

# 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.

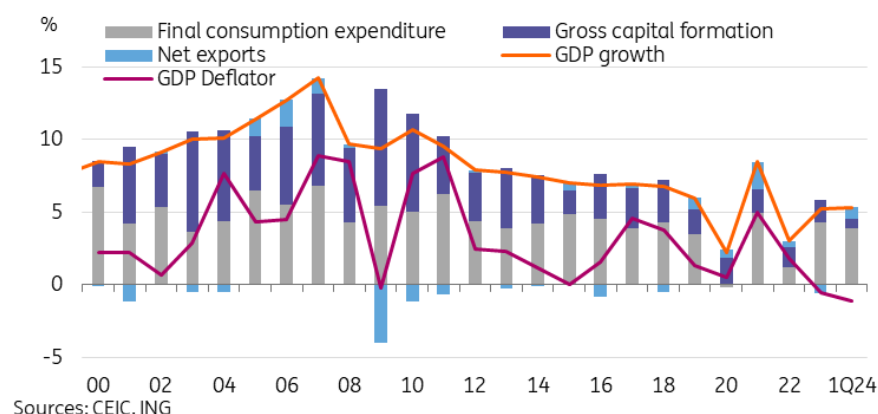
There was some scepticism around this data: March monthly data largely weakened, and it did not seem likely the activity data on hand could translate into such a strong GDP reading.

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.

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