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China Economic Update Report

This Issue:

China’s economic performance Q1 2023

Strong government support to help boost China’s economy

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China's GDP picked up to 4.5% YoY in Q1 2023 after the end of 3-year strict Covid restrictions

Recovering from the Covid-19 curbs, in the first quarter, China's GDP grew by 4.5% year-on-year, 1.6 percentage points higher than the previous quarter, and 2.2 points higher compared to the same quarter last year.

According to data from the Chinese National Bureau of Statistics, China's GDP grew markedly compared to the 2.9% (YoY) growth in Q4 2022, showcasing that the Chinese economy is on pace to recover from the 3-year strict Covid-19 restrictions. The Q1 growth not only marks the highest growth since the first quarter of 2022, when China's economy grew by 4.8%, but also exceeds the 4% forecast in a Reuters poll.

In terms of economic contribution by industry, the value added of China's primary industry, grew 3.7% (YoY) in the first quarter, making up 4.1% of GDP. The secondary industry, 37.9% of GDP, grew 3.3 % (YoY), and tertiary industry, 58.1% of GDP, increased 5.4% (YoY).

Notably, industrial production recovered significantly during the quarter. Average industrial output of designated companies, with a main business income exceeding US$2.9 million, grew on average by 3.0% (YoY) in Q1, 0.3 percentage point higher than in the last quarter. Many analysts believe the strong growth was the product of the "backloading" of economic activity from last quarter, which was weighed down by pandemic restrictions and the reopening. Nevertheless, for 2023 as a whole, China's economy appears to be on track to stably reach the government's cautious target of around 5% in GDP growth.

China's trade is recovering steadily

In the Q1 2023, the total value of exports grew 8.4% (YoY) despite the weak external demand, while imports only picked up to 0.2% (YoY).

Source: National Bureau of Statistics of China

From January to February 2023, China's imports decreased by 2.37% when compared with the same period the previous year. Import growth slowed due to the slowed output during China's spring festival celebrations and the volatility of commodity prices. The surprise export growth in Q1 was largely attributed to a surge in demand from Southeast Asia and countries along the Belt and Road Initiatives (BRI).

According to China official data, trade in goods between China and BRI countries surged by 16.8 % YoY in Q1. Notably, the bilateral trade turnover between China and Russia amounted to US$53.84 billion, increasing 38.7% YoY while trade with the United States fell by 13.1% YoY.

Government support and strong consumer demand boosted the reopening of China's economy

As stated in the 14th National People's Congress, the "Work of Government in 2023" plan pointed out that the Chinese government will continuously focus efforts on expanding the domestic demand and increasing investment on the infrastructure and manufacturing industry.

In the first quarter 2023, China's service sector experienced an accelerated recovery, especially in contact-intensive service sectors. Thanks to the restoration of the consumption scene, service consumption demands, which were previously suppressed during the pandemic, have increased.

The total value of China's service sector rose by 5.4% in the first quarter of 2023 (YoY), picking up from the 2.3% increase in Q4 (the specific figures of growth by different segmented sectors can be found in below table). The service PMI in March stood at 56.9%, increasing 1.3% from the previous month.

Segmented Sectors	Value added growth (%)
Accommodation and catering	13.6%
Software and information technology services	11.2%
Financial intermediation	6.9%
Retail sales	5.5%

Source: National Bureau of Statistics of China

According to the latest data, Chinese residents' travel has recovered significantly. In March 2023, the domestic railway passenger volume reached 266 million people, while the average daily passengers volume climbed up to 8.58 million, recovering to pre-pandemic levels. During the Spring Festival period, the number of domestic tourists reached 308 million, increased by 23.1% YoY.

In terms of fixed asset investment, the report stated that, in 2023, special bonds of local governments will reach over US$500 billion, US$22 billion higher than the 2022 target, which shows the Chinese government's determination to further stimulate the investment market.

Public investments will primarily be targeted at traditional infrastructure, such as industrial parks and supporting facilities, transportation hubs, water conservancy and urban renewal, as well as new infrastructure, such as 5G base stations, computing infrastructure, and new energy infrastructure.

In the first quarter of 2023, infrastructure investment grew by 8.8%. Recent data also indicate that the national cement, steel price index continue to rise. CICC, China's leading investment bank, judged that in 2023, infrastructure investment will maintain a rapid growth rate of 8%-10%.

In the long run of economic recovery, China still faces dilemma. Although the current macro-economic data has offered evidence of an imminent turnaround, players in micro markets still show low confidence in investment. Private investment accounted for only half of total fixed-asset investment in the first quarter, the lowest recorded figure since 2010. At this stage, the core but limited momentum for economic recovery is still the government investment, largely presented as infrastructure investment.

China's property market is recovering

During the Covid-19 pandemic, China's property market suffered severe turbulence. However, the first quarter of 2021 has shown signs of recovery, following the reopening of economy and stimulus from government.

Data released by the officials showed that investments in property development across the country amounted to US$375 billion in Q1 2023. Although a decrease of 5.8% YoY, the decreasing amplitude was significantly narrower than last year. An array of supportive measures by central authorities, which has been ongoing since Q4 2022, has significantly boosted private investors' access to onshore funding, especially bank lending.

The top 100 real estate enterprises in mainland China achieved total sales of US$214 billion during the quarter, and the cumulative sales grew 3.1% YoY. According to the Q1 report of Poly Development, a leading listed enterprise on Chinas property market, the sales of commercial residential buildings reached US$13 billion during the quarter, markedly increasing by 25.84% YoY.

It is expected that the moderately positive momentum will persist into the second quarter, benefitting from the continued economic recovery, supportive policy measures, and a low base effect from the prior-year period.

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