CHINA ECONOMICS WEEKLY

What to make of the growth target

The government will lay out its economic agenda for this year at the annual session of the National People's Congress (NPC), which kicks off on Sunday. Most of the key documents, including the government Work Report and annual Budget are published on the first day. There will be plenty to digest, but much of the media focus will inevitably be on the annual GDP growth target.

Last year was the first in decades in which growth came in below the government's target, which was "around 5.5%". Despite this, there is speculation that the target could be set even higher this year. That would be a strong signal that policymakers are prioritising growth over other goals. But we doubt the target will be raised.

The provincial growth targets for 2023, which have already been revealed, were *lowered* by 23 provinces (only four raised them). The weighted-average target for all provinces fell from 6.2% to 5.6%. A similar shift would lower the national target to "around 5.0%" (there's always some over-reporting at the local level). Better-than-expected data will have boosted confidence in the near-term outlook in the weeks since the provincial targets were announced in early January. A cut in the target probably isn't warranted. But we doubt the government would go so far as to raise it.

That's not to say that growth of 6% or more is unachievable this year. To the contrary, it looks increasingly within reach given how quickly activity has already bounced back since zero-COVID was abandoned. But the leadership tends to err on the side of caution when setting the annual growth target and we think the bar for raising it relative to the previous year is high – the last time this happened was in 2005. Just keeping the target unchanged would be enough to signal that officials are unusually confident – 7 out of the past 10 targets have been lower than in the previous year.

There are similarities between now and early 2021, when the economy was bouncing back strongly from the initial pandemic hit. At the time, the annual target was kept essentially unchanged relative to 2019 (there was no target in 2020), even though it was clear that it would be easily exceeded.

The broader point to note is that just as political pressures mean the GDP data don't always accurately reflect how the economy is performing, the annual target often isn't the best guide to policymakers' expectations for future growth.

The fact that the government acknowledged that growth missed its target last year is a step in the right direction. But we are still sceptical of the claim that the economy expanded 3.0% in 2022 given the frequent COVID disruptions. Our own alternative to the GDP figures, the China Activity Proxy, suggests that output contracted outright last year.

While efforts by government statisticians to dampen fluctuations in GDP growth are most evident during downturns, they also apply to cyclical upswings too. In other words, it is possible that headline growth may understate the extent of the pick-up this year.

The GDP deflator appears to be the main tool used to massage headline growth. As such, nominal GDP provides a less manicured gauge of the economy's trajectory. The government does not set an explicit target for nominal growth but an implicit one is embedded in the budget deficit target, which is published both in value terms and as a % of GDP.

This implicit target for nominal growth can be quite revealing. Last year it was set at a record low of 5.2%, which suggested that policymakers were bracing for a sharper slowdown than they had publicly acknowledged. The opposite may be true this year, with the implicit nominal target helping to reveal just how optimistic officials really are.

The week ahead

The NPC will be in session all week. The key events are scheduled for Sunday but there will be some press conferences in the days that follow. Trade, credit and inflation data will also be published.

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Data Previews

Trade (Jan. & Feb.)

Tue. 7th Mar.

Forecasts	Time (China)	Previous	Consensus	Capital Economics
Exports (USD, % y/y)	-	(-9.9%)	(-10.0%)	(-8.0%)
Imports (USD, % y/y)	-	(-7.5%)	(-4.0%)	(-5.0%)
Trade Balance (USD)	-	+78bn	+96bn	+87bn

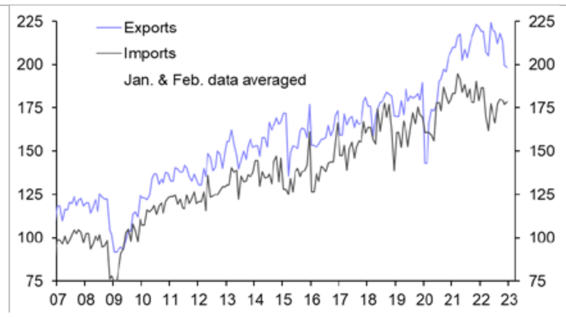
Exports still in retreat, imports on the mend

Exports fell sharply late last year while imports stagnated. (See Chart 1.) We think exports edged down further at the start of 2023 but that imports strengthened.

More timely trade data for Korea and Taiwan suggest that Asia's export sector has continued to struggle recently. And freight rates out of China are still falling. Admittedly, the export orders component of China's manufacturing PMIs rebounded last month. And daily data show that port container throughput has been on the rise recently. But the PMIs can be distorted by shifts in sentiment and media reports suggest that container utilization is declining, with empty containers are piling up at ports.

As for imports, demand is picking up thanks to the shift away from the zero-COVID policy. Imports orders rose jumped last month to their highest level since early 2018. And daily data show that the deadweight tonnage of ships arriving at Chinese ports has soared in recent weeks, signalling an increase in import activity.

Chart 1: Goods Trade ($bn, seas. adj., 2010 prices)



Sources: CEIC, Capital Economics

CPI, PPI (Feb.)

Thu. 9th Mar.

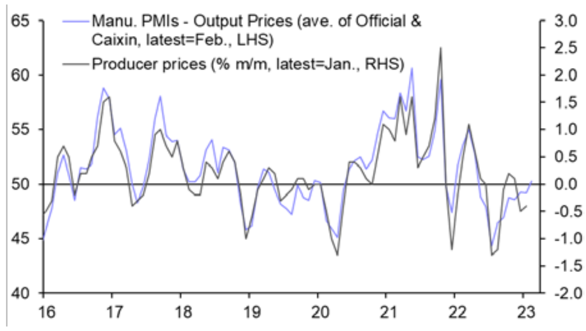
Forecasts	Time (China)	Previous	Consensus	Capital Economics
CPI (% y/y)	09.30	(+2.1%)	(+1.9%)	(+2.2%)
PPI (% y/y)	09.30	(-0.8%)	(-1.4%)	(-1.4%)

Reopening is pushing up inflation

A surge in demand for travel and in-person services following reopening pushed up consumer prices in January, with core inflation rising to a seven-month high. We think this continued last month – averaged across both services PMIs, the output price index jumped to its highest level since the Shanghai lockdown. However, this will be partially offset by lower food inflation due to a drop in pork prices, and declining fuel price inflation thanks to a higher base for comparison.

Reopening had little impact on factory-gate prices in January, which continued to decline. But the manufacturing PMIs suggest that prices stabilised last month. (See Chart 2.) And we think that they may start to rise again before long as the rebound in domestic demand puts upward pressure on commodity prices.

Chart 2: Producer Prices & PMI Output Prices



Sources: CEIC, S&P Global, Capital Economics

Net New Bank Loans, M2, AFRE (Feb.)

9th – 15th Mar.

Forecasts	Time (China)	Previous	Consensus	Capital Economics
Net New Bank Loans (RMB)	-	+4,900bn	+1,500bn	+1,500bn
M2 (% y/y)	-	(+12.6%)	(+12.4%)	(+12.5%)
Aggregate Financing "AFRE" (RMB)	-	+5,980bn	+2,250bn	+2,000bn

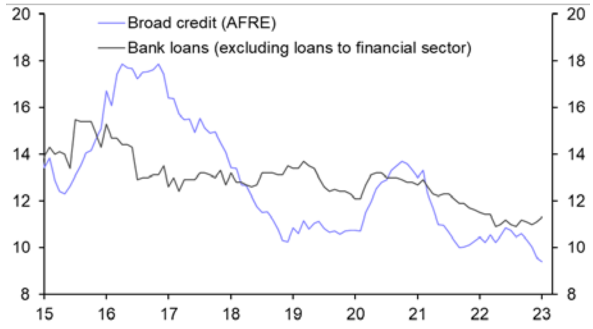
Credit growth has turned a corner

Bank loan growth rose to a 10-month high in January. (See Chart 3.) And we think it picked up further last month, helping to drive a turnaround in broad credit growth.

The pick-up in home sales since the start of the year should have supported mortgage lending. And the pivot away from zero-COVID will have boosted wider appetite for borrowing. The services PMIs suggest that expectations for a pick-up in activity are the strongest in over a decade. Interbank rates have also re-converged with PBOC policy rates, signalling a rebound in credit demand. Admittedly, the PBOC reportedly told some banks to slow down their lending in February. But that's partly just a reflection of how quickly credit demand has bounced back.

Non-bank borrowing also looks to have picked up. High frequency data point to stronger corporate and government bond issuance last month, with the latter supported by a ramp up in fiscal support by local governments, who were given large special bond quotas at the start of the year.

Chart 3: Broad Credit & Bank Loans (outstanding, % y/y)



Sources: CEIC, Capital Economics

Economic Diary & Forecasts

Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (China)	Previous*	Median*	CE Forecasts*
March						
Sat 4th	**Chn**	Start of Two Sessions – National Committee of the CPPCC	-	-	-	-
Sun 5th	**Chn**	Start of National People's Congress (including the presentation of the Work Report and annual Budget)	-	-	-	-
Tue 7th	**Chn**	Foreign Exchange Reserves (Feb., USD)	-	+3184b	-	-
	Chn	Exports (Jan. & Feb., USD)	-	(-9.9%)	(-10.0%)	(-8.0%)
	Chn	Imports (Jan. & Feb., USD)	-	(-7.5%)	(-4.0%)	(-5.0%)
	Chn	Trade Balance (Jan. & Feb., USD)	-	+78.0b	+96.0b	+87.0b
Thu 9th	**Chn**	Consumer Prices (Feb.)	(09.30)	(+2.1%)	(+1.9%)	(+2.2%)
	Chn	Producer Prices (Feb.)	(09.30)	(-0.8%)	(-1.4%)	(-1.4%)
Also expected during this period:						
9th – 15th	**Chn**	Aggregate Financing "AFRE" (Feb., RMB)	-	+5980b	+2255b	+2000b
	Chn	M2 Money Supply (Feb.)	-	(+12.6%)	(+12.4%)	(+12.5%)
	Chn	Net New Lending (Feb., RMB)	-	+4900b	+1500b	+1500b

Selected future data releases and events:

Date	Country	Release/Indicator/Event
March		
Wed 15th	**Chn**	1-Year Medium Term Lending Facility (MLF) Auction (Mar.)
	Chn	Spending and Activity Data (Jan. & Feb.)
	Chn	Foreign Exchange Net Settlement and Receipts (Feb.)
Thu 16th	**Chn**	Home Prices (70 Cities, Feb.)
	HK	Unemployment Rate (Feb.)
Also expected during this period:		
11th – 18th	**Chn**	Foreign Direct Investment (Feb.)
TBC	**Chn**	Vehicle Sales (Feb.)
TBC	**Chn**	PBOC Depository Corp. Survey (Feb.)
TBC	**Chn**	Government Revenue and Expenditure (Jan. & Feb.)

Main Economic & Market Forecasts

%q/q annualised (%y/y), unless stated	Latest	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	2022	2023f	2024f
Official GDP	0.0(+2.9)*	(3.4)	(7.6)	(5.1)	(6.4)	(5.6)	(3.0)	(5.5)	(5.0)
GDP (CE CAP-derived estimates)	-2.6(-5.9)*	(-0.9)	(7.2)	(5.9)	(10.3)	(6.7)	(-2.4)	(5.5)	(5.0)
Consumer Prices	(+2.1)***	(2.8)	(2.1)	(2)	(2.2)	(2)	(2.0)	(2.4)	(1.6)
Producer Prices	(-0.8)***	(-1.2)	(-3)	(-0.7)	(0.1)	(0.1)	(4.1)	(-1.0)	(0.5)
Broad Credit (AFRE)	(+9.4)***	(9.1)	(9.2)	(9.8)	(10.4)	(10.4)	(9.6)	(10.4)	(9.2)
Exports (US$)	(-9.9)**	(-14.2)	(-16.4)	(-18.3)	(-8.4)	(-1.2)	(7.0)	(-14.5)	(0.0)
Imports (US$)	(-7.5)**	(2.9)	(-3.4)	(-8)	(1.2)	(1.2)	(1.1)	(-2)	(3.5)
RMB/$†	6.91	6.75	6.80	6.65	6.50	6.48	6.95	6.50	6.40
7-day PBOC reverse repo† %	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
1-year Loan Prime Rate† (LPR) %	3.65	3.65	3.65	3.65	3.65	3.65	3.65	3.65	3.65
1-year MLF Rate† %	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75
10-year Government Bond Yield† %	2.93	2.80	2.70	2.90	3.10	3.10	2.85	3.10	3.10
RRR (major banks)† %	11.00	10.75	10.75	10.75	10.75	10.75	11.00	10.75	10.75
CSI 300 Index†	4,118	4,150	4,300	4,550	4,770	4,850	3,872	4,770	5,110
Hong Kong GDP	(-4.2)*	(1.5)	(2.3)	(7.4)	(9.8)	(9.5)	(-3.5)	(5.5)	(9.5)
Hang Seng Index†	20,429	21,000	23,250	24,500	26,000	26,375	19,781	26,000	27,500

Sources: Bloomberg, Refinitiv, CEIC, Capital Economics *Q4; **Dec.; ***Jan.; † End of period

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