

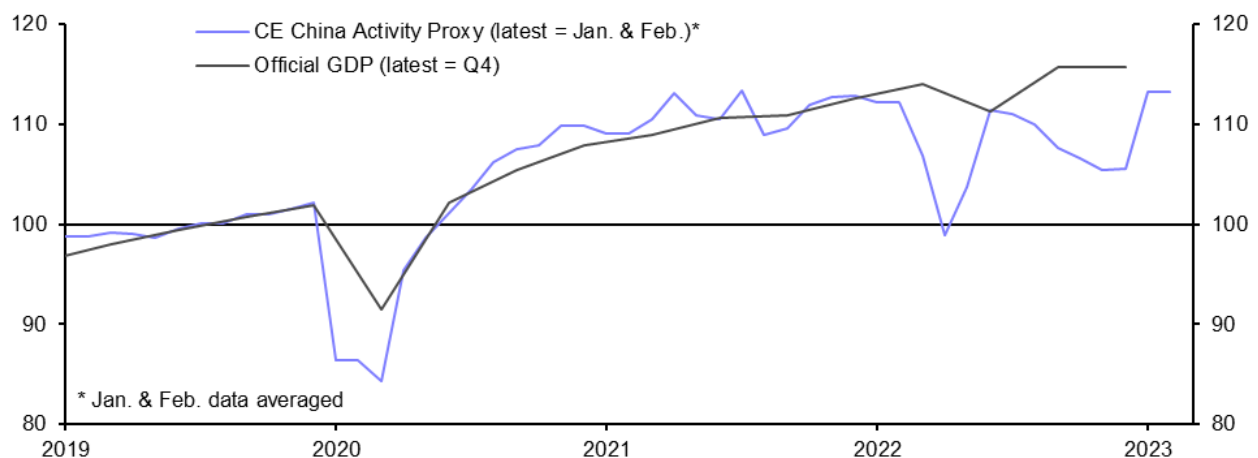


# CHINA ACTIVITY MONITOR

## CAP: Most rapid phase of recovery has passed

- **Our China Activity Proxy (CAP) shows a sizeable rebound in services activity early in 2023. While it hasn't completely run its course, the recovery will slow over the next few months.**
- The CAP is our attempt to track the pace of growth in China without relying on the official GDP figures. It is based on low-profile indicators chosen to reflect activity across a wide section of the economy. (Details can be found [here](#). The download button on the *Monitor* webpage provides access to the data.)
- Our estimates suggest that the economy expanded by 0.9% y/y in January and February (we look at the two months together), ending a string of declines. In seasonally-adjusted terms, **output more than reversed the hit from lockdowns and surging infections late last year. But it is still depressed relative to the path it had been on until a couple of years ago.** (See Chart 1.)
- **That's particularly the case in the service sector, where activity surged at the start of the year but, unlike in industry or construction, is still weaker than a year ago.** (See Chart 2.) As of February, long distance travel was still subdued – perhaps reflecting lingering concern about infection. (See Chart 3.) High frequency data suggest a more rapid pick-up in March as these fears faded. A rebound in property sales appears to be underway although it is in the early stages. Car sales continued to decline, partly due to the ending of subsidies. (See Chart 4.)
- **Construction activity suffered some disruption late last year and now appears to have bounced back.** Most significant was the jump in new property starts. (See Chart 5.) But that alone is insufficient to suggest a strong pick-up in construction activity. The start of the year is the low season for construction, meaning that small differences in absolute terms can cause big swings in seasonally adjusted levels. Broader measures such as sales of construction machinery and output of construction materials saw smaller increases and are still below their recent peaks. (See Charts 5 & 6.) **However, industrial activity has climbed to new highs.** Domestic freight traffic and container throughput continue to expand, suggesting few disruptions to supply chains and logistic networks. (See Chart 7.)
- **In sum, the end of zero-COVID and the rapid retreat of infections led to a rapid rebound in economic activity at the start of the year.** High frequency data we track suggest that this strength has been sustained this month. Further ahead, [we expect](#) the recovery to level off after the reopening boost has passed. Nevertheless, on the back of a much stronger start to the year and weaker base for comparison, **we now expect China's economy to grow by 6.5% this year (previous forecast 5.5%).**

Chart 1: Capital Economics China Activity Proxy & Official GDP (2019 = 100, seas. adj.)



Sources: CEIC, WIND, Capital Economics

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# China Activity Proxy charts & data table

Chart 2: CAP – Sector Proxies (2019 = 100, seas. adj.)

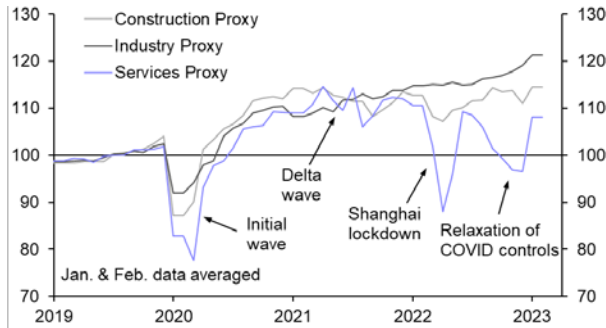


Chart 3: Passenger Traffic & Service Sector Electricity Consumption (2019 = 100, seas. adj.)

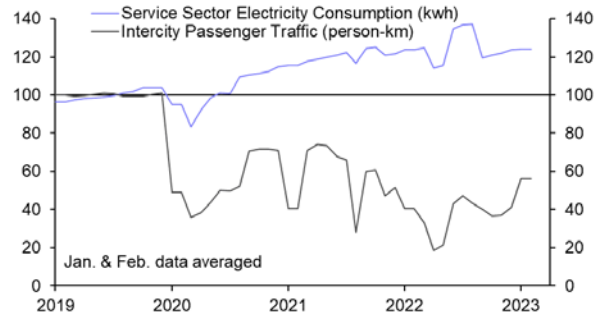


Chart 4: Property & Car Sales (2019 = 100, seas. adj.)

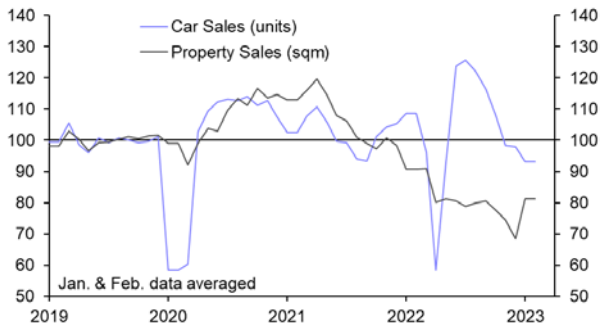


Chart 5: Construction Activity (2019 = 100, seas. adj.)

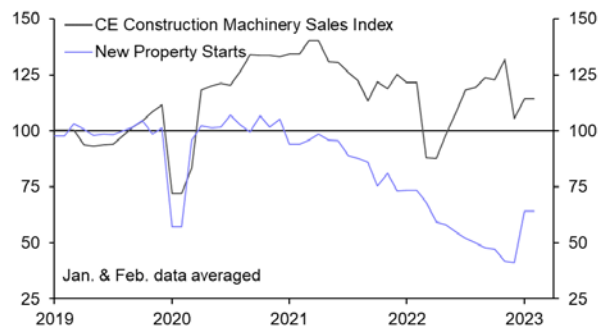


Chart 6: CE Industrial Output Index (2019 = 100, seas. adj.)

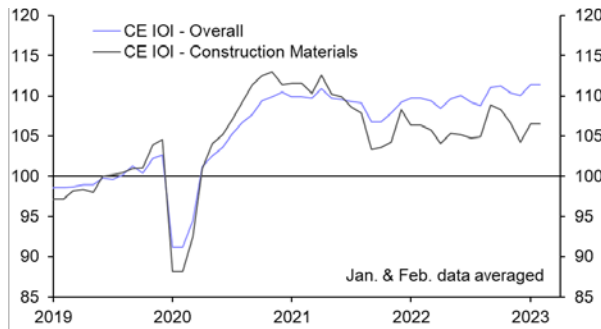
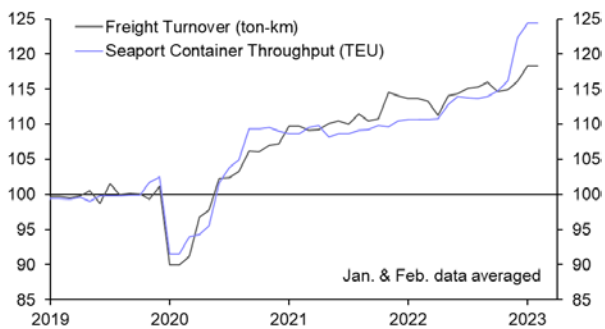


Chart 7: Freight & Seaport Traffic (2019 = 100, seas. adj.)



Sources: CEIC, NBS, WIND, Capital Economics

Capital Economics China Activity Proxy Values (Jan. & Feb. data are averaged)

|                           | 2022        |              |              |              |              |             |              |              |              |              |              |             | 2023        |             | Annual Average |            |            |  |
|---------------------------|-------------|--------------|--------------|--------------|--------------|-------------|--------------|--------------|--------------|--------------|--------------|-------------|-------------|-------------|----------------|------------|------------|--|
|                           | Feb.        | Mar.         | Apr.         | May          | Jun.         | Jul.        | Aug.         | Sep.         | Oct.         | Nov.         | Dec.         | Jan.        | Feb.        | 2022        | 2023f          | 2024f      | 2025f      |  |
| % y/y <b>Headline CAP</b> | <b>2.9</b>  | <b>-3.2</b>  | <b>-12.5</b> | <b>-6.5</b>  | <b>0.7</b>   | <b>-2.0</b> | <b>1.0</b>   | <b>-1.8</b>  | <b>-4.7</b>  | <b>-6.5</b>  | <b>-6.5</b>  | <b>0.9</b>  | <b>0.9</b>  | <b>-3.1</b> | <b>6.5</b>     | <b>4.5</b> | <b>4.0</b> |  |
| Industry                  | 6.2         | 5.9          | 4.3          | 5.8          | 2.8          | 2.7         | 2.6          | 4.0          | 4.0          | 3.4          | 4.6          | 5.9         | 5.9         | -           | -              | -          | -          |  |
| Construction              | -1.3        | -4.0         | -6.3         | -2.7         | -1.9         | 0.2         | 0.3          | 5.6          | 3.5          | 2.4          | -2.4         | 1.4         | 1.4         | -           | -              | -          | -          |  |
| Services                  | 1.2         | -7.9         | -22.9        | -13.8        | 0.2          | -4.7        | 0.2          | -6.5         | -11.3        | -14.1        | -14.1        | -2.4        | -2.4        | -           | -              | -          | -          |  |
| % <b>3m/3m SA ann.</b>    | <b>3.6</b>  | <b>-7.0</b>  | <b>-21.4</b> | <b>-29.0</b> | <b>-19.4</b> | <b>10.6</b> | <b>33.0</b>  | <b>20.2</b>  | <b>-2.3</b>  | <b>-14.4</b> | <b>-13.0</b> | <b>-0.1</b> | <b>16.2</b> | -           | -              | -          | -          |  |
| % <b>m/m SA ann.</b>      | <b>-3.0</b> | <b>-44.1</b> | <b>-60.8</b> | <b>77.5</b>  | <b>134.2</b> | <b>-3.1</b> | <b>-10.8</b> | <b>-22.7</b> | <b>-11.6</b> | <b>-12.0</b> | <b>0.4</b>   | <b>54.1</b> | <b>54.1</b> | -           | -              | -          | -          |  |

Sources: CEIC, WIND, Capital Economics. A spreadsheet with the CAP data is available to clients through the download button on the *Monitor* webpage.



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