

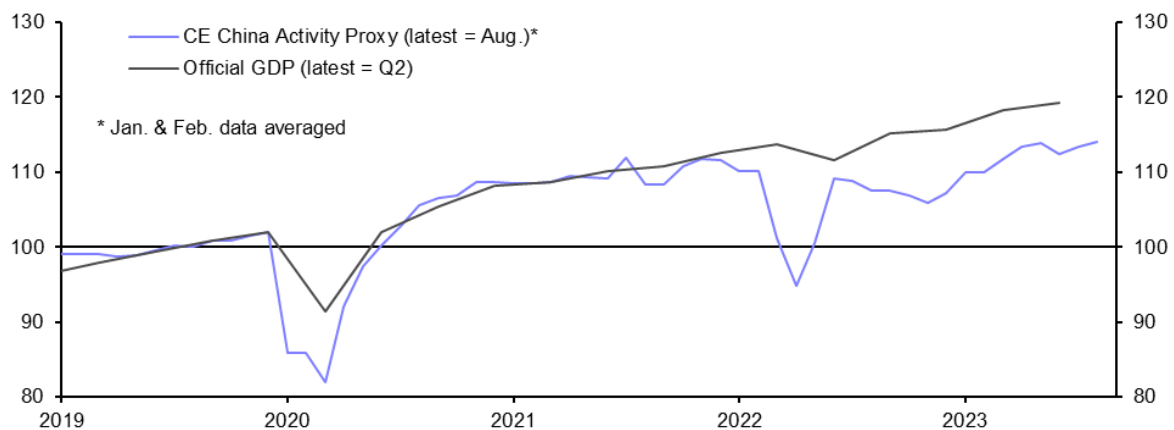


# CHINA ACTIVITY MONITOR

## CAP: Economy has returned to growth

- **Our China Activity Proxy (CAP) suggests that, after a period of stagnation, China's economy has returned to growth recently, with output finally surpassing its previous high in August. Policy support is being stepped up, which should underpin a further recovery over the coming months.**
- 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 4.3% y/y in July to 6.1% in August. This mostly reflects shifting base effects from a year ago, when virus disruptions pushed the economy into a contraction. But it is also due to an improvement last month. **In seasonally-adjusted terms, output expanded 0.6% m/m, pushing the level of economic activity above its recent peak in May.** (See Chart 1.)
- **The services sector made more headway but remains a relative weak spot, with output yet to regain its 2021 peak.** (See Chart 2.) Service sector electricity usage has levelled off and the recovery in long-distance travel has stagnated at a fifth below 2019 levels. (See Chart 3.) Meanwhile, property sales have yet to bottom out. But there are some signs that consumer sentiment is improving - car sales and express deliveries were stronger last month, alongside a broader pick-up in [retail sales](#). (See Chart 4.)
- **Construction activity has also improved lately, although gains slowed last month.** (See Chart 2 again.) Housing starts are still falling as developers continue to pare back new projects. And completions dropped back after a pick-up in July. This led to a decline in the output of building materials. (See Chart 5.) But higher asphalt production suggests that the weakness in housing construction was largely offset by faster infrastructure construction, which is also apparent in the recent uptrend in sales of construction machinery. (See Chart 6.)
- **The main bright spot is still the wider industrial sector**, which saw a further rise in overall output last month. (See Chart 5 again.) Freight traffic, both at Chinese ports and across the country's roads and railways remains on a strong upward trend. (See Chart 7.)
- **The recent step-up in policy support should help to cement the recovery that already appears to be underway.** The most significant measures have been targeted at the property sector which has been the biggest drag on the economy. We expect some additional monetary easing, further support to the housing market and measures to keep the fiscal stance supportive over the rest of the year. These should boost confidence among homebuyers and firms, helping to underpin a modest cyclical rebound.

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



Sources: CEIC, WIND, Capital Economics

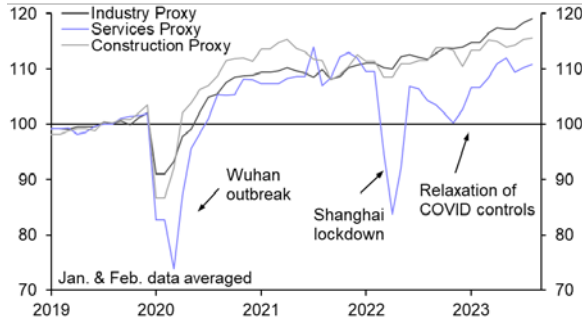
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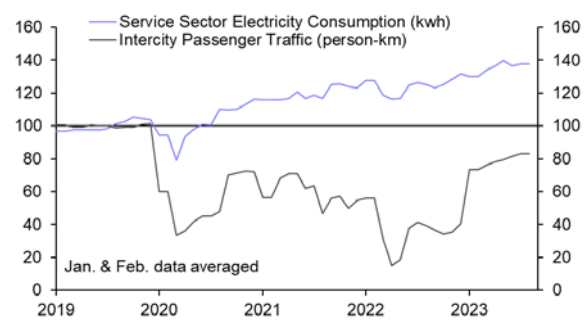


# China Activity Proxy charts & data table

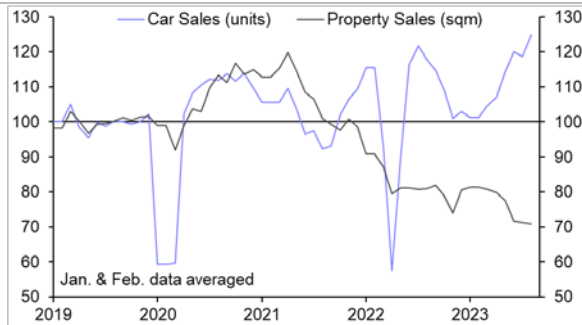
**Chart 2: CAP – Sector Proxies (2019 = 100, seas. adj.)**



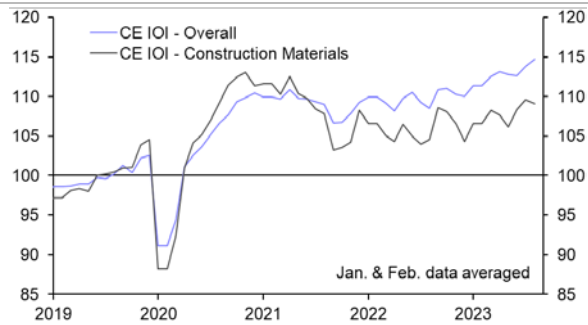
**Chart 3: Passenger Traffic & Service Sector Electricity Consumption (2019 = 100, seas. adj.)**



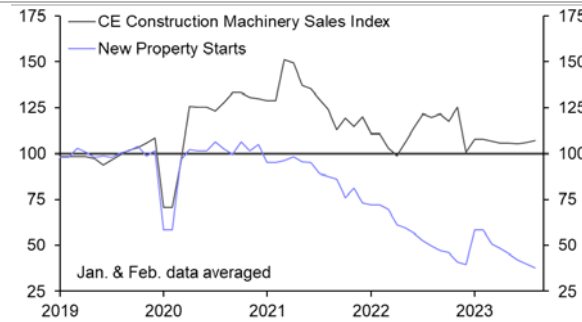
**Chart 4: Property & Car Sales (2019 = 100, seas. adj.)**



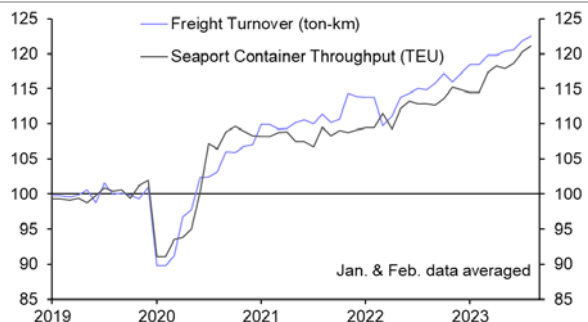
**Chart 5: CE Industrial Output Index (2019 = 100, seas. adj.)**



**Chart 6: Construction Activity (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			
	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	2022	2023f	2024f	2025f
<b>% y/y Headline CAP</b>	<b>-0.8</b>	<b>-0.7</b>	<b>-3.5</b>	<b>-5.3</b>	<b>-4.0</b>	<b>-0.2</b>	<b>-0.2</b>	<b>10.4</b>	<b>19.7</b>	<b>13.3</b>	<b>2.9</b>	<b>4.3</b>	<b>6.1</b>	<b>-3.5</b>	<b>6.5</b>	<b>4.0</b>	<b>2.5</b>
Industry	1.8	4.3	4.7	3.2	2.9	3.3	3.3	5.7	6.8	4.4	4.0	5.5	6.6	-	-	-	-
Construction	-0.1	5.4	4.4	2.7	-1.9	1.7	1.7	6.2	6.0	2.7	3.0	3.4	3.7	-	-	-	-
Services	-3.0	-5.4	-10.5	-13.2	-9.6	-2.5	-2.5	15.0	34.0	23.3	2.5	3.9	6.3	-	-	-	-
<b>% 3m/3m SA ann.</b>	<b>45.1</b>	<b>27.9</b>	<b>4.5</b>	<b>-6.1</b>	<b>-4.6</b>	<b>1.3</b>	<b>8.6</b>	<b>15.3</b>	<b>15.8</b>	<b>15.5</b>	<b>10.2</b>	<b>5.7</b>	<b>1.0</b>	-	-	-	-
<b>% m/m SA ann.</b>	<b>-13.2</b>	<b>0.7</b>	<b>-6.8</b>	<b>-10.6</b>	<b>14.9</b>	<b>16.8</b>	<b>16.8</b>	<b>20.9</b>	<b>20.5</b>	<b>5.2</b>	<b>-15.0</b>	<b>11.5</b>	<b>6.8</b>	-	-	-	-

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



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