

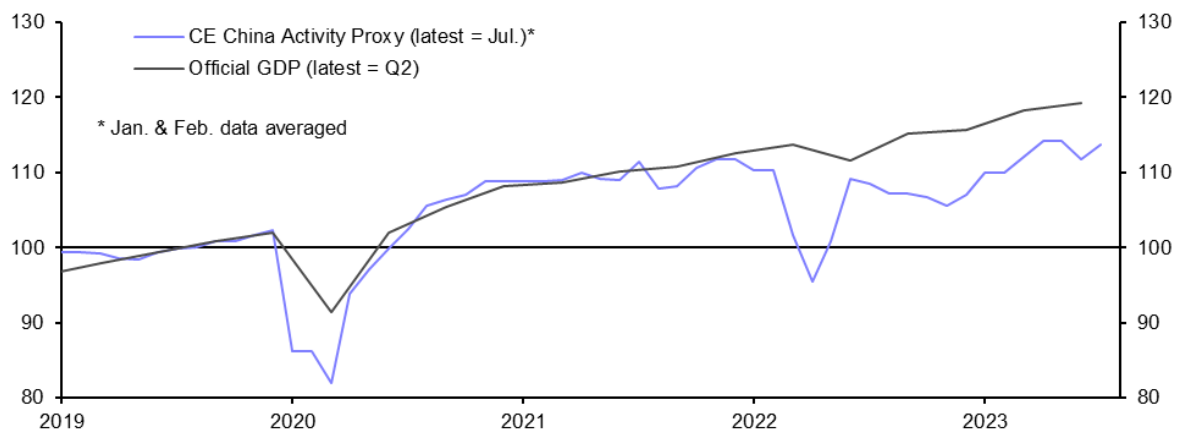


CHINA ACTIVITY MONITOR

CAP: Treading water

- **Our China Activity Proxy (CAP) suggests that China's economy regained some ground in July, following a contraction in June. But the big picture is that output has levelled off recently and that the economy could tip into a downward spiral unless policy support is ramped up soon.**
- 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 picked up from 2.4% y/y in June to 4.8% in July. This partly reflects shifting base effects from a year ago, when the economy contracted amid renewed virus disruptions. But it is also due to an improvement last month. **In seasonally-adjusted terms, output expanded 1.7% m/m, though that still leaves the level of output slightly below its May high** (See Chart 1.)
- The CAP sector proxies point to broad-based gains last month. But **the service sector remains a relative weak spot**. (See Chart 2.) Service sector electricity usage has levelled off recently and the recovery in long-distance travel has slowed to a crawl. (See Chart 3.) Meanwhile, the rebound in car sales has started to go into reverse and property sales have continued to slide. (See Chart 4.) Taken together, these point to increasingly depressed sentiment among households.
- **Construction activity picked up last month, finally surpassing its 2021 peak.** Housing starts fell to their lowest level in 17 years as developers continued to pare back new projects. But completions rose for the first time since February, reflecting greater progress on existing housing projects. Meanwhile, a drop in fiscal deposits and higher asphalt production suggest that infrastructure construction also picked up last month. Taken together, this explains the uptick in sales of construction machinery and output of building materials. **It also appears to have provided support to wider industrial activity.** (See Charts 5 & 6.) At the same time, container throughput at Chinese ports continued to rise (see Chart 7), though this probably overstates the resilience of foreign demand amid declining container utilisation rates.
- **Although China's economy managed to avoid a second monthly contraction, it remains at risk of slipping into recession.** Troubles in the property sector will weigh on confidence among homebuyers and firms for some time. And the risks to exports remain skewed to the downside. The government has responded with some policy support. But it remains too timid and slow-moving. **Unless more substantial stimulus is rolled out soon, our expectation for modest q/q growth averaging 3% annualised in the second half of this year may prove too optimistic.**

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.)

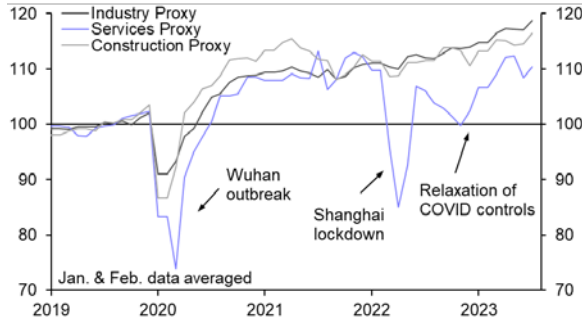


Chart 3: Passenger Traffic & Service Sector Electricity Consumption (2019 = 100, seas. adj.)

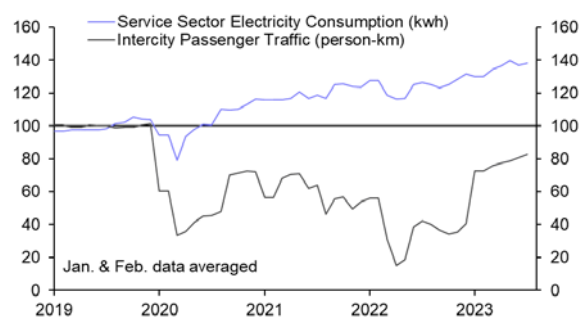


Chart 4: Property & Car Sales (2019 = 100, seas. adj.)

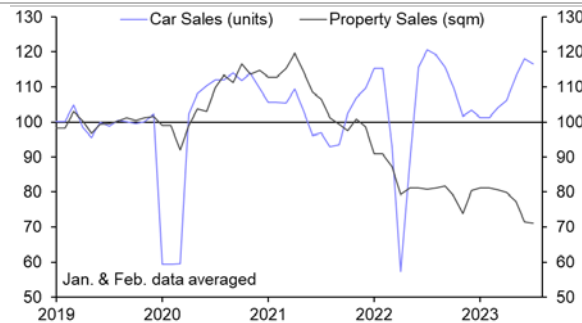


Chart 5: Construction Activity (2019 = 100, seas. adj.)

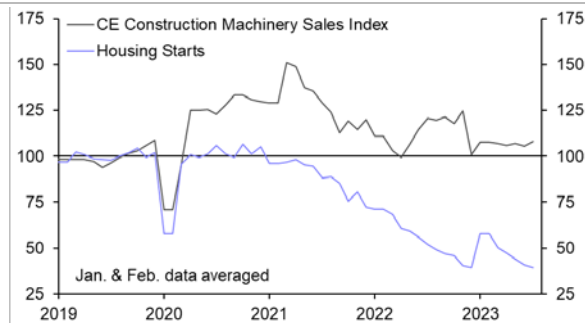


Chart 6: CE Industrial Output Index (2019 = 100, seas. adj.)

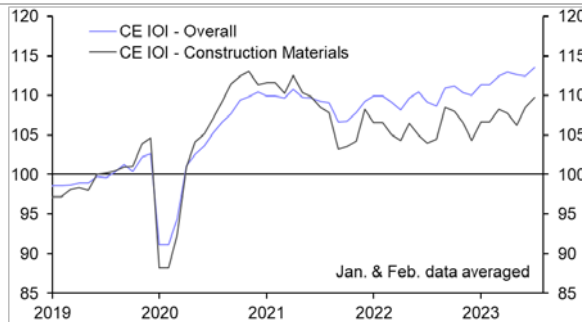
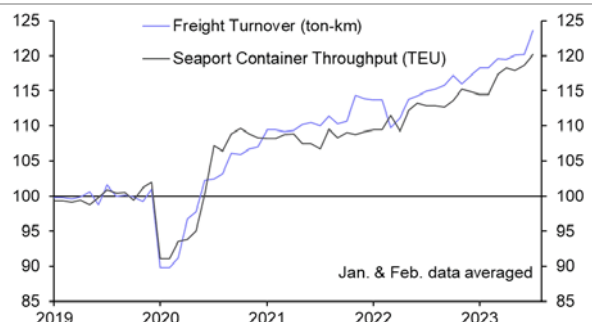


Chart 7: Freight & Seaport Traffic (2019 = 100, seas. adj.)



Sources: CEIC, NBS, WIND, Capital Economics

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

	2022						2023							Annual Average			
	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	2022	2023f	2024f	2025f
% y/y Headline CAP	0.2	-2.7	-0.6	-0.9	-3.6	-5.5	-4.2	-0.4	-0.4	10.2	19.6	13.2	2.4	-3.4	6.5	4.0	2.5
Industry	3.1	3.3	1.9	4.3	4.7	3.2	2.9	3.2	3.2	5.6	6.7	4.3	3.8	-	-	-	-
Construction	-1.8	-0.1	0.0	5.4	4.4	2.7	-1.9	1.7	1.7	6.1	5.9	2.8	2.8	-	-	-	-
Services	-1.4	-6.4	-2.7	-5.4	-10.3	-12.8	-9.3	-2.8	-2.8	14.6	33.2	22.3	1.3	-	-	-	-
% 3m/3m SA ann.	-19.3	15.2	41.5	24.8	3.2	-6.6	-4.3	2.0	9.7	16.7	17.8	17.4	10.3	-	-	-	-
% m/m SA ann.	160.3	-7.1	-13.5	-0.5	-5.7	-10.8	17.4	17.3	17.3	25.4	25.2	0.0	-21.7	-	-	-	-

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.

