Mizuho China Business Express Economic Journal
(No. 130)

January 17, 2023: Advisory Department, Mizuho Bank (China), Ltd.

—The macroeconomy—

Real GDP growth hit +3.0% in 2022

— It will take time before consumption activity gets back to normal —

Summary

- ✓ Real GDP grew by +2.9% on the same period last year in 4Q, with the economy slowing on the spread of Covid-19 in China and falling international demand for goods. Real GDP grew by +3.0% over 2022.
- ✓ December's economic indicators showed production activity slowing, though retail and investment bounced back. However, the recovery in retail was partially due to transitory factors, such as increased sales of medicines on the spread of Covid-19 and a rush in demand for automobiles.
- ✓ If the pandemic situation cools off, consumption activity will recover. However, the employment and earnings environment has deteriorated, so it will take time for consumer spending to return to normal

1. The economy was pushed down by Covid-19 and the sluggish property market in 2022

- GDP growth slowed to +2.9% y-o-y in 4Q 2022
- Though retail sales improved, this was due to transitory factors

2. There will be a lag between the end of the pandemic and the normalization of consumption activity

- Consumption activity will probably get back to normal late 2023
- The economy is recovering at a faster pace than expected, but there is still a risk of new Covid-19 strains emerging

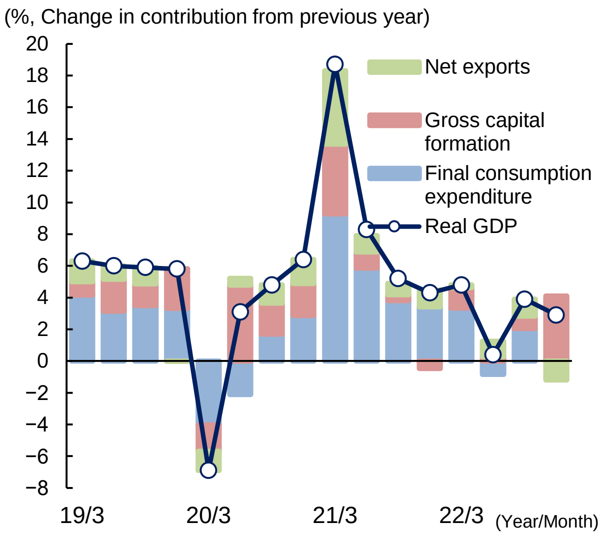
1. The economy was pushed down by Covid-19 and the sluggish property market in 2022

■ GDP growth slowed to +2.9% y-o-y in 4Q 2022

Real GDP growth hit +3.0% in 2022, down substantially on the target of "around +5.5%" outlined at the National People's Congress last spring. The economy was hit by sluggish consumption activity due to Covid-19 as well as a stagnant real-estate market.

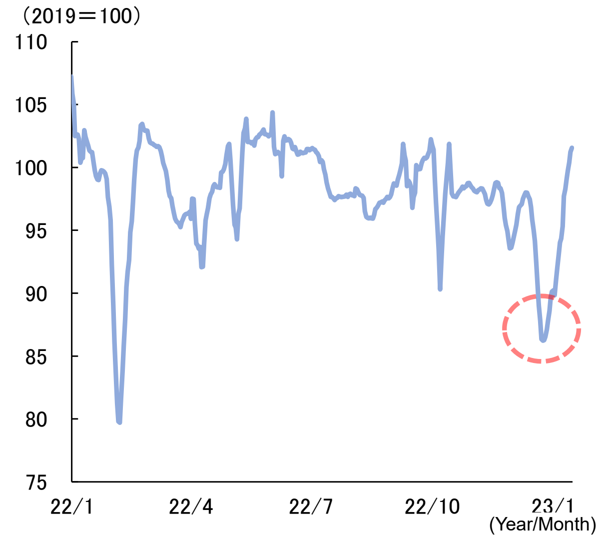
At +2.9% on the same period last year, growth in 4Q 2022 was down on the 3Q figure of +3.9% (Fig. 1). The authorities announced a 20-point plan in November[1] and a 10-point plan in December[2] aimed at improving China's pandemic measures. The number of Covid-19 cases subsequently soared on this easing of the rules, with this having a temporary but heavy impact on economic activity. Though production activity slowed in December compared to the previous month, retail sales and fixed asset investment actually bounced back, despite the surge in infections.

Fig. 1: Real GDP growth rate



Note: The contribution levels for 4Q 2022 had not been released at the time of writing.
Source: National Bureau of Statistics of China, CEIC

Fig. 2: Road congestion index



Note: The average of 100 cities; 7-day moving average; as of January 15.
Source: Wind

■ Though retail sales improved, this was due to transitory factors

Amid a prolonged slump in domestic demand, and with worker movement physically constrained by the surge in Covid-19 cases, value-added industrial production grew by just +1.3% y-o-y in December, down on November's figure of +2.2% y-o-y. Automobile production had moved firmly on government policies to stimulate sales, but this also slowed on November to hit -5.9% y-o-y in December. At +2.8% y-o-y, the 4Q figure was down on a quarterly basis too (3Q: +4.8%), though this was not as bad as the slump in the second quarter slump (+0.6% y-o-y) following an outbreak of infections in Shanghai.

On the other hand, retail sales and fixed asset investment bounced back. At -2.7% y-o-y, retail sales had slipped into negative territories in 4Q, though this figure improved slightly in December at -1.8% y-o-y. Of course, the number of people leaving home fell sharply, as revealed by indicators like the road congestion index (Fig. 2) and

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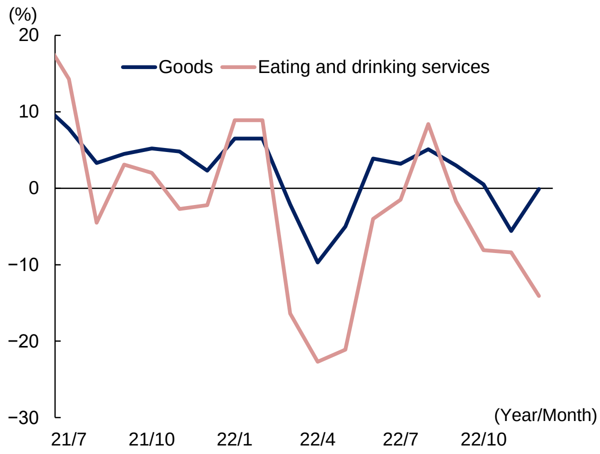
[1] See *Mizuho China Business Express Economic Journal (No. 128)* (November 11, 2022)

[2] See *Mizuho China Business Express Economic Journal (No. 129)* (December 23, 2022)

the subway passengers data, with this slump hitting bottom late December. Furthermore, at -10.3% y-o-y, the consumption of eating and drinking services data underwent a double-digit contraction in 4Q, just like when it fell by -15.6% y-o-y in 2Q (3Q: +1.5% y-o-y). At -0.1% y-o-y, though, the consumption of goods in December improved sharply at -0.1% y-o-y on November's figure of -5.6% y-o-y (Fig. 3). However, the data for sales at retailers above a designated size suggests consumption was supported by the sale of medicines on the spread of Covid-19, with the figure also bolstered by surge in demand for automobiles before the end of a policy aimed at boosting sales[3] (Fig. 4). As such, it seems the recovery was propelled by transitory factors and it is too early to tell whether consumption activity really did bottom out in December.

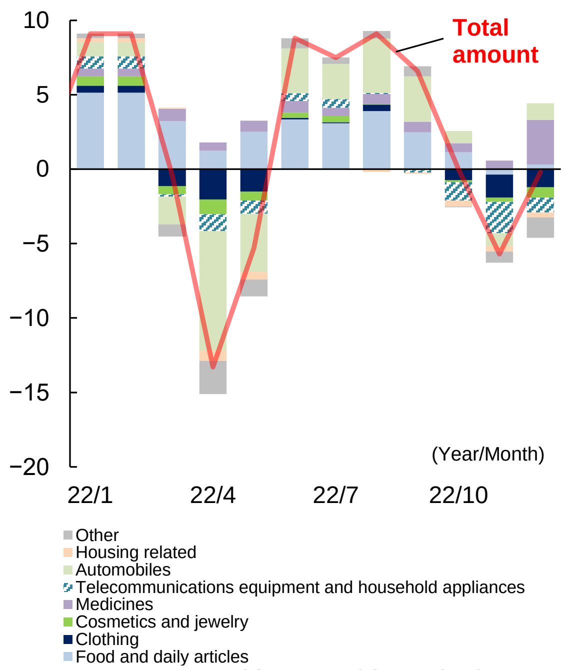
Fig. 3: Retail sales



Source: National Bureau of Statistics of China, CEIC

Fig. 4: Sales at retailers above a designated size

(%, Change in contribution from previous year)



Source: National Bureau of Statistics of China, CEIC

At +3.0% y-o-y, investment activity continued to grow in 4Q, with the figure for December improving to +3.1% y-o-y (November: +0.8% y-o-y) (Fig. 5). However, infrastructure investment and manufacturing investment could not compensate for the slump in property investment. At -16.4% y-o-y, the decline in investment in real estate development offset the impact of comparatively-firm manufacturing investment (+6.8% y-o-y) and the rise of infrastructure investment (+12.3% y-o-y[4]) on stimulus measures. Figure 5 shows investment in real estate development improving in December, though this was largely due to a comparison with a year earlier and it is hard to say that the investment slump has bottomed out. At -24.3% y-o-y, real estate sales in terms of floor space continued to fall until December (November: -23.3% y-o-y). At -0.23%, meanwhile, property prices also fell on the previous month for the 16th straight month (Fig. 6).

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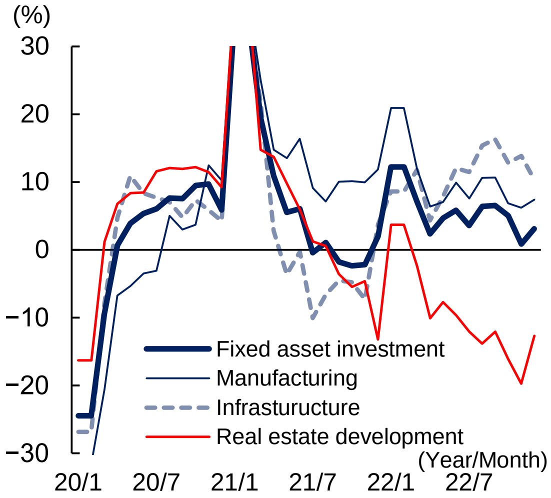
[3] China Automobile Dealers Association, "2022 年 12 月份全国乘用车市场分析"

[4] Infrastructure investment denotes total investment in transportation, warehouses, the environment and public facilities, etc.

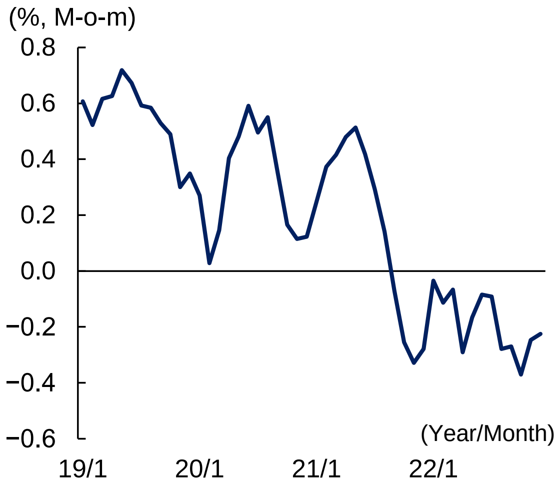
The import and export data (goods, nominal USD) shows exports falling by -6.5% y-o-y in 4Q (3Q: +10.3%) and imports sliding by -6.5% y-o-y (3Q: +0.7% y-o-y), with trade reaching a turning point after previously expanding after the pandemic (Fig. 7). The global demand for goods has eased, with trade also hit by sluggish production and distribution due to the spread of Covid-19.

Fig. 5: Fixed asset investment



Note: The standalone monthly result is calculated based on the publicly-released economic growth data.
Source: National Bureau of Statistics of China, CEIC

Fig. 6: New-homes prices (M-o-m)



Source: National Bureau of Statistics of China, CEIC

2. There will be a lag between the end of the pandemic and the normalization of consumption activity

■ Consumption activity will probably get back to normal late 2023

As outlined above, the current economic slowdown is due in large part to the surge in Covid-19 infections. Retail (consumption activity) have been hit particularly hard, with the sales data for 4Q 2022 down compared to a year earlier, for example. As such, the outlook for the economy depends on whether sluggish consumer spending can bounce back. We need to consider two things in particular: (1) The timing of when the Covid-19 situation settles down, and (2) the pace of the recovery of consumption activity once things calm down.

As for (1), opinions are divided when it comes to Chinese and international experts, though the Chinese Center for Disease Control and Prevention thinks there will be three waves of infections up until mid-March[5].A simulation on the homepage of the University of Washington's Institute for Health Metrics and Evaluation (IHME) suggests the number of new cases will peak mid-March[6], with the situation potentially calming down from spring.

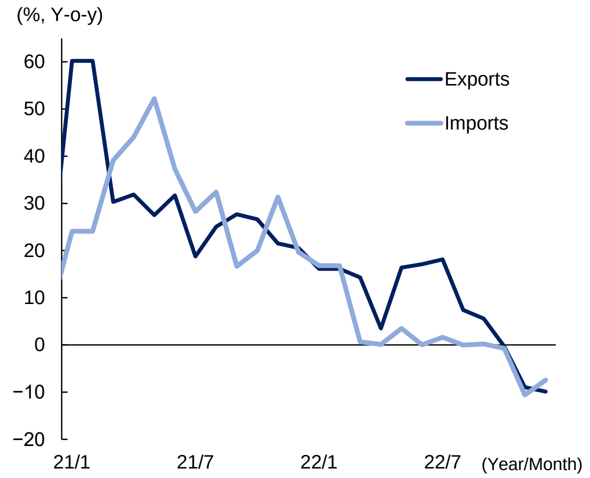
With regards to (2), it seems consumption activity will recover to a certain extent once infections slow and restrictions on activity are eased, though it will probably take some time before things get back to normal. This is because the employment and earnings environment has deteriorated on the prolonged Covid-19 situation, with this likely to hinder a fully-fledged consumption recovery. At 5.5%, the current urban surveyed unemployment rate is clear of the NPC's target, though unemployment among the young is still high compared to before the pandemic

[5] China News Service, "吴尊友：今冬中国疫情面临"一峰三波"", dated on December 17, 2022.

[6] As of January 16, 2023. There are multiple simulations, with this particular simulation predicated on no further pandemic measures being introduced.

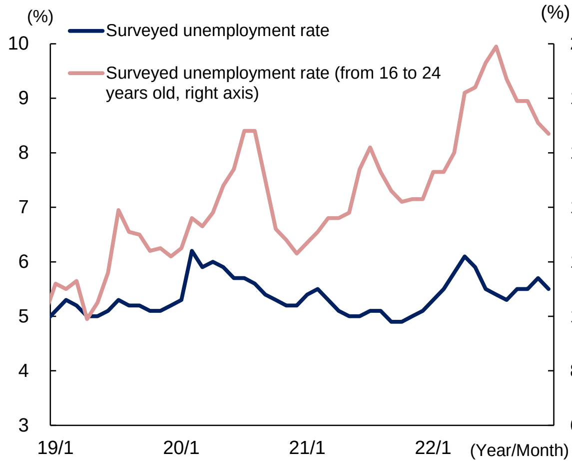
(Fig. 8). At +5.0% y-o-y, nominal disposable income growth is down sharply compared to before the pandemic in 2019 (+8.9% y-o-y). Based on (1) and (2), it seems the normalization of consumption activity will not take place until late 2023 onwards at the earliest.

Fig .7: Goods imports and exports (USD denominated)



Note: The average of January and February.
Source: General Administration of Customs of the People's Republic of China (GACC), CEIC

Fig. 8: Urban surveyed unemployment rate



Source: National Bureau of Statistics of China, CEIC

■ The economy is recovering at a faster pace than expected, but there is still a risk of new Covid-19 strains emerging

However, current high frequency data suggests there has been a sharp rebound entering January. As for the aforementioned data on subway passengers, for instance, it appears subway passenger numbers more-or-less bottomed out late December in the 23 cities where statistics are available (Fig. 9). After slumping to around 40% of the normal hourly figure in December 20 last year, passenger numbers had recovered to over 80% by January 15[7]. China's Ministry of Transport also predicts that around 2.1 billion people will travel during the Chinese New Year holidays, up 99.5% on the previous year. Furthermore, at 52.6 and 57.9 respectively, the December Manufacturing and Non-manufacturing PMIs are both forecast to improve on November (48.9 and 54.1 respectively) (Fig. 10), which also suggests the economy may be recovering faster than expected. However, it is still possible the economy could be hit again early 2023 if infections surge again on the emergence of new strains, for example. This is the worst-case scenario, but investors should still be on guard against unexpected events like this.

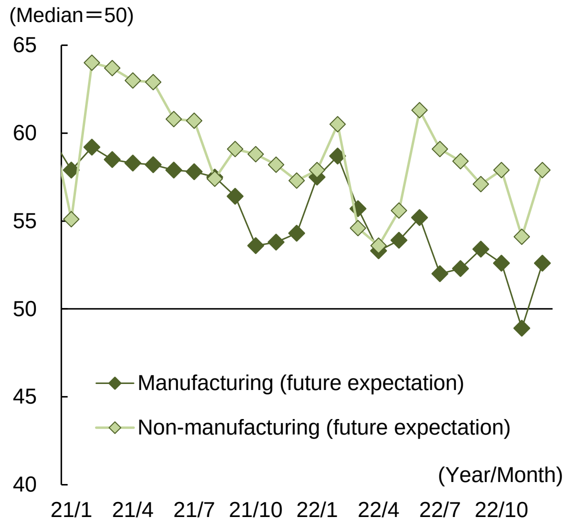
[7] Compared to July 1, 2022, when Covid-19 conditions had comparatively calmed. A simple average of ratios in the 23 cities.

Fig. 9: Days when subway passenger numbers were at their lowest

Shijiazhuang	Dec. 16	Harbin	Dec. 23
Beijing	Dec. 17	Changsha	Dec. 24
Wuhan	Dec. 19	Hefei	Dec. 24
Chongqing	Dec. 19	Nanning	Dec. 24
Chengdu	Dec. 20	Nanchang	Dec. 24
Kunming	Dec. 20	Nanjing	Dec. 25
Shenyang	Dec. 20	Shanghai	Dec. 27
Tianjin	Dec. 20	Shenzhen	Dec. 27
Zhengzhou	Dec. 21	Suzhou	Dec. 27
Guangzhou	Dec. 22	Dongguan	Dec. 27
Xian	Dec. 23	Xiamen	Jan. 2
Dalian	Dec. 23		

Note: Days when passengers numbers were at their lowest between December 10, 2022, and January 15, 2023; 7-day moving average.
Source: Wind

Fig. 10: Manufacturing and Non-manufacturing PMIs



Source: National Bureau of Statistics of China, CEIC

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