

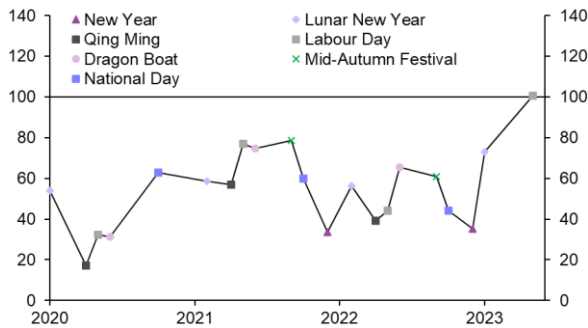
CHINA ECONOMICS WEEKLY

Consumer spending is back on track

The [April PMIs](#), the last of which was published today, suggest that while the reopening rebound in manufacturing stalled last month, the recovery in services was still going strong.

That’s also the takeaway from the five-day Labour Day holiday which ended on Wednesday. After being depressed for over two years, long-distance passenger traffic finally returned to pre-pandemic levels. And daily visits to tourist attractions were 12% higher than during the same holiday in 2019. Spending per head remains lower than in the past but daily tourism spending nonetheless reached pre-COVID levels. (See [Chart 1](#).) What’s more, the holiday was a day longer this year than in 2019 meaning that although the level of daily spending was similar, total tourism spending across the holiday as a whole was 25% higher this year.

Chart 1: Domestic Tourism Spending* (2019=100)



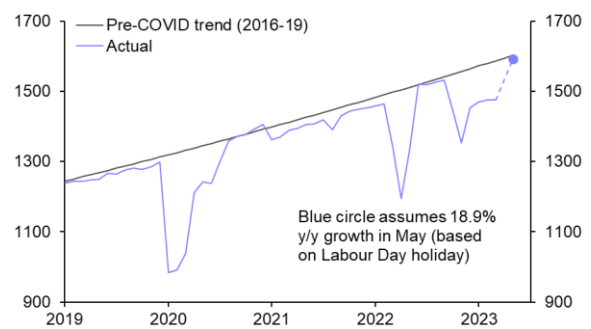
Sources: CEIC, Capital Economics
*Adjusted for the length of the holiday

While the domestic tourism figures have attracted the most attention, they measure a relatively narrow slice of consumer spending (4% of the total in 2019). More revealing for the wider health of the economy are the stats on sales among large retail and catering firms, which were up 18.9% y/y during the holiday. If this is representative of May as a whole, then it would imply that sales among these large firms, which are responsible for around 40% of overall retail sales, have pretty much returned to their pre-pandemic trend. (See [Chart 2](#).)

We’ve been more bullish than most on the near-term outlook for China’s economy [for a while](#). But the

incoming data continue to surpass even our upbeat expectations. Given the encouraging signs from the Labour Day holiday, we now expect GDP to expand 6.5% this year (up from 6.0% previously). The current consensus is 5.6% (as per Bloomberg).

Chart 2: Sales of Large Retail & Catering Firms (RMBbn, seas. adj.)



Sources: CEIC, WIND, Capital Economics

The flipside is that the boost from reopening has now mostly run its course and growth will need to rely on other drivers going forward. These appear to be in short supply. The outlook for foreign demand is weak, household finances are [not as strong](#) as they might appear, fiscal support is being constrained by [debt concerns](#) and despite a cyclical uptick, the property sector is unlikely to return to its previous vigour. The upshot is that the recovery looks set to [lose momentum](#) in the second half of the year.

One area where this is still scope for large gains is outbound tourism. Border crossings reached 60% of 2019 levels during the recent holiday. That’s a big improvement from 25% during the Lunar New Year holiday and consistent with [our view](#) that it will exceed 75% by year-end. So far, much of the rebound has taken place at the land border with [Hong Kong](#) and Macau. International flights are still just a third of 2019 levels. But as airline capacity ramps up, Chinese tourists will return in greater numbers to the rest of the world too.

The week ahead

The CPI data will be very soft. But swings in food and energy prices are to blame. The trade and credit data will be a better guide to economic conditions.



Data Previews

Net New Bank Loans, M2, AFRE (Apr.)

9th – 15th May.

| Forecasts | Time (China) | Previous | Consensus | Capital Economics |
|----------------------------------|--------------|----------|-----------|-------------------|
| Net New Bank Loans (RMB) | - | +3,890bn | +1,400bn | +2,000bn |
| M2 (% y/y) | - | (+12.7%) | (+12.5%) | (+12.6%) |
| Aggregate Financing "AFRE" (RMB) | - | +5,380bn | +2,000bn | +2,400bn |

Reopening rebound in lending still underway

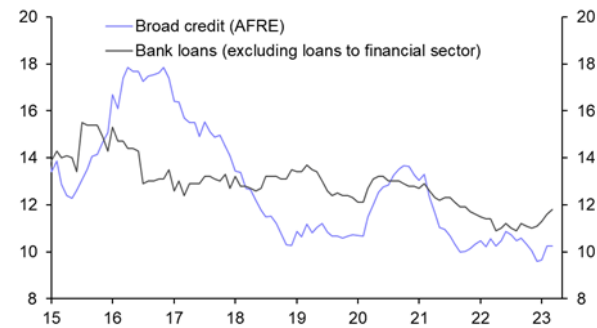
Credit growth picked up in March, with bank loan growth hitting a 17-month high, and broad credit growth edging up too. (See Chart 3.)

We think bank loan growth continued to recover last month, driven by faster lending to households thanks to a pickup in home sales. It will also benefit from a lower base for comparison due to the slump in lending during last year's Shanghai lockdown.

In contrast, other forms of borrowing look to have slowed last month. High frequency data point to softer corporate and government bond issuance, with the latter dropping back following the front-loading of fiscal borrowing in Q1.

All told, we think the pick-up in bank lending will have outweighed the slowdown elsewhere, resulting in a further uptick in broad credit growth last month.

Chart 3: Broad Credit & Bank Loans (outstanding, % y/y)



Sources: CEIC, Capital Economics

Trade (Apr.)

Tue. 9th May.

| Forecasts | Time (China) | Previous | Consensus | Capital Economics |
|----------------------|--------------|----------|-----------|-------------------|
| Exports (USD, % y/y) | - | (+14.8%) | (+9.0%) | (+6.0%) |
| Imports (USD, % y/y) | - | (-1.4%) | (-0.3%) | (+7.0%) |
| Trade Balance (USD) | - | +88bn | +74bn | +52bn |

Exports probably dropped back

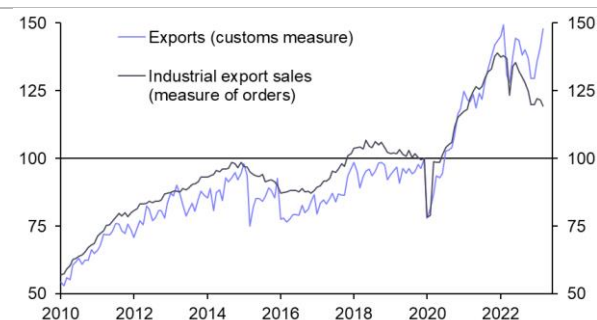
Customs reported an unexpected jump in exports in March. But we're not convinced that this reflects a genuine turnaround in external demand. The trade data can be noisy, especially at the start of the year. A better guide to the underlying trend comes from the value of export sales reported by industrial firms, which doesn't point to a pick-up. (See Chart 4.)

There is also wider evidence that foreign demand remains more subdued, including falling freight rates and weak [PMI data](#). Headline export growth is likely to remain positive in April thanks to flattering base effects from Shanghai lockdown. But in level terms we think it will at least partly reverse March's jump.

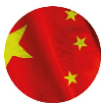
In contrast, with think the recent improvement in imports reflects a genuine pick-up in domestic

demand. And we expect inbound shipments to have risen further in April, in large part due to the reopening boost to fuel demand.

Chart 4: Exports & Industrial Export Sales (\$, Dec. 2019=100, CE seas. adj.)



Sources: CEIC, Capital Economics



CPI, PPI (Apr.)

Thu. 11th May.

| Forecasts | Time (China) | Previous | Consensus | Capital Economics |
|-------------|--------------|----------|-----------|-------------------|
| CPI (% y/y) | 09.30 | (+0.7%) | (+0.3%) | (+0.2%) |
| PPI (% y/y) | 09.30 | (-2.5%) | (-3.2%) | (-3.5%) |

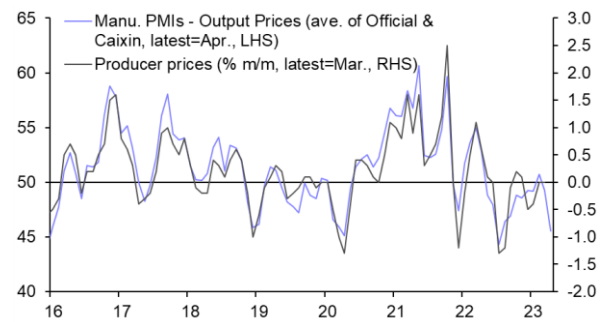
Food and energy price volatility mask impact of reopening

Consumer price inflation dropped below 1% in March for the first time in over a year. And we think it continued to fall to its lowest in more than two years last month. The inflationary impact of reopening probably put some upward pressure on services inflation. But this will have been more than offset by a decline in food and energy inflation, driven in large part by a higher base for comparison – global commodity prices surged a year ago amid the Russian invasion of Ukraine.

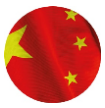
Factory-gate deflation is likely to have deepened too. As with CPI, base effects will have played a major

role. But the manufacturing PMIs point to a decline in prices last month too. (See Chart 5.)

Chart 5: Producer Prices & PMI Output Prices



Sources: CEIC, S&P Global, Capital Economics



Economic Diary & Forecasts

Upcoming Events and Data Releases

| Date | Country | Release/Indicator/Event | Time (China) | Previous* | Median* | CE Forecasts* |
|-------------------------------------|---------|--|--------------|--------------|--------------|---------------|
| May | | | | | | |
| Sun 7 th | | Chn Foreign Exchange Reserves (Apr., USD) | - | +3184b | +3192b | - |
| Tue 9 th | | Chn Exports (Apr., USD) | - | (+14.8%) | (+9.0%) | (+6.0%) |
| | | Chn Imports (Apr., USD) | - | (-1.4%) | (-0.3%) | (+7.0%) |
| | | Chn Trade Balance (Apr., USD) | - | +88.2b | +74.3b | +52.0b |
| Thu 11 th | | Chn Consumer Prices (Apr.) | (09.30) | (+0.7%) | (+0.3%) | (+0.2%) |
| | | Chn Producer Prices (Apr.) | (09.30) | (-2.5%) | (-3.2%) | (-3.5%) |
| Fri 12 th | | HK GDP (Q1, Fin., q/q(y/y)) | (16.30) | +5.3%(+2.7%) | +5.3%(+2.7%) | +5.3%(+2.7%) |
| | | Chn Current Account Balance (Q1, Preliminary) | - | +103b | - | - |
| Also expected during this period: | | | | | | |
| 9 th – 15 th | | Chn Aggregate Financing “AFRE” (Apr., RMB) | - | +5380b | +2000bn | +2400bn |
| | | Chn Net New Lending (Apr., RMB) | - | +3890b | +1400bn | +2000bn |
| | | Chn M2 Money Supply (Apr., RMB) | - | (+12.7%) | (+12.5%) | (+12.6%) |
| 11 th – 18 th | | Chn Foreign Direct Investment (Apr., RMB) | - | (+4.9%) | - | - |
| TBC | | Chn Vehicle sales (Apr.) | - | - | - | - |

Selected future data releases and events:

May

| | | |
|----------------------|--|---|
| Mon 15 th | | Chn 1-Year Medium-Term Lending Facility (MLF) Auction (May.) |
| | | Chn Foreign Exchange Net Settlement and Receipts (Apr.) |
| Tue 16 th | | Chn Spending and Activity Data (Apr.) |
| Wed 17 th | | Chn Home Prices (70 Cities, Apr.) |
| Thu 18 th | | HK Unemployment Rate (Apr.) |

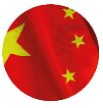
Also expected during this period:

| | | |
|-----|--|---|
| TBC | | Chn PBOC Balance Sheet Data (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 | (+0.7)** | (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) | (4.2) | (-1.2) | (0.9) | (0.4) |
| Broad Credit (AFRE) | (+10.0)** | (10.1) | (10.1) | (10.7) | (9.2) | (9.6) | (10.7) | (8) | (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) | (-4.5) | (3.5) | (1) |
| RMB/\$ [†] | 6.91 | 6.90 | 6.80 | 6.70 | 6.65 | 6.95 | 6.70 | 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 [†] % | 2.76 | 3.10 | 3.15 | 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 [†] | 4,030 | 4,275 | 4,525 | 4,770 | 4,855 | 3,872 | 4,770 | 5,110 | 5,468 |
| Hong Kong GDP | (+2.7)* | (4) | (9) | (11) | (7.5) | (-3.5) | (-3.5) | (6.5) | (7.5) |
| Hang Seng Index [†] | 19,949 | 20,650 | 21,325 | 22,000 | 23,000 | 19,781 | 22,000 | 26,000 | 30,000 |

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



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