

China Economy

On its way to recover

China's economic activities and business sentiment broadly improved in January as PMIs in manufacturing, construction and service all saw strong recoveries after economy reopening. Breaking down sectors, indexes in medicine, general equipment, railway transport equipment & aerospace equipment, transportation, logistics, catering, accommodation & financial service reached high or rebounded significantly in January. However, indexes in real estate sector remained weak. China exports may have temporarily improved in January before deteriorating again in future. The imports may gradually improve as domestic demand recovers after reopening. For most sectors, material price mildly rebounded, while ex-factory price continued with declines. The PMI indicates China economy is on its way to recover. We maintain our forecast on China's GDP growth at 5.1% for 2023 and 4.7% for 2024.

- PMI rebounded to the expansionary range with brighter economic prospects after economy reopening.** PMI in manufacturing rose to 50.1% in January 2023 from 47.0% in December 2022 as it returned to the expansionary range. The index in medicine jumped to above 65% as demand increased sharply in the Covid wave. The indexes in general equipment and railway transport equipment & aerospace equipment rebounded to the expansionary range. For service sector, PMI jumped from 39.4% to 54% as people started to go out for travel, catering, recreation or social activities. The indexes in railway transportation, air transportation, post service, financial service, retail sale service, catering & accommodation reached high or increased strongly.
- Demand and sentiment improved broadly as economy reopening boosted business confidence.** New order indexes in manufacturing, construction and service rose from 43.9%, 48.8% and 37.4% last December to 50.9%, 57.4% and 51.6% this January. Business confidence rebounded as the sentiment indexes in the above three sectors increased from 51.9%, 61.5% and 52.3% to 55.6%, 68.2% and 64.3%, respectively.
- Exports may have temporarily improved with less YoY declines.** Export order index rose from 44.2% in December 2022 to 46.1% in January 2023, probably thanks to the supply chain improvement after reopening. However, overseas recession risk and disinflation trend are still there. China exports may deteriorate again after some temporary improvement. The import index climbed from 43.7% to 46.7%. We expect China's imports may gradually improve as domestic demand recovers after economy reopening.
- Material cost rebounded as sentiment improved in commodity market.** Material cost indexes in manufacturing, construction and service rose to 52.2%, 55.3% and 50.9% in January 2023 from 51.6%, 51.2% and 48.9% in December 2022. Sentiment improved in commodity market as investors expected the reopening would boost China's demand for most commodities in future. Material cost index in steel sector jumped to 66.6% in January as iron ore price has rebounded noticeably recently. However, aggregate demand should resume in a gradual manner with downside risk in overseas demand. Ex-factory price indexes in manufacturing and service reached 48.7%

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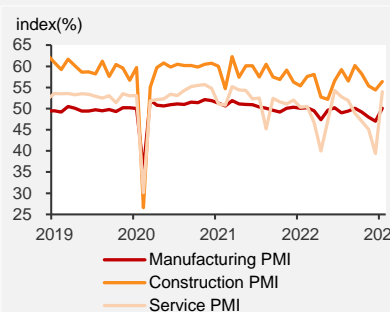
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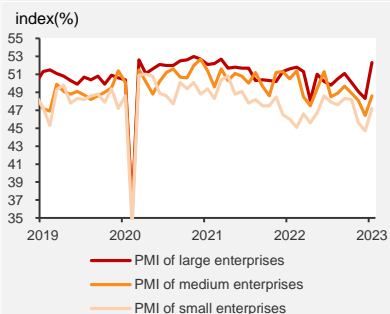
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Source: NBS, CMBIGM



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and 47.5% this January, compared to 49% and 47% last December. It indicates the reflation pressure is mild in China.

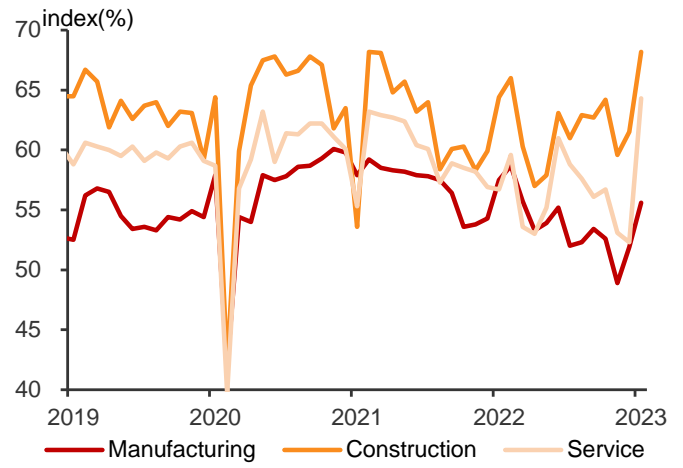
- **Unemployment pressure eased.** Employment indexes in manufacturing, construction and service respectively improved from 44.8%, 45.7% and 42.4% in December 2022 to 47.7%, 53.1% and 45.5% in January. The employment condition may gradually improve in future, facilitating consumption recovery this year.
- **China economy is still in early stage of recovery.** China economy is on its way to recover. It is still in early stage of recovery supported by restoration of mobility. As people start to go out, transportation, catering, travel, accommodation, recreation, clothing & footwear and personal care should rebound rapidly. However, housing sales, durable consumption & business capex may take longer to recover. China will maintain easing liquidity and credit policy as housing market resumption and reflation pressure are low. We maintain our forecast on China's GDP growth at 5.1% for 2023 and 4.7% for 2024.

Figure 1: New Order Index



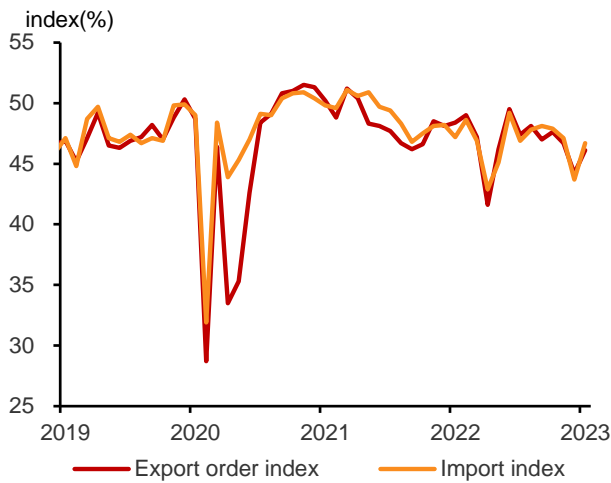
Source: WIND, CMBIGM

Figure 2: Business Sentiment Index



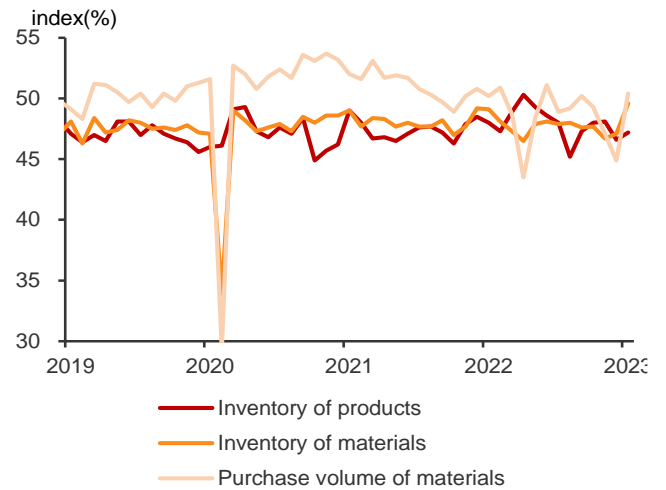
Source: WIND, CMBIGM

Figure 3: Export Order Index and Import Index



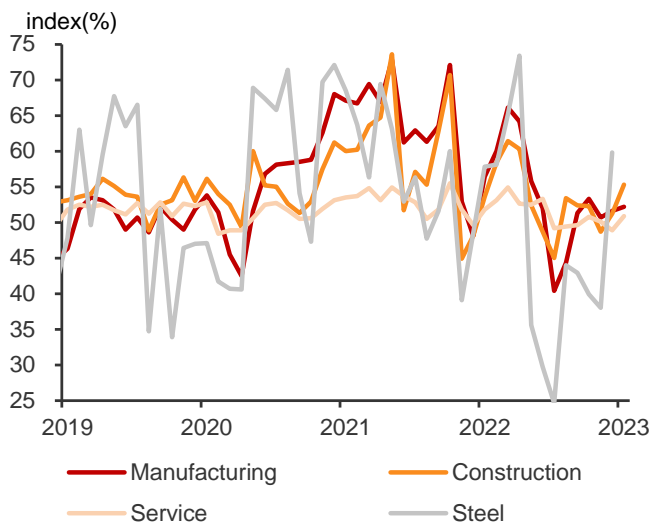
Source: WIND, CMBIGM

Figure 4: Inventory Index



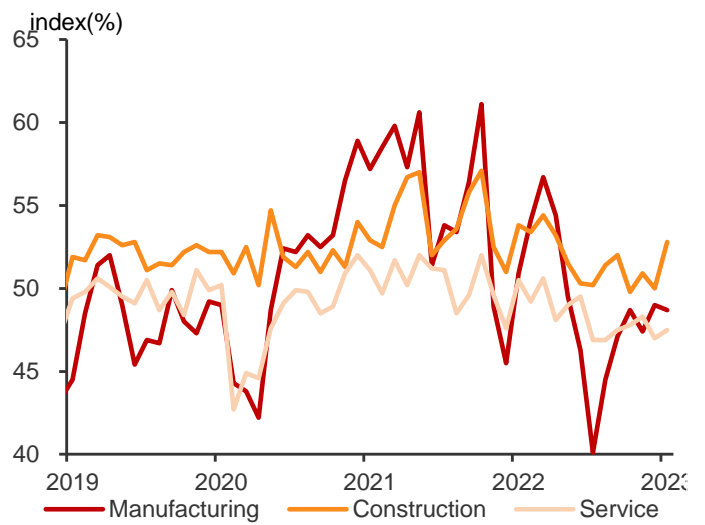
Source: WIND, CMBIGM

Figure 5: Material Purchase Price Index



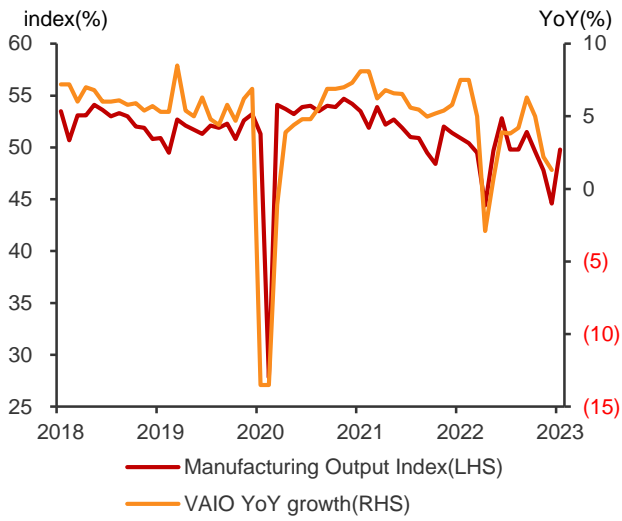
Source: WIND, CMBIGM

Figure 6: Ex-factory Price Index



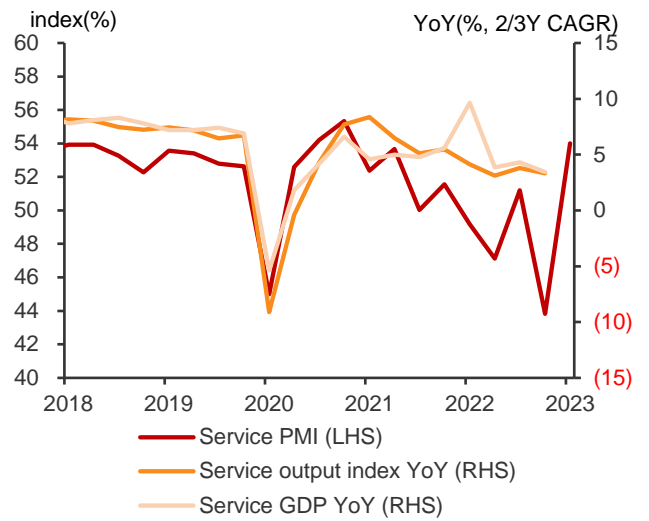
Source: WIND, CMBIGM

Figure 7: Manufacturing Output Index



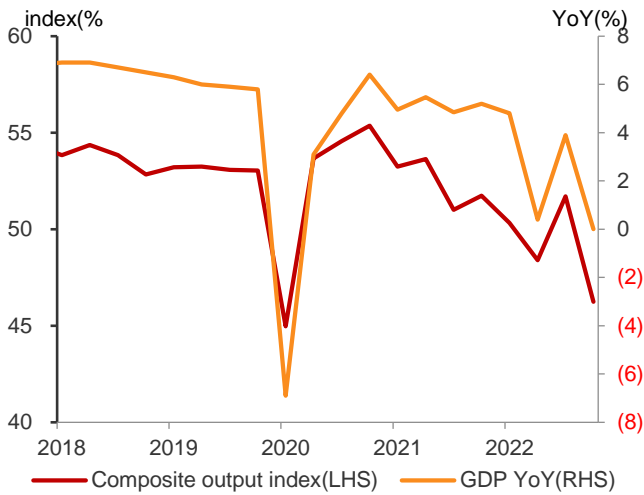
Source: WIND, CMBGM

Figure 8: Service PMI & Output Index



Source: WIND, CMBGM

Figure 9: Composite Output Index



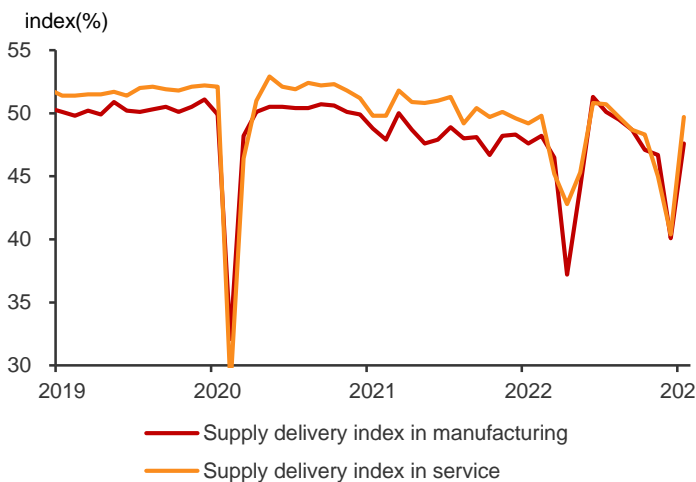
Source: WIND, CMBGM

Figure 10: Employment Index



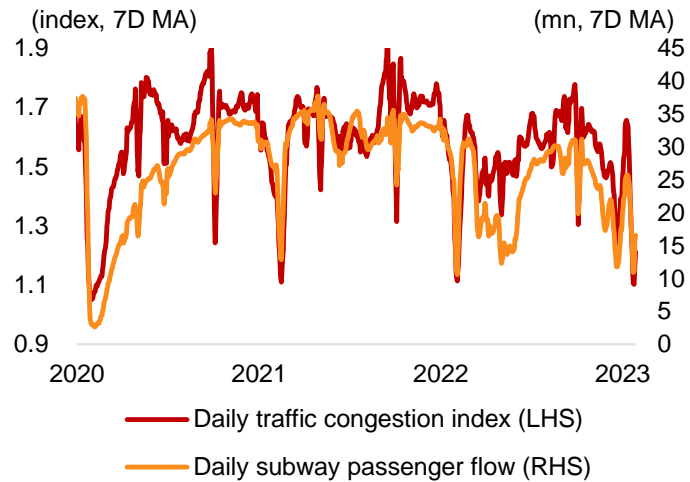
Source: WIND, CMBGM

Figure 11: Supply Delivery Index



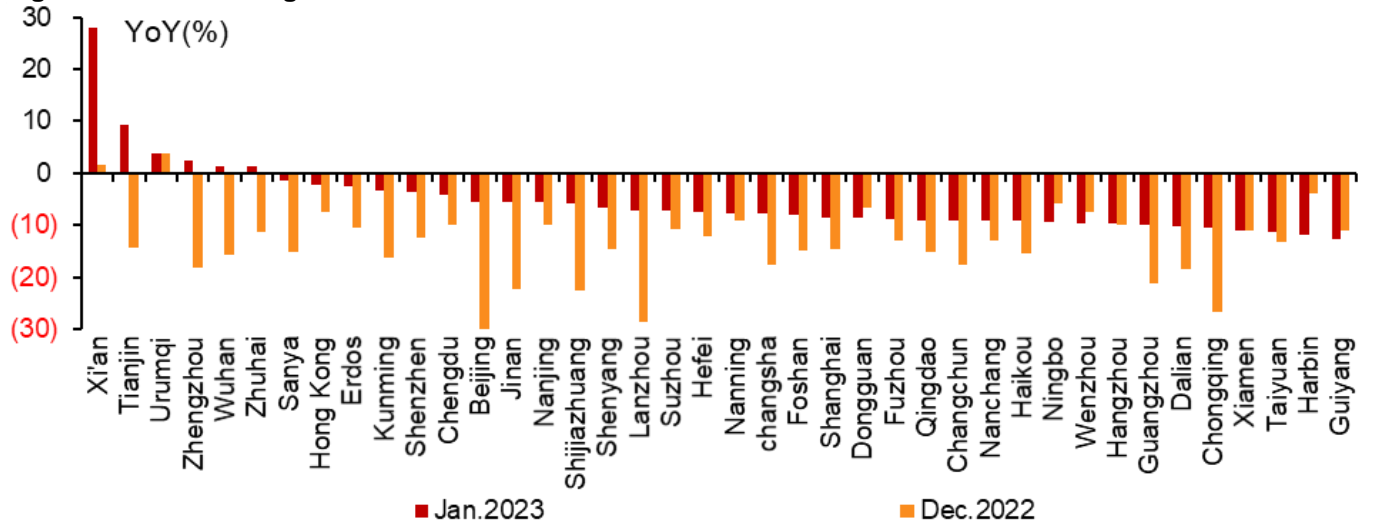
Source: WIND, CMBGM

Figure 12: Daily Mobility Index in Tier-1 Cities



Source: WIND, CMBGM

Figure 13: Traffic Congestion Index in Cities in Jan. 2023



Source: Wind, CMBIGM

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