

# China Economy

## Growth slows sharply as confidence remains weak

China's economic growth weakened in April as consumer spending, property sales and industrial activity all cooled down. Consumers were cautious to increase spending as employment condition remained tough with further increase of unemployment rate for the youth. Private businesses, which account for over 80% in the urban employment, still had low confidence. Looking forward, employment condition may gradually improve from 2H23 as service businesses continue to improve. Household confidence may also recover from the second half year. The policymakers will maintain accommodative credit policy with possible mild cut in LPR or RRR in June or July to boost the growth. We expect GDP growth to respectively reach 8%, 4.9% and 5.5% in the remaining three quarters with the full-year growth at 5.7%. The 2Y CAGRs of GDP in the three quarters are expected to be at 4.2%, 4.3% and 4.3%, down from 4.6% in 1Q23. As the GDP growth remains below potential growth, the reflation pressure is low. We see a mild pick-up of CPI and PPI in next several quarters.

### ■ Consumption of goods weakened after the pent-up demand released.

China's retail sales rose 18.4% YoY in April after increasing 10.6% YoY in March thanks to the base effect. However, the 2Y CAGR of retail sales slowed from 3.3% in March to 2.6% in April. In terms of 2Y CAGR, most items softened except catering. The catering revenue rose 43.8% YoY in April after growing 26.3% in March and its 2Y CAGR accelerated to 5.4% from 2.8%. All staples and durables weakened. The 2Y CAGR of retail sales in food, beverage, alcohol & tobacco product, medicine, clothing, cosmetics, cultural & office goods, communication equipment and auto decelerated from 8.4%, 3.4%, 8.1%, 1.4%, 1.3%, 3.8%, 2.5% and 1.6% in March to 5.4%, 1.2%, 3.4%, 1.1%, -1.7%, -4.9%, -5.3% and -2.8% in April. Meanwhile, home appliance and furniture respectively dropped 1.9% and 5.7% in April after dropping 2.9% and 2.8% in March in terms of 2Y CAGR. Looking forward, retail sales may gradually improve in 2H23 in terms of 2Y CAGR as service business and employment condition continues to improve. We expect retail sales to grow 7.5% in 2023.

### ■ Service output continued to recover, but the growth mildly slowed. The service output index picked up 13.5% in April after rising 6.7% in 1Q23. Its 2Y CAGR mildly slowed from 4.6% in 1Q23 to 3.2% in April. By sector, railway transport, air transport, accommodation, telecom service, and cultural & recreational service maintained strong business sentiment.

### ■ Property market deteriorated as confidence remained weak and housing starts continued to shrink. The gross floor area (GFA) sold and the GFA started for commodity building respectively dropped 0.4% and 21.2% YoY in 4M23 after decreasing 1.8% and 19.2% YoY in 1Q23. In terms of 2Y CAGR, the GFA sold and GFA started declined 11.2% and 23.8% after edging down 8% and 18.4%. Property development investment further declined 6.2% in 4M23 after dropping 5.8% in the first quarter. The continuous shrinkage of housing starts indicates property development investment may continue to decrease in 2Q23. Looking forward, housing sales may gradually improve in 2H23 especially in tier-one and tier-two cities as household confidence continues to recover and mortgage policy remains accommodative. We expect property development investment to drop 2% YoY in 2023.

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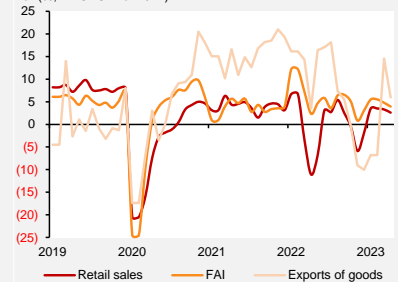
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YoY(%), 2Y CAGR for 2021)



Source: Wind, CMBIGM

YoY(%), 2Y CAGR for 2021)



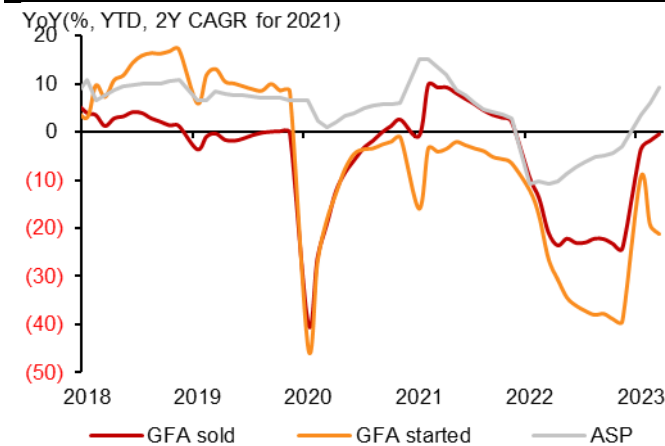
Source: Wind, CMBIGM

- **FAI slowed as business confidence remained weak.** FAI rose 3.9% YoY in April, down from 4.8% YoY in March. Specifically, the YoY growth of FAI in manufacturing and infrastructure respectively decelerated from 6.2% and 9.9% in March to 5.3% and 7.9% in April. For 4M23, the FAI growth reached 4.7%. By sector, FAI in mining, food manufacturing, textile, metal product, non-auto transport equipment manufacturing, general equipment manufacturing, special equipment manufacturing, education and cultural & recreational service slowed noticeably, while investment in electrical equipment, computer & electronic equipment, auto, chemical product and power generation & supply maintained strong growth. Looking forward, we expect the FAI growth to reach 5% in 2023.
- **VAIO growth was below expectations as retail sales and exports weakened.** China's VAIO picked up 5.6% YoY in April after rising 3.9% YoY in March thanks to the base effect. The 2Y CAGR of VAIO slowed from 4.7% in March to 1.3% in April. The 2Y CAGR of VAIO in mining, manufacturing and public utility respectively declined from 6.9%, 4.5% and 4.7% in 1Q23 to 4.6%, 0.8% and 3.1% in April. By sector, medicine, construction materials, metal product, special equipment, auto, electrical equipment, industrial auto and metal cutting material saw sharp declines of their 2Y CAGRs in April as overseas medicine demand, property development investment and business capex remained weak. The delivery value for exports dropped 3.8% YoY in April after decreasing 5.3% YoY in 1Q23.

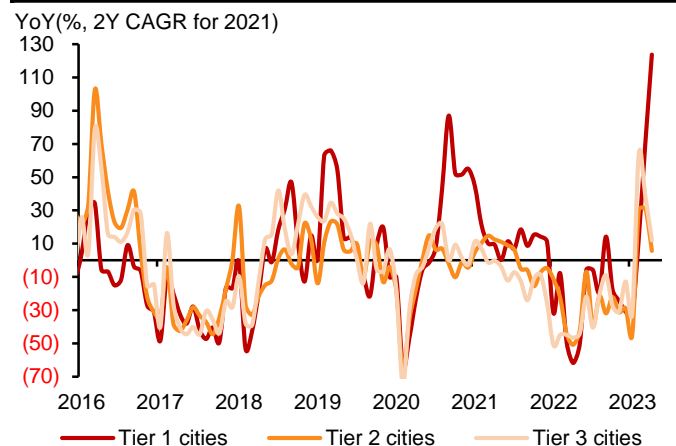
**Figure 1: China Economic Indicators**

	YoY(%)						2Y CAGR(%)	
	2019	2020	2021	2022	1Q23	Apr	1Q23	Apr
GDP	6.0	2.3	8.4	3.0	4.5		4.6	
VAIO	5.7	2.8	9.6	3.6	3.0	5.6	4.7	1.3
-Mining	5.0	0.5	5.3	0.6	3.2	2.4	6.9	4.6
-Manufacturing	6.0	3.4	9.8	(2.0)	2.9	3.9	4.5	0.8
-Public utility	7.0	2.0	11.4	(2.2)	3.3	3.7	4.7	3.1
Delivery value for exports	1.3	(0.3)	17.7	5.5	(5.3)	(3.8)	4.1	(0.6)
Service output index	6.9	0.0	13.1	(0.1)	6.7	13.5	4.6	3.2
GFA sold for commodity building	(0.1)	2.6	1.9	(24.3)	(1.8)	(0.4)	(8.0)	(11.2)
GFA started for commodity building	8.5	(1.2)	(11.4)	(39.4)	(19.2)	(21.2)	(18.4)	(23.8)
Urban FAI (YTD)	5.4	2.9	4.9	5.1	5.1	4.7	7.2	5.7
-Property development	9.9	7.0	4.4	(10.0)	(5.8)	(6.2)	(2.6)	(4.5)
-Manufacturing	3.1	(2.2)	13.5	9.1	7.0	6.4	11.2	9.3
-Infrastructure	3.3	3.4	0.2	11.5	10.8	9.8	10.6	9.0
Retail sales	8.0	(3.9)	12.5	(0.2)	5.8	18.4	4.5	2.6
Exports of goods	0.5	3.6	29.9	7.0	0.5	8.5	7.7	6.0
Imports of goods	(2.7)	(0.6)	30.1	1.1	(7.1)	(7.9)	1.4	(4.0)

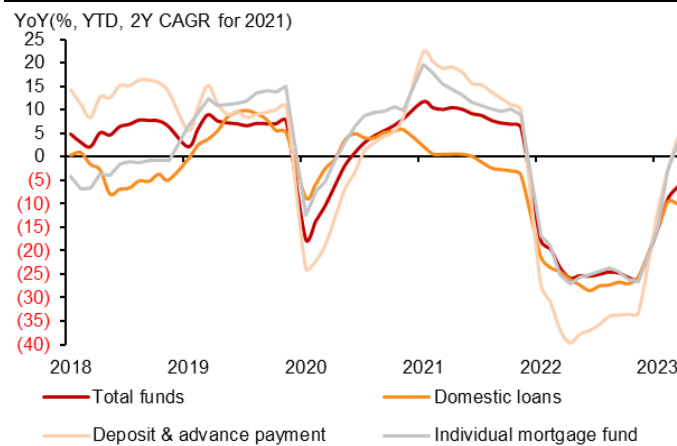
Source: Wind, CMBIGM estimates

**Figure 2: Property Market Indicators**

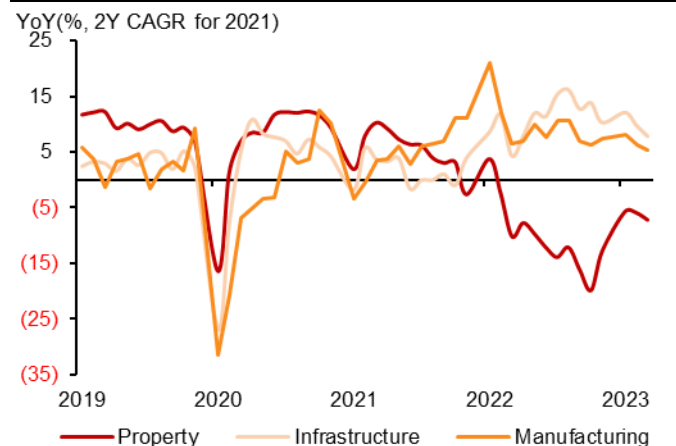
Source: WIND, CMBIGM

**Figure 3: Housing Sales by City**

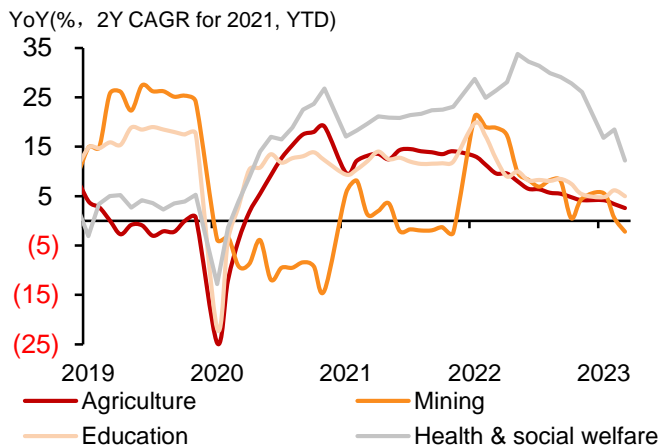
Source: WIND, CMBIGM

**Figure 4: Funding Source for Property Investment**

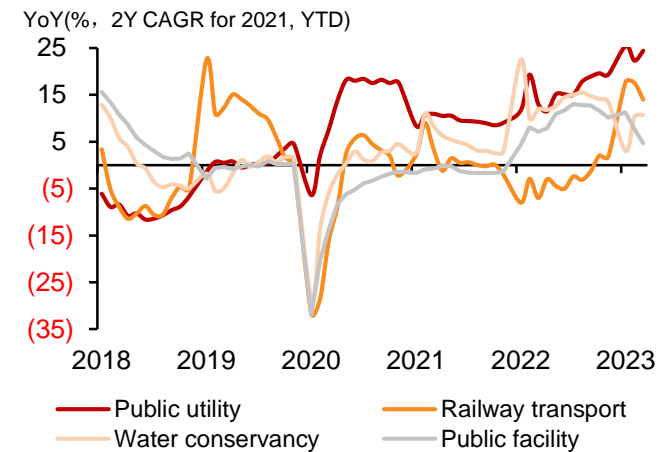
Source: WIND, CMBIGM

**Figure 5: FAI by Sector**

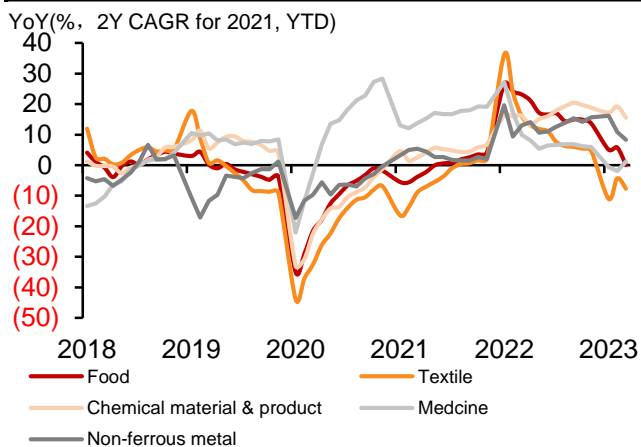
Source: WIND, CMBIGM

**Figure 6: FAI in Agriculture, Mining & Social service**

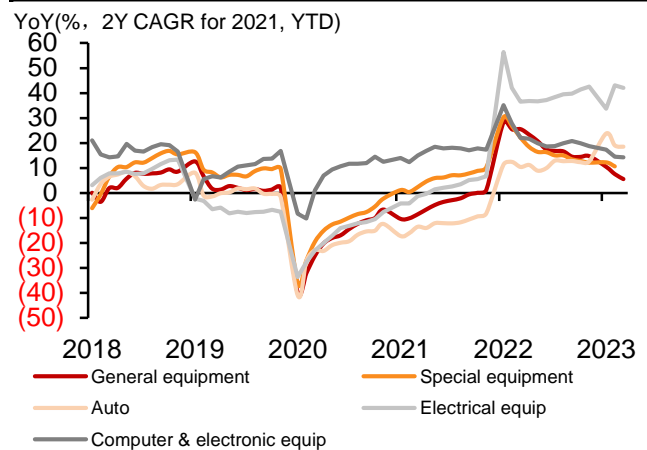
Source: WIND, CMBIGM

**Figure 7: FAI in Infrastructure Sectors**

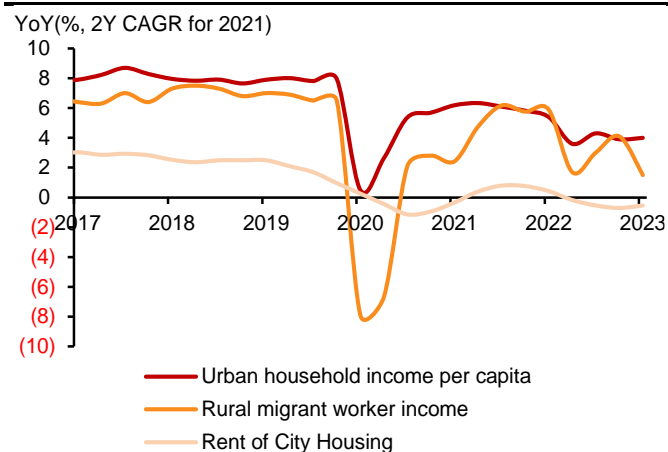
Source: WIND, CMBIGM

**Figure 8: FAI in Manufacturing Industries (I)**

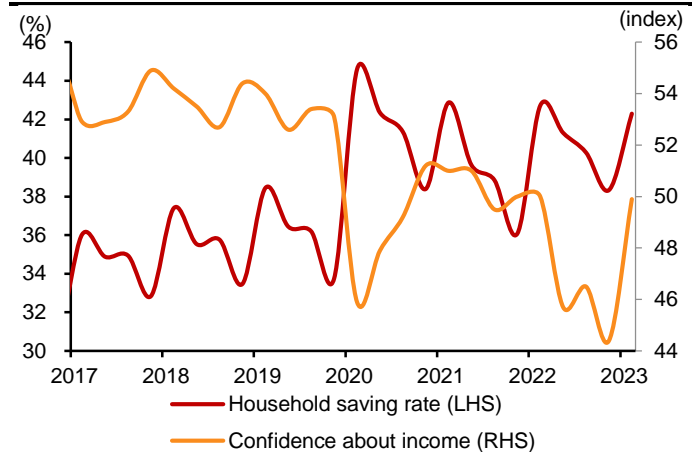
Source: WIND, CMBIGM

**Figure 9: FAI in Manufacturing Industries (II)**

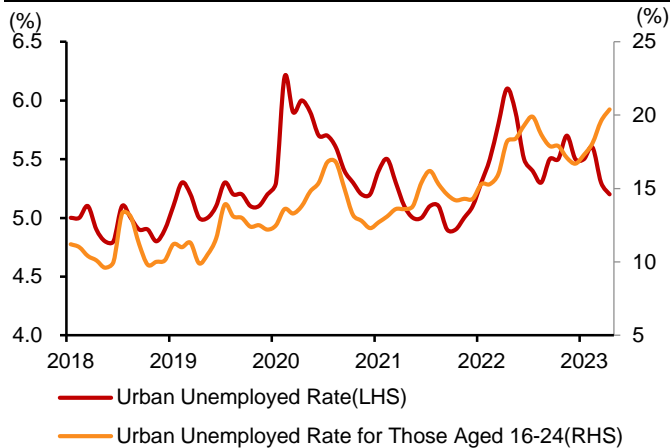
Source: WIND, CMBIGM

**Figure 10: Household Income & Housing Rent**

Source: WIND, CMBIGM

**Figure 11: Consumer Confidence**

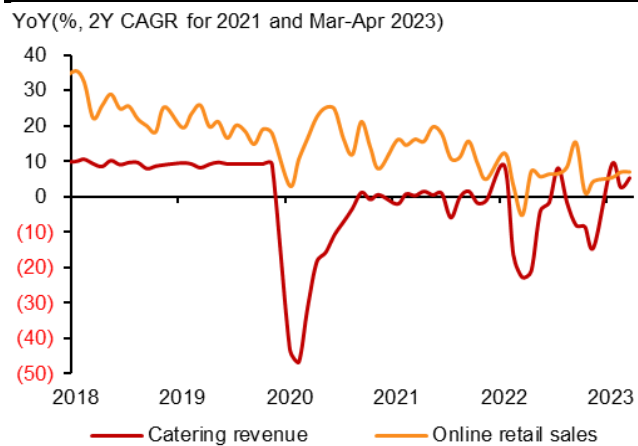
Source: WIND, CMBIGM

**Figure 12: Urban Surveyed Unemployment Rates**

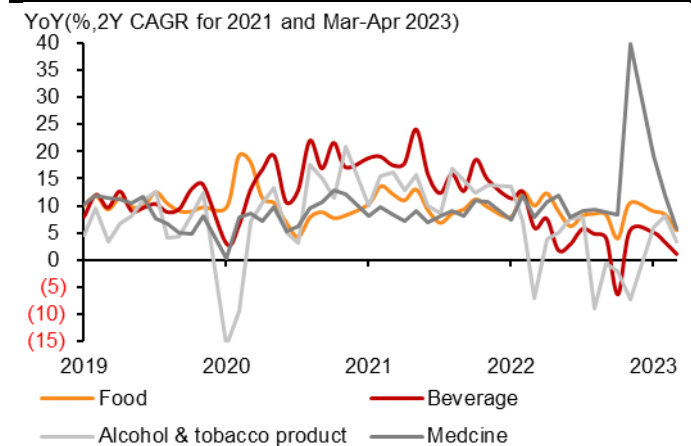
Source: WIND, CMBIGM

**Figure 13: Employment Index**

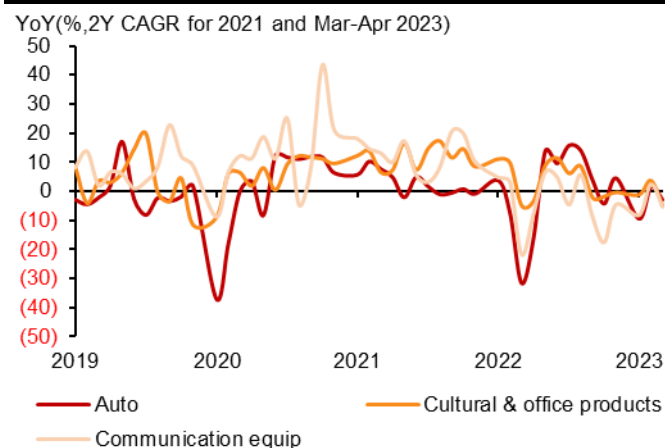
Source: WIND, CMBIGM

**Figure 14: Catering & Online Retail Sales**

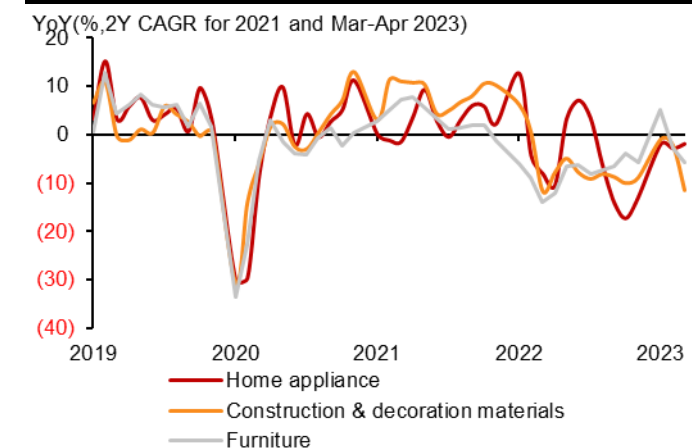
Source: WIND, CMBIGM

**Figure 15: Retail Sales of Staples**

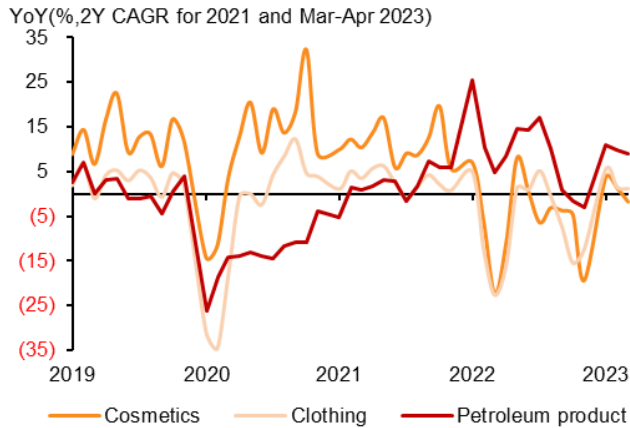
Source: WIND, CMBIGM

**Figure 16: Auto & Electronic Retail Sales**

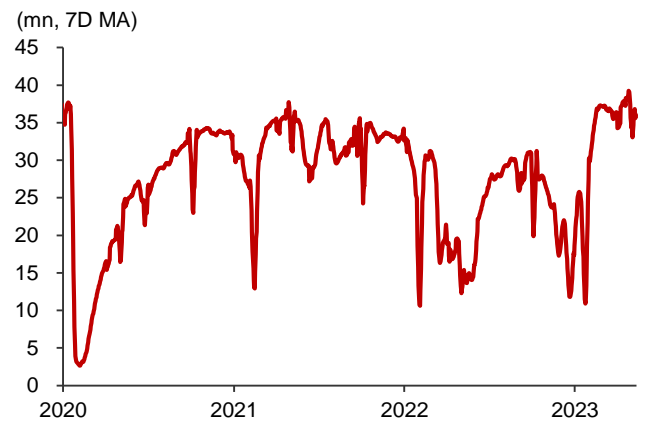
Source: WIND, CMBIGM

**Figure 17: Furniture & Appliance Retail Sales**

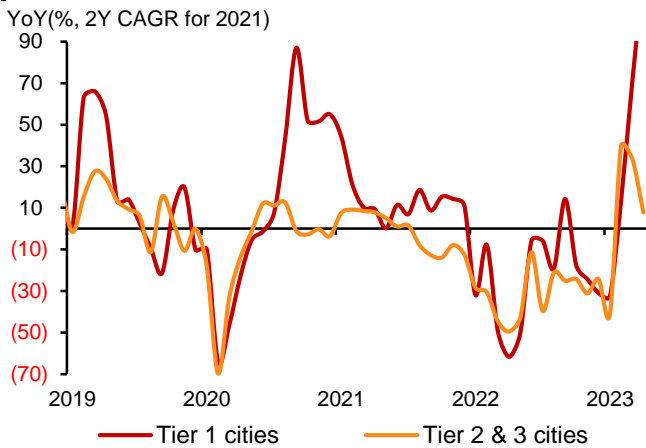
Source: WIND, CMBIGM

**Figure 18: Retail Sales of Non-durables**

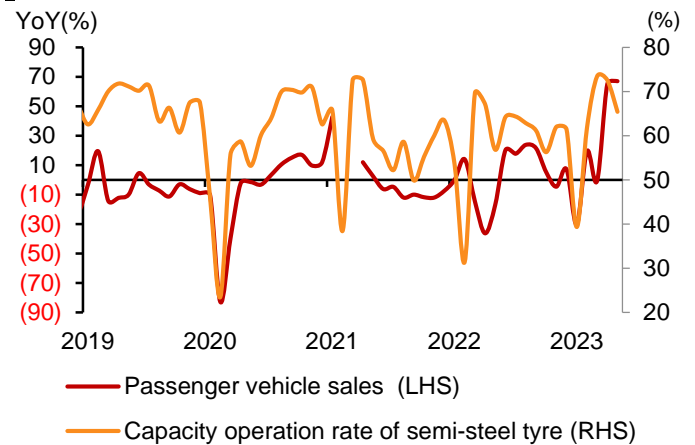
Source: WIND, CMBIGM

**Figure 19: Mobility Indexes in Tier-1 Cities**

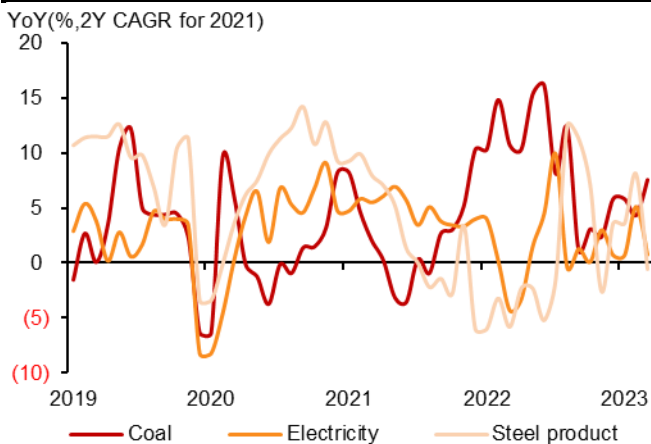
Source: WIND, CMBIGM

**Figure 20: Commodity Building Sales**

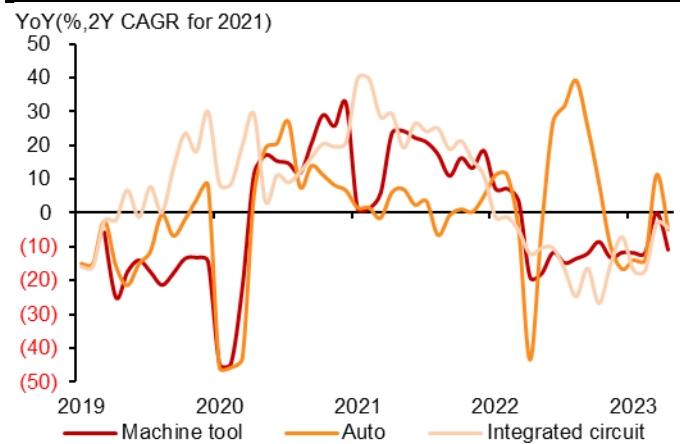
Source: WIND, CMBIGM

**Figure 21: Auto Sales**

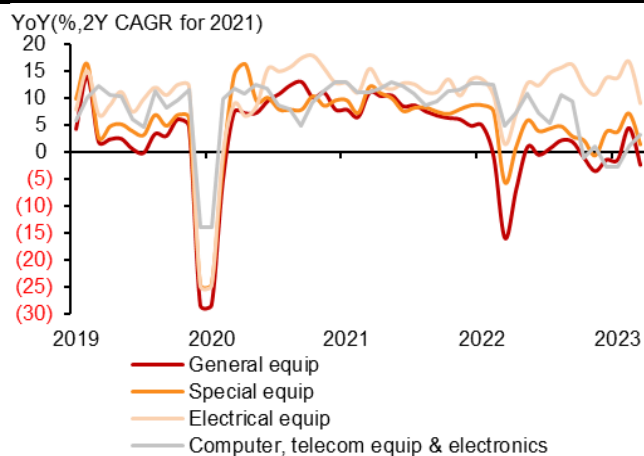
Source: WIND, CMBIGM

**Figure 22: VAIO in Energy & Steel Product**

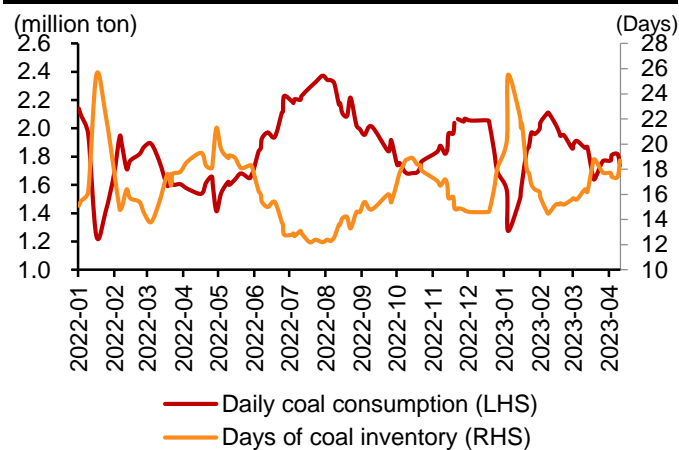
Source: WIND, CMBIGM

**Figure 23: VAIO in Capital Goods & Auto**

Source: WIND, CMBIGM

**Figure 24: VAIO in Equipment**

Source: WIND, CMBIGM

**Figure 25: Power Generators' Coal Consumption**

Source: WIND, CMBIGM



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