Mizuho China Business Express Economic Journal
(No. 136)
July 17, 2023: Advisory Department, Mizuho Bank (China), Ltd.

—The macroeconomy—

Real GDP growth for April–June rebounded from last year's downswing to hit +6.3%

— High growth but no room for optimism—

Summary

- ✓ At +6.3% on the same period last year, real GDP growth remained high in April–June 2023 due to a rebound from the sluggish growth seen a year earlier, but the (seasonally-adjusted) quarter-on-quarter data shows growth slowing to +0.8%, down from +2.2% in 1Q.
- ✓ The economy rebounded from weak results a year earlier in 1Q and it was only natural that this rebound would ease off over the second quarter, though sluggish goods consumption and real estate investment data suggest the economic slowdown is growing more pronounced.
- ✓ With consumption and homebuying sentiments in the doldrums and the global economy also slowing, there will be a dearth of positive factors over the second half of the year. The Politburo Standing Committee will be meeting late July, with attention likely to focus on the government's economic stance and policy measures.

Contents

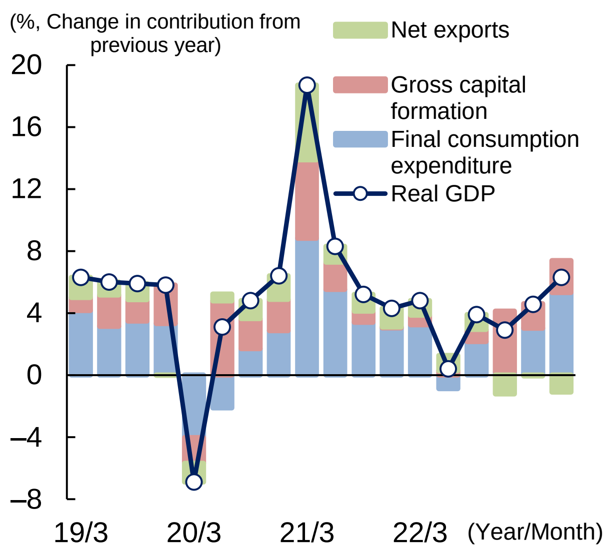
■ **Real GDP in April-June 2023 was up +6.3% on the same period last year and +0.8% on the previous quarter**

China's real GDP growth rate for April–June 2023 hit +6.3% on the same period last year, with the economy growing at a fast clip (1Q: +4.5%) (Fig. 1). This was partly because growth was so low in 2Q 2022 (+0.4%) owing to a surge in Covid-19 cases. When the previous year's data casts such a large shadow like this, we can gain a clearer picture of how the economy is performing by examining the seasonally-adjusted quarter-on-quarter (hereinafter, "q-o-q") data. At +0.8% q-o-q, growth in 2Q was down on 1Q's +2.2% q-o-q figure. It seems the economy rebounded in the first quarter as Covid-19 was brought under control, with the impact of this bounce-back waning in 2Q. However, as discussed later, the pace of the recovery differs considerably by sector, so the GDP growth data itself can only tell us so much about the strength of the economy. This report will try to gauge the real economic situation by focusing on three indicators: retail sales, fixed asset investment, and imports/exports.[1]

■ **Though the retail sales growth figure was high, consumer sentiments lack effervescence**

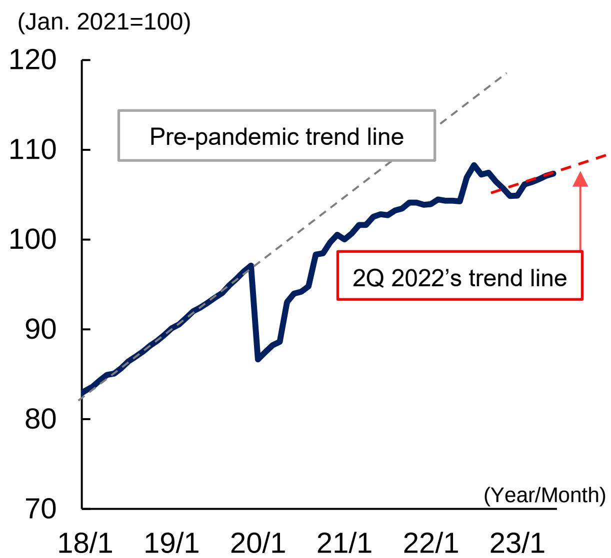
In April–June, the retail sales data was up +10.7% on the same period last year owing to the sluggishness of retail sales one year earlier (1Q: +5.8%). An analysis of long-term trends based on the seasonally-adjusted month-on-month (hereinafter, "m-o-m") data (Fig. 2) shows retail sales rebounding this spring, with the trend line then inclining more gently compared to the trend line from before the pandemic (in other words, consumer momentum was slacker).

Fig. 1: Real GDP growth rate



Note: The contribution levels for 2Q 2023 had not been released at the time of writing.
Source: National Bureau of Statistics of China (NBS) and CEIC

Fig. 2: Retail sales



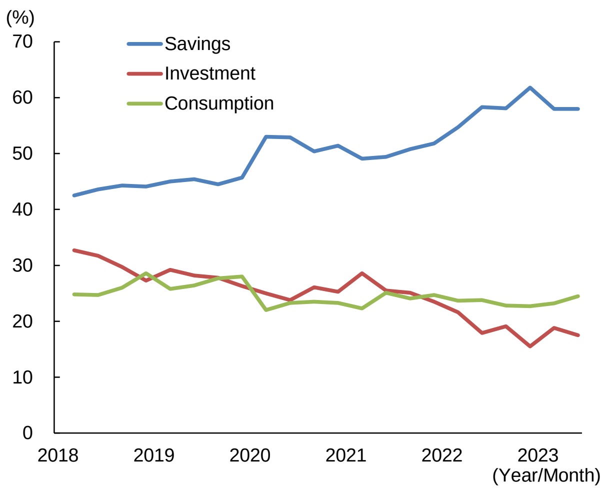
Note: Calculated using the NBS's seasonally-adjusted m-o-m data
Source: NBS and CEIC

[1] As with the real GDP growth figure, the data for retail sales, fixed asset investment, and imports/exports is mainly analyzed on a (seasonally adjusted) q-o-q and m-o-m basis (the seasonally adjusted data for imports/exports is not publicly released, so this report uses seasonally-adjusted figures from MHBK (China)). With fixed asset investment, the 2Q data is down on the previous quarter even when the results from the previous year are taken into account, so the fixed asset investment data is analyzed on a "same-period previous-year" basis.

There is a particularly strong sense of a slowdown with regards to goods. On a standalone monthly basis, retail sales of goods grew by +1.7% y-o-y in June. This was down sharply on the +10.5% recorded in May. The May result was due in large part to the bounce-back from weak sales a year earlier, but June's growth was also down on the +4.0% y-o-y figure recorded over 2H 2020, when China was recovering from the pandemic, with the June result suggesting the consumption of goods is moving sluggishly at present. The data for total sales at retailers above a designated size shows sales down on the same month last year when it came to daily necessities, office appliances and building materials (in part due to the impact of the below-mentioned adjustment in the real estate market).

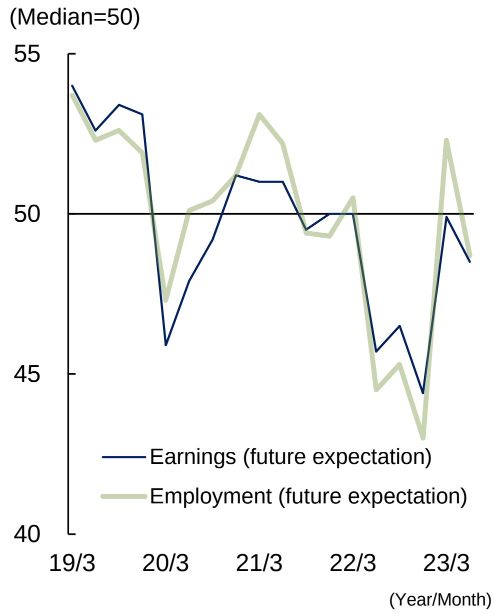
A quarterly survey of depositors by the People's Bank of China (PBC) also shows a lack of effervescence when it comes consumer sentiments. As Fig. 3 shows, while the number of people expressing a willingness to save remains high at 58.0%, the number of people expressing a willingness to consume has only risen slightly from 23.2% to 24.5%. This is some way off the pre-pandemic figure of 27.0% (2019 average), with this data tallying with recent retail sales trends. Consumer sentiments are swayed by the employment and earnings environment, but the aforementioned survey also showed future earnings and future employment expectations dropping back below the neutral 50 level (Fig. 4), an ominous result for consumer activity going forward.

Fig. 3: Household savings, investment and consumption



Note: Consumption is calculated by subtracting savings and investment from the total figure (100).
Source: PBC and CEIC

Fig. 4: Household future expectations (earnings and employment)

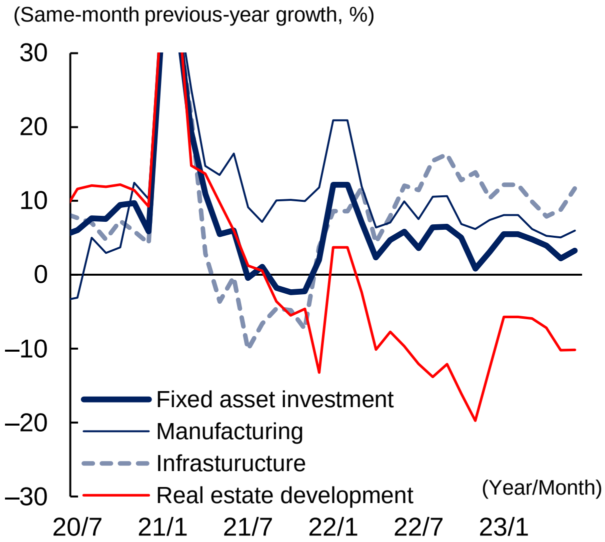


Source: PBC and CEIC

■ **The real estate market is still undergoing some correction, with delayed housing construction since last year also acting as a drag**

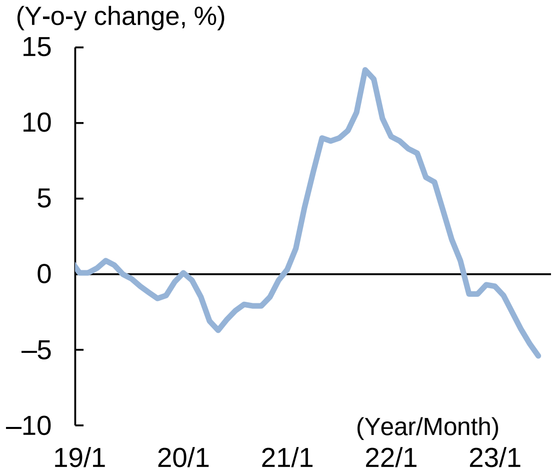
Fixed asset investment grew by just +3.1% y-o-y in 2Q, down on 1Q's figure of +5.1% (Fig. 5). This is a nominal figure, so it probably includes the impact of falling Producer Price Index figures due to an international slide in resource prices (Fig. 6), but even when the bounce-back from last year's sluggish data is added to the equation, the 2Q figure is down on the previous quarter, mainly because investment in real estate development remains down compared to a year earlier.

Fig .5: Fixed asset investment



Note: The standalone monthly result is calculated based on the publicly-released economic growth data.
Source: NBS and CEIC

Fig. 6: Producer Price Index (PPI)



Source: NBS and CEIC

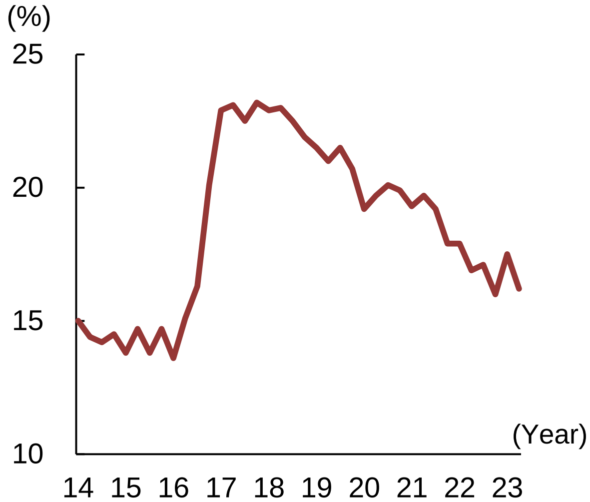
The aforementioned PBC survey pointed to a fall in the number of respondents saying they were planning to buy a house in the next three months (Fig. 7), so there are no signs of an early recovery in the real estate market. Over one year has passed since the problem of delayed real estate construction and handovers raised its head in cities like Zhengzhou in Henan Province, but a sample survey revealed[2] that progress in tackling the issue (the proportion of completed handovers) had only reached 34% as of May, with some time still required before the problem is fully dealt with.[3] This is probably one of the factors suppressing house-buying sentiments. However, investment in hi-tech and other manufacturing continues to grow at a fast clip, as does investment in infrastructure on policy support, with this bolstering overall fixed asset investment.

The Chinese economy is not receiving much support from external demand either. In April–June, exports and imports (goods; USD-denominated) hit -4.7% y-o-y and -6.4% y-o-y respectively (1Q: +0.5% and -7.0%). Mizuho's seasonally-adjusted figure shows exports down -4.4% on the previous quarter (1Q: +6.9% q-o-q) and imports sliding by -0.6% q-o-q (1Q: -2/1% q-o-q), with exports and imports both moving sluggishly at the moment (Fig. 8). As Fig. 9 shows, there are worrying signs when it comes to exports to the U.S., Europe and the ASEAN region, with the impact of the global economic slowdown starting to emerge. Imports also remain on a downward trajectory on weak domestic demand and so on.

[2] 100NJZ: "5 月交付占比 16%，从混凝土的视角看华中"保交楼"成绩单" (May 25, 2023)

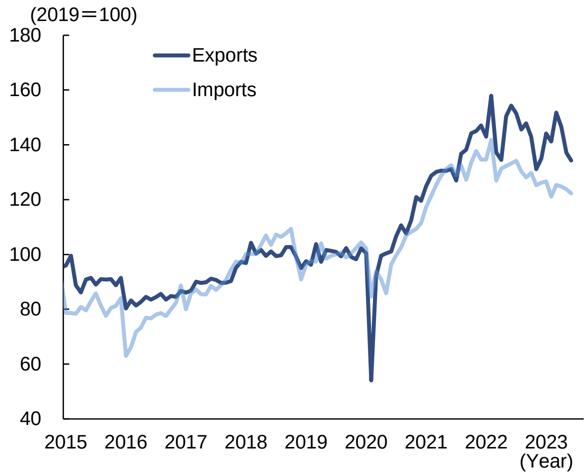
[3] Against the backdrop of moves to tackle this problem, on July 10 the PBC and the National Administration of Financial Regulation extended the relevant policies of last November's real estate financial support package (关于做好当前金融支持房地产市场平稳健康发展工作的通知) until the end of 2024.

Fig .7: People planning to buy a house in the next three months



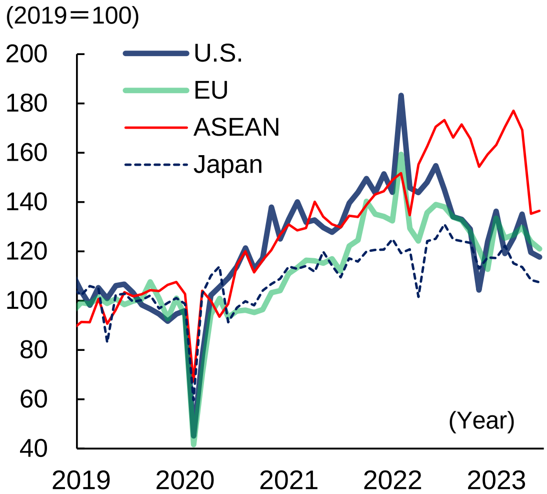
Source: PBC and CEIC

Fig. 8: Imports/exports (goods; USD-denominated)



Note Seasonally adjusted by MHBK (China)
Source: General Administration of Customs of the People's Republic of China (GACC) and CEIC

Fig .9: Exports (by country and region)



Note: Seasonally adjusted by MHBK (China)
Source: GACC and CEIC

■ The economy will continue to recover at a slow pace over the second half of the year

As mentioned above, though the Chinese economy rebounded over 1Q, this rebound has eased off, with the economic recovery now moving at a gentle pace. Furthermore, there are concerns about consumer sentiments and the real estate market continues to undergo some correction on sluggish investment (with appetite for housing purchases likely to remain in the doldrums). With exports also pushed down by a global economic slowdown, there will be a dearth of optimistic factors over the second half of 2023.

Given this, attention will focus on the July Politburo Standing Committee meeting, when the authorities will be setting economic policy for 2H.[4] However, y-o-y real GDP growth remained at +5.5% in the first half of 2023, in

[4] The meeting is usually held late July. It was held on July 28 last year.

part due to a rebound from sluggish growth in the same period last year, so despite the current downbeat sentiments, the government should have no trouble hitting its target for y-o-y growth of "around +5.0%." As such, when it just comes to hitting this year's numerical targets, the authorities have no incentives to implement a large-scale stimulus package. The government is by no means optimistic about the future, though, with the National Bureau of Statistics stating that "the foundation for sustained economy recovery at home is not solid yet," for example.[5] Investors should focus on whether the stance and policies announced at the aforementioned meeting will be sufficient to provide a boost to bearish economic sentiments.

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[5] National Bureau of Statistics of China: "上半年国民经济恢复向好" (July 17, 2023)