

China Economy

Growth beat expectations with recovery underway

China's GDP growth beat expectations in 1Q23 as retail sales and service output recovered better than expected. We revise up our GDP growth forecast for 2023 from 5.4% to 5.7% and maintain the forecast for 2024 at 4.9%. Industrial output growth was in line with expectations as exports still face some uncertainties in future. FAI gradually slowed especially in a few manufacturing and infrastructure sectors. The better-than-expected recovery lowers the possibility of strong policy stimulus in China. However, China will not tighten its monetary and credit policy as the GDP growth remains below the potential growth and the reflation pressure is low.

- GDP growth rebounded strongly as service output and retail sales beat expectations.** China's GDP grew 4.5% in 1Q23 after rising 3% in 2022, recording the fastest growth since 1Q22 and beating our forecast of 3.8%-4%. The value added industrial output (VAIO) rose 3% in 1Q23, in line with expectations. However, service output index and retail sales were much stronger than our forecast by rising 6.7% and 5.8% YoY respectively in 1Q23.
- We revise up our GDP growth forecast for 2023 from 5.4% to 5.7%.** The GDP growth for the remaining three quarters are projected to reach 8%, 4.9% and 5.6%, up from our previous forecast of 7.7%, 4.7% and 5.5%. We revise up the retail sales and service GDP growth forecast from 6.8% and 6.2% to 7.4% and 6.8%. The forecast of VAIO, FAI and exports growth for 2023 remains unchanged at 4.9%, 5% and -3.5%.
- VAIO growth was in line with expectations with a gradual pick-up ahead.** Industrial output improved in most sectors as power generation growth accelerated from 0.7% in 2M23 to 5.1% in March. The VAIO in steel product and cement strongly picked up 8.1% and 10.4% YoY in March after rising 3.6% and dropping 0.6% YoY in 2M23. However, industrial output in coal and non-ferrous metal slowed noticeably as prices retreated amid strong imports in those sectors. VAIO in auto sharply rose 11.2% YoY in March after dropping 14% YoY in the first two months, while that in integrated circuit narrowed its YoY declines from 17% in 2M23 to 3% in March amid domestic production substitution. Meanwhile, the industrial output in electrical equipment maintained strong growth, while that in general equipment, special equipment, computer, telecom equipment & electronics all improved.
- FAI slowed in most sectors.** FAI rose by 5.1% YoY in 1Q23, down from 5.5% in 2M23. FAI growth in infrastructure and manufacturing respectively slowed from 11.5% and 9.2% in 2M23 to 9.9% and 6.2% in 1Q23, while property development investment dropped 5.8% in 1Q23 after decreasing 5.7% in 2M23. Specifically, FAI in chemical materials & product, auto, electrical equipment, computer, telecom equipment & electronics, power generation & supply, railway transportation and health care & social welfare maintained strong YoY growth in 1Q23. However, investment in mining, textile, medicine, metal product, railway & air transport equipment and culture, sports & recreation service sharply slowed or remained weak.
- Retail sales beat expectations as consumption recovery was underway.** China's retail sales rebounded strongly by rising 10.6% YoY in March and 5.8% YoY in 1Q23. Breaking down, sales of food, beverage and medicine all slowed

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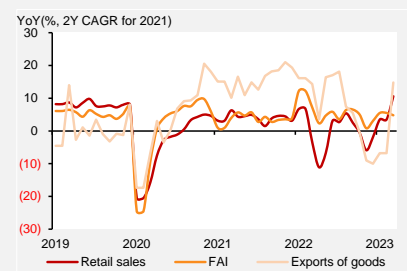
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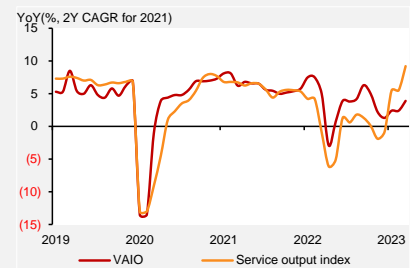
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Source: Wind, CMBIGM



Source: Wind, CMBIGM

as China said goodbye to the home-stay economy and rapidly reopened economy. Meanwhile, sales of clothing and cosmetics improved significantly as outgoing and social activity recovered strongly. Sales of auto and communication equipment also rebounded. However, sales in cultural & office products, furniture and construction & decoration materials remained weak.

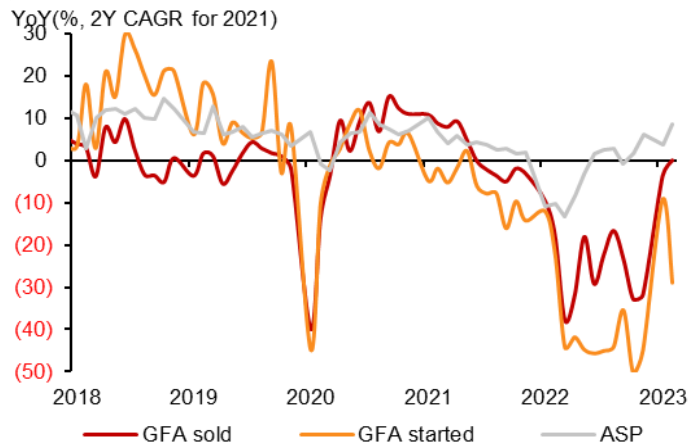
- **Employment condition improved yet remained tepid.** China's urban unemployment rate dropped to 5.3% in March from 5.6% in February. However, employment condition has deteriorated among those aged 16-24 as unemployment rate within this age group rose to 19.6% in March from 18.1% in February. Consumer confidence rebounded after the reopening of economy, but household saving rate remained high.

Figure 1: China Economic Indicators

YoY(%)	2019	2020	2021	2022	1Q23
GDP	6.0	2.3	8.4	3.0	4.5
VAIO	5.7	2.8	9.6	3.6	3.0
-Mining	5.0	0.5	5.3	0.6	3.2
-Manufacturing	6.0	3.4	9.8	(2.0)	2.9
-Public utility	7.0	2.0	11.4	(2.2)	3.3
Delivery value for exports	1.3	(0.3)	17.7	5.5	(5.3)
Service output index	6.9	0.0	13.1	(0.1)	6.7
GFA sold for commodity building	(0.1)	2.6	1.9	(24.3)	(1.8)
GFA started for commodity building	8.5	(1.2)	(11.4)	(39.4)	(19.2)
Urban FAI (YTD)	5.4	2.9	4.9	5.1	5.1
-Property development	9.9	7.0	4.4	(10.0)	(5.8)
-Manufacturing	3.1	(2.2)	13.5	9.1	7.0
-Infrastructure	3.3	3.4	0.2	11.5	8.8
Retail sales	8.0	(3.9)	12.5	(0.2)	5.8
Exports of goods	0.5	3.6	29.9	7.0	8.4
Imports of goods	(2.7)	(0.6)	30.1	1.1	0.2

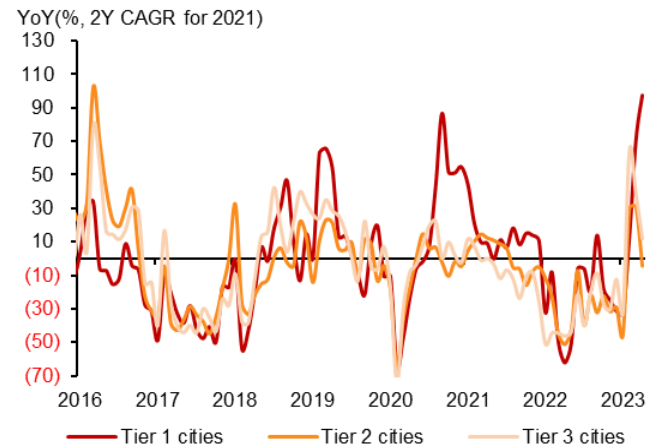
Source: Wind, CMBIGM estimates

Figure 2: Property Market Indicators



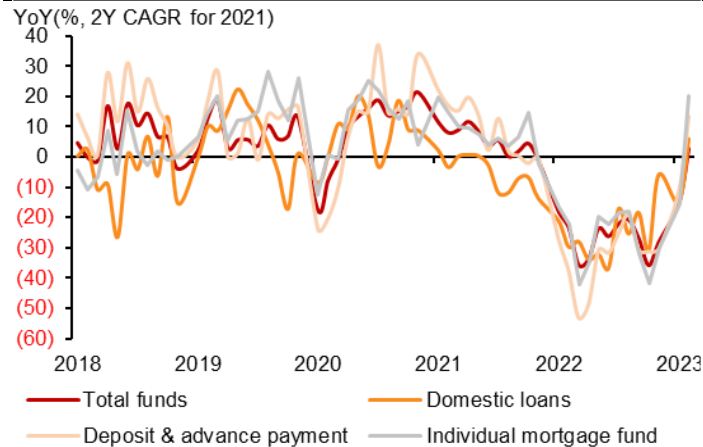
Source: WIND, CMBIGM

Figure 3: Housing Sales by City



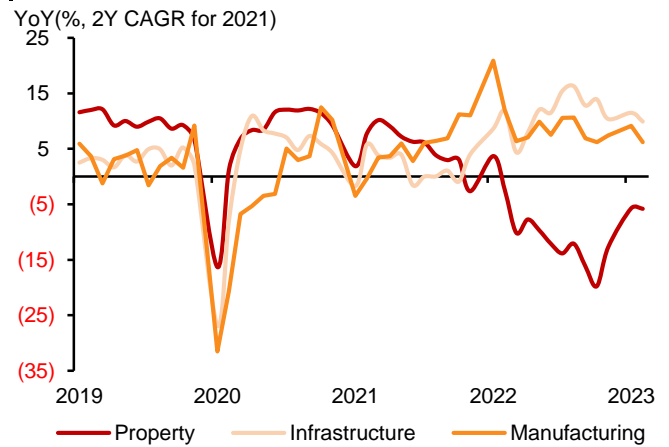
Source: WIND, CMBIGM

Figure 4: Funding Source for Property Investment



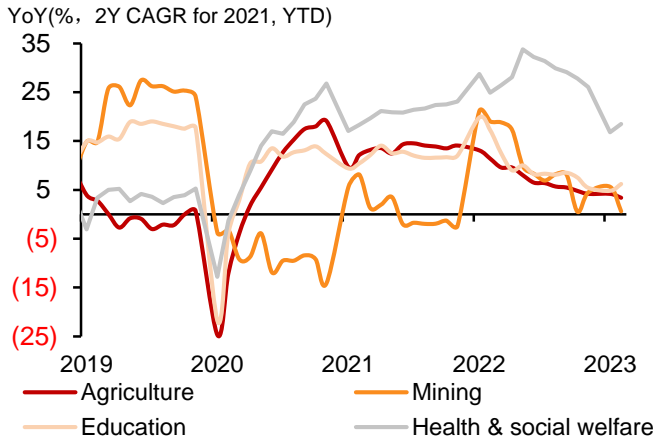
Source: WIND, CMBIGM

Figure 5: FAI by Sector



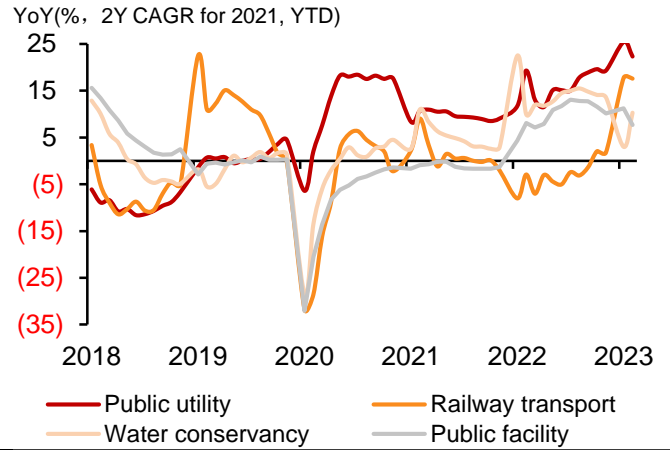
Source: WIND, CMBIGM

Figure 6: FAI in Agriculture, Mining & Social service



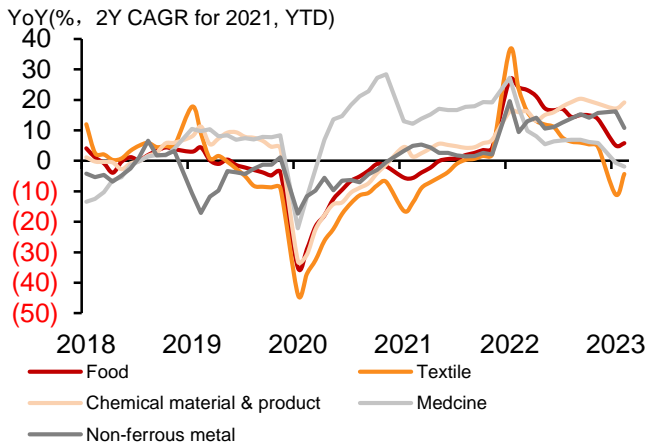
Source: WIND, CMBIGM

Figure 7: FAI in Infrastructure Sectors



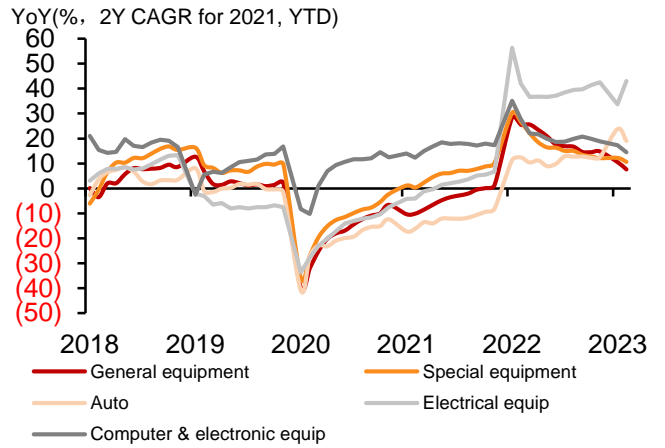
Source: WIND, CMBIGM

Figure 8: FAI in Manufacturing Industries (I)



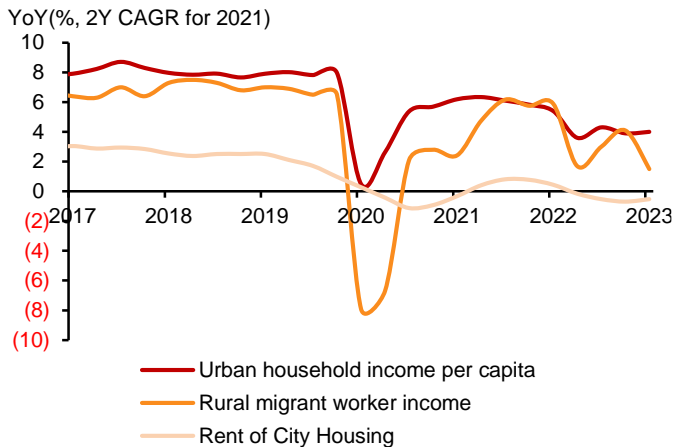
Source: WIND, CMBIGM

Figure 9: FAI in Manufacturing Industries (II)



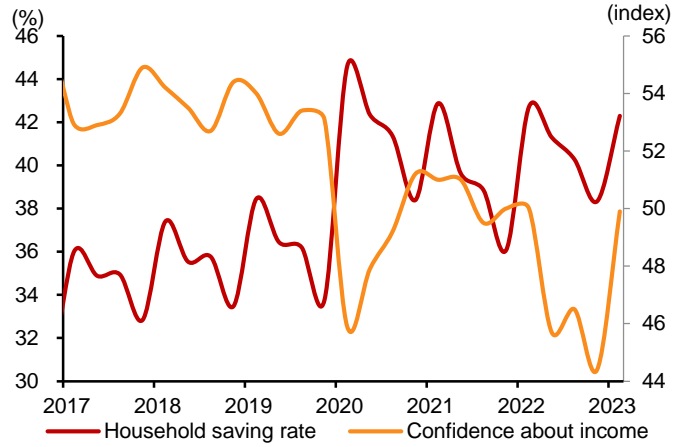
Source: WIND, CMBIGM

Figure 10: Household Income & Housing Rent



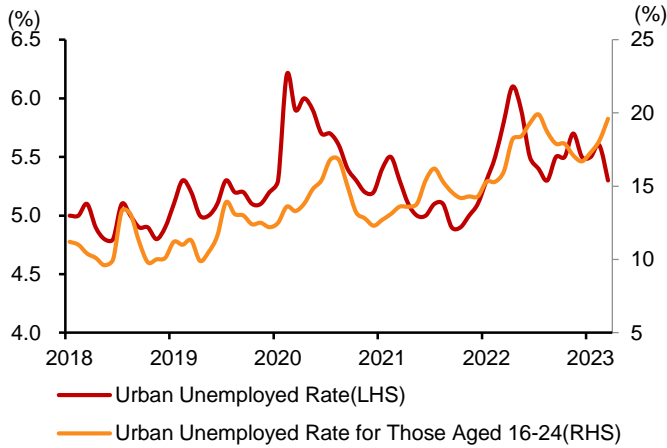
Source: WIND, CMBGM

Figure 11: Consumer Confidence



Source: WIND, CMBGM

Figure 12: Urban Surveyed Unemployment Rates



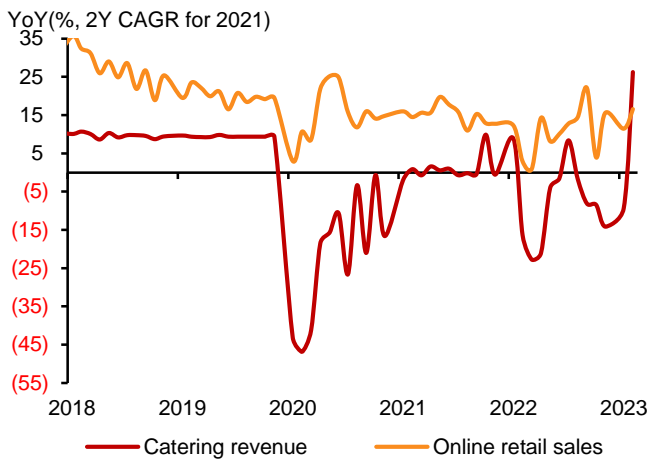
Source: WIND, CMBGM

Figure 13: Employment Index



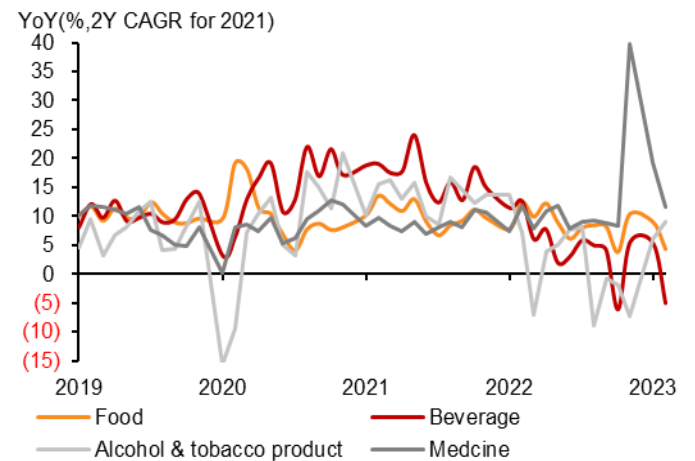
Source: WIND, CMBGM

Figure 14: Catering & Online Retail Sales



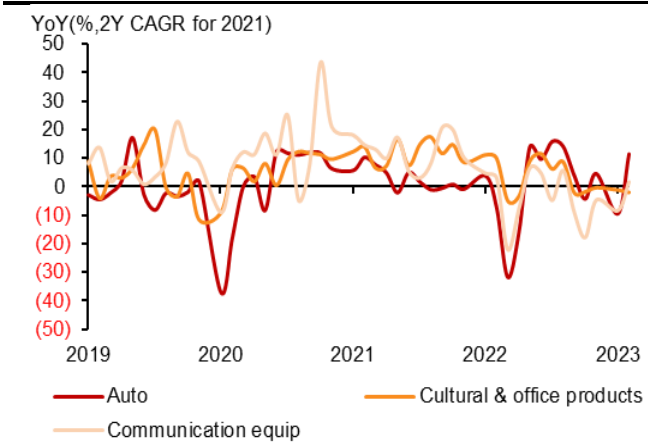
Source: WIND, CMBGM

Figure 15: Retail Sales of Staples



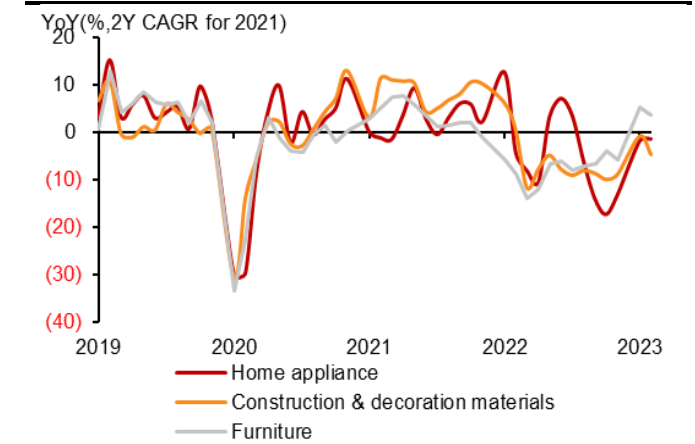
Source: WIND, CMBGM

Figure 16: Auto & Electronic Retail Sales



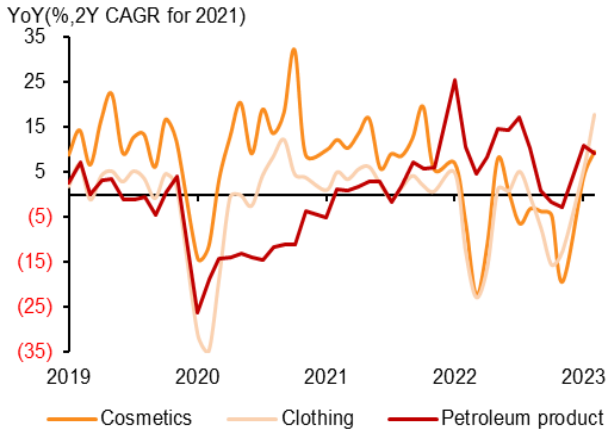
Source: WIND, CMBGM

Figure 17: Furniture & Appliance Retail Sales



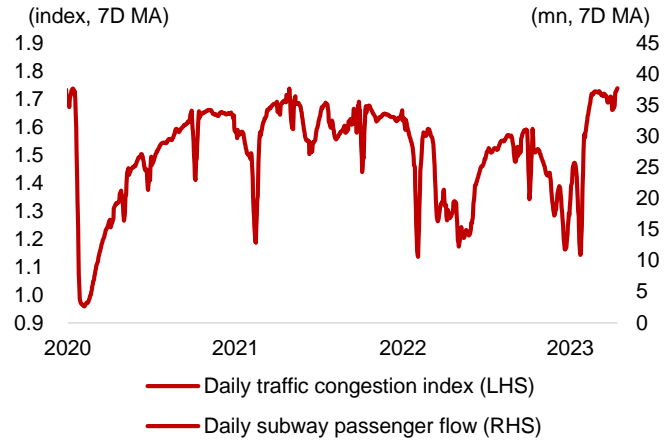
Source: WIND, CMBGM

Figure 18: Retail Sales of Non-durables



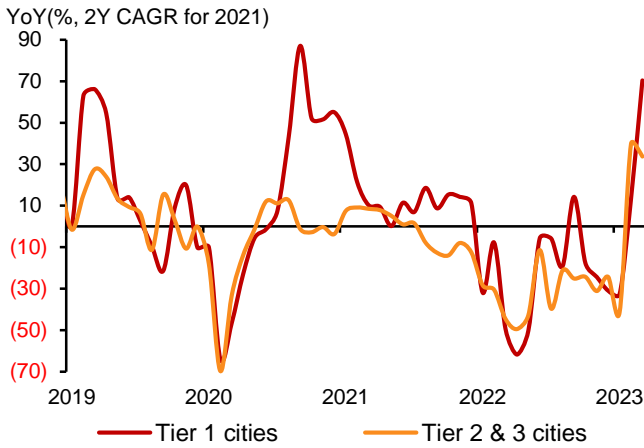
Source: WIND, CMBGM

Figure 19: Mobility Indexes in Tier-1 Cities



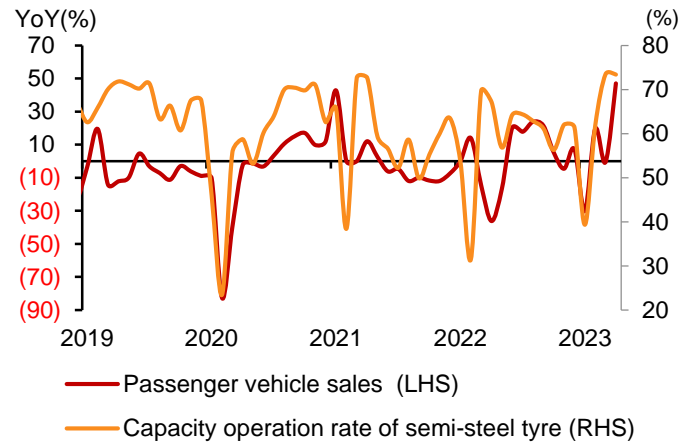
Source: WIND, CMBGM

Figure 20: Commodity Building Sales



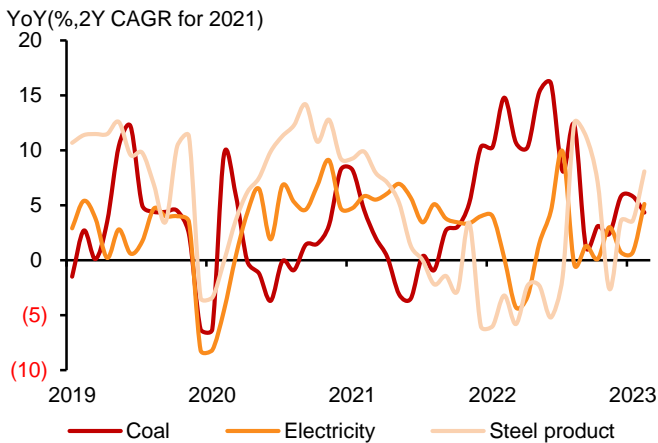
Source: WIND, CMBGM

Figure 21: Auto Sales



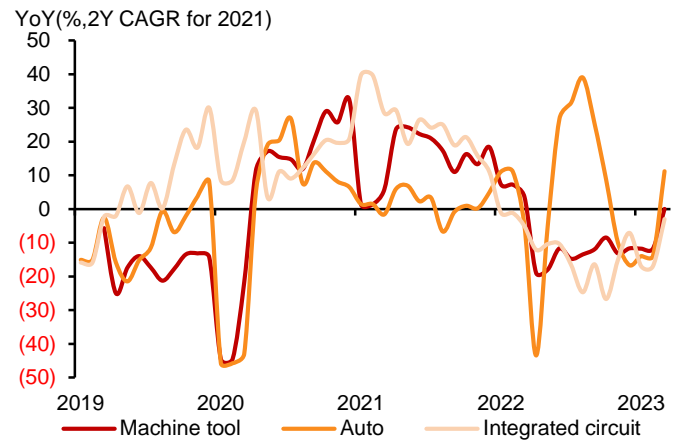
Source: WIND, CMBGM

Figure 22: VAIO in Energy & Steel Product



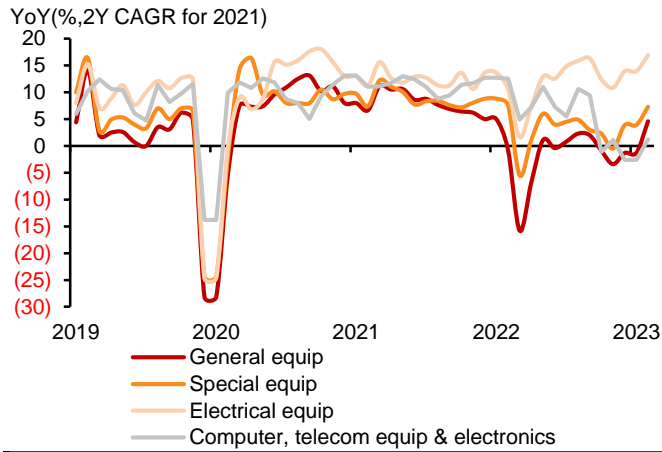
Source: WIND, CMBGM

Figure 23: VAIO in Capital Goods & Auto



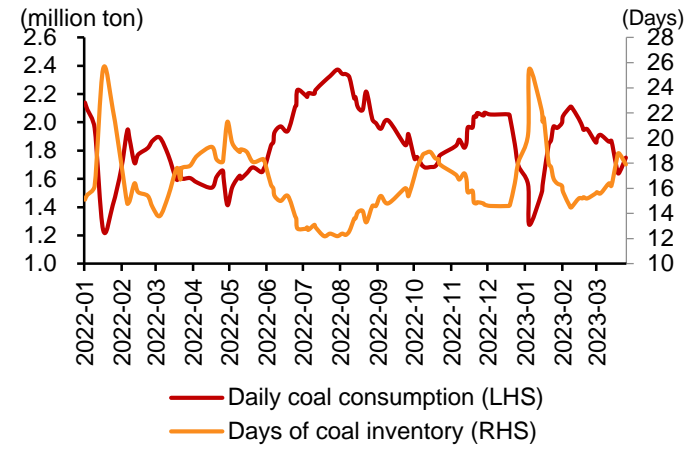
Source: WIND, CMBGM

Figure 24: VAIO in Equipment



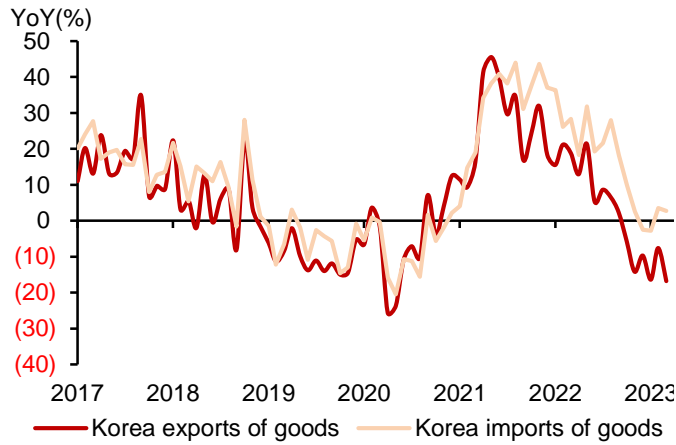
Source: WIND, CMBGM

Figure 25: Power Generators' Coal Consumption



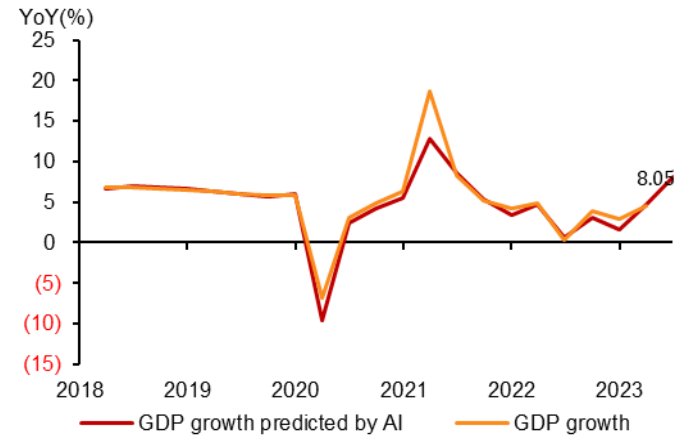
Source: WIND, CMBGM

Figure 26: Foreign Trade of South Korea



Source: WIND, CMBGM

Figure 27: China GDP Growth



Source: WIND, CMBGM

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