

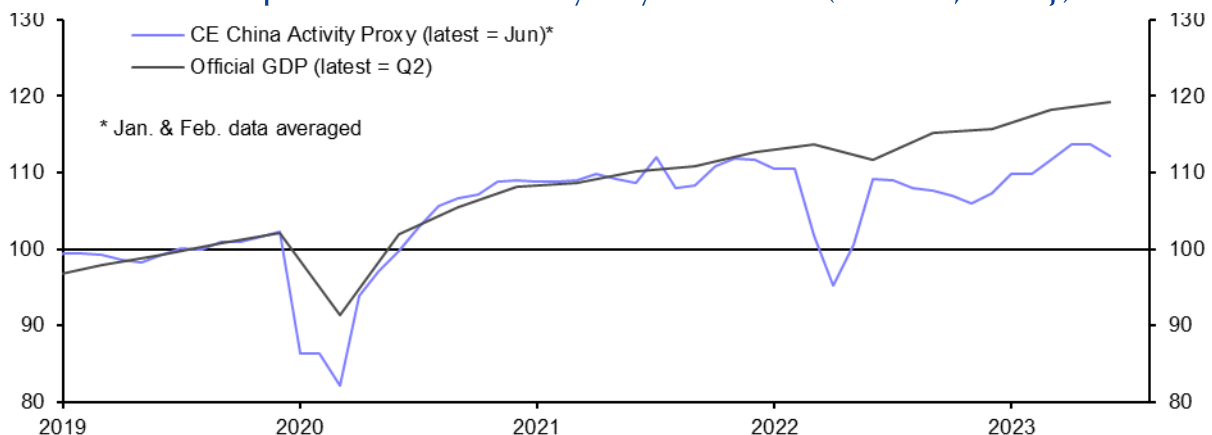


CHINA ACTIVITY MONITOR

CAP: Recovery goes into reverse

- **Our China Activity Proxy (CAP) suggests that China's economy contracted in June as the service sector spluttered. Policy support means the economy should return to growth before long. But the pace of future expansion will be more modest than in the past.**
- 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 13.1% y/y in May to 2.7% in June. This sharp drop largely reflects shifting base effects from a year ago, when the economy was still rebounding from lockdowns in Shanghai and other large cities. But it is also due to a deterioration last month. **In seasonally-adjusted terms, output fell 1.4% m/m, the first decline since last November.** (See Chart 1.)
- **The main drag on growth last month came from the service sector.** (See Chart 2.) Car sales are rebounding, and long-distance travel has continued to recover, albeit at a glacial pace. But property sales fell at the fastest clip in a year. And a contraction in service sector electricity usage hints at some broader weakness in services activity. (See Charts 3 & 4.)
- **Although still broadly stagnant over the past couple of years, construction fared slightly better last month.** Property developers continued to pare back new housing starts. But sales of construction machinery held steady and output of building materials picked up. (See Charts 5 & 6.) This appears to reflect an acceleration in infrastructure spending as well as faster progress on existing housing projects.
- **The uptick in construction failed to prevent a contraction in industrial activity, however.** The main culprit was weaker foreign demand for Chinese-made goods. Seaport container throughput continued to drop back even as domestic freight traffic held up reasonably well. (See Chart 7.)
- **Despite June's poor showing, we don't think China's economy is slipping into a recession.** External headwinds will continue to drag down exports for a while. But this can be offset through policy stimulus. Although this week's Politburo meeting was light on specifics, it did [signal that](#) more support is on its way. Provided officials follow through on these pledges, then the economy should return to growth.
- **That said, stimulus is likely to be fairly restrained.** And given the underwhelming reopening recovery so far, we now think the economy will expand 7% this year, as measured by the CAP, down from 8.5% previously. This is higher than our 5.5% forecast for official GDP, but only because the CAP weakened much more sharply last year and therefore had more ground to regain upon reopening. On both measures **we expect q/q growth during the second half of this year to average only 4.5% annualised.**

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



Sources: CEIC, WIND, Capital Economics



China Activity Proxy charts & data table

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

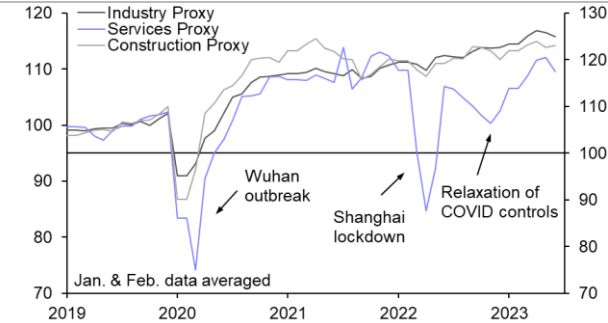


Chart 3: Property & Car Sales (2019 = 100, seas. adj.)

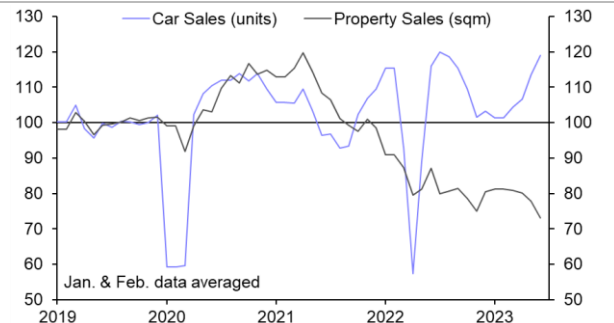


Chart 4: Passenger Traffic & Service Sector Electricity Consumption (2019 = 100, seas. adj.)

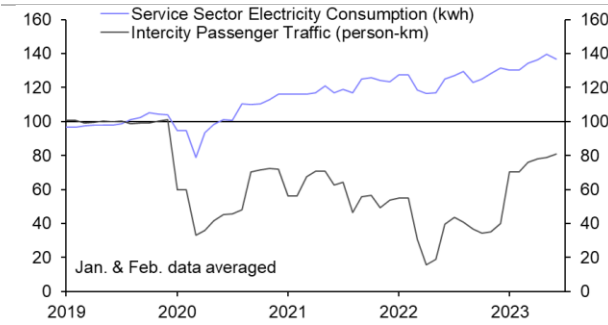


Chart 5: Construction Activity (2019 = 100, seas. adj.)

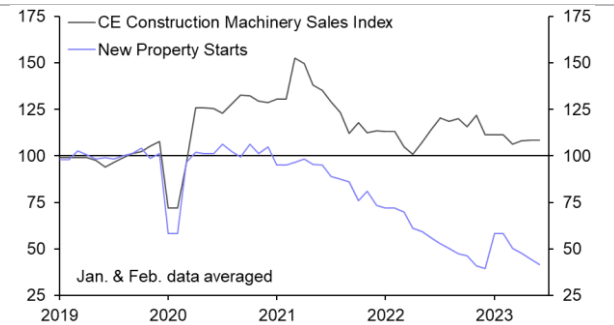


Chart 6: CE Industrial Output Index (2019 = 100, seas. adj.)

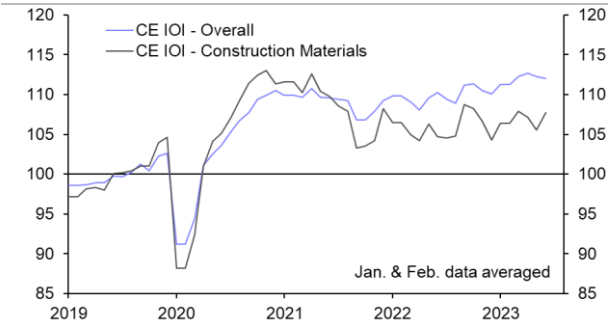
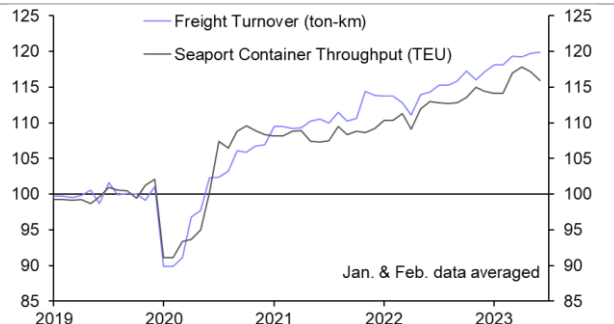


Chart 7: Freight & Seaport Traffic (2019 = 100, seas. adj.)



Sources: CEIC, NBS, WIND, Capital Economics

Capital Economics China Activity Proxy Values (Jan. & Feb. data are averaged)

	2022								2023						Annual Average			
	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	2022	2023f	2024f	2025f	
% y/y Headline CAP	0.5	-2.7	-0.1	-0.7	-3.5	-5.3	-4.0	-0.6	-0.6	9.7	19.3	13.1	2.7	-3.4	7.0	4.0	3.5	
Industry	3.0	3.1	2.0	4.4	4.8	3.2	2.8	2.8	2.8	4.5	6.5	4.1	3.0	-	-	-	-	
Construction	-2.0	0.1	0.1	5.4	4.4	2.6	-0.2	1.7	1.7	4.1	5.7	2.5	2.9	-	-	-	-	
Services	-0.4	-6.5	-1.9	-5.4	-10.4	-12.7	-9.5	-2.9	-2.9	14.9	33.3	22.7	2.8	-	-	-	-	
% 3m/3m SA ann.	-20.2	15.3	43.8	27.9	4.7	-6.7	-5.2	0.8	8.3	14.8	16.0	15.9	10.3	-	-	-	-	
% m/m SA ann.	167.0	-2.9	-10.4	-3.8	-6.9	-10.4	15.5	15.5	15.5	22.4	23.8	0.3	-15.9	-	-	-	-	

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



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