

China's domestic economy is thriving, but exports remain vulnerable

Strong internal tourism during the Golden Week holiday in early May indicates that the domestic economy has rebounded. But exports remain weak and could worsen further. We are revising our GDP forecasts



Retail sales during Golden Week indicate the domestic economy has recovered

We are seeing clear signs that China's domestic economy has recovered.

Retail sales and catering increased by 18.9% year-on-year during the Golden Week holiday (around the first week of May). In particular, catering jumped by 57.9%YoY. According to the app Meituan, dining sales at restaurants during the first three days of the holiday jumped by 92% from the 2019 pre-Covid level.

In terms of internal tourism, there were 274 million trips made during this year's Golden Week, a 40% increase from the 195 million trips made during the same period in 2019. Revenue from internal tourism was CNY148 billion, a 25% increase from the 2019 figure of CNY117 billion. But we need to consider that there was an extra day of holiday during this year's Golden Week compared

to 2019. After taking this into account, the number of internal trips rose by 101% from 2019.

Outbound tourism, on the other hand, was not as good. There were only 1.253 million trips per day during this year's holiday, which was 59.2% of the 2019 total. One reason for this is that there has been a long wait to renew passports. Another is that Chinese tourists' wealth was hit during Covid and middle-income spenders are less willing to take long-haul flights and spend lavishly overseas, although the wealthy are not affected.

With little consumption leakage to outbound tourism, the domestic recovery could be more obvious during the summer holidays.

Golden Week in 2023 vs 2019



Source: ING

Exports are not promising

The global economy is weakening and we expect the US economy to slow further. This is making life more difficult for Chinese exporters. As we are not optimistic about the prospects for the global economy, manufacturing will likely remain weak for the rest of the year. This is going to affect wage growth in manufacturing, and as a result, overall wage growth in China's labour market. This will eventually hit the domestic economy by slowing consumption.

Fiscal stimulus could help break the negative feedback loop

We expect fiscal stimulus will be the main tool used to try to stop this negative feedback loop. The policy objective will be to support the manufacturing industry to keep labour demand stable in the sector. One possible policy tool would be to continue subsidising electric vehicle consumption, which will then increase the production of electric vehicles. Another would be to push infrastructure investment faster.

GDP forecast revision

With a better-than-expected GDP release for the first quarter, a surprisingly good Golden Week in May, and our expectation that retail sales and fiscal stimulus could keep up this momentum during the summer holidays, we are revising our GDP growth forecast up to 5.7% in 2023 from 5.0% previously. But the challenging global economic environment will affect China's economy more in 2024. As such, we are revising down the forecast for 2024 to 4.7% from 5.3%.