

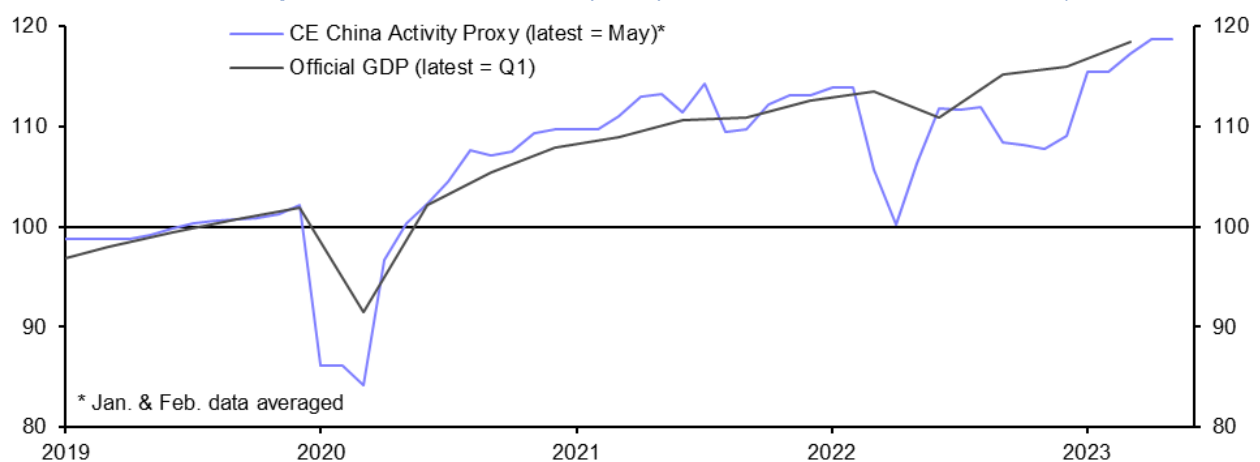


# CHINA ACTIVITY MONITOR

## CAP: Recovery levels off as reopening boost fades

- **Our China Activity Proxy (CAP) suggests that China's economy stagnated in May as the tailwind from reopening fizzled out. We think officials will roll out sufficient policy support to keep the recovery alive but not enough to prevent subdued quarter-on-quarter growth over the rest of the year.**
- 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 slowed from 18.5% y/y in April to 11.6% in May. But this tells us little about the economy's current momentum since it remains distorted due to base effects from a year ago when Shanghai and other large cities were emerging from lockdowns. **In seasonally-adjusted m/m terms, output was largely unchanged.** (See Chart 1.)
- **The main drag on growth last month came from the construction sector.** (See Chart 2.) Sales of construction machinery stagnated as fiscal spending on infrastructure waned. Fewer real estate projects broke ground and output of construction materials fell further, reversing all its reopening gains. (See Charts 3 & 4.) **Wider industrial activity has held up slightly better but is also struggling for momentum.** (See Chart 4 again.) Domestic freight traffic continued to eke out some gains. But cooling foreign demand remained a drag, pulling down container throughput at Chinese ports. (See Chart 5.)
- **The services sector, which was hit hardest by zero-COVID, continued to benefit marginally from reopening but that support is fading.** Service sector electricity consumption reached a new high and car sales rose. But long-distance travel was broadly unchanged at a quarter below 2019 levels. And property sales fell as concerns about the health of the housing market lingered. (See Charts 6 & 7.)
- **The upshot is that the reopening rebound stalled in May.** And high-frequency data suggest that the economy has continued to lose steam this month. We are hopeful that some further stimulus will be rolled out soon, which will prevent the recovery from going into reverse. **We still think China's economy will grow 8.5% this year, as measured by the CAP.** But this largely reflects a low base for comparison and a sharp rebound in early 2023. **Quarter-on-quarter growth during the second half of this year may only average 4.5% annualised** as stimulus remains restrained and structural headwinds intensify.

Chart 1: Capital Economics China Activity Proxy & Official GDP (2019 = 100, seas. adj.)



Sources: CEIC, WIND, Capital Economics

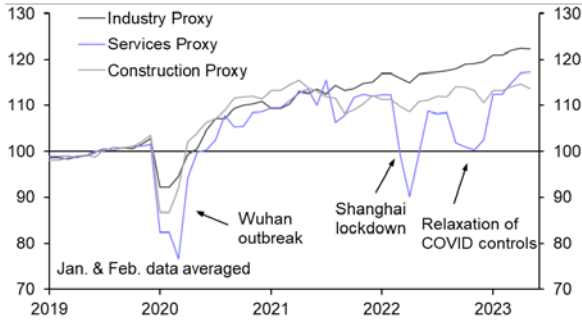
Sheana Yue, China Economist, sheana.yue@capitaleconomics.com

Julian Evans-Pritchard, Head of China Economics, julian.evans-pritchard@capitaleconomics.com

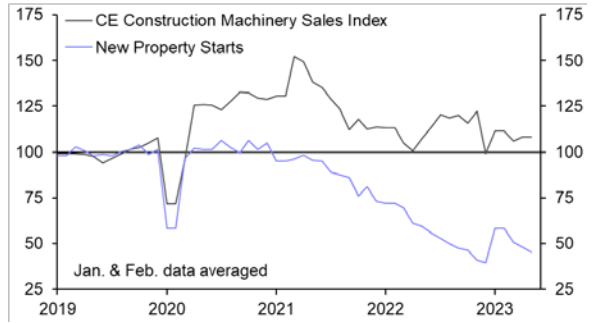


# China Activity Proxy charts & data table

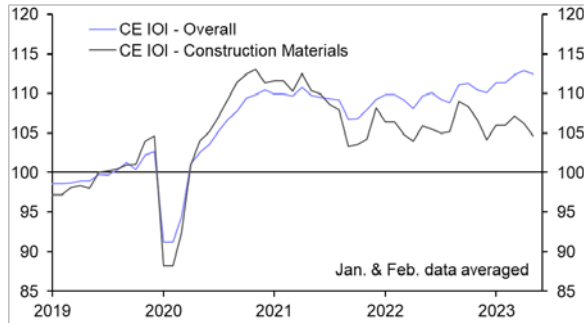
**Chart 2: CAP – Sector Proxies (2019 = 100, seas. adj.)**



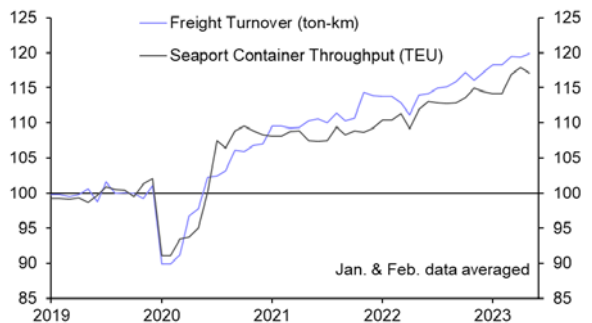
**Chart 3: Construction Activity (2019 = 100, seas. adj.)**



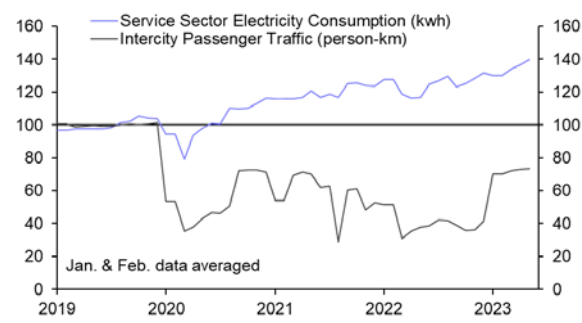
**Chart 4: CE Industrial Output Index (2019 = 100, seas. adj.)**



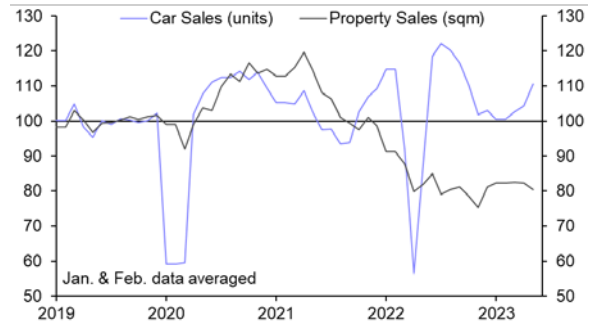
**Chart 5: Freight & Seaport Traffic (2019 = 100, seas. adj.)**



**Chart 6: Passenger Traffic & Service Sector Electricity Consumption (2019 = 100, seas. adj.)**



**Chart 7: Property & Car Sales (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						
	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	2022	2023f	2024f	2025f
<b>% y/y Headline CAP</b>	<b>-6.1</b>	<b>0.3</b>	<b>-2.3</b>	<b>2.2</b>	<b>-1.2</b>	<b>-3.6</b>	<b>-4.7</b>	<b>-3.6</b>	<b>1.4</b>	<b>1.4</b>	<b>11.0</b>	<b>18.5</b>	<b>11.6</b>	<b>-2.3</b>	<b>8.5</b>	<b>4.0</b>	<b>3.5</b>
Industry	3.6	3.1	3.8	2.6	3.8	4.5	3.6	3.6	3.8	3.8	5.6	6.6	4.6	-	-	-	-
Construction	-2.5	-1.8	0.1	0.1	5.5	4.5	2.6	-1.5	1.6	1.6	4.0	5.6	2.3	-	-	-	-
Services	-12.0	-0.6	-6.3	2.0	-5.5	-10.2	-12.0	-8.9	-0.3	-0.3	16.2	30.8	18.3	-	-	-	-
<b>% 3m/3m SA ann.</b>	<b>-29.5</b>	<b>-16.9</b>	<b>13.1</b>	<b>33.0</b>	<b>18.2</b>	<b>-1.6</b>	<b>-12.5</b>	<b>-8.1</b>	<b>4.7</b>	<b>20.7</b>	<b>31.8</b>	<b>25.3</b>	<b>18.5</b>	-	-	-	-
<b>% m/m SA ann.</b>	<b>104.6</b>	<b>82.6</b>	<b>-1.9</b>	<b>2.9</b>	<b>-31.6</b>	<b>-2.9</b>	<b>-4.3</b>	<b>15.6</b>	<b>41.3</b>	<b>41.3</b>	<b>21.4</b>	<b>15.5</b>	<b>-0.8</b>	-	-	-	-

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



---

**Disclaimer:** While every effort has been made to ensure that the data quoted and used for the research behind this document is reliable, there is no guarantee that it is correct, and Capital Economics Limited and its subsidiaries can accept no liability whatsoever in respect of any errors or omissions. This document is a piece of economic research and is not intended to constitute investment advice, nor to solicit dealing in securities or investments.

**Distribution:** Subscribers are free to make copies of our publications for their own use, and for the use of members of the subscribing team at their business location. No other form of copying or distribution of our publications is permitted without our explicit permission. This includes but is not limited to internal distribution to non-subscribing employees or teams.

