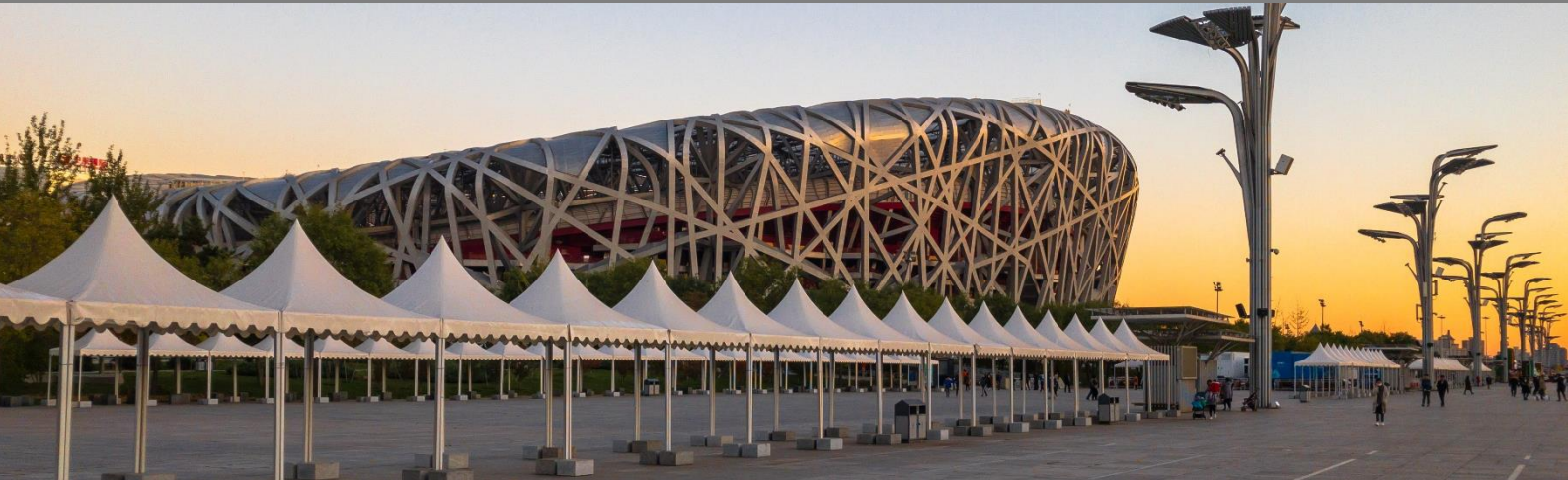


Market Monitor – Mainland China

A Strong Q1 Brightens the Recovery Outlook



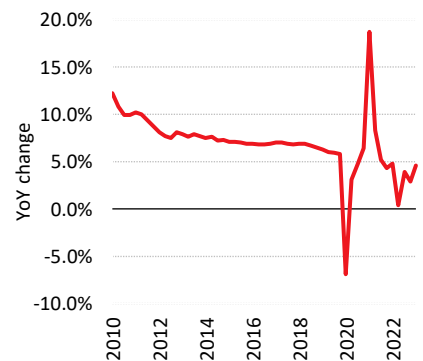
- Mainland China’s economy staged a stronger than expected growth in Q1 at 4.5% year-on-year (YoY).
- Domestic consumption grew strongly, led by services and retail spending.
- The Mainland’s economic growth is expected to reach 5.7% in 2023, with potential upside.

**Consumption and investment drove a robust recovery**

**In Q1 2023, Mainland China’s economy recovered robustly, driven by consumption and investment.** Gross domestic product (GDP) expanded solidly by 4.5% YoY in Q1 2023, accelerating from 2.9% YoY in Q4 2022. During the quarter, consumption became the largest growth engine contributing to 66.6% of Q1 GDP growth, while investment and net exports of goods and services contributed 34.7% and -1.3%. With an orderly economic normalization, the tertiary industry (+5.4% YoY) recovered faster than the secondary industry (+3.3% YoY) in Q1 2023, with remarkable growth seen in some services sectors such as accommodation & catering sector (+13.6% YoY) and information transmission, software & information technology services sectors (+11.2% YoY). This indicates a strong and continued recovery from the domestic sector, fuelled by pent-up demand. Going forward, consumption is anticipated to play a bigger role in driving the ongoing economic recovery.

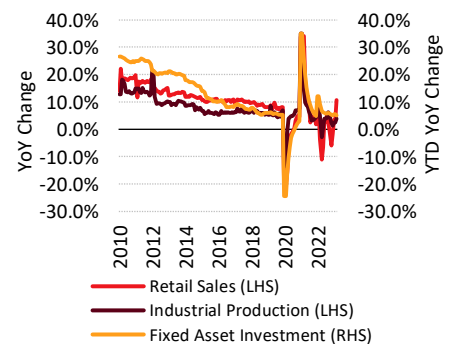
**Growth of retail sales accelerated to 10.6% YoY in March 2023, lifting the YoY growth of 5.8% in Q1 2023.** A resumption of economic activity further unleashed the pent-up demand in March 2023, providing a strong boost to various consumption activities. Catering services significantly surged with restaurant receipts sharply accelerating from 9.2% YoY in the first two months of 2023 to 26.3% YoY in March 2023; a marked turnaround from an average YoY drop of 10.2% in Q4 2022 to a 13.9% YoY growth in Q1 2023. Increased people mobility was accompanied with booming revenues for clothing, as the sales of garments, footwear, hats, and knitwear products soared by 17.7% YoY in March 2023. Auto sales rebounded visibly by 11.5% YoY in March 2023, likely boosted by

Mainland China GDP Growth



Source: CEIC

Fixed Asset Investment, Retail Sales and Industrial Production



Source: CEIC

## Economic Research

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discounts from sellers and tax incentives by the government.

**Fixed asset investment (FAI) and industrial production maintained a steady growth amidst a higher base of comparison.** FAI increased by 5.1% YoY in Q1 2023, of which infrastructure and manufacturing investment continued to expand faster with a YoY growth of 8.8% and 7.0%, respectively. Industry-level investment data showed a continued focus on innovation and technology development, with FAI in the high-tech sector reporting a strong YoY growth of 16.0% in Q1 2023. Meanwhile, industrial production registered a moderate growth of 3.9% YoY in March 2023, averaging to a YoY growth of 3.0% in Q1 2023. While external demand maintained a softening trend due to an economic slowdown in advanced economies, rebounding domestic demand and improving growth outlook in emerging economies are likely to keep a steady expansion for industrial production in Mainland China.

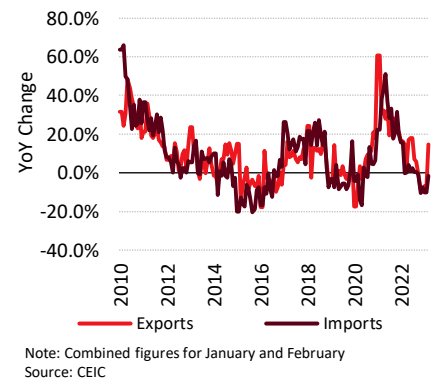
**After recording contraction in early 2023, external trade strengthened in March 2023.** Merchandise exports (in the US dollar terms, ditto) rebounded notably by 14.8% YoY in March 2023, reversing from a 6.8% YoY drop in the first two months of 2023, resulting in a 0.5% growth in Q1 2023. Meanwhile, merchandise imports decreased by 1.4% and 7.1% YoY in March and Q1 2023 respectively. Accordingly, the trade surplus widened to US\$ 204.7 billion in Q1 2023. The uptick of merchandise exports in March 2023 was driven by orders in ASEAN economies. However, softening demand in the US and the Europe as well as tightened global financial conditions are expected to weigh on the demand of Mainland China's exports, posing some uncertainties over the trade outlook ahead.

**Property market showed further stabilization in Q1 2023.** Growth of new home prices in 70 major cities accelerated from 0.3% month-on-month (MoM) in February to 0.5% MoM in March 2023, of which 64 cities reported MoM growth. The sales of residential building by floor space recorded a growth of 1.4% YoY in Q1 2023, up from a YoY drop of 0.6% YoY in the first two months of 2023. Improvement in new home prices and sales performance showed a further stabilization of homebuyers' sentiment amid the enhanced policy support for quality developers and ensuring home delivery. At the same time, property investment continued to stabilize at low levels with FAI in property development declining by 5.8% in Q1 2023. A recovering property market on the demand side will likely promote a more positive outlook by encouraging developers to acquire land, step up property investment as well as strengthen demand for construction workers, potentially supporting a healthy and steady property market development.

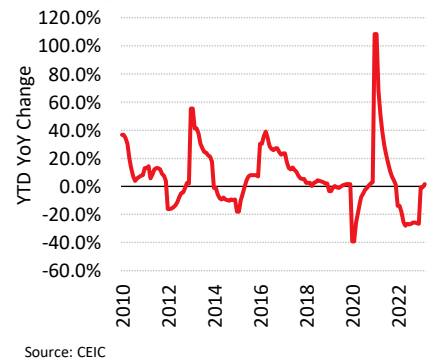
### Stabilizing employment remains a policy priority

**Stabilizing employment remains a policy priority, supported by ample policy room.** In March 2023, the urban surveyed unemployment rate declined from 5.6% in February to 5.3%, a step closer to the pre-pandemic level of 5.2% in 2019, while the State Council announced 15 measures at end-April to optimize employment policies. This includes a package of related subsidies and vocational training to intensify the policy support to industries and enterprises that are capable of absorbing job seekers and to facilitate the entrepreneurship and employment of college graduates. Moreover, the latest Politburo meeting reiterated continuous forceful and targeted fiscal and monetary policy support. It stated that public investment and policy stimulus should better and effectively boost private investment. These remarks offered hints of sustained policy support, likely boosting private sector confidence. Compared to the advanced economies, inflationary pressure in Mainland China remained benign with consumer price index averaging 1.3%

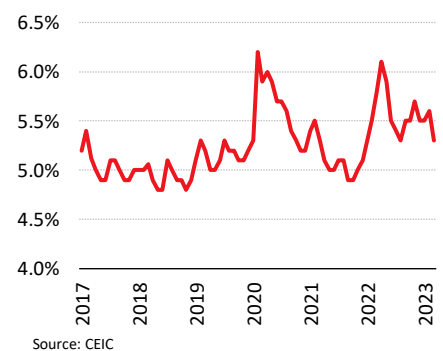
### Exports & Imports (in USD terms)



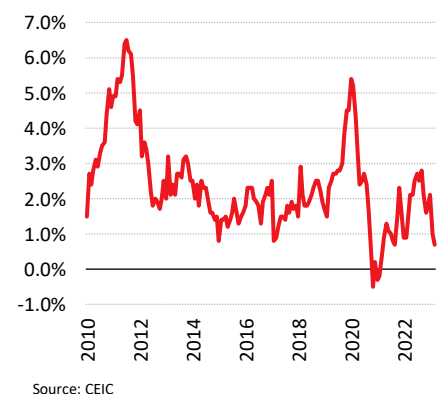
### Sales of Commercial Residential Building



### Surveyed Urban Unemployment Rate



### Inflation



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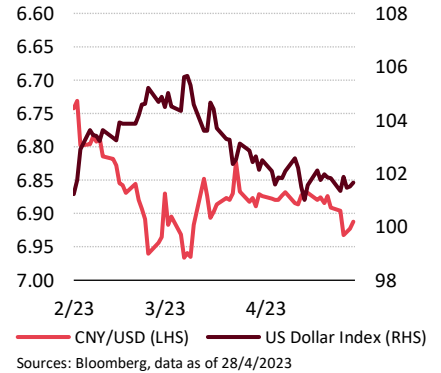
YoY in Q1 2023, allowing greater room for enhanced fiscal and monetary policy, when necessary.

**Looking ahead, Mainland China's economy is expected to continue to strongly recover, driven by a solid rebound in consumption, sustained policy support and a stabilizing property market.** With a stronger-than-expected performance in Q1 2023 and a lower base of comparison in the coming quarters, the recovery momentum could be somewhat stronger than originally expected, which is expected to pick up further in Q2. In April 2023, Mainland China's services purchasing manager indices remained elevated. The services sector will continue to outperform in the coming quarters, serving as a major driver for the domestic economy. As a whole, Mainland China's GDP growth in 2023 is poised to reach 5.7%, with further upside potential to our current forecast.

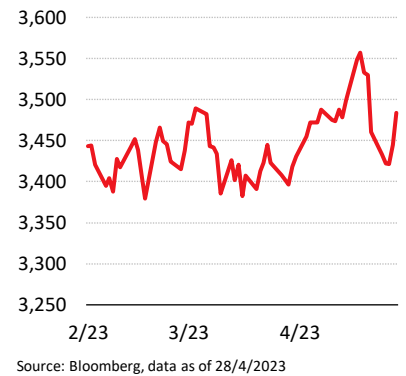
### Financial markets moved in tandem with market sentiment

**Sino-US strategic competition in technology, expectations of the Mainland's policy stance, and US banking stability has continued to affect investors' sentiment.** The US, Japan and the Netherlands expressed their intentions to restrict key technological investment and semiconductor-manufacturing equipment exports to Mainland China. On the other hand, Mainland China is also reportedly considering export restrictions on certain rare-earth magnet technologies, negatively affecting investors' morale. However, the Politburo meeting delivered a favourable signal of sustained policy support ahead, supporting the equity market performance near the end of the month. The US banking stability issue is yet to be resolved, possibly inducing capital inflows to risk-averse currencies. In April 2023, the onshore and offshore RMB depreciated slightly by 0.6% and 0.8% against the US dollar compared to the end of the previous month, with CNY and CNH closing at 6.9126 and 6.9272 per US dollar respectively, while A-shares increased by 1.6% to 3,483.63.

**RMB/USD vs US Dollar Index**



**A Share Index**



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