

China's economic recovery continues, but the job's not done yet

First quarter GDP growth beat forecasts at 5.3% year-on-year, surpassing the 5% growth target. But China's economic recovery remains uneven



China is on track to meet its 5% growth target

The story behind the data

Most market participants revised their GDP forecasts for China higher following stronger-than-expected official data for the first two months of the year. But much to the surprise of many, first quarter GDP beat the vast majority of these forecasts, at 5.3% year-on-year.

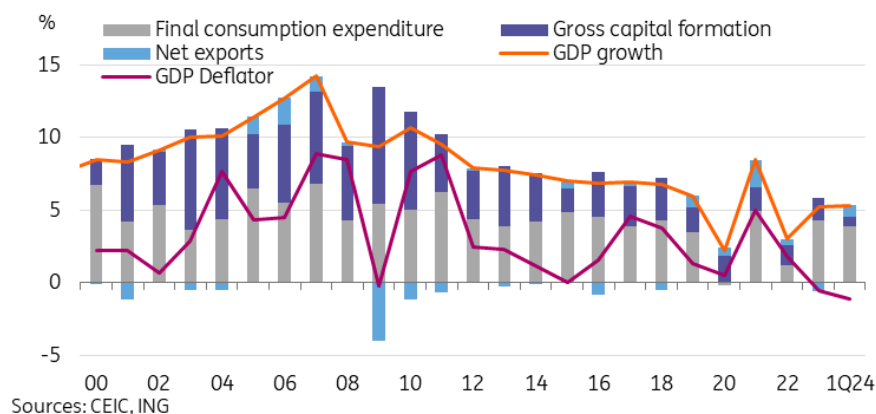
There was some scepticism around this data: March monthly data largely weakened, and it did not seem likely the activity data on hand could translate into such a strong GDP reading.

We believe the higher figures are down to a few surprises. First, the GDP deflator came in at the most negative level since 1999, contributing 1.1 percentage points to real GDP growth in the first quarter, double the value from the fourth quarter of 2023. In all likelihood, as inflation begins to move higher, the deflator will not add as much to growth in subsequent quarters.

Second, net exports contributed 0.77ppt, despite customs data showing only a modest increase in the trade surplus in the first quarter of 2024 versus the same period last year.

Nonetheless, the first quarter GDP release increases the odds that the full-year growth target of 5% will be met, but the job is not done yet.

First quarter GDP was boosted by deflator and net exports



Policy stance remains supportive after Politburo meeting

Despite the headline number looking comparatively rosy, other data shows that the recovery remains uneven.

First, investment has come in stronger than expected so far this year, but this strength has been heavily driven by the public sector. The first quarter investment data paints a stark contrast; while state-owned enterprise (SOE) investment was 7.8% year-on-year, private sector investment grew a tepid 0.5% YoY.

Second, consumption has moderated, with retail sales down to 4.7% YoY in the first quarter from 7.2% in 2023. Confidence indicators have bottomed out but remain well below historical averages.

Third, while there is growing optimism domestically that we could see a bottoming out of property prices in tier one and two cities some time this year, in terms of the impact on economic growth, the property sector will continue to be a drag through 2024 as investment and new property starts remain well in contraction territory.

As such, most economists (including us) are continuing to advocate for policy support to continue. The April Politburo meeting indicated that this will be the case. The top-level meeting featured comments to maintain fiscal spending and to step up the use of special bonds, as well as flexibly use interest rate and reserve requirement ratio tools to lower funding costs.

In the near term, efforts will likely be focused on infrastructure investment, bolstering consumption via a “trade-in” programme, and continued support of the property sector. Continued policy rollout will increase the odds of reaching the 5% growth target this year.

Forecast revisions

As a result of the better-than-expected first-quarter GDP reading, we’ve revised our 2024 GDP

forecast higher to 5.0% YoY. Due to policy rollout and the base effect, second quarter GDP should remain relatively strong at 5.3% YoY before moderating in the second half of the year.

Author

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.