China consumption falls, joblessness up in March

CHINA'S consumer spending took a dive in March as coronavirus disease 2019 (COVID-19) lockdowns confined millions of people to their homes and drove up joblessness to the highest level since the early part of the pandemic.

While official data showed an acceleration in gross domestic product (GDP) growth in the first quarter to 4.8%, faster than economists had predicted, activity data for last month showed a notable slump in spending.

Retail sales contracted 3.5% from a year ago, the first decline since July 2020 and worse than economists had projected. Industrial output rose 5%, above the 4% median forecast. Investment growth in the first quarter slowed to 9.3%.

On a quarter-on-quarter basis, the economy expanded at a slower pace of 1.3%, suggesting weakening growth momentum. The surveyed jobless rate climbed to 5.8% in March, the highest since May 2020.

The data likely doesn't capture the full extent of the damage inflicted on the economy from COVID lockdowns, which intensified toward the end of March when financial and trade hub Shanghai, a city of 25 million people, began a phased lockdown. Since then, several other places including Suzhou and parts of Zhengzhou have also imposed tighter controls to combat infections, forcing manufacturers like iPhone assembler Pegatron Corp. to shut production.

China's benchmark CSI 300 Index pared a loss of as much as 1.6% before the data release to trade 1% lower as of 10:15 a.m. local time. Bonds also retreated, with the futures contracts of 10-year sovereign notes dropping 0.3%.

Spending took a knock as millions of consumers were confined to their homes and a shortage of truckers and other logistical problems caused delays in deliveries. Catering revenue plunged 16.4% in March from a year ago, partly due to the higher base of comparison from last year, but also a sign that consumers are either unable or unwilling to spend.

With outbreaks showing no signs of ending and President Xi Jinping doubling down on his strict COVID Zero approach, economists say China will struggle to meet its ambitious goal of growing the economy by around 5.5% this year. The consensus now is for GDP growth to slow to 5% this year, with the economy also having to contend with geopolitical tensions, heightened global inflation pressures, and slowing external demand.

"We must be aware that with the domestic and international environment becoming increasingly complicated and uncertain, the economic development is facing significant difficulties and challenges," the National Bureau of Statistics said in a statement.

Surprisingly strong economic activity reported for the first two months of the year helped to bolster growth in the first quarter.

The rapid deterioration in the growth outlook has caught Beijing off guard. Top leaders have issued frequent warnings about economic growth in the past week and pledged stronger monetary and fiscal stimulus to shore up the economy. On Friday, the central bank said it would lower the reserve requirement ratio for most banks by 25 basis points, but refrained from cutting interest rates and injecting liquidity into the economy. — ***Bloomberg***