall of 11.1 per cent in April. The catering sector was down by more than 20 per cent from April.

Fixed-asset investment, which Beijing has relied heavily on this year to stem downturn risks, grew by 4.7 per cent, up from a rise of 2.3 per cent in April, though the year-to-date increase moderated to 6.2 per cent from 6.8 per cent in the first four months.

The growth mainly came from state-owned enterprises and infrastructure projects, while the property sector remained weak, according to Iris Pang, chief economist for Greater China at ING.

"The only engine of economic growth currently is infrastructure investment," she said.

ING expects China's second-quarter gross domestic product to contract by 1 per cent, pointing to disruptions caused by coronavirus controls that continue to affect the economy in June.

Analysts anticipate a recovery in the second half as a raft of stimulus policies take effect, and many have called for more such measures to cement confidence and invigorate the economy.

But the People's Bank of China (PBOC) refrained from lowering the interest rate of one-year medium-term lending facility loans yesterday, bucking market expectations that a clear signal would be sent to shore up the economy before a key rate rise decision by the US Federal Reserve today.

Pang said the decision did not rule out the possibility of a cut in the mortgage reference rate next week to help the property sector and drive up demand for long-term loans, which could benefit infrastructure investment.

"We think the worst of the lockdowns is probably behind us," said Tommy Wu, lead China economist with Oxford Economics.

"We still expect one rate cut in [the third quarter] as broad-based monetary easing through a rate reduction could be effective in boosting growth after the economy stabilises. But we don't expect any additional cuts as the policy divergence with the United States and renminbi weakness will act as constraints."

Sheana Yue, a China economist with Capital Economics, said Beijing could step up credit support to fund construction, but she warned about the impact of the pandemic.

"Early signs are that these [credit] controls are being relaxed. The PBOC has recently shifted its stance to allow the leverage ratio to rise slightly. This should provide support for the recovery over the coming months," she said.

"With Covid outbreaks an ever-present threat, it will be a long haul back."

The urban surveyed jobless rate, a measure of unemployment in China that does not include figures for the nation's millions of migrant workers, remained elevated at 5.9 per cent in May, compared with 6.1 per cent in April.

The jobless rate for the 16-24 age group continued to climb to a record 18.4 per cent in May.

Statistics bureau spokesman Fu Linghui said high unemployment among the young warranted great attention, and he warned of further pressure in coming months with more than 10 million graduates entering the job market.

"Amid the impact of the pandemic, enterprises are facing operational difficulties, which has led to less capacity in creating new jobs, while the youth prefer to take jobs with more stability," Fu said.

But on the whole, the national economy in May "showed a good momentum of recovery, with negative effects from the Covid-19 pandemic gradually overcome, and major indicators improved marginally", Fu said.

China's benchmark CSI 300 index, which includes major companies listed in Shanghai and Shenzhen, jumped by more than 2 per cent to a three-month high yesterday on hopes of an economic recovery.

Zhang Zhiwei, chief economist with Pinpoint Asset Management, said the recovery remained weak and the outlook for businesses and consumers was bleak owing to the ramifications of China's strict pandemic controls.

"Outbreaks and the lockdown policy have had a profound impact on economic activities," he said.