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## China Economics Update: 2Q GDP growth slows, moderate recovery continues 中国经济评论: 2 季度经济增长放缓, 温和复苏预计持续

**The Jun eco data and 2Q GDP growth report was consistent with softer growth momentum since 1Q, and resilient manufacturing performance.** Sequential GDP growth slowed from 2.2% QoQ to 0.8% QoQ in 2Q following the fading impact of pent-up demand. Jun activity data presented a mixed picture. To begin with, the consumption recovery lost some steam. Sequential growth momentum in retail sales eased and remains below the pre-pandemic trend. Industrial production demonstrated resilience. Broad infrastructure investment and resilient manufacturing investment offset most of the drag from contracting property investment.

**We continue to expect a moderate recovery.** We maintain a 2023 growth forecast of 5.3% YoY. The property sector and easing foreign demand are key drags on the economic outlook. Consumption growth will only recover slowly, while industrial sectors will likely stay resilient.

**We expect incremental policy support to stabilize growth expectations.** Potential policy signals at the Jul Politburo meeting could include industrial policy support, accelerating fiscal spending, and possible measures to support consumers and private businesses. We expect the PBoC to maintain an accommodative monetary policy amid muted inflation pressure and a sluggish recovery. Targeted policies to cushion the property downturn are also expected to continue.

**6 月经济数据和二季度 GDP 增长报告与一季度以来增长放缓的趋势一致。同时, 制造业表现依旧坚挺。** 由于需求反弹的影响减弱, 二季度 GDP 环比增速从 2.2% 放缓至 0.8%。6 月份的经济活动数据喜忧参半。消费复苏动能减弱, 社零增长环比放缓, 低于疫情前的平均水平。工业产出仍有韧性。广义基建投资和制造业投资保持稳健, 抵消了地产投资收缩导致的大部分负面影响。

**我们仍预计未来经济温和复苏, 并维持 2023 年同比增长 5.3% 的预测。** 房地产行业的不景气和外需放缓是拖累经济增长的主要因素。消费增速可能仍在低位, 但工业部门有望持续保持韧性。

**我们预计更多政策措施来稳定增长。** 7 月政治局会议可能出台的政策措施包括产业政策支持, 加快财政支出, 和旨在提振消费者和私营企业信心的措施。在通胀压力减弱和复苏乏力的情况下, 我们预计央行将维持宽松的货币政策。同时, 我们预计缓解地产下滑的针对性政策也将持续出台。

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## In-line sequential 2Q23 GDP growth indicates a softer pace of recovery

Following the release of pent-up demand, sequential GDP growth eased from 2.2% QoQ in 1Q to 0.8% QoQ in 2Q. Year-to-date GDP growth picked up to 5.5% YoY on base effects. The result was softer than the Bloomberg consensus forecast for 6.1% YoY.

By sector, services have been the key growth driver this year. Growth in services output accelerated from 5.4% YoY in 1Q to 7.4% YoY in 2Q. Industrial output growth picked up by 1.9ppt to 5.2% YoY in 2Q.

## June data: stronger IP data, but retail sales disappoint

**Industrial production (IP) was strong, led by advanced manufacturing.** IP growth beat the Bloomberg consensus estimate in Jun (2.5% YoY expected versus 4.4% YoY actual). In contrast to an expected slowdown, the National Bureau of Statistics (NBS) estimates the seasonal adjusted sequential growth rate picked up slightly from 0.6% MoM in May to 0.7% MoM in Jun.

By sector, mining output grew by 1.5% YoY in Jun, recovering from a small contraction in May led by coal mining. Growth in manufacturing output picked up slightly, led by electrical equipment, ferrous and nonferrous metal making. By contrast, nonmetal making, such as cement, registered a third consecutive year-on-year contraction because of weak property demand. These trends are consistent with [our analysis](#) that the shifting investment focus from property to the green transition will continue to benefit auto manufacturing, metal making, and electrical equipment manufacturing for years to come, while nonmetal-making industries may face persistent downward pressure.

**Retail sales growth slowed sequentially in Jun, reflecting lower energy consumption and soft housing-related expenditure.** Downside surprise in the annual growth figures for Jun (3.3% YoY expected versus 3.1% YoY actual) points to a softer-than-expected recovery in consumption. According to the NBS, seasonal adjusted sequential retail sales growth eased from 0.4% MoM in May to 0.2% MoM in Jun, well below average growth of 0.7% MoM in 2019.

By category, car sales contracted by 1.5% YoY in Jun, driven the high base last year, though year-to-date car sales remain strong. Catering continued to improve sequentially, though annual growth slowed to 16.1% YoY (Fig 2). The year-on-year contraction in fuel consumption widened to 7.5% YoY in Jun mainly because of elevated energy prices last year, which subtracted 1ppt from headline retail sales by our estimate. Housing-related spending contracted from last year, consistent with a sluggish property sector.

**Fixed-asset investment (FAI) growth** picked up slightly to 3.3% YoY in Jun by our estimate (Fig 3), supported by investment in infrastructure and manufacturing. Property investment remains the main drag. By category:

- **Broad infrastructure investment growth remains solid at around 10% YoY.** Traditional infrastructure investment growth picked up to 6.4% YoY, the first rebound this year. Meanwhile, growth in broad infrastructure investment, including power production and supply, remains robust at just above 10% YoY. Year-on-year investment growth in the power sector has averaged around 25% YoY over the past twelve months. The investment push related to the green transition remains the key medium-term policy theme, in our view.
- **Manufacturing investment growth rose** to 6.0% YoY in Jun. However, the divergent investment trend among industries continues. Despite a gradual slowdown, high-tech manufacturing remains strong at 11.8% YoY in 1H23. [Our view](#) remains that industrial upgrades, the pursuit of indigenous technology and innovation amid tightening US restrictions, digitalization, automation, etc., will drive accelerated investment into prioritized areas.
- **Real estate investment contracted by 10.2% YoY in Jun**, unchanged from May by our estimate. The year-on-year contraction in funding for current year widened from 9% YoY to 22% YoY mainly on base effects. Funding improved sequentially due to the government's supportive policy stance.

**Other property indicators suggest the property downturn continued in Jun.** The year-on-year contraction in property starts deepened to 31% YoY, and growth in property completions slowed for the third consecutive month to 15% YoY in Jun. The contraction in property sales widened to nearly 28% YoY in Jun, reflecting soft housing demand and the high base last year (Fig 4). New

home prices in 70 large Chinese cities tracked by the NBS declined 0.1% MoM in Jun, led by low-tier cities. Sequential growth in new property prices in tier-one cities also eased to flat following several months of gains. Furthermore, the volume of weekly property sales among 30 large Chinese cities tracked sideways over recent weeks. Annual contraction widened compared with the weekly sales figures in the same period of recent years since 2017.

**Youth unemployment remains high.** The surveyed jobless rate was steady at 5.2% in Jun, for the third consecutive month (Fig 5). However, the youth unemployment rate has risen for the sixth consecutive month to 21.3%. A soft recovery and graduation season contributed to youth employment pressure. The NBS expects youth unemployment to fall soon as graduation season finishes in Aug. By contrast, the unemployment rate for prime aged workers remains at an all-time low of 4.1%.

## Our view:

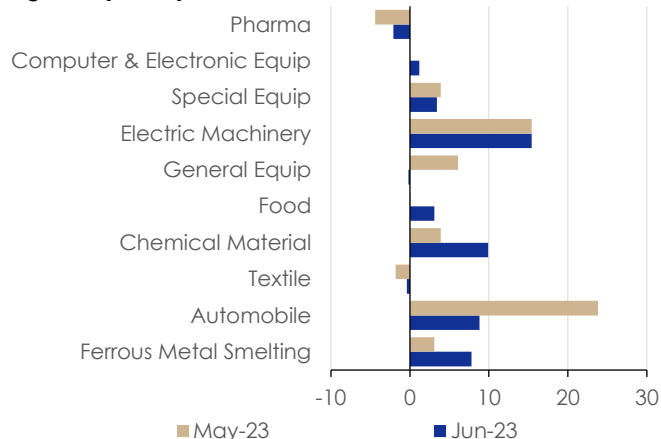
**We expect the economic recovery to continue at a modest pace, helping the economy to achieve 5%+ growth.** The 2Q GDP report points to a soft recovery due to sluggish consumption and the continued property downturn. While expenditure on certain services such as catering has improved, the pace of the overall consumption recovery has been slow and softer than the pre-pandemic trend. We maintain the view that a sustained recovery in consumption will hinge on the improving outlook for household income and employment. By contrast, industrial output has demonstrated resilience, in line with our view that industrial upgrades and the green transition have benefited manufacturing. We expect a continued recovery at a modest pace in 2H on the back of further normalization of consumption, solid manufacturing growth, and continued policy support. We maintain our 2023 growth forecast of 5.3% YoY.

**Targeted policy support towards the housing market is likely to continue.** The regulators recently extended a 16-point package unveiled last year intended to ease funding pressure on property developers. Furthermore, restrictions on housing purchases are likely to see further local relaxation, including reducing down-payments in some non-core neighborhoods of major cities, lowering agent commissions on transactions, relaxing restrictions on residential purchases, and cash incentives for property purchases. PBoC officials recently voiced support for lowering interest rates on existing mortgages via negotiations between borrowers and banks though it is not clear that such a practice will be widely adopted.

**We expect the PBoC to maintain an accommodative policy stance.** Muted inflation pressure points to soft consumption despite the quick normalization in offline consumption. While a small rate cut cannot be ruled out, our baseline remains that the PBoC will leave policy rates unchanged for the time being. Policy interest rates have been at record lows and room for continued reduction in policy rates is limited, in our view. On 17 Jul, the PBoC injected a small amount of RMB3b into the banking system, but left unchanged the 1-year Medium-term Lending Facility (MLF) rate of 2.65% following a 10bp cut in Jun. Additional RRR cuts in 2023F remain possible, in our view.

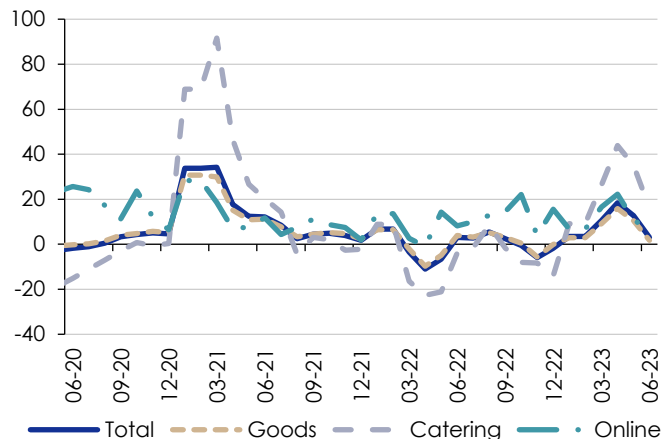
**The upcoming Jul Politburo meeting could add further policy support.** First, despite remaining solid, the pace of local government special bond issuance was slower this year than in 2022; moreover, fiscal spending was slow as the deficit narrowed this year. Additional fiscal support will aid domestic demand and help the cyclical recovery. Second, we anticipate additional policy support to facilitate the green transition and other strategic goals such as technology and invocation. Third, the media has reported a flurry of meetings between top policymakers and leading private businesses. These meetings give hope of favorable policy to boost sentiment and support the private sector. Fourth, supporting consumption has been a key policy focus following the re-opening. Additional supportive initiatives following recent measures to support purchases of electric vehicles and big-ticket household goods are likely.

**Fig 1: Output growth in electric machinery remains solid**  
IP growth (% YoY)



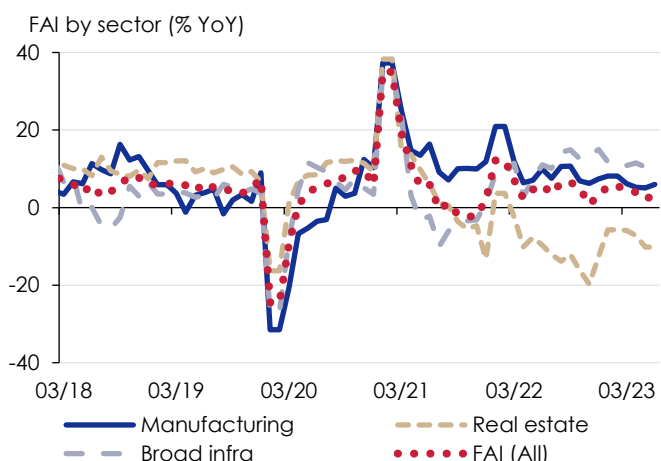
Source: NBS, CCBIS

**Fig 2: Retail sales growth slowed across the board in Jun**  
% YoY



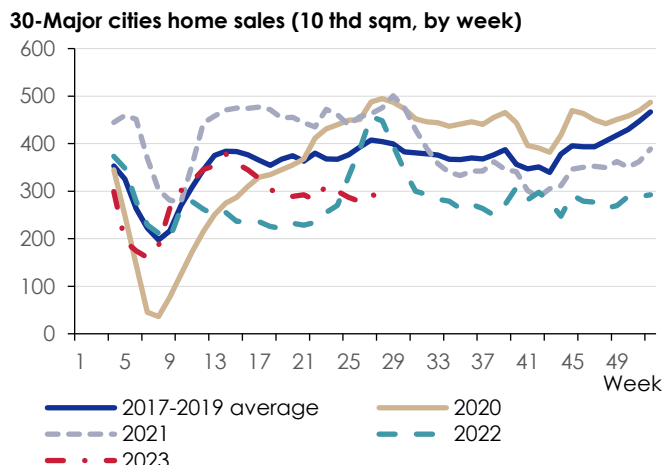
Source: NBS, CCBIS

**Fig 3: Infrastructure and manufacturing investment growth ticked up, while property investment remained a drag**  
FAI by sector (% YoY)



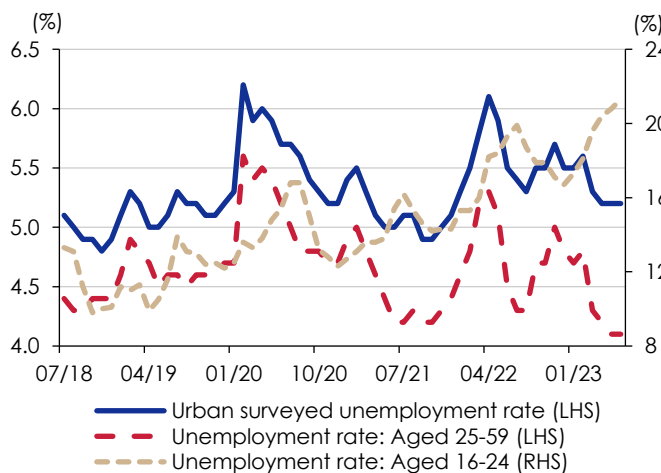
Source: NBS, CCBIS

**Fig 4: Property sales were stagnant in recent weeks**  
30-Major cities home sales (10 thd sqm, by week)



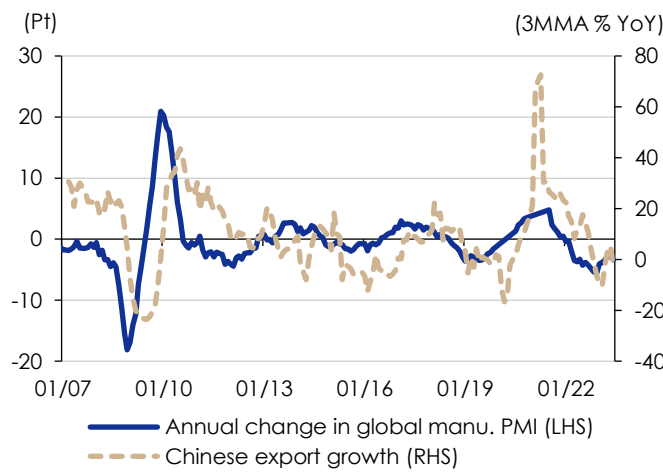
Source: NBS, CCBIS

**Fig 5: Youth unemployment remains elevated**



Source: NBS, CCBIS

**Fig 6: Softening external demand clouds export outlook**



Source: Wind, CCBIS



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