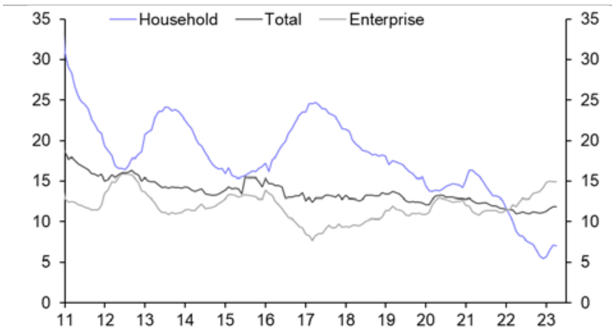
CHINA DATA RESPONSE

Bank Lending & Broad Credit (Apr.)

Credit demand much weaker than expected

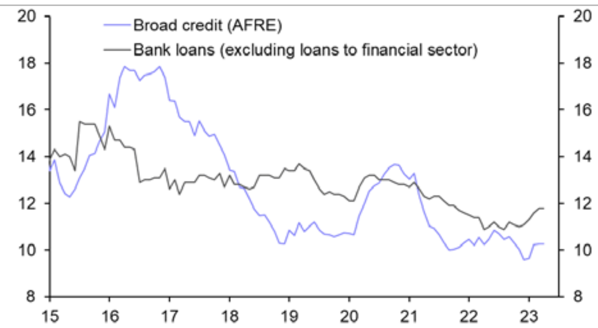
- **A widely-anticipated acceleration in credit growth didn't materialise last month, suggesting that momentum may already be fading in China's post-zero-COVID rebound.**
- China's banks extended only RMB718.8bn in new local currency loans in April on a net basis, far less than expected (the Bloomberg median was RMB1,400bn and our forecast was RMB2,000bn). Aggregate financing (AFRE), the PBOC's measure of broad credit, was also weak, rising by RMB1,220bn (Bloomberg RMB2,000bn, CE RMB2,400bn).
- The simplest way to cut through the seasonality of the net increase numbers is to look at what they imply for credit growth in y/y terms. For April, a year on from the Shanghai lockdown when credit demand slumped, it had seemed almost certain that credit growth would accelerate in y/y terms. Instead, growth of bank lending remained flat at 11.8% y/y, with the breakdown showing lending growth to corporates and to households flat too. (See Chart 1.) The same was true for the broader credit measure, unchanged at 10.0% y/y. (See Chart 2.)
- **The implication is that credit demand is faltering, which suggests we shouldn't have high hopes for domestic demand later in the year.** The weakness of lending to households – primarily mortgages – tallies with daily data suggesting that the recovery in property sales has at least partially reversed.
- To be clear, most evidence suggests that the initial economic rebound since December has been strong. Retail spending during the Labour Day break earlier this month may even have returned sales to their pre-COVID trend. Current consensus forecasts for China's growth across 2023 do not yet, in our view, fully take the strength of this bounce into account. **But the recovery does appear to be running out of steam. And with foreign demand likely to be weaker too, the second half of 2023 will be economically challenging.**

Chart 1: Growth of Outstanding Bank Loans (% y/y)



Sources: CEIC, Capital Economics

Chart 2: Growth of Outstanding Credit (% y/y)



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