



CAPITAL ECONOMICS

INDEPENDENT ANALYSIS, FORECASTS
AND CONSULTANCY

China Chart Pack

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China Chart Pack

Our View: China's reopening recovery is struggling for momentum and quarter-on-quarter growth will be subdued for the rest of the year. But with policymakers likely to step up support soon, the economy should still make some headway.

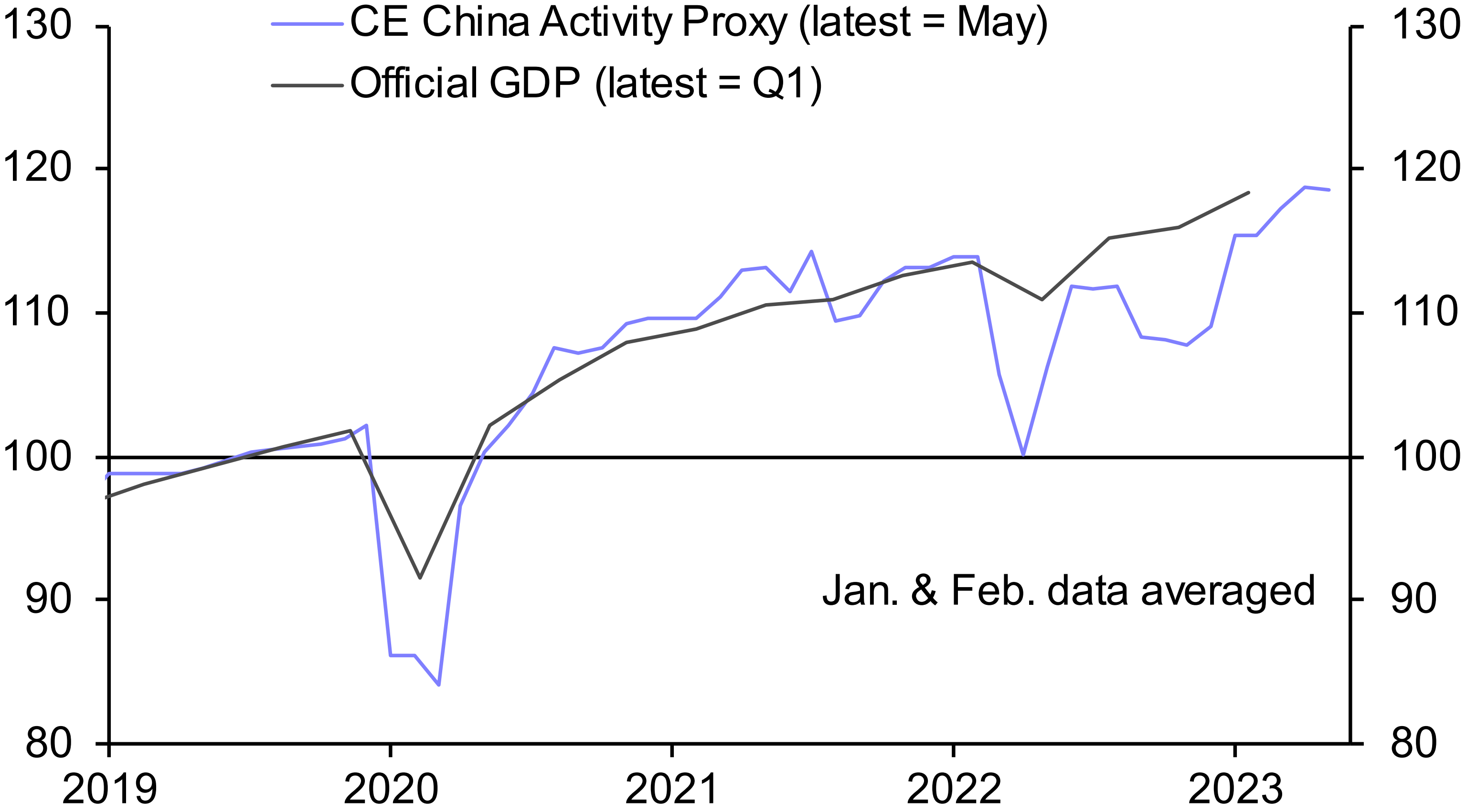
- **Activity**: The reopening rebound has stalled. Stimulus is needed to prevent it from going into reverse.
- **Labour Market**: The unemployment rate is back in line with its pre-pandemic average but is now edging up again.
- **Trade**: Exports look set to drop back further following the unwinding of the pandemic boom in global goods demand.
- **Property**: The housing market remains in a rut, with sales and construction activity both falling.
- **Inflation**: Underlying price pressures aren't as weak as headline inflation suggests. But they are cooling again.
- **Policy**: Small cuts to policy rates won't revive credit growth. Fiscal loosening could provide some support.
- **Financial Markets**: Chinese equities remain under pressure and the renminbi has weakened sharply in recent weeks.

To see all our analysis on China's economy and details of our forecasts, visit our China [landing page](#).



The China Activity Proxy, our in-house alternative to official GDP, suggests that the economy stagnated in May as the reopening boost fizzled out.

CE China Activity Proxy & Official GDP (2019 = 100, seas. adj.)

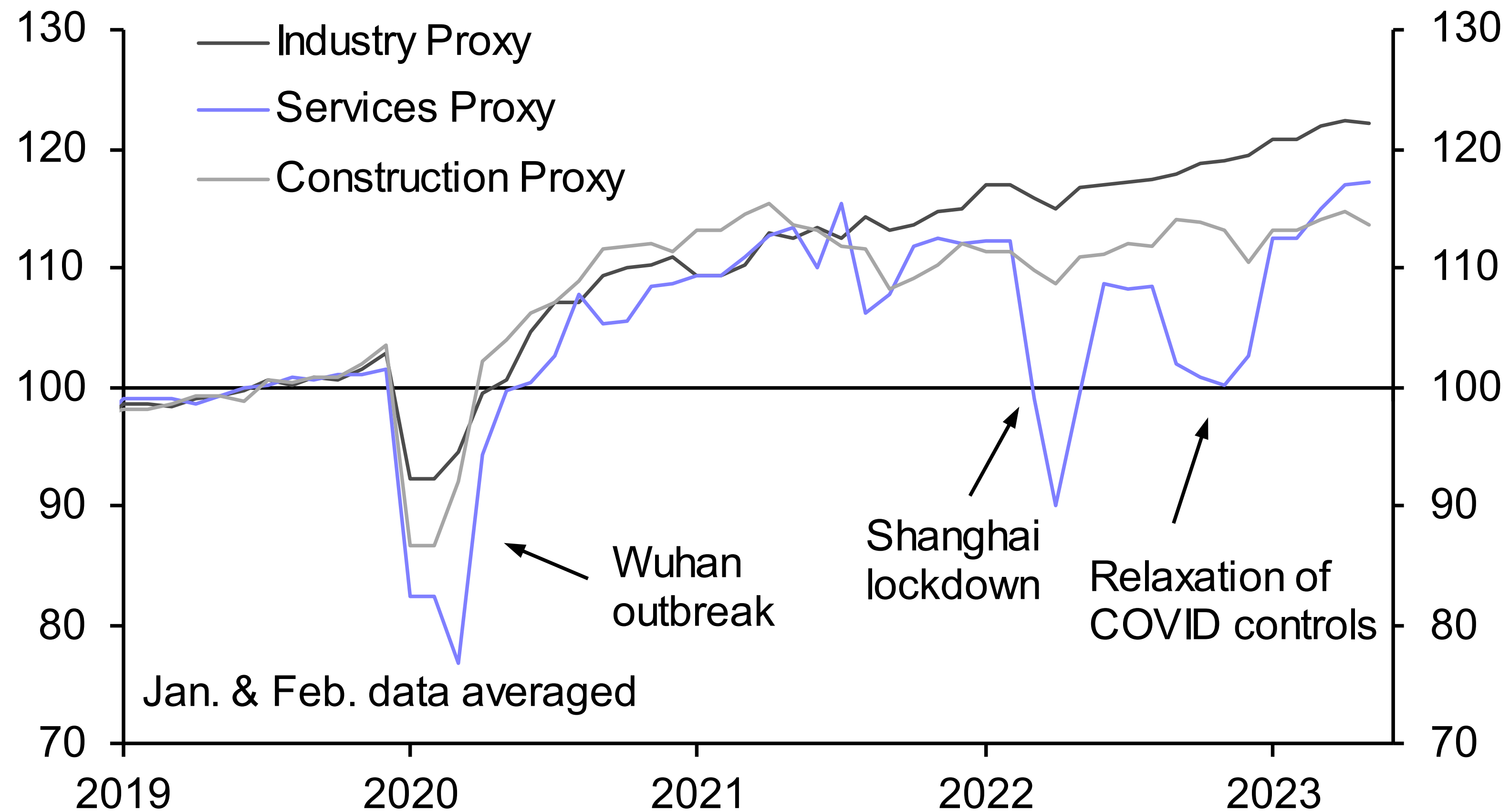


Sources: CEIC, WIND, Capital Economics



Construction remains largely stagnant and gains in industry are slowing. After a strong start to the year, the rebound in services activity is levelling off.

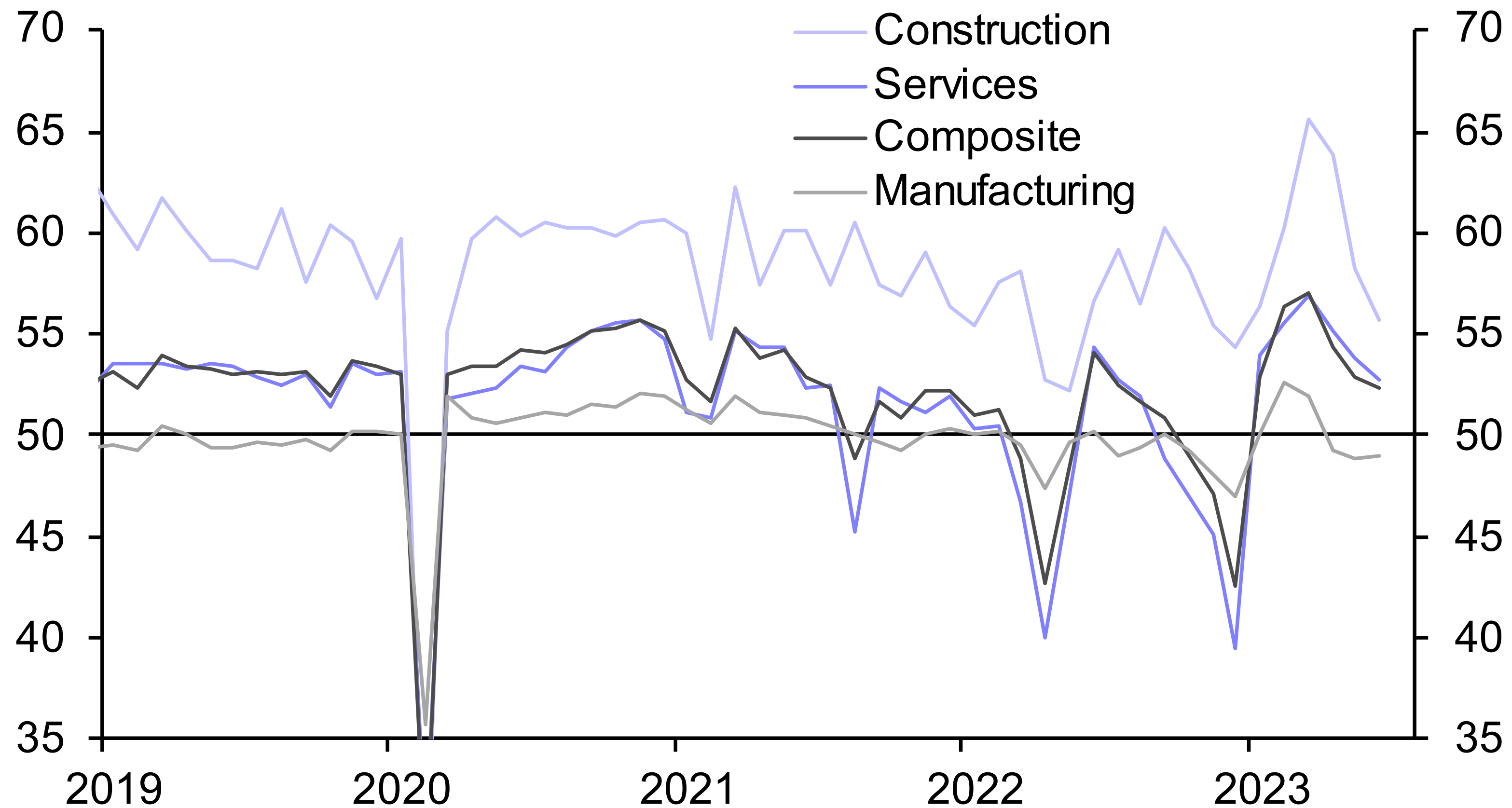
CE China Activity Proxy – Sector Proxies (2019 = 100, seas. adj.)



Sources: CEIC, WIND, Capital Economics

The PMIs suggest the economy continued to lose momentum in June. The composite measure is now back below pre-pandemic levels.

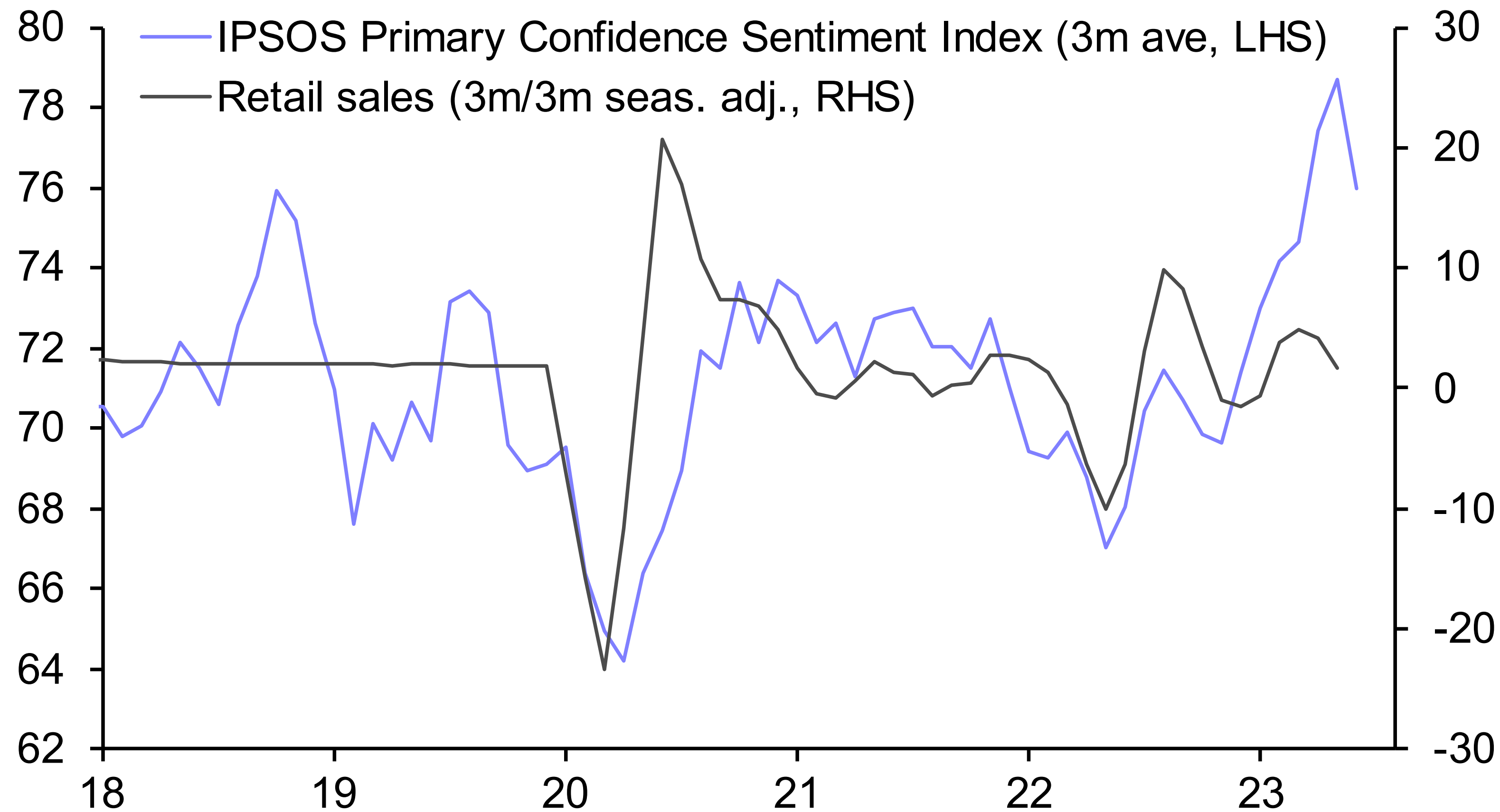
China Official PMIs



Sources: CEIC, WIND, Capital Economics

The boost to consumer confidence from reopening is unwinding and the recovery in retail sales is fizzling out. This risks becoming self-reinforcing.

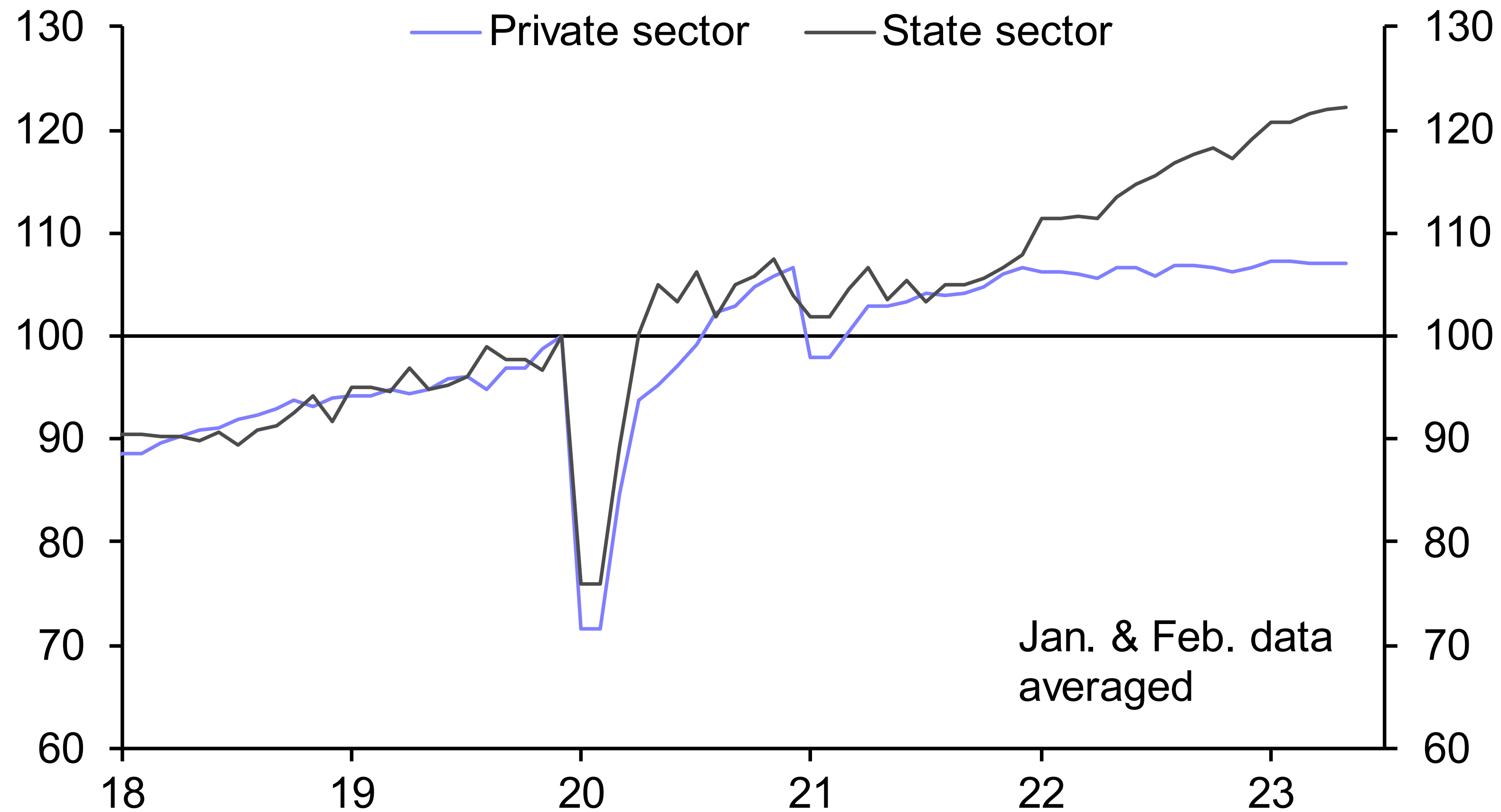
China Consumer Confidence & Retail Sales



Sources: CEIC, Capital Economics

Private firms have little appetite for expansion, leaving investment spending increasingly dependent on the state and underscoring the need for policy support.

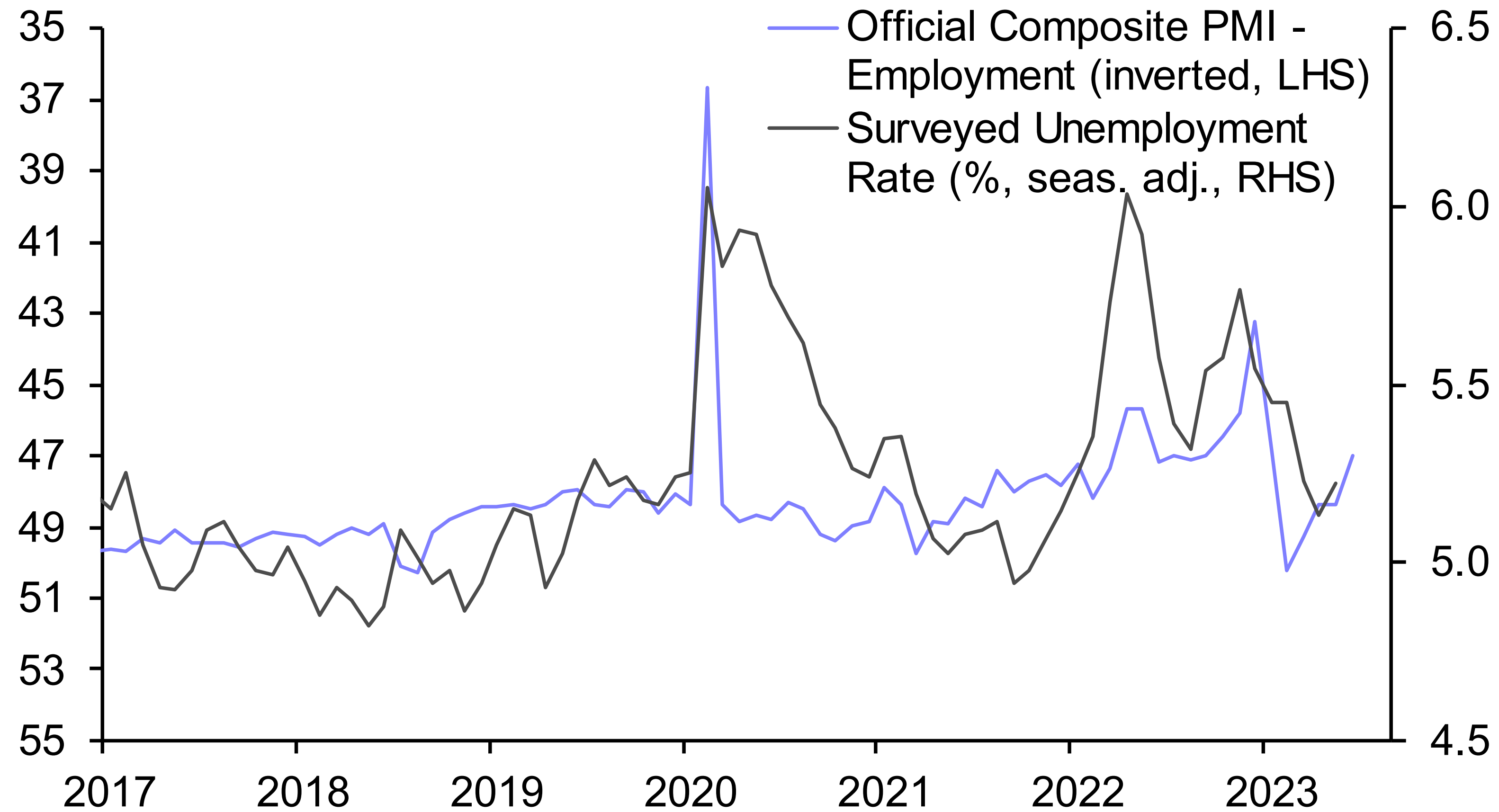
China Fixed Investment (Dec. 2019 = 100, seas. adj.)



Sources: CEIC, Capital Economics

The labour market has tightened following reopening and the unemployment rate is in line with its pre-pandemic average. But it is starting to tick up again.

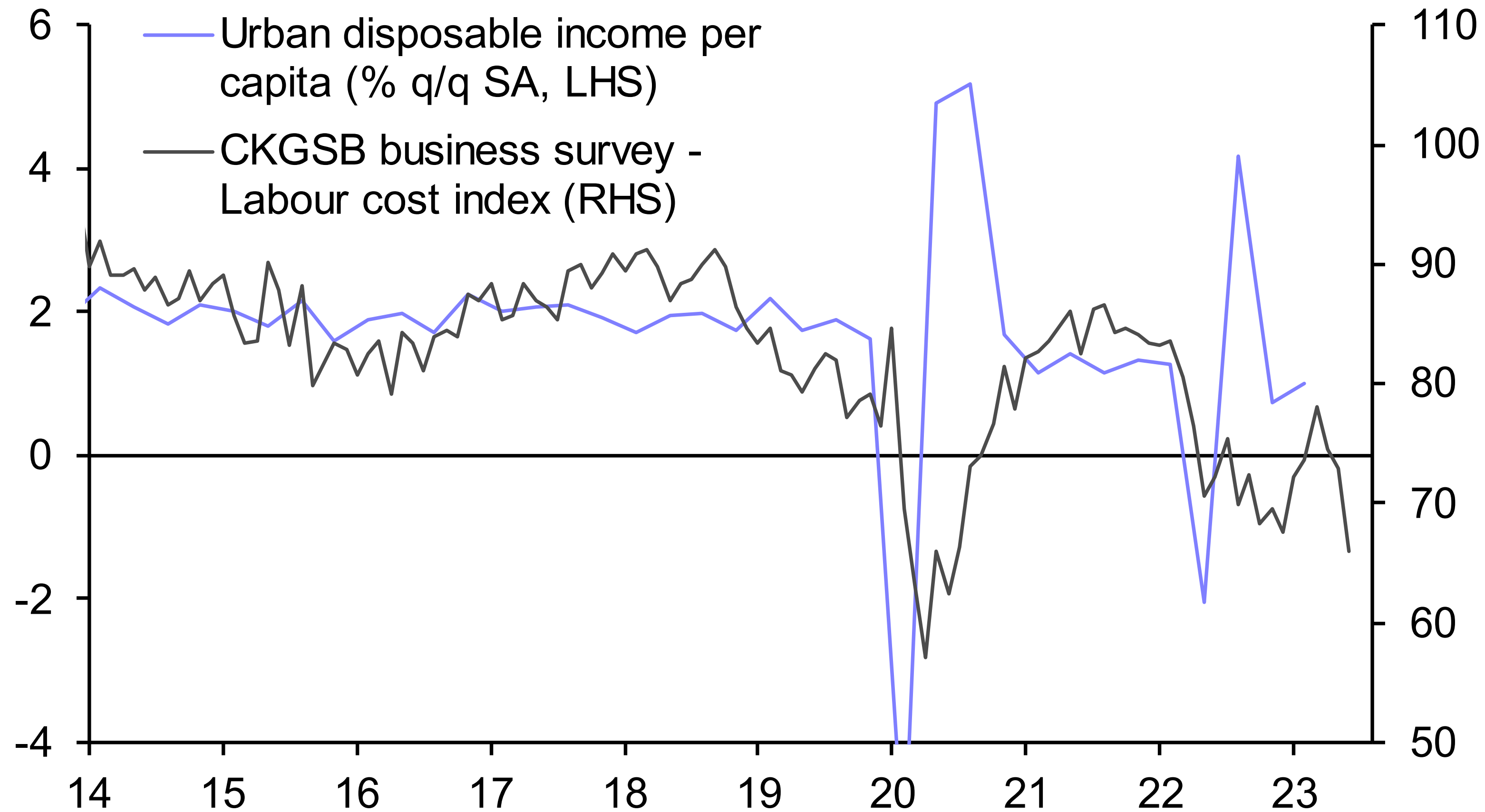
China Unemployment Rate & Composite PMI



Sources: CEIC, Capital Economics

Income growth edged up in Q1 but was still subdued by historic standards. Survey evidence suggests that it remained soft in Q2.

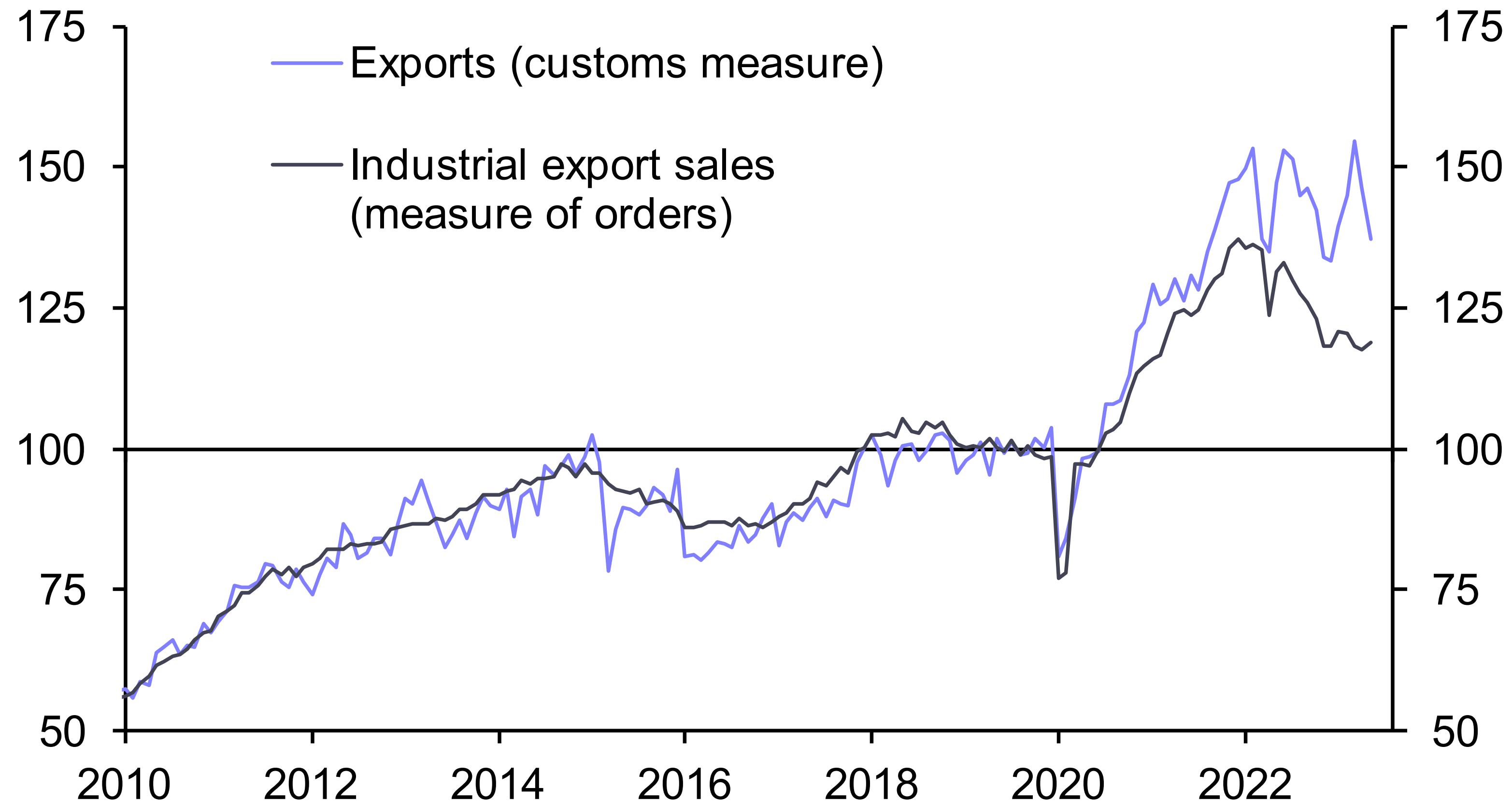
China Urban Income Growth



Sources: CEIC, Capital Economics

Foreign orders have dropped back as the pandemic boom in global goods demand has unwound. This suggests exports will fall further before long.

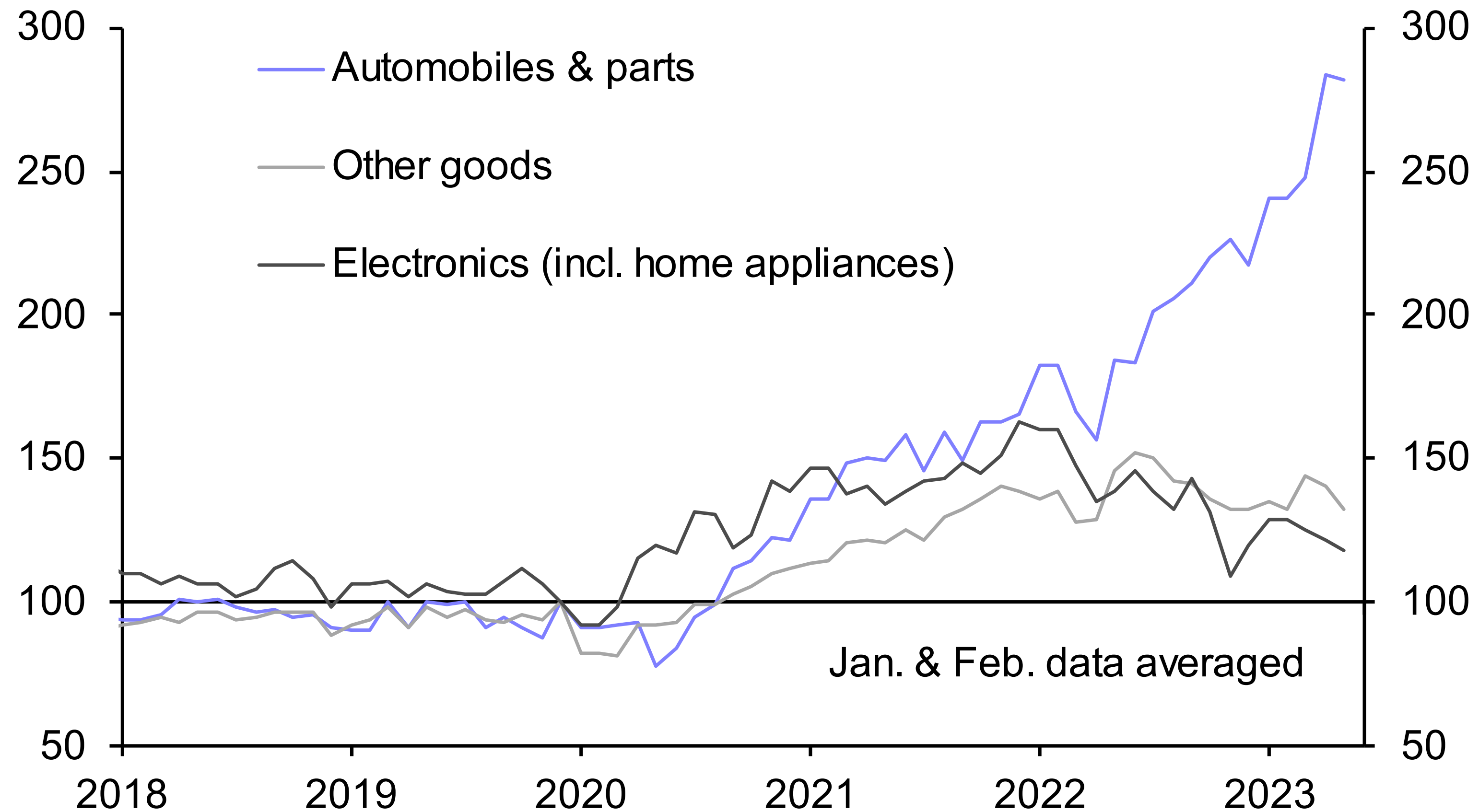
China Exports & Industrial Export Sales (\$, 2019=100, CE seas. adj.)



Sources: CEIC, Capital Economics

The softening of exports has been broad-based, with electronics dropping the most. But car shipments have bucked the trend and remain a bright spot.

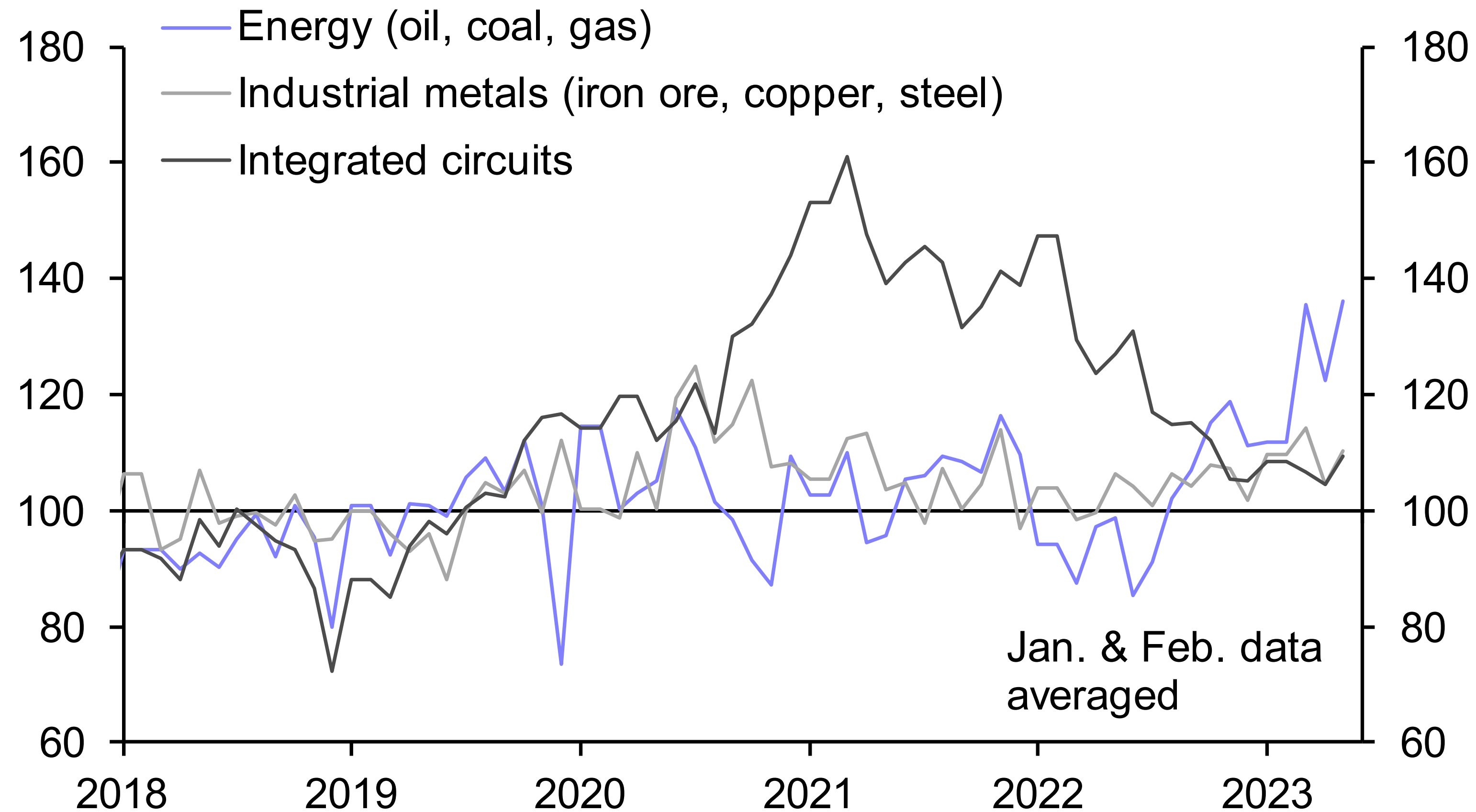
China Exports (\$, Dec. 2019 = 100, seas. adj.)



Sources: CEIC, Capital Economics

Imports of manufactured inputs remain soft due to weak goods demand, but the reopening recovery in passenger travel has boosted fuel imports.

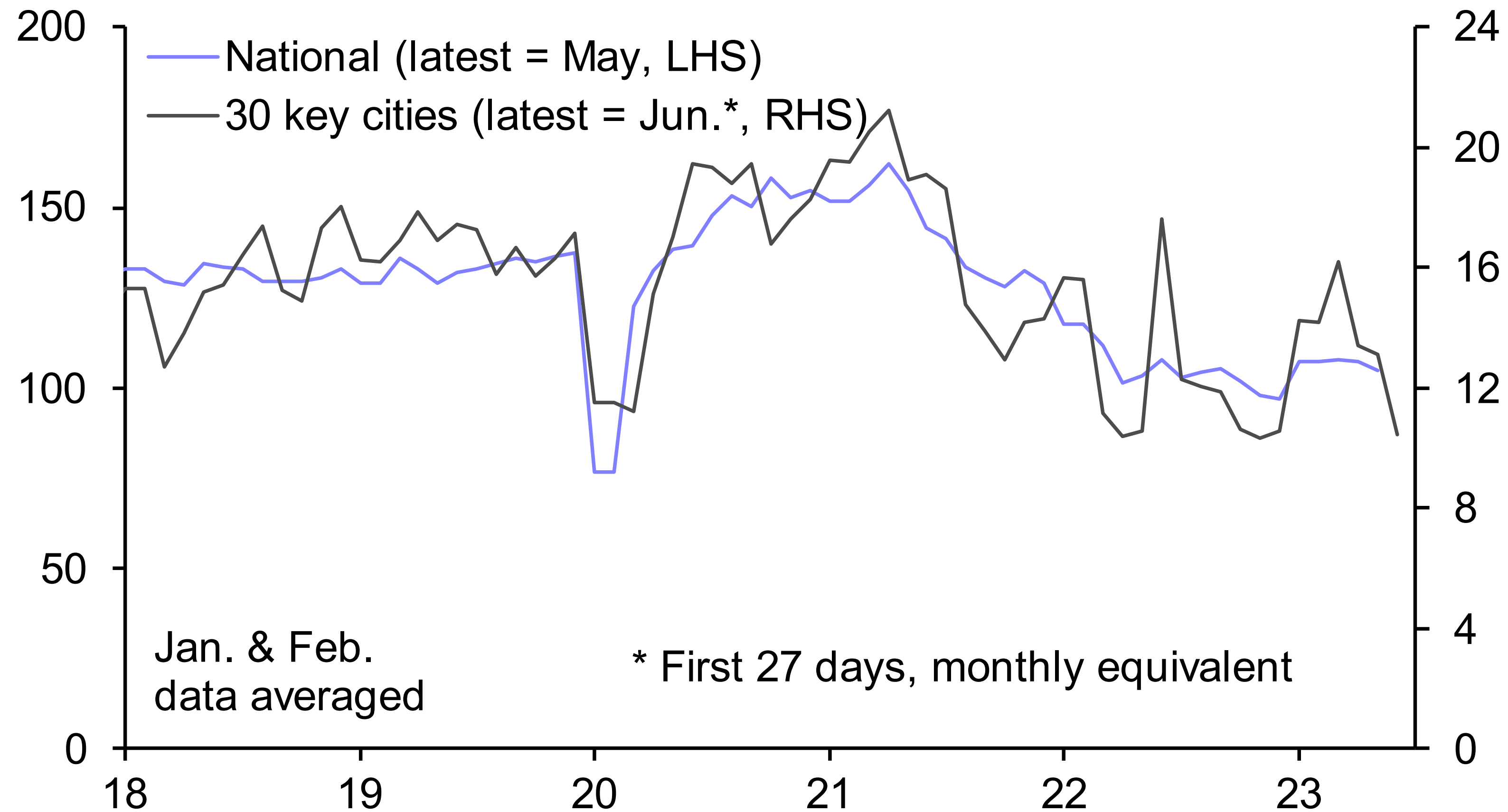
China Import Volumes by Product (2019 = 100, seas. adj.)



Sources: CEIC, Capital Economics

The recovery in new home sales at the beginning of the year has reversed, and sales are once again on a downward trajectory.

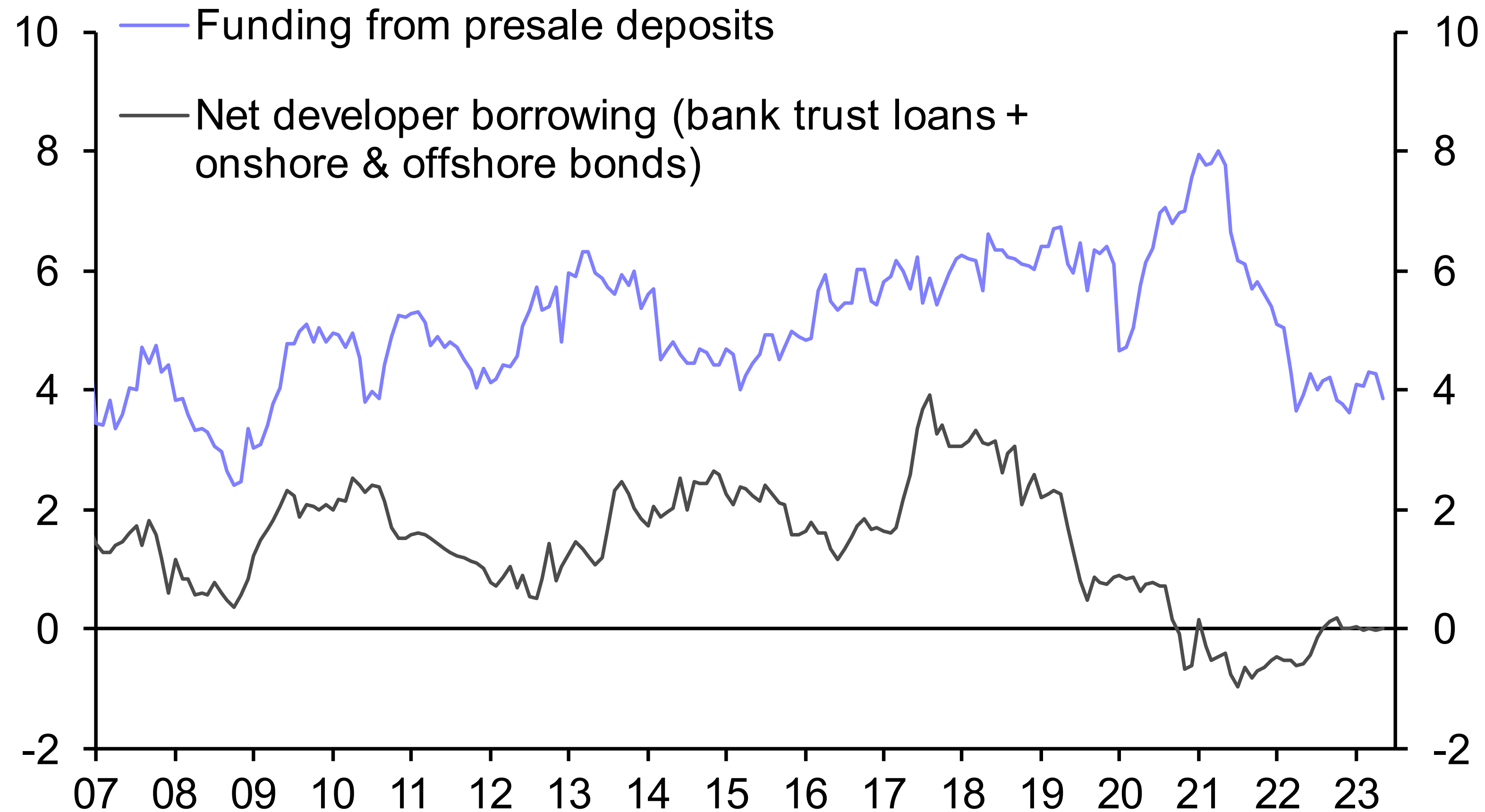
China New Home Sales (million sqm, seas. adj.)



Sources: CEIC, Wind, Capital Economics

Developers remain cautious about adding to their debt despite fewer constraints on their financing following regulatory easing late last year.

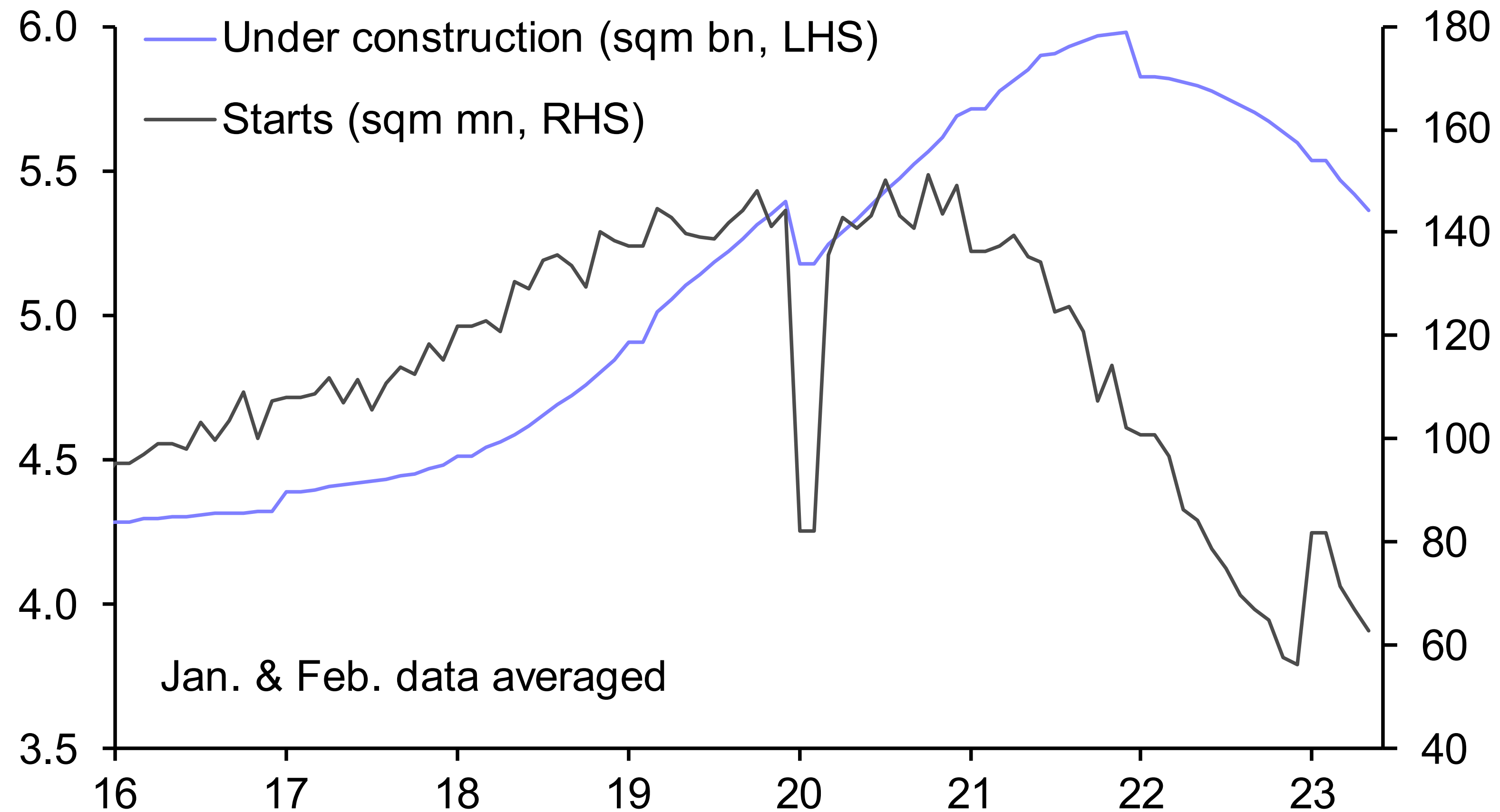
China Developer Financing (% of trend GDP, seas. adj.)



Sources: CEIC, Capital Economics

Property construction continues to slide and is unlikely to bottom out until there has been a more meaningful recovery in housing demand.

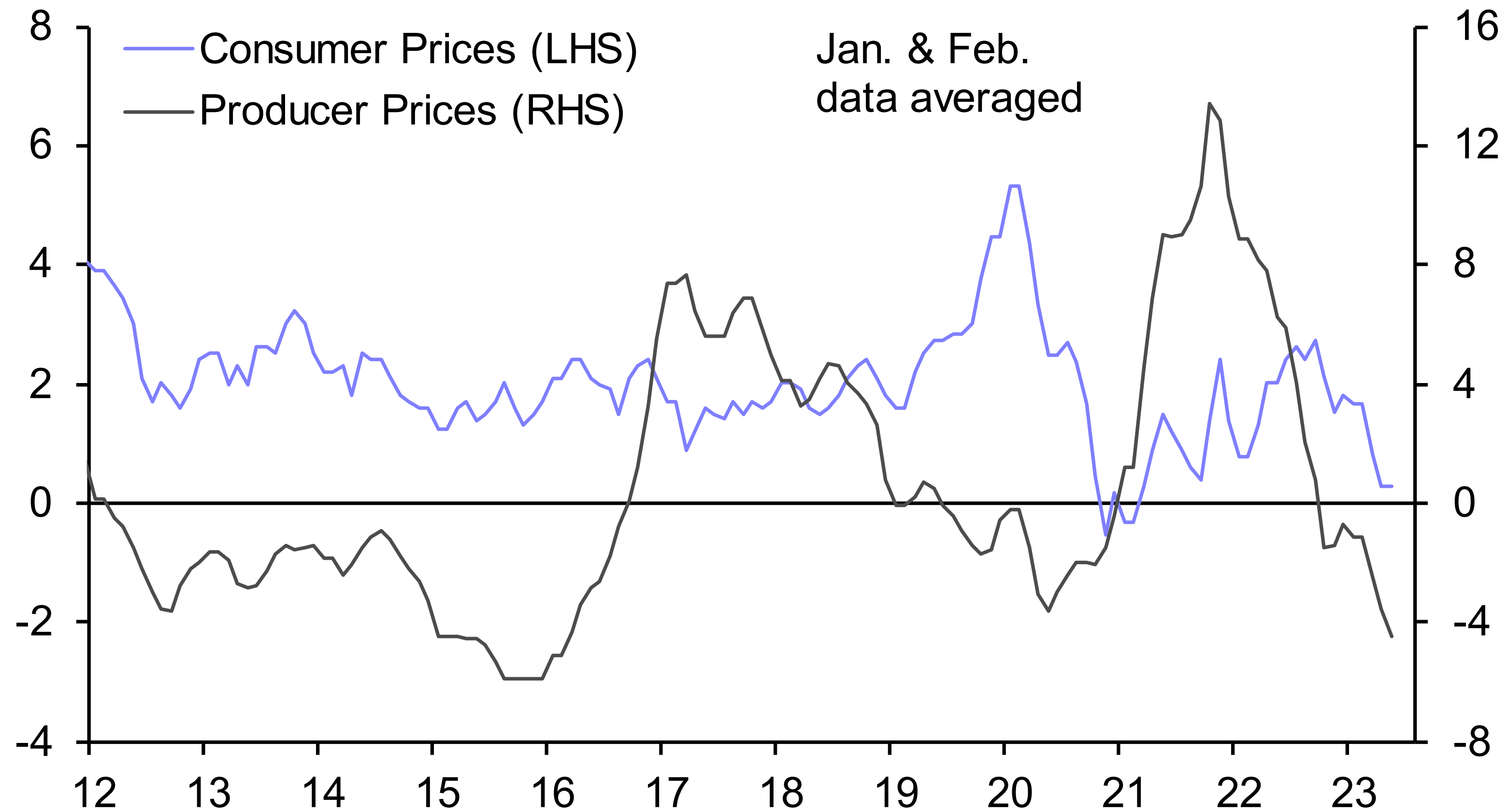
China Property Construction Activity (seas. adj.)



Sources: CEIC, Capital Economics

CPI and PPI inflation have both declined sharply in recent months. But this is mostly due to base effects and swings in food and energy prices.

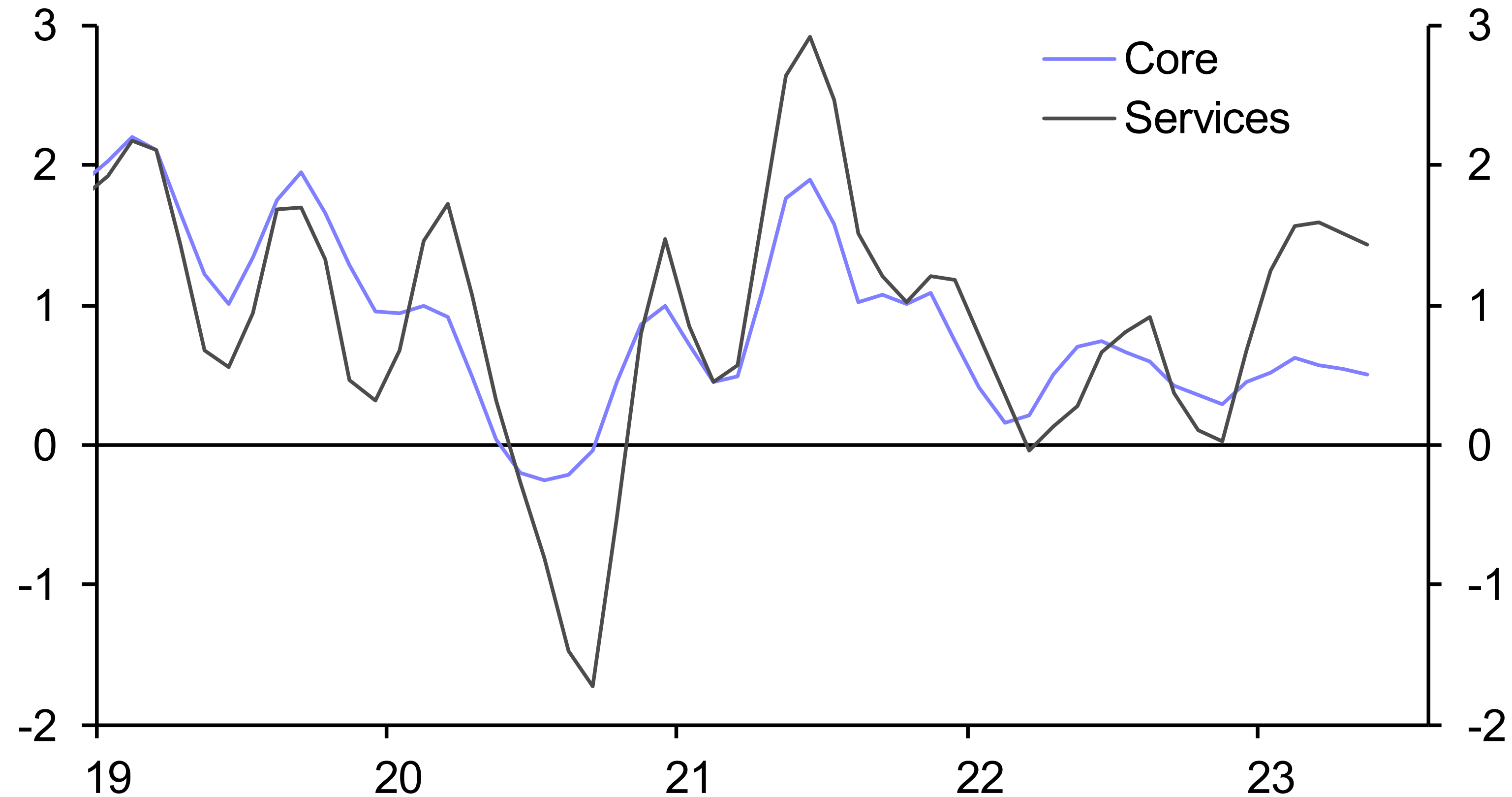
China Consumer & Producer Prices (% y/y)



Sources: CEIC, Capital Economics

In m/m terms core goods and services inflation have picked up this year. They are now cooling again as the impact of reopening fizzles out.

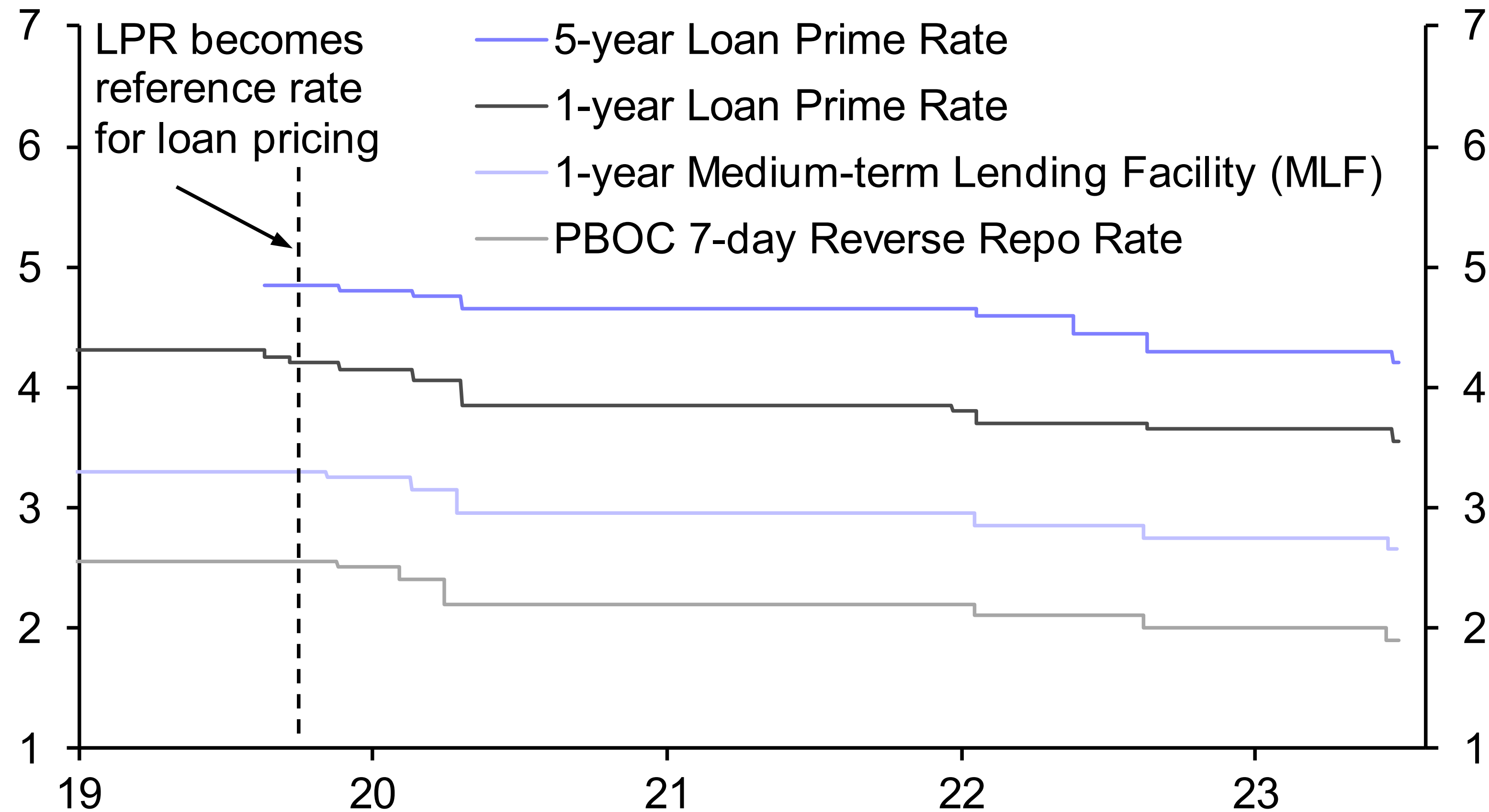
China Consumer Prices (% 3m/3m, SA annualized)



Sources: CEIC, Capital Economics

The PBOC lowered its policy rates in June for the first time since last summer, reflecting growing concern about the health of China's recovery.

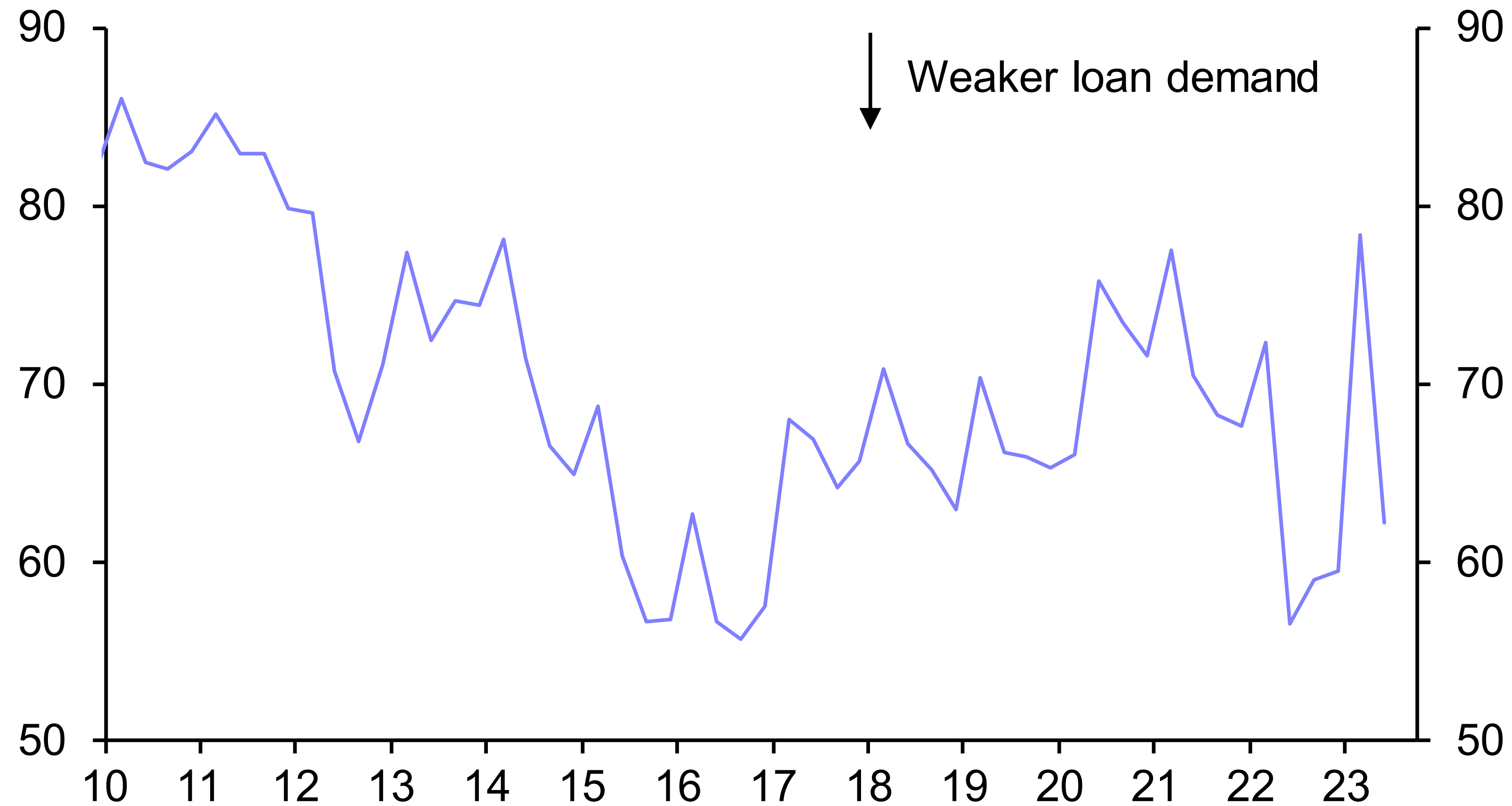
China Policy Rates (%)



Sources: CEIC, Capital Economics

Small rate cuts will do little to revive loan demand, which weakened sharply in Q2, returning close to levels at which monetary easing was ineffective last year.

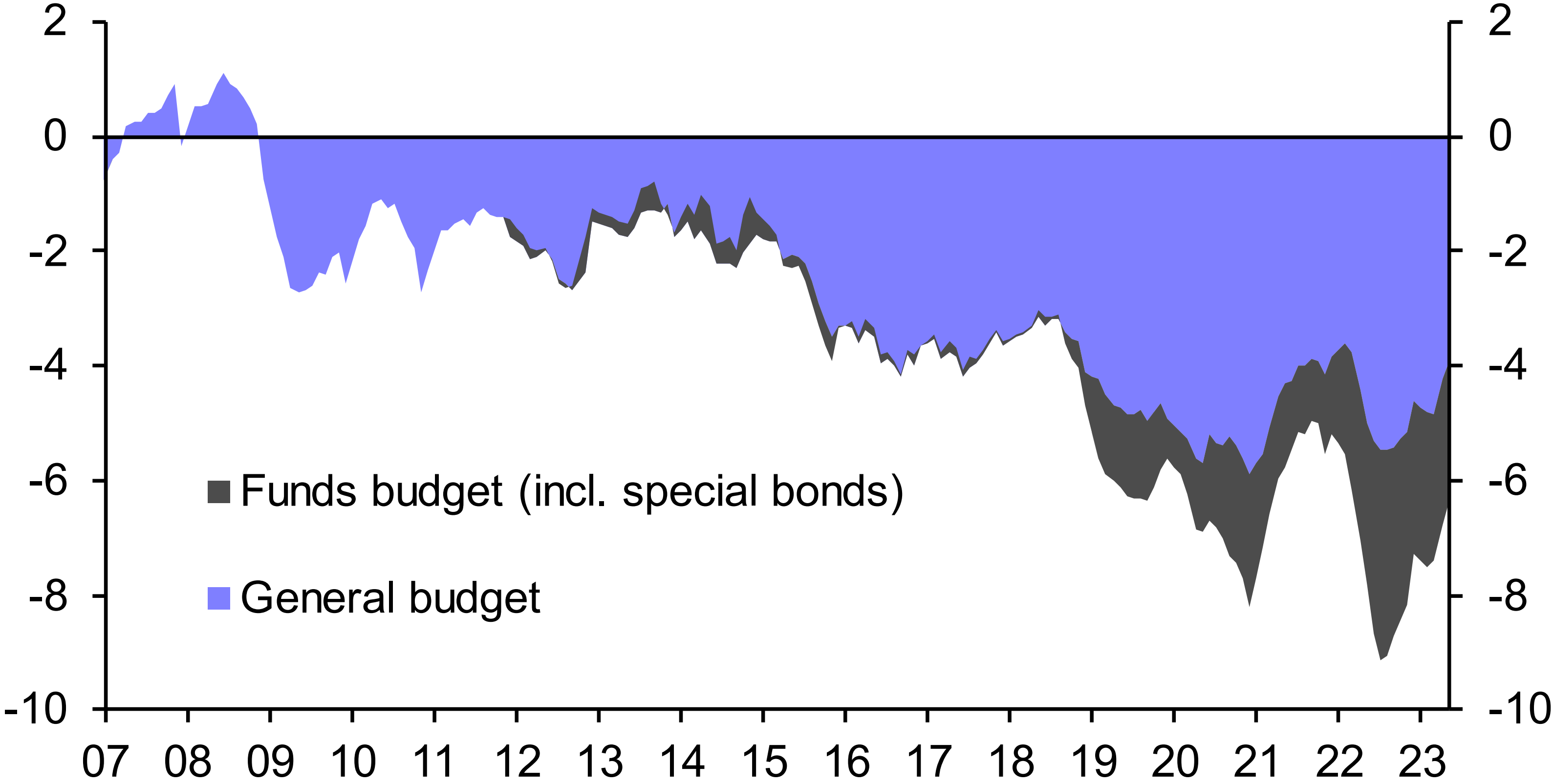
PBOC Banker Survey – Loan Demand (diffusion index)



Sources: CEIC, Capital Economics

Despite some front-loading of infrastructure spending at the start of the year, the fiscal stance has generally tightened recently.

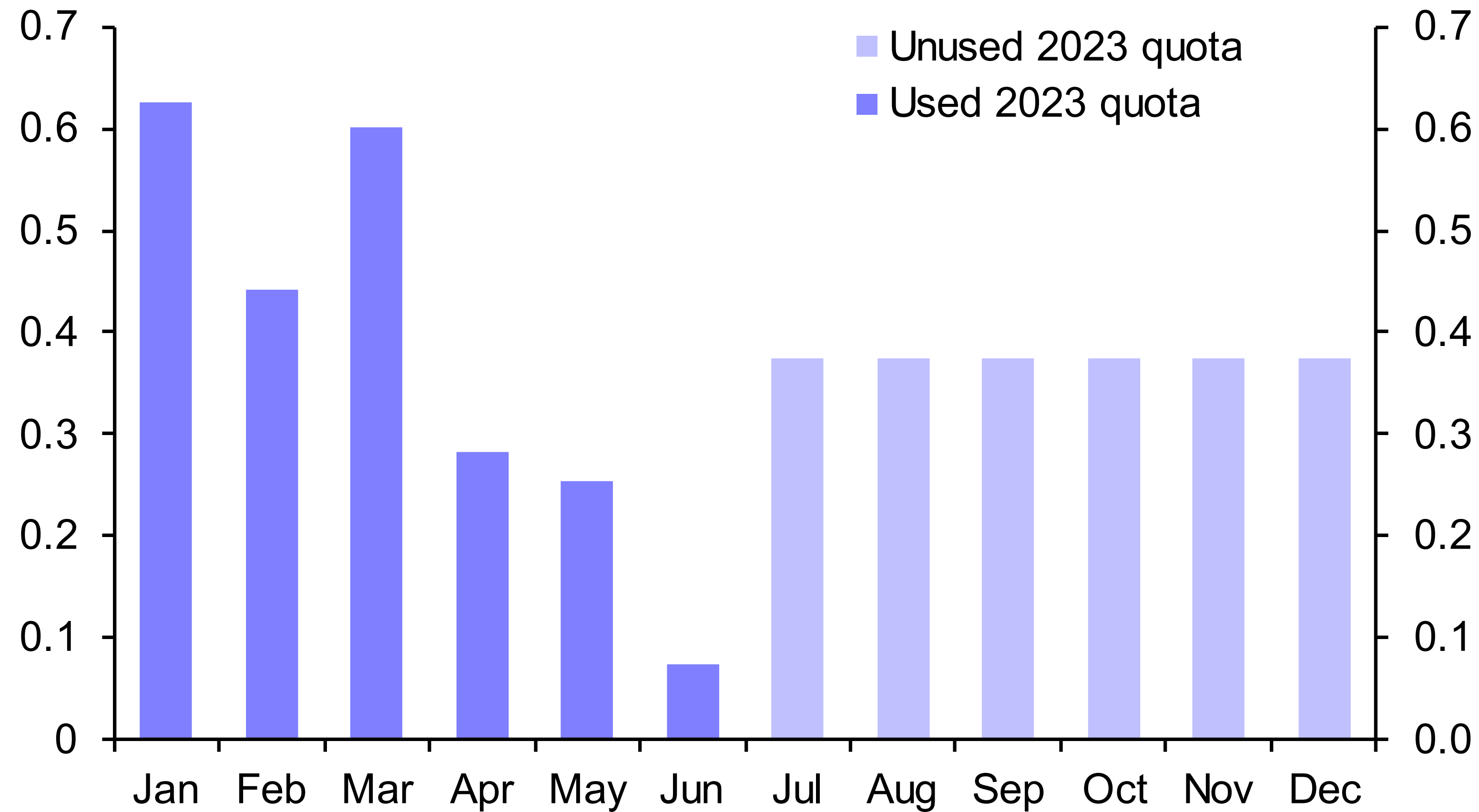
China Budget Balance (% of trend GDP, 12m rolling)



Sources: CEIC, Capital Economics

We think officials may expand the annual govt bond quotas to support growth. But even if left unchanged, on budget borrowing should pick up again.

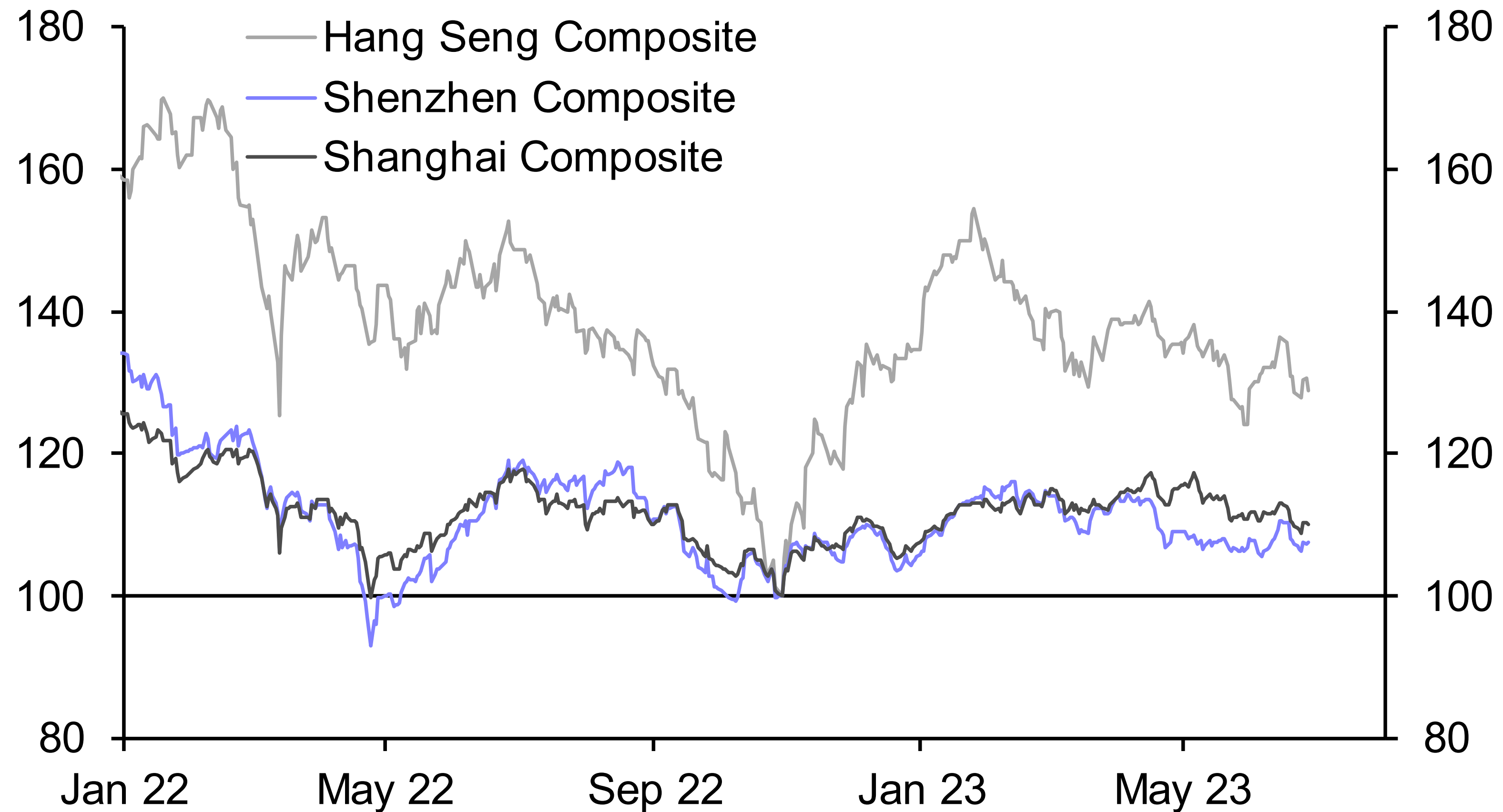
New Local Chinese Government Bond Issuance (RMBtrn)



Sources: CEIC, WIND, Capital Economics

Chinese stocks have not held on to their reopening gains and are trending downward despite talk of policy stimulus.

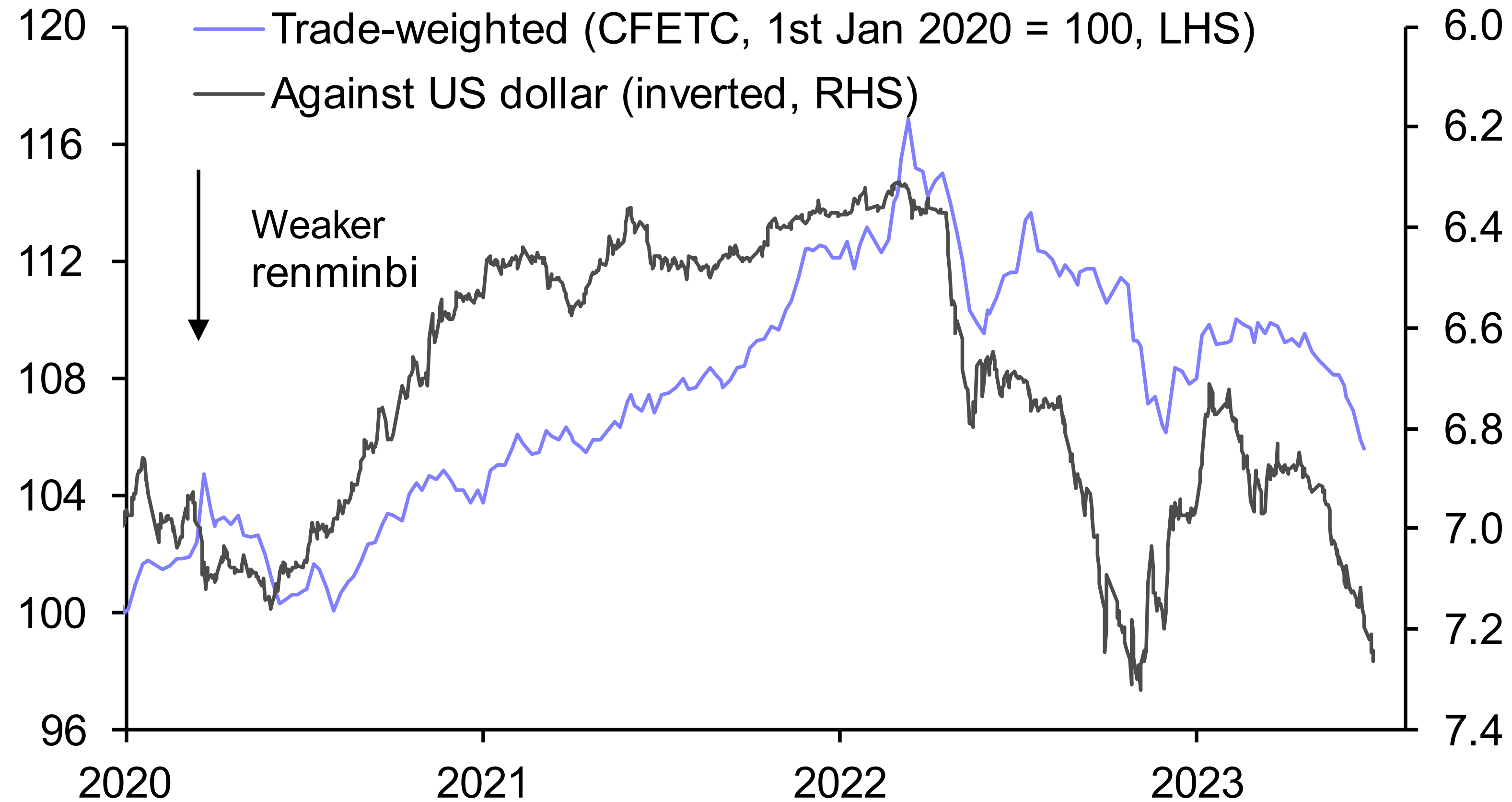
China Equity Indices (31st Oct. 2022 = 100)



Sources: CEIC, Refinitiv, Capital Economics

The renminbi has weakened beyond 7.2/\$ for the first time since November. This is partly due to wider dollar strength but mostly reflects pessimism about China.

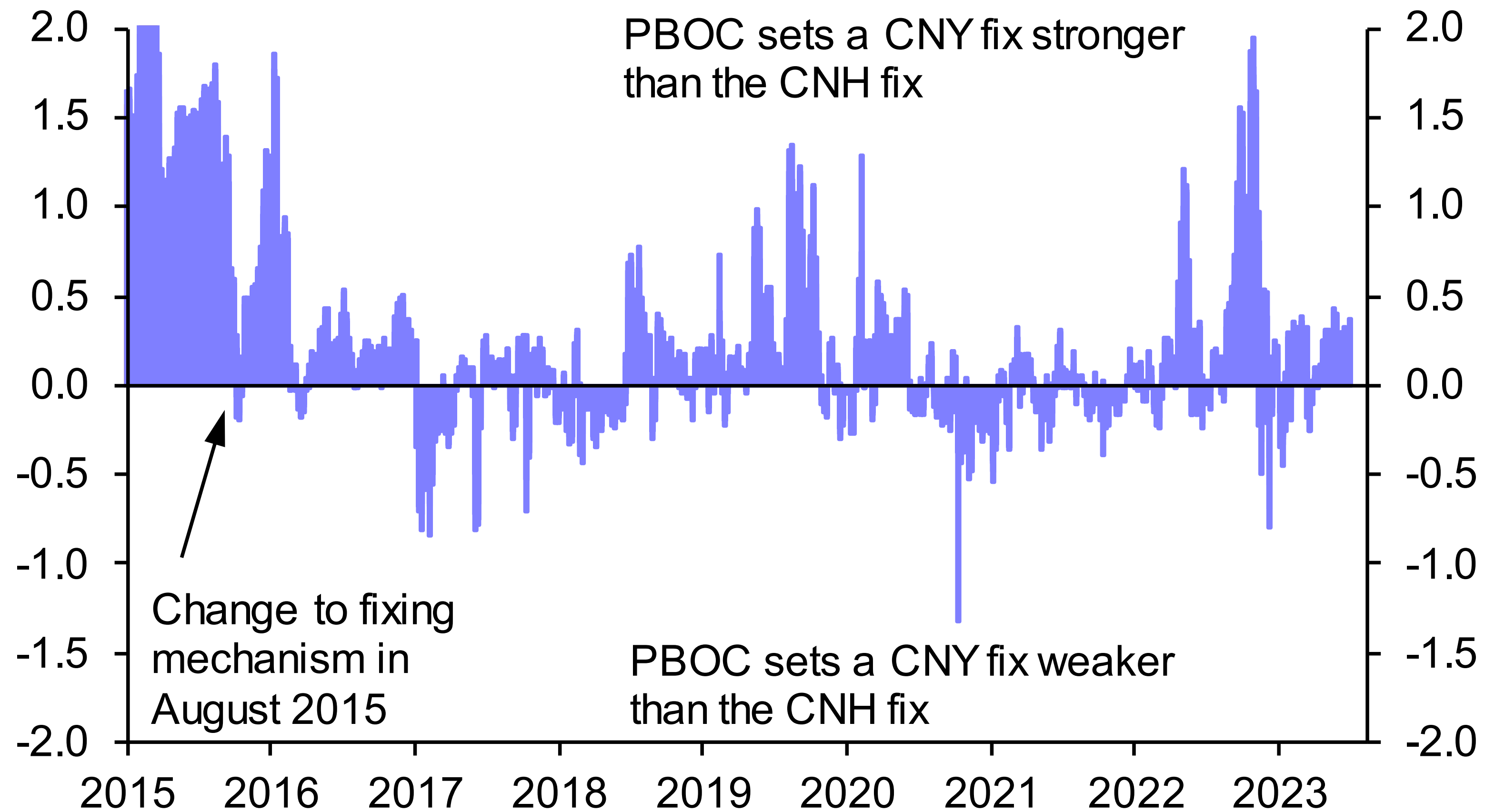
Renminbi Exchange Rate



Sources: CEIC, Refinitiv, Capital Economics

The PBOC is using its fixing rate to slow depreciation, though it appears more willing to allow declines than it did late last year.

Difference Between USD/CNY Daily Fix & USD/CNH 9:00am Fix (% , 7d ave.)



Sources: CEIC, Refinitiv, Capital Economics

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