



# CHINA ECONOMICS WEEKLY

## Takeaways from the detailed Q1 GDP breakdown

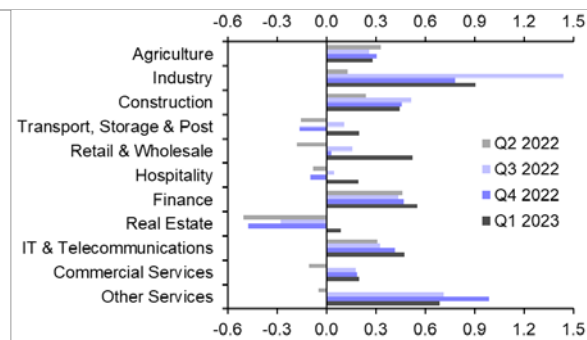
### Reopening boost to services not tapped out yet

The Q1 GDP figures published earlier this week exceeded even our relatively upbeat expectations, helping to settle some of the [debate](#) over the strength of China's recovery. [In response](#), we revised up our 2023 forecast for official GDP growth to 6.0%. And actual growth, which we attempt to measure using our China Activity Proxy, is likely to be even higher.

The detailed sectoral breakdown of the GDP figures published a day after the headline data received less attention but offers useful insights into the shape of China's recovery, especially for parts of the service sector where data is otherwise limited.

The boost from reopening was most evident in transport, retail and hospitality. (See Chart 1.) These three sectors alone were responsible for 70% of the acceleration in headline GDP growth in Q1.

**Chart 1: Contribution to Year-on-Year GDP Growth by Sector (%-pts, seas. adj.)**



Sources: CEIC, Capital Economics

Much of the rebound in these sectors has now happened but there still scope for them to recover further over the coming quarters. They are unlikely to fully return to their pre-pandemic path, since the economy's trend growth rate has since slowed. But we do expect their share of GDP, which was rising ahead of the pandemic for structural reasons, to regain the all-time high of 15.9% reached in mid-2021. Last quarter, the share rose from 14.7% to 15.3%, suggesting that around half of the post-COVID rebalancing of economic activity toward these sectors has yet to come.

The other sector that saw a marked turnaround was real estate services, which expanded slightly in Q1 following six quarters of contraction. This was thanks to the recent recovery in new home sales.

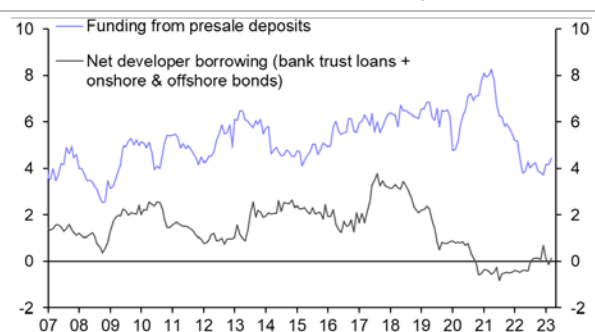
### Tech and finance also doing better

There were more modest improvements in the tech and finance sectors. In q/q terms, the former grew at the fastest pace since Q2 2021, just prior to the introduction of a raft of stricter rules on tech firms. With the regulatory crackdown winding down (for the time being at least), the tech sector appears to be regaining momentum. But its growth remains well short of the heady rates achieved during the boom years. As for the financial sector, it has benefited from a [revival in credit demand](#) and a wave of capital inflows.

### Developer finances still holding back construction

Although fiscal front-loading has kept infrastructure spending strong in recent months, the GDP data nonetheless showed a slowdown in construction in Q1. The culprit was a further contraction in property investment. Financing constraints on developers were eased late last year. This has halted the decline in their borrowing but so far has not resulted in much of a pick-up. (See Chart 2.) Policymakers [appear keen](#) to avoid a renewed build-up of credit risks in the sector. For their part, developers remain cautious and focused on repairing their finances.

**Chart 2: Developer Financing (% of trend GDP, seas. adj.)**



Sources: CEIC, WIND, Capital Economics

### The week ahead

No major data releases or events are scheduled.



# Economic Diary & Forecasts

## Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (China)	Previous*	Median*	CE Forecasts*
<b>April</b>						
Mon 24 <sup>th</sup>		<b>HK</b> Unemployment Rate (Mar.)	(15.30)	3.30%	3.20%	3.20%
Tue 25 <sup>th</sup>		<b>HK</b> Exports (Mar., HKD)	(15.30)	(-8.8%)	-	(+4.5%)
		<b>HK</b> Imports (Mar., HKD)	(15.30)	(-4.1%)	-	(+4.0%)
		<b>HK</b> Trade Balance (Mar., HKD)	(15.30)	-45.4b	-	-38.0b
Thu 27 <sup>th</sup>		<b>Chn</b> Profits of Large Industrial Firms (Mar., ytd y/y)	(08.30)	(-22.9%)	-	-
Also expected during this period:						
TBC		<b>Chn</b> CBRC Data on Assets and Liabilities of Financial Institutions (Mar.)	-	-	-	-

### Selected future data releases and events:

#### April

Sun 30<sup>th</sup> **Chn** "Official" PMIs (Apr.)

#### May

1<sup>st</sup> – 3<sup>rd</sup> **Chn** Labour Day (National Holiday)

Mon 1<sup>st</sup> **HK** Labour Day (National Holiday)

Tue 2<sup>nd</sup> **Chn** Caixin Manufacturing PMI (Apr.)

**HK** GDP (Q1, Adv.)

Thu 4<sup>th</sup> **Chn** Caixin Services PMI (Apr.)

**HK** Retail Sales (Mar.)

## Main Economic & Market Forecasts

%q/q annualised (%y/y), unless stated	Latest	Q2 2023	Q3 2023	Q4 2023	Q1 2024	2022	2023f	2024f	2025f
Official GDP	+2.2(+4.5)***	(8)	(5.5)	(6)	(5)	(3.0)	(6.0)	(5.0)	(4.5)
GDP (CE CAP-derived estimates)	-3.4(-5.9)*	(9)	(5)	(10)	(4.5)	(-3.1)	(6.5)	(4.5)	(4.0)
Consumer Prices	(+0.7)**	(1.5)	(1.7)	(1.9)	(2.4)	(2.0)	(1.5)	(2.0)	(1.5)
Producer Prices	(-2.5)**	(-2.7)	(-0.5)	(0.5)	(1.0)	(4.1)	(-1.2)	(0.9)	(0.4)
Broad Credit (AFRE)	(+10.0)**	(10.1)	(10.1)	(10.7)	(9.2)	(9.6)	(10.7)	(8)	(7.7)
Exports (US\$)	(+14.8)**	(-15.5)	(-19.0)	(-8.0)	(-12.5)	(7.0)	(-11.0)	(-2.5)	(2.5)
Imports (US\$)	(-1.4)**	(-4.0)	(-8.0)	(0.5)	(1.5)	(1.1)	(-4.5)	(3.5)	(1)
RMB/\$ <sup>†</sup>	6.87	6.90	6.80	6.70	6.65	6.95	6.70	6.50	6.40
7-day PBOC reverse repo <sup>†</sup> %	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
1-year Loan Prime Rate <sup>†</sup> (LPR) %	3.65	3.65	3.65	3.65	3.65	3.65	3.65	3.65	3.65
1-year MLF Rate <sup>†</sup> %	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75
10-year Government Bond Yield <sup>†</sup> %	2.84	3.10	3.15	3.20	3.10	2.85	3.20	2.90	2.60
RRR (major banks) <sup>†</sup> %	10.75	10.75	10.75	10.75	10.75	11.00	10.75	10.75	10.75
CSI 300 Index <sup>†</sup>	4,113	4,325	4,550	4,770	4,855	3,872	4,770	5,110	5,468
Hong Kong GDP	(-4.2)*	(3.5)	(8)	(9.5)	(8)	(-3.5)	(5.5)	(7.5)	(4.5)
Hang Seng Index <sup>†</sup>	20,397	20,925	21,450	22,000	23,000	19,781	22,000	26,000	30,000

Sources: Bloomberg, Refinitiv, CEIC, Capital Economics \*Q4; \*\*Mar.; \*\*\*Q1; <sup>†</sup> End of period



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