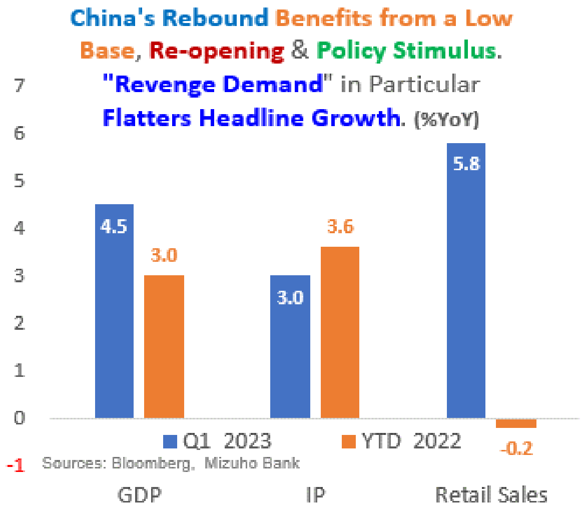
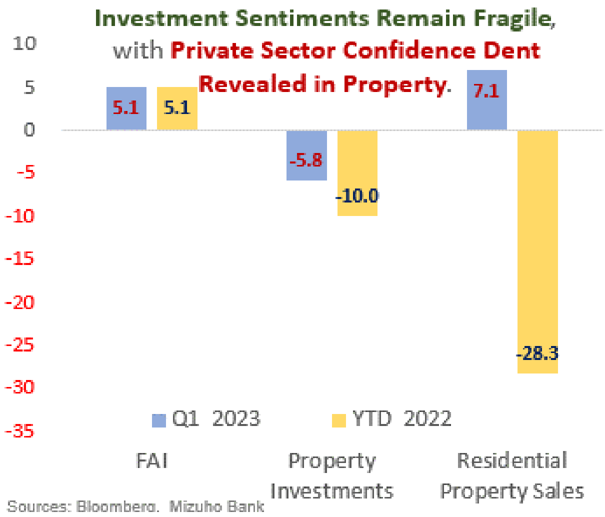
Mizuho Flash: China

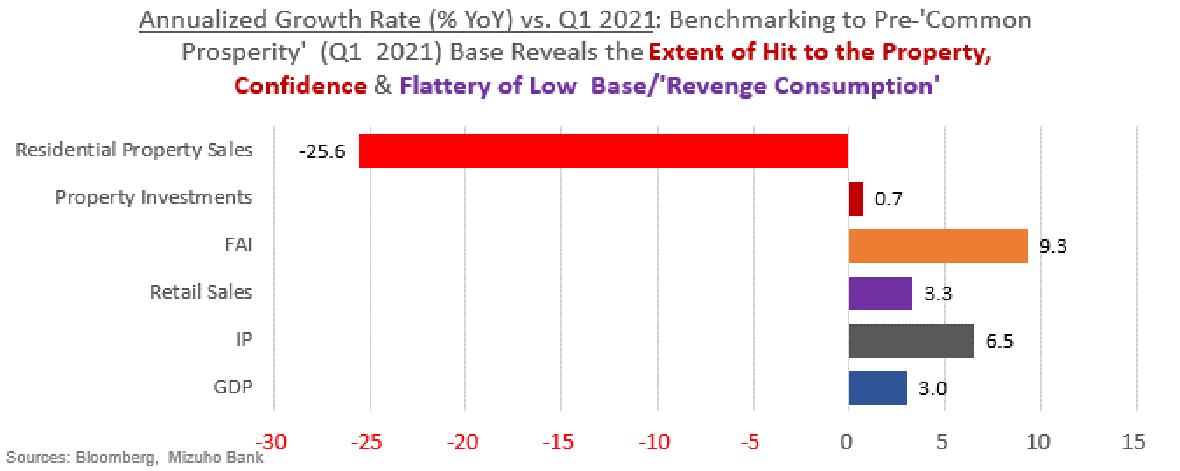
Economics & Strategy | Asia ex-Japan

18 April, 2023 | Vishnu Varathan | Head, Economics & Strategy

Flattered Growth & Flustered Commodity Bulls







“You may have noticed that I’m not all there myself” – **Cheshire Cat, Alice in Wonderland**

In a Nutshell:

1) **China’s Q1 GDP was flattered by "revenge" consumption surge**, *whereas industrial output is far more restrained* and *investments still languish*. Simply put, the **rebound is** “*not all there*” **in the details**.

2) This **suggests that headline optimism is overstated** as are **linear projections** and **growth multipliers**; amid clear downside risks/constraints from; i) propensity for a *fizzle in “revenge consumption’;* ii) underlying *confidence deficit* and; iii) mounting *headwinds to industrial demand.*

3) The **risk with China's flattered re-opening consumption rebound** is; that **commodity bulls,** *inebriated on euphoria about China's re-opening demand,* **end up inadvertently flustered**; *industrials being most sensitive, although any buffer in energy likely to be temporary and/or overstated.*

Flattered Growth

The **flashier Q1 GDP headline of sharper-than-expected acceleration to 4.5%** (vs consensus at 4.0%) is **flattered by "revenge" consumption surge**; *whereas industrial output is considerably more restrained* in the extent of recovery (3.0% YTD vs. 3.5% consensus).

Crucially, investments continue to languish - *both in aggregate (YTD FAI slipping to 5.1% vs 5.5%) and more woefully in property (YTD property investments at -5.8% vs. -4.7% expectations)* **suggesting that the underlying confidence has yet to convincingly recover** in tandem with growth stimulus. *Certainly not in line with the outburst of pent-up consumption unleashed.*

Unreliable Linear Projections

And the **risk is that** the latter (**revenge consumption**), which is notoriously slippery beyond the initial euphoria, is **unreliable for linear projections of durable demand recovery**. Especially **as** (COVID) **savings are run-down** in the context of lingering weakness economic sentiments/jobs/asset prices dampen durable increase in the propensity to consume.

Resultant Overstated Prospects

Consequently, **headline cheer about growth rebound prospects are overstated**. Whereas, the **mechanics under the hood suggest subdued growth multipliers**, *bound by greater credit/stimulus intensity.*

Requiring Downward Calibrations

In turn, any **realistic assessment would require** that the currently (overly-)optimistic expectations premised to be are calibrated lower; in particular (although not exclusively), for three key factors.

Revenge Consumption Fizzle: Most obviously *consumption demand rebound expectations need to be discounted to* cater **for some inevitable fizzle** (amid savings drawdown and gathering economic headwinds) **in "revenge" consumption**. *Especially as more emphatic resumption of outbound travel* results in domestic demand leakages vis-a-vis the initial intensity of onshore “revenge spending”.

Incomplete Confidence Restoration: More contentious, but critical, is the unobservable confidence factor. Pointedly, *consumption spurt is neither synonymous with, nor a guarantee of future confidence restoration* (consistent with the pre-"Common Prosperity" economy); *inadvertently stifling investment multipliers.*

Incomplete Confidence Restoration: Finally, post-COVID global consumption re-balancing to services colliding with global demand headwinds, warn of *industrial output recovery falling short,* not imminently catching up.

Flustered Commodity Bulls

The **risk with China's flattered re-opening consumption rebound** (that ultimately fails to hold up to detailed scrutiny and the tyre-kicking over time) is; that **commodity bulls,** *inebriated on euphoria about China's re-opening demand,* **end up inadvertently flustered, if not, hung-over**.

Industrial Bulls Most Vulnerable: The **forces behind China's economic flattery** *in particular* **accentuate risks of over-estimating bullish motivation for industrial metals**. More so, when a conspiracy of; i) post-COVID adjustment of consumption away from goods; ii) outbound China tourists, and; iii) suppressant impact of higher global rates on capital-heavy commitments are accounted for.

Energy Tensions: Admittedly, *energy may face more tensions as two-way distortions* abound; between demand disappointments (amplified by global policy headwinds) on one hand; and expectations of revived Chinese travel (boosting fuel demand) and OPEC+ resistance to price reductions on the other. But risks to downside disappointments continue to grow as greater hopes hinge on China re-opening.