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—The macroeconomy—

Growth is accelerating, but consumer sentiments are cautious

— At +4.5%, 1Q 2023 GDP growth was up on expectations —

Summary

- ✓ Real GDP growth hit +4.5% in the first quarter of 2023, with growth accelerating on the previous quarter as the economy recovered from the pandemic. However, consumption and exports were pushed up by transitory factors.
- ✓ In March, growth picked up with regards to retail sales and productive activity, though it slowed when it came to fixed asset investment. There are signs that property prices and so on are bouncing back, though investment in real estate development remains in the doldrums, with manufacturing investment growth also slowing.
- ✓ The economy will continue to recover at a gentle pace from the second quarter onwards, though corporate sentiments about the future suggest that different sectors are recovering at different paces. Consumer sentiments also remain somewhat cautious.

1. Real GDP growth was up on market expectations, though this was partly due to transitory factors

- The strong retail sales growth in March was partly a reaction to the sluggish figures from a year earlier
- More time will be needed before investment in real estate development recovers

2. The future of the economy as gauged from consumer/corporate sentiments

- Consumers are still keeping a tight hold on their purse strings
- Corporate future expectations are high, though the situation differs for each sector

1. Real GDP growth was up on market expectations, though this was partly due to transitory factors

■ **The strong retail sales growth in March was partly a reaction to the sluggish figures from a year earlier**

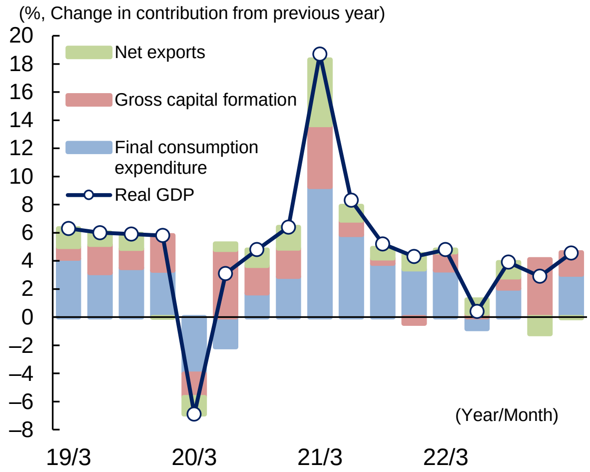
In the first quarter of 2023, China's real GDP growth rate accelerated to +4.5% on the same period last year (from here on, all figures refer to a "same-period previous-year comparison" unless otherwise specified) and it was also up on the +2.9% figure recorded the previous quarter (Fig. 1). Covid-19 cases peaked at the start of 2023, so there were concerns that growth would be pushed down by the economic slowdown that occurred in the first half of January, but the situation then calmed down and economic activity resumed, with this recovery reflected in the GDP data. At a press conference, the National Bureau of Statistics (NBS) said final consumption expenditure had contributed 66.6% to real GDP growth, with consumer activity playing a driving role in the first quarter.

A glance at the standalone data for March shows the retail sales data and other indicators moving firmly, though this was partly because they had moved sluggishly a year earlier, when the economy had slowed on a spring surge in Covid-19 cases.

At +5.8%, the 1Q retail sales data improved sharply on the previous quarter, when that figure had been pushed down to -2.7% by the pandemic. The figure for March was +10 6%, with goods up +9 1% and eating and drinking services up +26.3% (Fig. 2). Consumer activity has certainly picked up now the Covid-19 situation has calmed down, but observers should be aware that this high growth is partly because the figures were so bad in March last year (at -3 5%, -2 1% and -16.4%, respectively). Figure 3 shows total sales at retailers above a designated size. This reveals that almost every heading has undergone a marked improvement, but this is partly a reaction to the sluggish sales of automobiles and clothes a year earlier, with goods sales also boosted by ongoing special demand for medicines to a certain extent. Furthermore, an analysis of contribution levels shows the contributions of food and daily necessities falling slightly compared to January/February, so although goods consumption is recovering, there still needs to be some caution about the future.

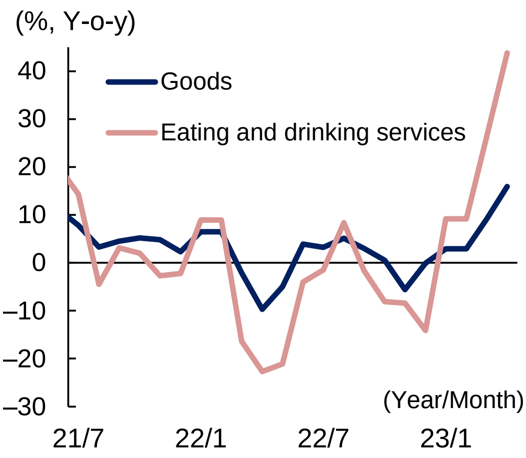
At +3.0%, value-added industrial production in 1Q was up slightly on the previous quarter's figure of +2.8%. The figure for March stood at +3.9%, up on the +2.4% recorded over January/February. As with the retail sales data, though, this was partly because the figures were so low a year earlier, so there is no room for excessive optimism. Though electric machinery (+16.9%) and chemicals (+7.1%) moved comparatively firmly, the electronics sector moved sluggishly (+1.2%) on a slowdown in demand for electronic equipment in China and abroad. At -8.3%, meanwhile, the medicines sector moved in negative territories and it seems special pandemic-related demand will wane going forward.

Fig. 1: Real GDP growth rate



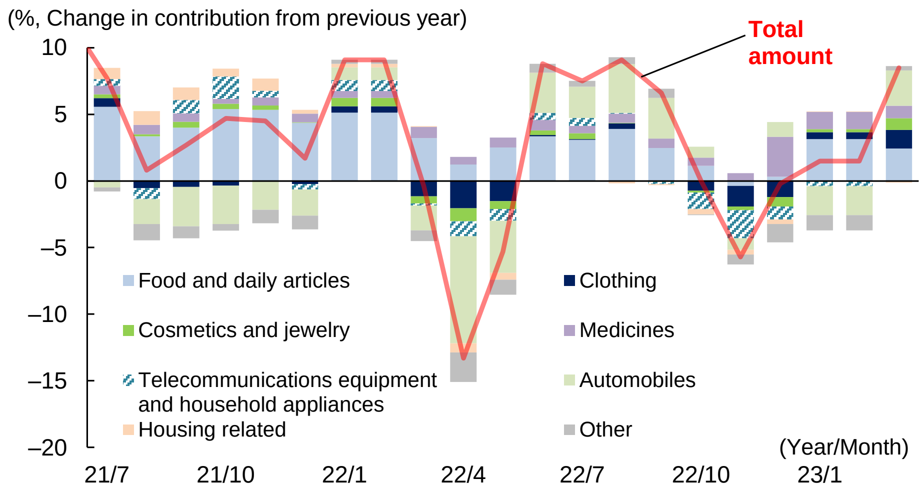
Note: The contribution levels for 1Q 2023 had not been released at the time of writing.
Source: National Bureau of Statistics of China, CEIC

Fig. 2: Retail Sales



Source: National Bureau of Statistics of China, CEIC

Fig. 3: Sales at retailers above a designated size

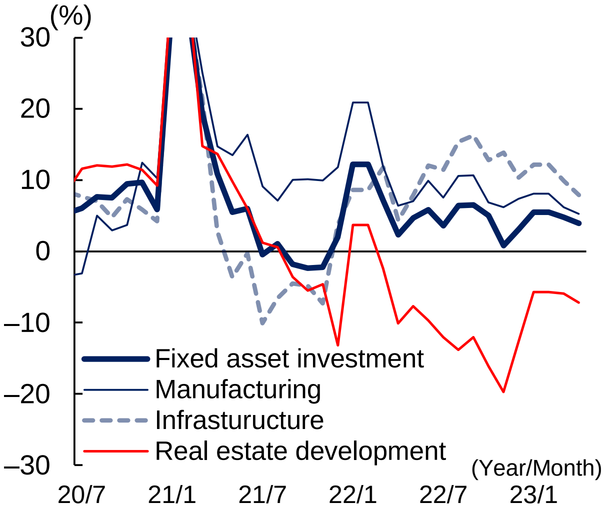


Source: National Bureau of Statistics of China, CEIC

■ More time will be needed before investment in real estate development recovers

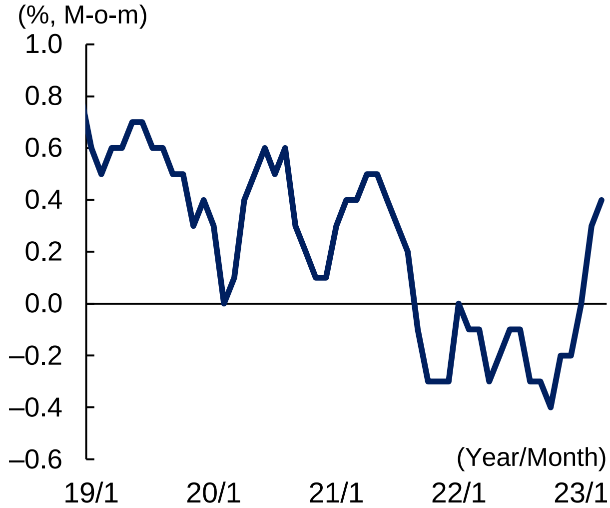
At +5.1%, 1Q fixed asset investment growth was up on the previous quarter's figure of +3.0%, though growth in March stood at +4.8%, down on the +5.5% figure recorded in January/February. As Figure 4 shows, investment in real estate development remained the only sector moving in negative territories, but manufacturing investment dipped, mainly on a year-on-year slowdown in the metal products, non-ferrous metals and production equipment sectors. There are bright signs when it comes to investment in real estate development, with the Existing Home Sales data moving firmly on a month-on-month basis, for example, but it still seems more time will be needed before property investment bottoms out (Fig. 5).

Fig. 4: 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. 5: New-homes prices (M-o-m)



Note: The average of 70 cities
Source: Wind

In the first quarter, nominal goods exports (dollar-denominated) grew by +0.5% (4Q 2022: -6.7%) while nominal goods imports (dollar-denominated) contracted by -7.2% (4Q 2022: -6.6%). Though exports bounced back, imports remained in negative territories, a sign of weak domestic demand (Fig. 6). In the last quarter of 2022, exports were pushed down by special factors, with production and distribution both slumping on the spread of Covid-19. The impact of these factors has eased and this is a major reason behind the healthy 1Q export figure, with exports not being boosted by the kind of special pandemic-related demand[1] as seen in the first half of 2022.

Real GDP growth accelerated to +4.5% in the first quarter, not a particularly bad result compared to the National People's Congress target of around +5.0% (and it also suggests growth may remain high from 2Q onwards compared to the sluggish results of a year earlier). As the above data shows, though, some sectors are recovering better than others, with the recent healthy results also due in part to transitory factors.

2. The future of the economy as gauged from consumer/corporate sentiments

■ Consumers are still keeping a tight hold on their purse strings

Domestic demand looks set to continue recovering at a gentle pace from 2Q 2023 onwards as Covid-19 is brought under control,[2] but it seems external demand will continue to be pushed down by the global economic slowdown. Domestic demand will play a key role in the Chinese economy this year. We now take a look at the future of the economy as gauged from consumer/corporate sentiments and future expectations.

When the People's Bank of China (PBC) conducted its recent Urban Depositor Survey Report,[3] it found that expectations for future earnings and future employment had both recovered sharply, with the figure for earnings just below the neutral "50" figure (Fig. 7). The number of people expressing a willingness to save has risen since the pandemic. 58.0% of respondents expressed a willingness to save this time. Though this was down from the last

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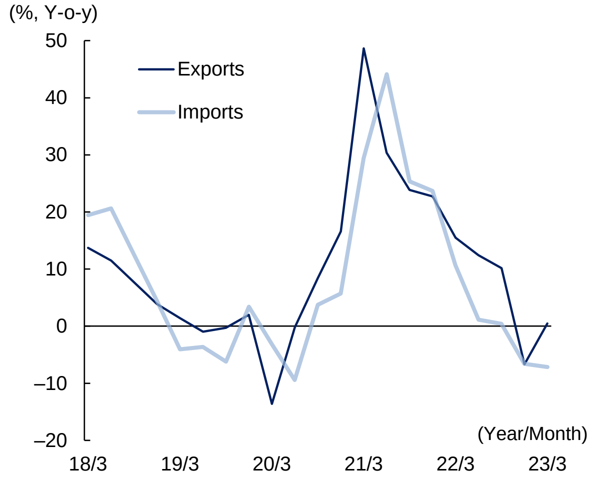
[1] This refers to the strong demand for goods in the US and Europe during the pandemic, particularly demand from people staying at home.
[2] Infections could still surge again on the Omicron variant, as happened in other countries. However, China has already downgraded its pandemic classification, so even if cases do rise again, the authorities are unlikely to restrict mobility, with any impact on consumer activity likely to be muted.
[3] The survey is conducted quarterly and it targets 20,000 depositors in PBC branches across China.

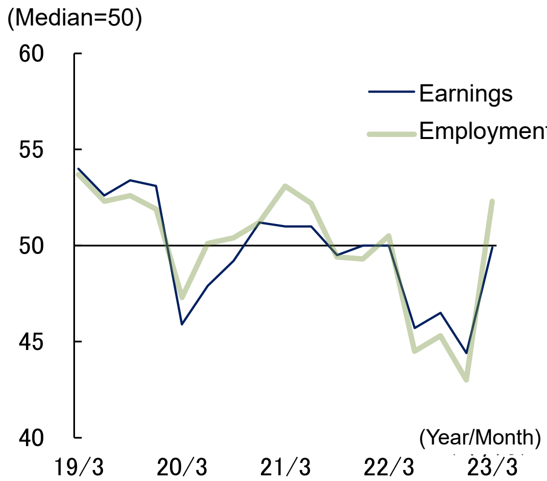
survey's 61.8%, it still represents a high level. The survey also showed more people expressing a willingness to invest (from 15.5% to 18.8%), with fewer people expressing a willingness to consume (from 22.7% to 23.2%). With regards to the willingness to consume, there is still a gap compared to before the pandemic (2019 average: 27.0%) (Fig. 8). In other words, though the income and employment situation might be improving, uncertainty about future income is making people more cautious when it comes to consumption.

Fig .6: Goods imports and exports (USD denominated, q-o-q comparison)



Source: General Administration of Customs of the People's Republic of China (GACC), CEIC

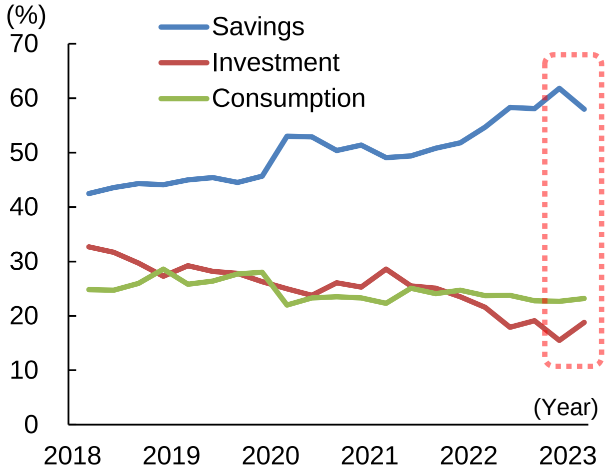
Fig. 7: Personal future expectations (employment and earnings)



Source: National Bureau of Statistics of China, CEIC

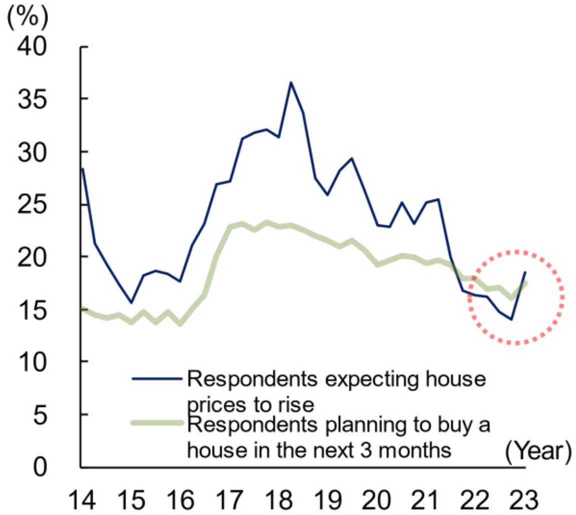
After being in the doldrums for so long, signs of optimism are appearing when it comes to house-buying sentiments. The number of people expecting house prices to rise has continued to improve since the second quarter of 2021, and there was also a slight uptick in the number of people planning to buy a house in the next three months (Fig. 9). Last year, some building projects were shelved due to cash flow problems of property developers, which led to people held off from buying houses and ongoing slide in real estate prices. Of course, all of these levels are low compared to early 2021, before the real estate market started to slow. As mentioned above, it will take some time before investment in real estate development bottoms out, but there are some signs of improvement.

Fig .8: Personal preferences for savings, investment and consumption



Note: Consumption is calculated by subtracting savings and investment from the total figure.
Source: The People's Bank of China (PBC), CEIC

Fig. 9: Housing-related sentiments



Source: National Bureau of Statistics of China, CEIC

■ Corporate future expectations are high, though the situation differs for each sector

We now turn our attention to the outlook for corporate sentiments. The future expectations indicator in the Purchasing Managers Index (PMI) remained above the neutral "50" level for both manufacturing and non-manufacturing, though there is a large gap in these levels (Fig. 10).

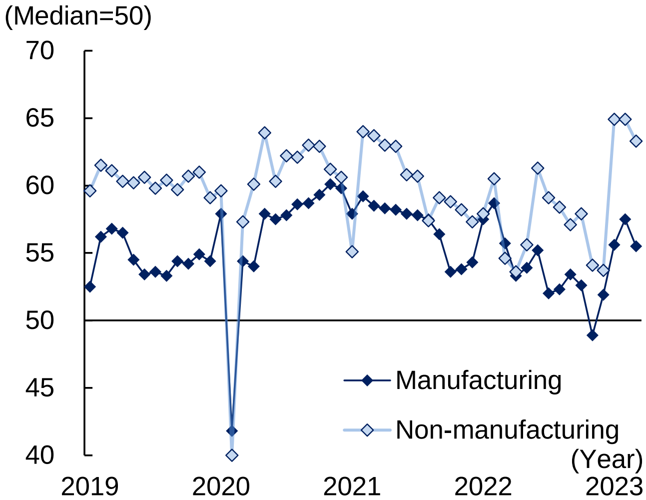
At 55.5 in March, the manufacturing figure was down slightly on February's 57.5. The figure had risen until last month on an easing of Covid-19 restrictions and a fall in infections, but it seems expectations for a recovery have receded. However, this recovery pause was also seen when the economy was recovering from the first Covid-19 wave in 2020, so there is no need for excessive pessimism. Though 55.5 is by no means low, it is lower than the figure of around 60 that was recorded in the first half of 2021, when the economy was bouncing back after the authorities successfully managed to keep a lid on domestic Covid-19 cases. This is partly because different sectors are clearly recovering at a different pace, as mentioned above. It is also due to changes on the export environment, with global demand related to the pandemic stay-at-home trend now waning, for example.

At 63.3, meanwhile, non-manufacturing future expectations are also down on the previous month, though this level remains as high as it was in the aforementioned first half of 2021. The NBS explained that retailing, transport (aviation, rail and highways), leasing, and construction are moving particularly firmly at present, with these contents broadly in line with how the situation actually seems on the ground in China. Furthermore, a PBC survey revealed that retailing and infrastructure funding demand is comparatively high, a further factor backing up these optimistic sentiments about the future.

These trends indicate that different industries are recovering at different paces and that personal consumption remains cautious. As explained above, consumers are taking a slightly cautious stance when it comes to retail sales (goods), with consumer/corporate sentiments and the future expectations data also suggesting there is a growing necessity for the government to provide policy support for consumer goods.

Observers should also be aware the economic data from the second quarter onwards will probably swing higher (compared to the real state of the economy) on a year-on-year basis precisely because the economy was in such a bad shape a year ago as a wave of Covid-19 infections hit Shanghai in spring, for example. As such, from here on a certain amount of skepticism will be needed when it comes to surveys about sentiments and confidence.

Fig. 10: Manufacturing and Non-manufacturing PMIs (future expectations)



Source: National Bureau of Statistics of China, CEIC

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