

CHINA DATA RESPONSE

Activity & Spending (Jan. & Feb.)

A stronger start to 2023

- **Activity data for the first two months were broadly as expected, showing a jump in consumer spending coupled with modest gains in investment and industrial output. High-frequency data suggest that this recovery has continued in March. And while the NPC signalled a relatively restrained approach to policy support this year, we think that growth of 5.5% is still within reach.**
- Retail sales rebounded at the start of the year. Following a 1.8% y/y contraction in December, sales expanded 3.5% across January and February, in line with consensus expectations. **In seasonally adjusted terms, the level of sales has more than reversed its decline late last year and is now at a record high** (see Chart 1), **though it remains 18% below its pre-pandemic trend.**
- The breakdown suggests broad-based improvement, although it was restaurants that benefited the most from the reopening. (See Chart 1 again.) However, the upswing has so far not provided much relief to young jobseekers – unemployment among 15-24 year olds continued to rise in seasonally-adjusted terms, hitting a record high of 19.0% in last month. (See Chart 2.)
- The slight pick-up in industrial output growth, from 1.3% y/y to 2.4%, was also broadly in line with expectations. **In seasonally-adjusted terms, our estimates suggest it was the quickest pace of expansion since September.** The biggest improvements were in the production of construction materials.
- **Fixed investment saw modest gains as well.** Year-to-date it expanded 5.5% y/y, slightly above expectations. That said, by our estimates, the pace of expansion slowed a touch in seasonally-adjusted terms. **Infrastructure investment increased thanks to front-loading of fiscal support.** Manufacturing investment rose as well. **However, some of the gains were offset by softer property investment.** (See Chart 3.)
- The continued weakness in property investment was despite an apparent surge in new housing starts. (See Chart 4.) The latter could be an early sign that property construction is turning a corner. However, we'd caution against jumping to conclusions. The start of the year is the low season for housing construction, meaning that small differences in absolute terms can cause big swings in y/y growth rates and seasonally adjusted levels. The signals on housing demand were more unambiguously positive – house prices have stopped falling and **new home sales rose by the most m/m since the start of the housing downturn in 2021**, supported by the recent recovery in consumer sentiment. (See Chart 4 again.)
- Overall, the data confirm what more timely indicators, including the PMIs, had already suggested – that **the fading of virus disruptions led to a rapid improvement in economic conditions at the start of the year.** High frequency data suggest that this rebound extended into March. Our mobility tracker has continued to rise and is now at its highest level on record.
- The economic plans detailed at the NPC were more **cautious and restrained** than had seemed likely. As such, **the recovery probably won't benefit from any major stimulus and is likely to level off once the initial reopening boost has passed.** Nevertheless, the encouraging start to the year and weak base for comparison from last year's downturn means we remain comfortable with our forecast for growth of 5.5% this year.



Chart 1: Retail Sales (Dec. 2019 = 100, seas. adj.)

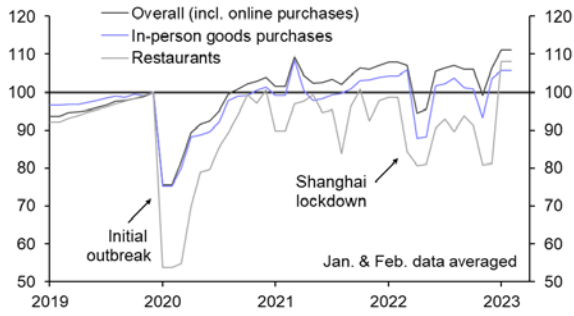


Chart 2: Surveyed Unemployment Rate (% , seas. adj.)

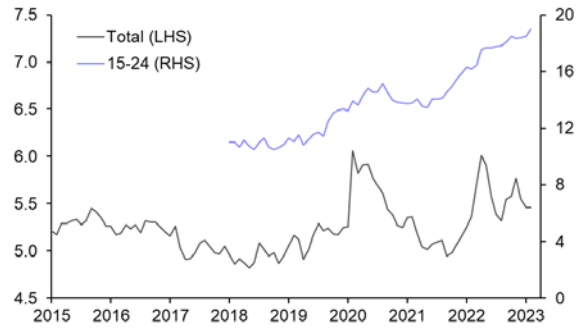


Chart 3: Fixed Investment (Dec. 2019 = 100, seas. adj.)

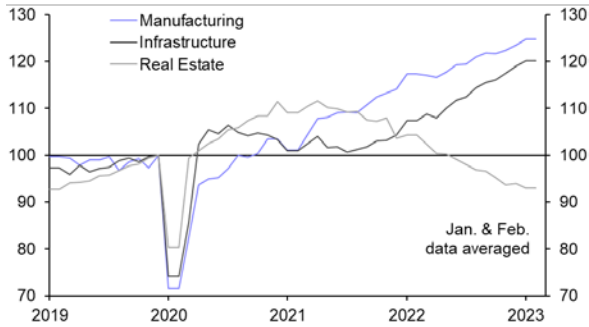
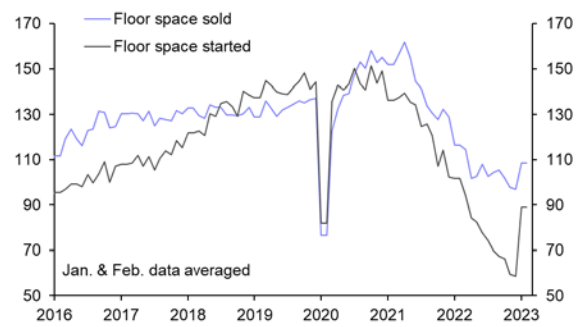


Chart 4: Residential Real Estate Activity (seas. adj.)



Sources: CEIC, WIND, Capital Economics



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