



CHINA ECONOMICS WEEKLY

Making sense of the reopening recovery

An underwhelming set of data published over the past week have added to growing concerns about the state of China's recovery. [Imports](#), [inflation](#) and [credit](#) all came in below expectations for April.

It might seem hard to square this with the more [encouraging signs](#) on consumer activity from last week's Labour Day holiday. But we think it mostly just reflects the narrow nature of China's reopening rebound. As [we noted](#) previously, the bulk of the rise in GDP last quarter was driven by just three sectors – transportation, hospitality and retail (especially F&B). And most signs suggest they remained the key drivers of the recovery at the start of Q2 too.

Given that these sectors rely almost entirely on domestic inputs, it is not surprising that their recovery hasn't provided much of an uplift to imports. A key exception is plane and car travel, whose rebound might have been expected to drive a stronger pick-up in crude oil imports.

That hasn't materialised in large part because China expanded its stockpiles of crude oil substantially during the pandemic. Refineries are now dipping into these onshore supplies, reducing the need for additional imports. For this reason, a better guide to the strength of the recovery in domestic fuel demand is the level of output at China's refineries, which has bounced back strongly and was back in line with its pre-pandemic trend in March. (See Chart 1.)

Chart 1: Refined Petroleum Output (tonnes mn, SA)

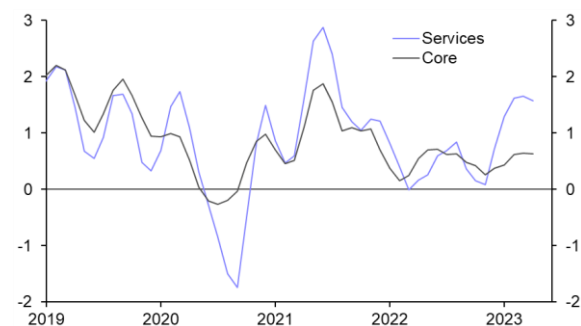


Sources: CEIC, Capital Economics

The inflation data also give misleading signals about the health of domestic demand. Headline consumer

price inflation is often distorted by base effects and idiosyncratic or externally driven swings in food and energy prices. Focusing instead on the sequential change in core CPI, it's clear that while price pressures remain muted, they have in fact picked up somewhat. (See Chart 2.)

Chart 2: Consumer Prices (% 3m/3m, annualised, SA)



Sources: CEIC, Capital Economics

Furthermore, while weakening global demand for Chinese-made products and the price war in the auto sector have kept core goods inflation low, services inflation has jumped, and points to the y/y rate rising above 1.5% before long.

That pales in comparison to the price surges seen elsewhere following reopening. But a similar outcome [never looked likely](#) in China's case. And the modest pick-up that we have seen is still broadly consistent with wider evidence of a rapid recovery in the service sector. We continue to think that Q2 GDP growth will surprise to the upside.

However, because the recovery has been so reliant on a narrow reopening boost in a few sectors, it is likely to [fizzle out](#) before long. What's more, the softer-than-hoped-for credit data for April suggests that the tailwind from previous monetary easing is now starting to fade, though not to the point where another round of stimulus looks imminent.

The week ahead

For that reason, we think the PBOC will keep its MLF rate on hold on Monday. And sentiment about the rebound may then shift if, as we expect, the activity and spending data on Tuesday beat expectations.



Data Previews

Medium-term Lending Facility Rate (May)

Mon. 15th May

Forecasts	Time (China)	Previous	Consensus	Capital Economics
MLF Rate (1-year)	09.20	2.75%	2.75%	2.75%

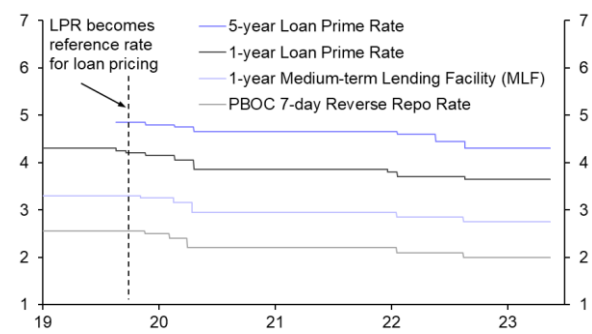
Wait and see

Since the shift away from zero-COVID, the PBOC has kept its policy rates on hold (see Chart 3), except for a 25bp cut to the reserve requirement ratio (RRR).

As discussed about, we don't think that the fall in consumer price inflation to a 26-month low in April should raise too many concerns about the recovery so far. The latest move was mainly about food and energy price swings. Core inflation has only risen slightly, but that's perhaps to be expected given that the rebound so far has only lifted the economy out of a deep slump rather than created constraints in capacity. Banks were recently told to cap deposit rates. In our view, this was part of an effort to ease margin pressures rather than a sign that the PBOC intends to cut policy rates.

The PBOC may pay more attention to the **weaker-than-expected** credit data released yesterday. It probably would act if credit slowed significantly over the next few months. But the PBOC will probably wait to see whether this happens.

Chart 3: Policy Rates (%)



Sources: CEIC, Capital Economics

Activity & Spending (Apr.)

Tue. 16th May

Forecasts	Time (China)	Previous	Consensus	Capital Economics
Industrial Production (% y/y)	10.00	(+3.9%)	(+10.7%)	(+11.4%)
Fixed Asset Investment (ytd % y/y)	10.00	(+5.1%)	(+5.7%)	(+5.5%)
Retail Sales (% y/y)	10.00	(+10.6%)	(+22.0%)	(+35.0%)

Past the most rapid phase of reopening

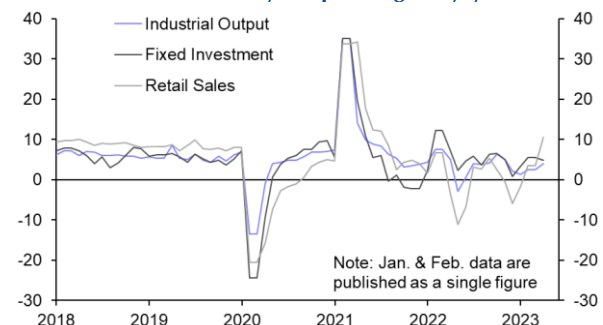
Growth on all activity indicators will have soared in y/y terms in April thanks to favourable base effects a year after Shanghai and several other cities went into lockdown. (See Chart 4.) It makes more sense to focus as much as possible on the levels data.

For retail sales and other indicators for the service sector where the post-zero-COVID surge was strongest, a slowdown in sequential growth is now inevitable. We think growth will still look strong overall.

Industry didn't suffer as much as the retail sector during zero-COVID and so the recovery was always going to be less dramatic. The manufacturing **PMIs** and **export data** suggest that other factors are now playing a bigger role is sapping demand.

Investment spending probably lost momentum last month too. The front-loading of fiscal support which has supported infrastructure spending is nearing the end of its course. A struggling housing sector suggests a turnaround in property investment was unlikely too.

Chart 4: Activity & Spending (% y/y)



Note: Jan. & Feb. data are published as a single figure

Sources: CEIC, Capital Economics



Economic Diary & Forecasts

Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (China)	Previous*	Median*	CE Forecasts*
May						
Mon 15 th		Chn 1-Year Medium-Term Lending Facility (MLF) Auction (May.)	(09.20)	2.75%	2.75%	2.75%
		Chn Foreign Exchange Net Settlement and Receipts (Apr.)	-	-106.9b	-	-
Tue 16 th		Chn Retail Sales (Apr.)	(10.00)	(+10.6%)	(+22.0%)	(+35.0%)
		Chn Industrial Production (Apr.)	(10.00)	(+3.9%)	(+10.7%)	(+11.4%)
		Chn Fixed Asset investment (Apr., ytd y/y)	(10.00)	(+5.1%)	(+5.7%)	(+5.5%)
		Chn Unemployment Rate (Apr.)	(10.00)	5.30%	5.30%	5.30%
		Chn Property Investment (Apr., ytd y/y)	(10.00)	(-5.8%)	(-5.6%)	(-7.0%)
Wed 17 th		Chn Home Prices (70 Cities, Apr.)	(09.30)	+0.4%	-	-
Thu 18 th		HK Unemployment Rate (Apr.)	(16.30)	3.10%	-	3.10%
Also expected during this period:						
13 th – 18 th		Chn Foreign Direct Investment (Apr., RMB)	-	(+4.9%)	-	-
TBC		Chn PBOC Balance Sheet Data (Apr.)	-	-	-	-

Selected future data releases and events:

May

Mon 22 nd		Chn 1-Year Loan Prime Rate (May.)
		HK Consumer Prices (Apr.)
Fri 27 th		HK The Birthday of the Buddha (National Holiday)
		Chn Profits of Large Industrial Firms (Apr., ytd y/y)

Also expected during this period:

TBC		Chn Government Revenue and Expenditure (Apr.)
TBC		Chn CBRC Data on Assets and Liabilities of Financial Institutions (Apr.)

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)*	(8.7)	(5.9)	(6.6)	(5.2)	(3.0)	(6.5)	(4.7)	(4.2)
GDP (CE CAP-derived estimates)	+7.0(+4.2)*	(10)	(9)	(11)	(4.5)	(-2.0)	(8.5)	(4.5)	(4.0)
Consumer Prices	(+0.1)**	(1.5)	(1.7)	(1.9)	(2.4)	(2.0)	(1.5)	(2.0)	(1.5)
Producer Prices	(-3.6)**	(-2.7)	(-0.5)	(0.5)	(1.0)	(4.2)	(-1.2)	(0.9)	(0.4)
Broad Credit (AFRE)	(+10.0)**	(10.1)	(10.1)	(10.7)	(9.2)	(9.6)	(10.7)	(8.0)	(7.7)
Exports (US\$)	(+8.5)**	(-15.5)	(-19.0)	(-8.0)	(-12.5)	(7.0)	(-11.0)	(-2.5)	(2.5)
Imports (US\$)	(-7.9)**	(-4.0)	(-8.0)	(0.5)	(1.5)	(1)	(-4.5)	(3.5)	(1)
RMB/\$ [†]	6.95	6.95	6.90	6.90	6.80	6.95	6.90	6.50	6.40
7-day PBOC reverse repo [†] %	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
1-year Loan Prime Rate [†] (LPR) %	3.65	3.65	3.65	3.65	3.65	3.65	3.65	3.65	3.65
1-year MLF Rate [†] %	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75
10-year Government Bond Yield [†] %	2.71	2.90	3.05	3.20	3.10	2.85	3.20	2.90	2.60
RRR (major banks) [†] %	10.75	10.75	10.75	10.75	10.75	11.00	10.75	10.75	10.75
CSI 300 Index [†]	3,990	3,980	3,970	3,950	4,085	3,872	3,950	4,500	5,100
Hong Kong GDP	(+2.7)*	(4.0)	(9.0)	(11.0)	(7.5)	(-3.5)	(-3.5)	(6.5)	(7.5)
Hang Seng Index [†]	19,800	20,000	20,125	20,250	21,185	19,781	20,250	24,000	27,500

Sources: Bloomberg, Refinitiv, CEIC, Capital Economics *Q1; **Apr.; [†] End of period



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