

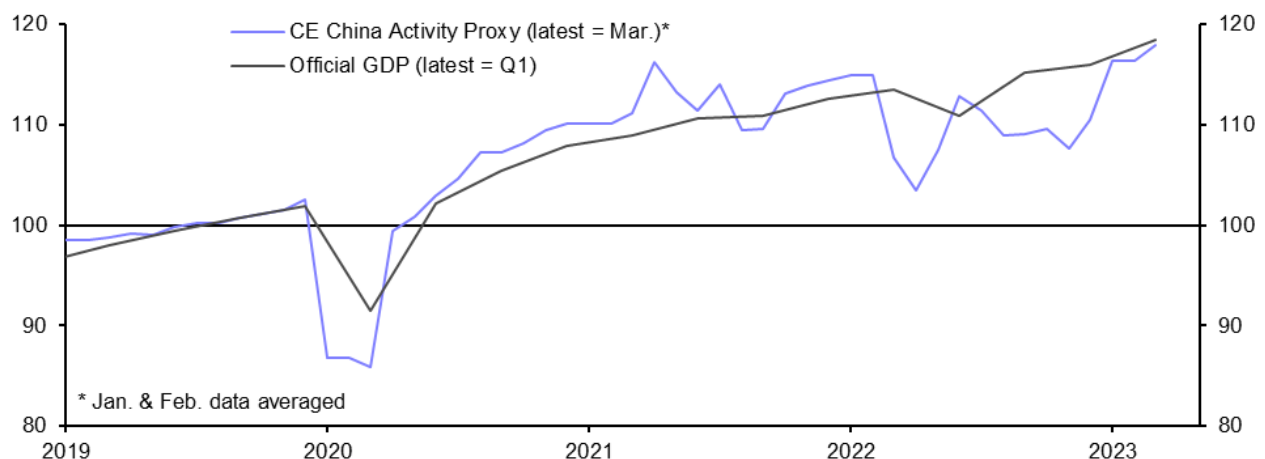


CHINA ACTIVITY MONITOR

CAP: Q1 surge will push 2023 growth over 8%

- **Our China Activity Proxy (CAP) shows that the economy bounced back rapidly in Q1, with growth since the start of the pandemic now broadly back in line with the official GDP data. And while the recovery will slow, the strong start to the year has brightened the prospects for 2023 as a whole.**
- 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.)
- The CAP showed a much bigger economic hit from virus disruptions last year than was acknowledged by official GDP. But that discrepancy largely disappeared in Q1 thanks to a strong 7.0% q/q rebound, which was much larger than the 2.2% q/q growth rate reported on the official figures. (See Chart 1.) As a result, the level of economic activity has now surpassed its previous cyclical peak in 2021.
- **In monthly terms, activity continued its robust recovery in March, expanding 1.2% m/m. This was partly driven by a further pick-up in the services sector.** (See Chart 2.) Service sector electricity consumption is now at a new high. Meanwhile, car sales appear to have stabilised as the drag from the end of subsidies has faded. But pockets of weakness remain. Despite improvements, long distance travel is still a quarter below 2019 levels while property sales are down 15%. (See Charts 3 & 4.) High frequency data suggest the services recovery has progressed further this month.
- **In contrast, construction activity softened a touch last month.** Cautious developers continued to break ground on far fewer projects than in the past, sales of construction machinery fell and output of construction materials stagnated. (See Charts 5 & 6.) **Despite this, overall industrial output climbed to a new high in March** (see Chart 6 again) and domestic freight traffic continued to rise. (See Chart 7.) One driver was a jump in oil refining as reopening supported travel-related fuel demand. And while we don't think foreign demand is as strong as the rise in container throughput alone might imply, downward pressure on the export sector has clearly eased recently.
- Given how quickly the economy has rebounded, **sequential q/q growth will moderate over the rest of the year. But headline y/y growth will rise further** due to the weak base for comparison, especially in Q2 and Q4. As such, **we now expect China's economy to grow by 8.5% this year** (previously 6.5%). Since this assumes an average growth rate of around 3.0% for 2022-23, it would still be consistent with a more modest rebound than in 2020-21, when growth averaged around 5.5%. The lack of an export boom and less stimulus means activity will level off more quickly this time around.

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.)

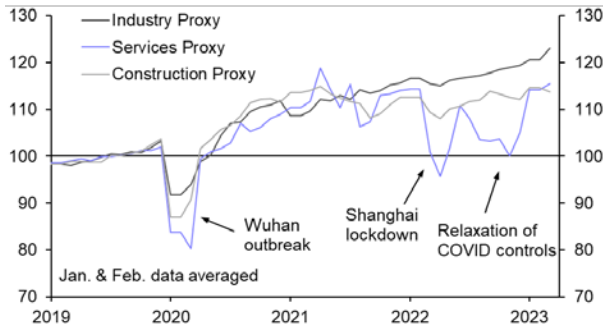


Chart 3: Passenger Traffic & Service Sector Electricity Consumption (2019 = 100, seas. adj.)

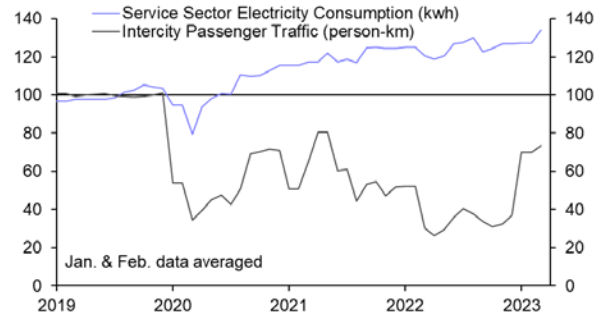


Chart 4: Property & Car Sales (2019 = 100, seas. adj.)

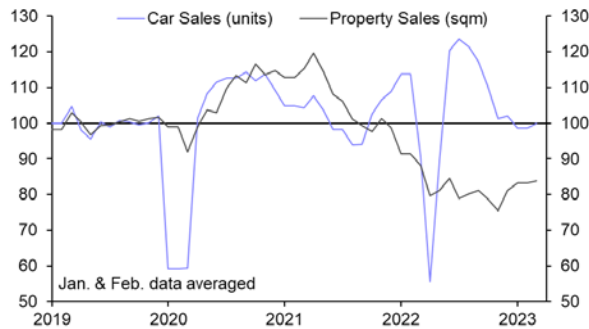


Chart 5: Construction Activity (2019 = 100, seas. adj.)

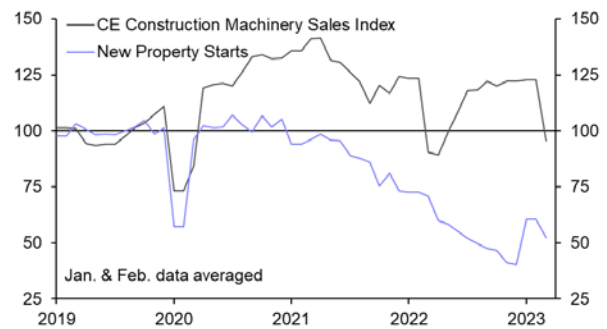


Chart 6: CE Industrial Output Index (2019 = 100, seas. adj.)

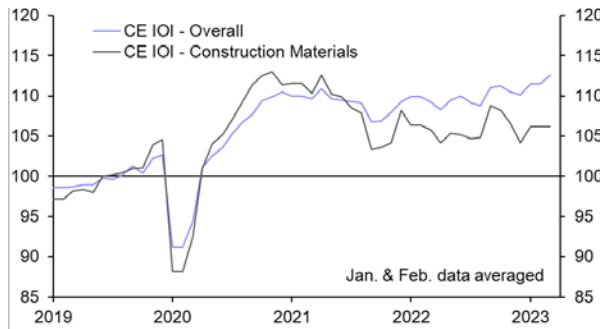
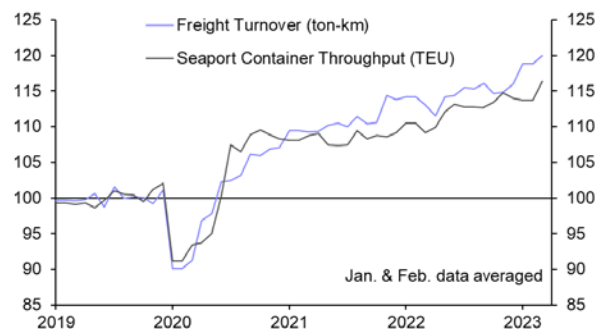


Chart 7: Freight & Seaport Traffic (2019 = 100, seas. adj.)



Sources: CEIC, NBS, WIND, Capital Economics

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

	2022												2023				
	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	2022	2023f	2024f	2025f
% y/y Headline CAP	-4.0	-11.0	-5.1	1.2	-2.2	-0.4	-0.4	-3.1	-5.5	-3.4	1.2	1.2	10.6	-2.2	8.5	4.5	4.0
Industry	5.8	2.4	4.0	3.3	4.0	2.5	3.6	3.8	3.0	2.9	3.2	3.2	6.9	-	-	-	-
Construction	-4.0	-6.1	-2.7	-1.8	0.4	0.3	5.6	3.5	1.6	-0.6	2.0	2.0	4.0	-	-	-	-
Services	-9.2	-19.2	-11.0	0.8	-5.3	-1.5	-4.6	-9.5	-12.8	-8.4	-0.2	-0.2	15.3	-	-	-	-
% 3m/3m SA ann.	-5.4	-19.5	-27.7	-14.5	8.4	21.2	7.4	-4.8	-8.1	-2.2	8.7	22.7	31.3	-	-	-	-
% m/m SA ann.	-59.3	-31.1	58.3	79.3	-13.7	-23.7	1.8	4.9	-19.5	38.6	36.7	36.7	17.4	-	-	-	-

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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