

# CHINA DATA RESPONSE

## GDP (Q1) & Activity (Mar.)

Growth on course to hit 6% this year

- **GDP rebounded more quickly than expected in Q1 thanks to a rapid return to normality following last year's virus disruptions. With consumer confidence on the mend and credit growth accelerating, there is still scope for a further pick-up in activity over the coming months. We now think official GDP growth will reach 6.0% this year.**
- Headline GDP growth accelerated from 2.9% y/y in Q4 to 4.5% last quarter, beating expectations (the Bloomberg median and our forecast were 4.0%). (See Chart 1.) This partly reflects a weak base for comparison – virus disruptions were spreading at the end of Q1 last year. But growth also jumped in seasonally-adjusted q/q terms, from an upwardly revised 0.6% in Q4 to 2.2% in Q1. **This leaves output 6.8% higher than during the recent trough in Q2 2022. As such, headline GDP growth is on course to exceed 7.0% this quarter** – in fact, we anticipate growth of 8.2% in Q2.
- The China Activity Proxy, our in-house alternative to the official GDP figures, points to an even stronger rebound in q/q terms. However, it started from a lower base and remains below the levels implied by the official figures. (See Chart 2.)
- **The breakdown of the GDP data shows that industry, construction and services all fared better in Q1 relative to Q4.** The latter saw the strongest rebound, with growth of 5.4% y/y. last quarter This reflects the larger scope for recovery as the sector suffered the biggest hit to activity from the zero-COVID policy.
- Monthly data suggests growth in services activity rose from 5.5% y/y to 9.2% in March. (See Chart 3.) Retail sales remained robust too, growing 10.6% y/y from 3.5% (Bloomberg: 7.5% and CE: 7.0%). This was partly due to favourable base effects from a year ago when several large cities entered lockdowns. **But our estimates suggest sales continued to rise in seasonally adjusted terms too.**

Chart 1: Official GDP

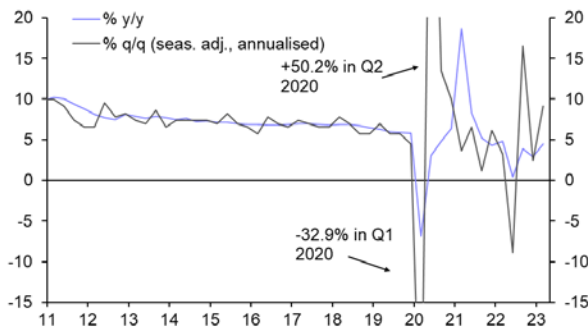


Chart 2: GDP & CE China Activity Proxy (2019=100, seas. adj.)

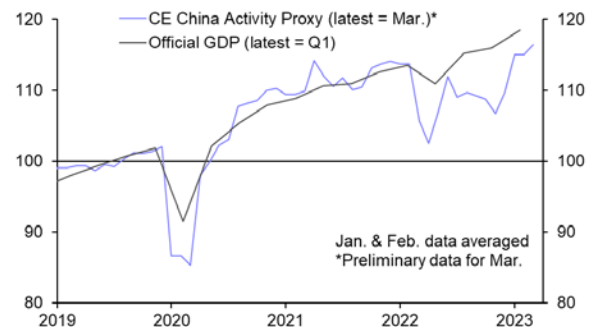


Chart 3: Retail Sales & Services Production (% y/y)

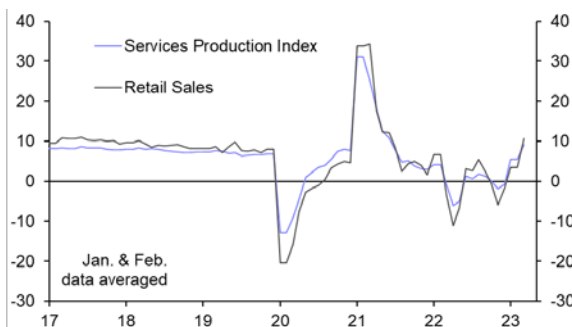
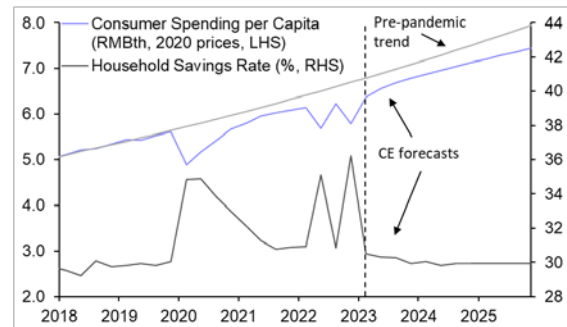


Chart 4: Household Consumption & Saving



Sources: CEIC, Refinitiv, WIND, Capital Economics

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- The increase in consumption has partly been driven by a sharp fall in savings rate as households turned more positive about the economy’s prospects. (See Chart 4.) A tightening labour market probably also played a part even though pockets of weakness remain among the youths. (See Chart 5.)
- Growth in industrial output accelerated from 2.4% y/y to 3.9% (Bloomberg: 4.4% and CE: 2.2%). **And our calculations suggest that output growth picked up in m/m terms too. This improvement seems to be domestically driven.** Although customs reported a jump in exports in March, their data are noisy and often suffer from distortions. The more reliable figures on industrial export sales, which were published today, actually softened slightly. (See Chart 6.)
- The only indicator that disappointed last month was fixed investment. Year-to-date, it rose 5.1% y/y in March (Bloomberg: 5.7% and CE: 5.6%). That implies a slowdown in monthly y/y growth from 5.5% y/y to 4.8%. We estimate that growth edged down in seasonally adjusted m/m terms too. **Manufacturing and infrastructure investment remained strong. But the contraction in property investment continued.** (See Chart 7.)
- There are some signs of a turnaround in housing starts. (See Chart 8.) But absolute amounts are small since Q1 is the low season for construction. And the level of housing starts is still consistent with a further fall in property construction in the coming months, as more existing projects are completed. The signals on housing demand were more positive – house prices expanded by their largest clip in 21 months and new home sales continued to rise m/m thanks to the rebound in consumer sentiment.
- All told, the economy was still recovering rapidly at the end of Q1. And high frequency data suggest the rebound has continued into April. Admittedly, industry appears to have lost some momentum this month. But the signals on services remain positive. Our mobility tracker reached a new high in recent days, while consumer confidence has strengthened further according to an IPSOS survey published last week.
- The speed of the recovery has exceeded even our relatively upbeat expectations. We were ahead of the curve in raising our 2023 growth forecast to 5.5% in [early January](#) (the consensus at the time was 4.8%). **We now think official GDP growth could hit 6.0% this year. And in practice, growth is likely to be even higher given that the official GDP figures understated the extent of last year’s downturn.**

Chart 5: Surveyed Unemployment Rate (% , seas. adj.)

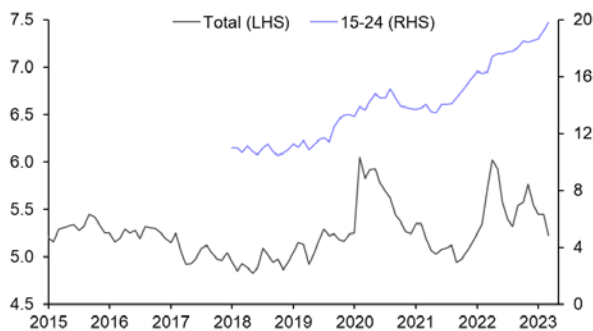


Chart 6: Exports & Industrial Export Sales (\$ , Dec. 2019=100, CE seas. adj.)



Chart 7: Fixed Investment (Dec. 2019=100, CE seas. adj.)

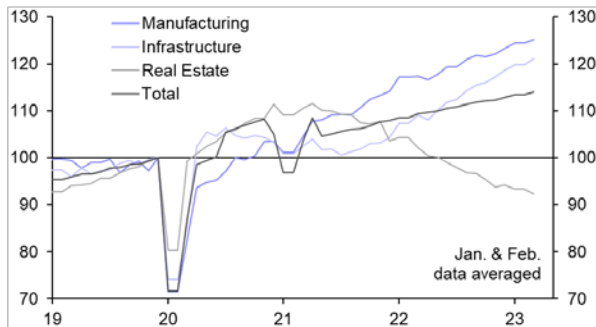
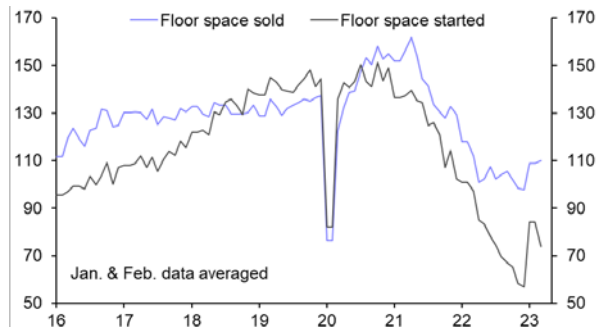


Chart 8: Real Estate Activity (million sqm, seas. adj.)



Sources: CEIC, Capital Economics



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