

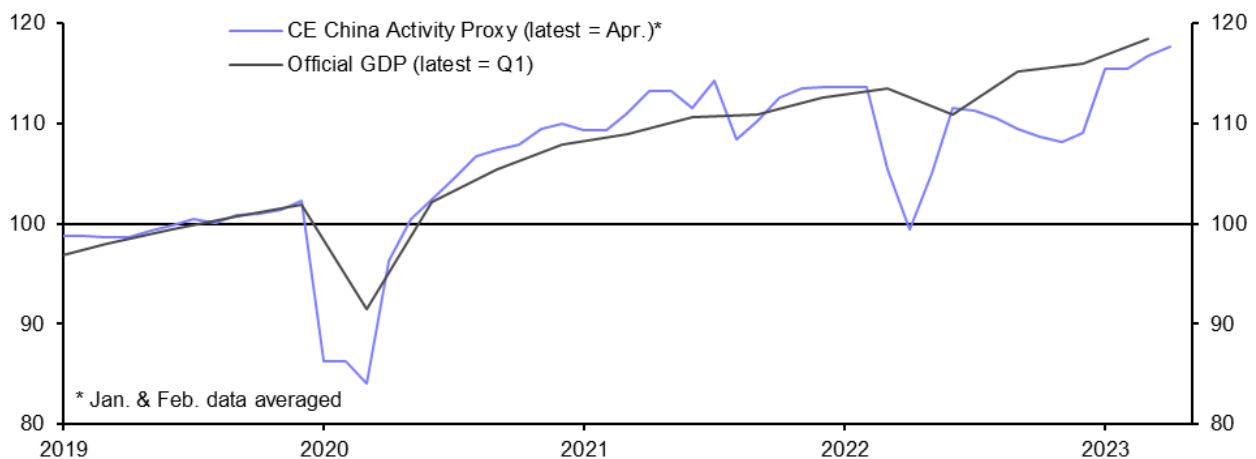


# CHINA ACTIVITY MONITOR

## CAP: Service sector keeps the recovery alive

- **Our China Activity Proxy (CAP) shows that, despite losing some momentum, the economic recovery was still making progress at the start of Q2. And we think there is still scope for further improvement, especially in the service sector.**
- 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 link on the *Monitor* webpage provides access to the data.)
- Our estimates suggest that growth accelerated from 10.7% y/y in March to 18.4% in April. But this tells us little about the economy's current momentum since it reflects a much weaker base for comparison from the lockdown in Shanghai and other large cities last year. In seasonally-adjusted terms, the pace of expansion slowed from 1.2% m/m to 0.8%. (See Chart 1.)
- **Services remained the main driver of the recovery last month and the level of activity is now higher than it was at the start of 2022.** (See Chart 2.) Parts of the services sector have fully recovered. Service sector electricity consumption reached a new high and car sales seem to have stabilised. In contrast, long-distance travel, while at its highest level since the start of the pandemic, is still a quarter below 2019. And property sales remain down 15%. (See Charts 3 & 4.)
- **Construction activity failed to gain much ground in April.** Sales of construction machinery did pick up, buoyed by faster fiscal spending on infrastructure. But developers remain cautious – far fewer projects were started than in the past, and output of construction materials fell. (See Charts 5 & 6.) **Wider industrial activity also stagnated last month.** (See Chart 2 again.) Weak demand for Chinese goods is partly to blame – container throughput at Chinese ports edged down as exports dropped back. Domestic freight traffic held up better but failed to make further gains. (See Chart 7.)
- In sum, the economy was still rebounding last month, albeit at a slower pace. We think there is room for further improvement, particularly in the bits of the service sector that were hardest hit by the zero-COVID policy. Indeed, more timely data including those covering the Labour Day holiday suggest travel and consumer spending were still strengthening this month. But with the challenging external picture continuing to cloud over the exports outlook, struggles in the housing market persisting, and extensive policy support unlikely, **sequential q/q growth is set to moderate over the rest of the year.**

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.)

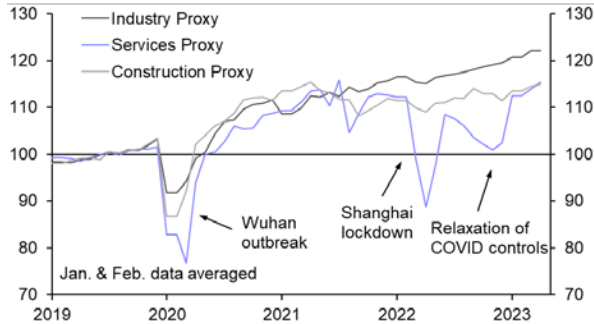


Chart 3: Passenger Traffic & Service Sector Electricity Consumption (2019 = 100, seas. adj.)

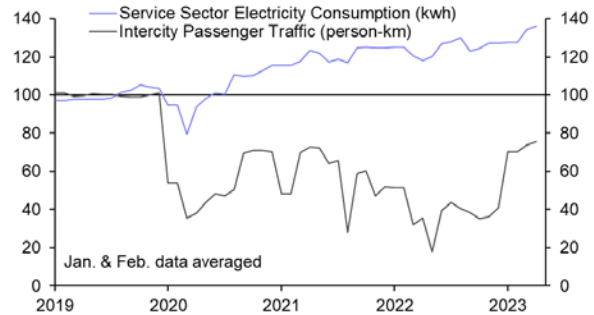


Chart 4: Property & Car Sales (2019 = 100, seas. adj.)

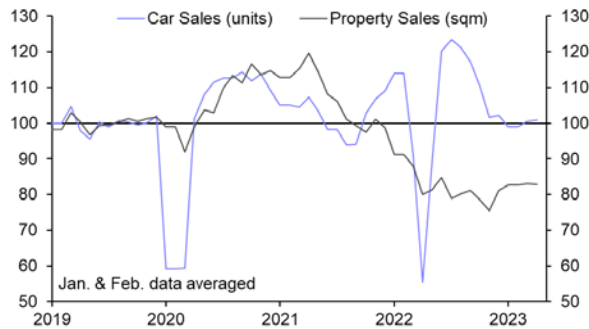


Chart 5: Construction Activity (2019 = 100, seas. adj.)

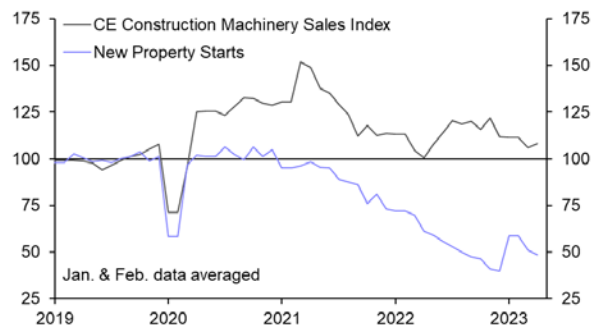


Chart 6: CE Industrial Output Index (2019 = 100, seas. adj.)

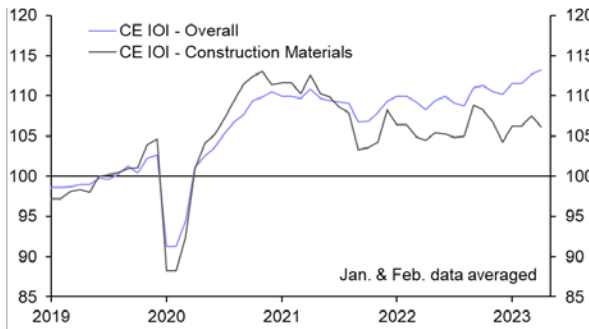
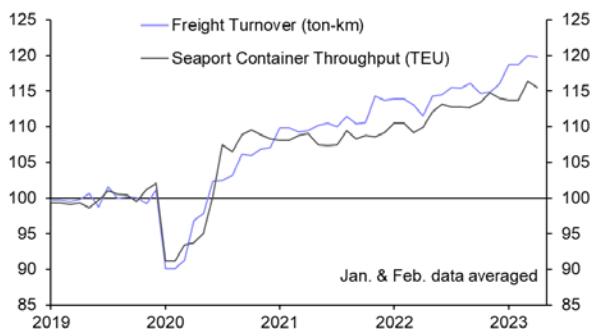


Chart 7: Freight & Seaport Traffic (2019 = 100, seas. adj.)



Sources: CEIC, NBS, WIND, Capital Economics

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

	2022				2023				Annual Average								
	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	2022	2023f	2024f	2025f
<b>% y/y Headline CAP</b>	<b>-12.2</b>	<b>-7.2</b>	<b>0.1</b>	<b>-2.7</b>	<b>1.9</b>	<b>-0.8</b>	<b>-3.4</b>	<b>-4.7</b>	<b>-4.0</b>	<b>1.6</b>	<b>1.6</b>	<b>10.7</b>	<b>18.4</b>	<b>-2.6</b>	<b>8.5</b>	<b>4.5</b>	<b>4.0</b>
Industry	1.8	3.6	3.1	3.9	2.6	3.8	4.0	3.4	3.4	3.8	3.8	6.2	6.0	-	-	-	-
Construction	-5.6	-2.4	-1.7	0.3	0.2	5.5	3.3	2.2	-0.6	1.9	1.9	4.2	5.3	-	-	-	-
Services	-20.6	-13.3	-0.2	-6.1	1.9	-5.5	-10.4	-12.5	-10.3	-0.7	-0.7	15.1	31.0	-	-	-	-
<b>% 3m/3m SA ann.</b>	<b>-23.6</b>	<b>-31.8</b>	<b>-18.7</b>	<b>12.2</b>	<b>33.9</b>	<b>20.6</b>	<b>1.0</b>	<b>-8.2</b>	<b>-6.2</b>	<b>4.9</b>	<b>17.7</b>	<b>29.5</b>	<b>22.4</b>	-	-	-	-
<b>% m/m SA ann.</b>	<b>-50.6</b>	<b>93.3</b>	<b>106.4</b>	<b>-3.8</b>	<b>-7.1</b>	<b>-11.7</b>	<b>-7.1</b>	<b>-5.8</b>	<b>9.5</b>	<b>41.8</b>	<b>41.8</b>	<b>14.7</b>	<b>9.8</b>	-	-	-	-

Sources: CEIC, WIND, Capital Economics. A spreadsheet with the CAP data is available to clients on the Monitor webpage.



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