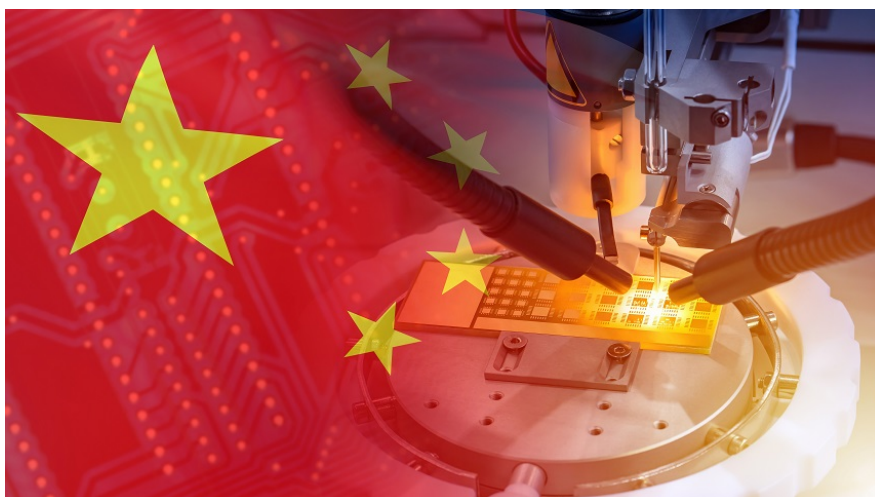


China's first quarter 2024 GDP beat forecasts as investment picks up

China's first-quarter 2024 GDP growth came in stronger than expected despite misses in retail sales and industrial production data as growth drivers shifted back toward investment.



5.3%

 China 1Q24 GDP

Higher than expected

China's GDP growth surprised on the upside to start the year

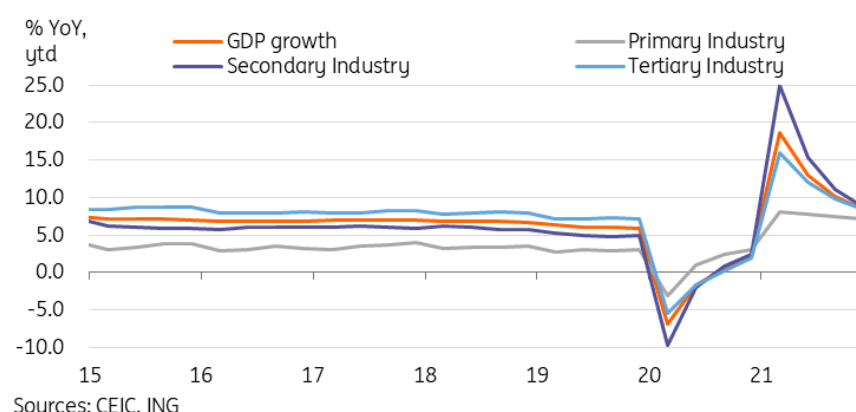
China's National Bureau of Statistics has published key economic activity for March and the first quarter of 2024. The highlight was China's 1Q24 GDP coming in stronger than expected at 5.3% YoY, well above the market consensus and our forecasts for 4.8% and 4.7% growth respectively. This positive start to the year bodes well for the economy managing to achieve its 5% growth target for 2024.

In the past few months, we have discussed shifting growth drivers in China, and this month's data further illustrated this development. Investment was the key to 1Q24 GDP's outperformance, while

last year's main growth driver of consumption has moderated. Net exports have also remained weak and have not been a major contributor to growth. By industry, secondary industry led the way with 6.0% YoY growth, the highest level since 4Q21, reflecting an uptick in manufacturing and investment. We saw a weaker performance in tertiary industry, up 5.0% YoY amid weaker consumption, and primary industry hit a multi-year low of 3.0% YoY growth.

We suspect that the GDP deflator may have also played a role in the quarter's outperformance, as inflation has remained soft at the start of the year. The granular data may be worth a closer look upon release.

Strong performance from secondary industry buoyed growth in 1Q24

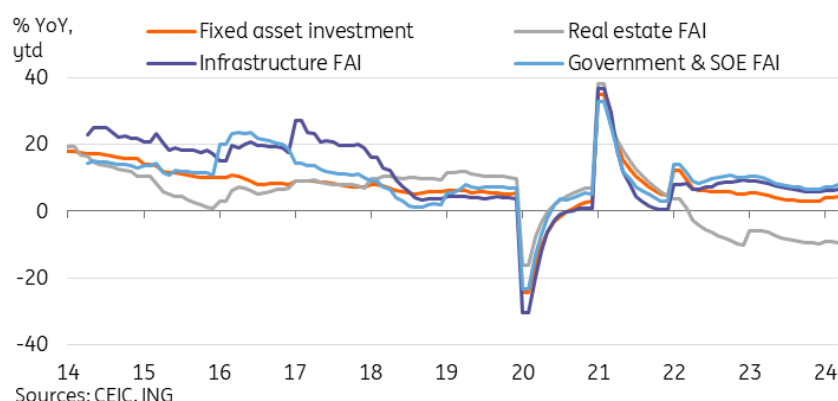


Fixed asset investment carried growth in 1Q24

In the first quarter of the year, fixed asset investment grew by 4.5% YoY, which beat market forecasts significantly. In line with our expectations, infrastructure investment continued to outperform, up 6.5% YoY ytd. Infrastructure investment should remain a bright spot this year as policymakers direct fiscal investment toward infrastructure investments in strategic sectors. Manufacturing investment also remained strong at 9.9% YoY ytd, with the key industries including food manufacturing (19.0%), non-ferrous metals (18.8%), and non-auto transportation equipment (24.8%). Auto manufacturing investment was relatively modest at 7.4% YoY, as price competition and concerns of overcapacity in the NEV sector may be deterring new investment.

Public investment led the way as expected, up 7.8% YoY ytd, which was in stark contrast to private-led investment which rose a paltry 0.5% YoY ytd. The low private investment showed that there is still a high level of caution. We expect the public-led investment to continue to outperform for this year.

China's fixed asset investment led the way in 1Q24



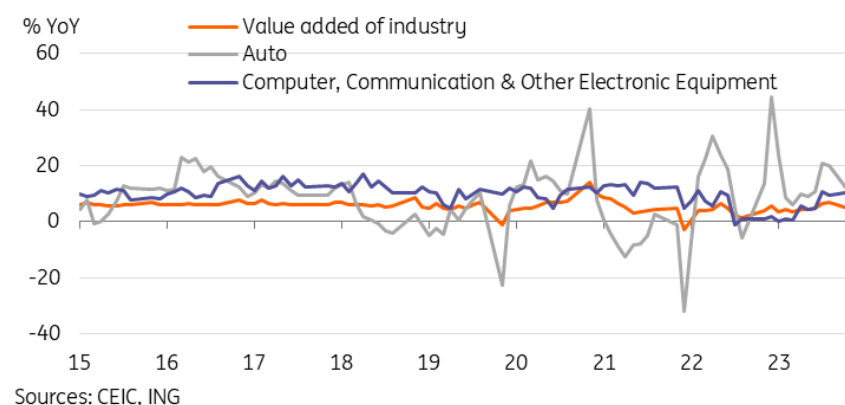
Industrial activity moderated in March but has been stronger than expected at the start of the year

Industry value added rose 4.5% YoY in March, bringing 1Q24 growth to 6.1% YoY. After strong PMI data, these numbers came in weaker than market forecasts, but have finished the quarter at a higher level than most expected a month ago.

Manufacturing has outperformed the headline numbers, up 6.7% YoY in 1Q24, of which hi-tech manufacturing grew 7.5% YoY. The "computer, communications and other electronic equipment manufacturing" category rose 13.0% YoY in 1Q24, likely reflecting China's semiconductor self-sufficiency drive. China's expansion in hi-tech manufacturing is in line with larger efforts to transition up the value-added ladder. Auto production also continued to outpace the headline growth at 9.7% YoY ytd.

Industrial capacity utilisation fell to 73.6% in the first quarter of the year, which marked the lowest level since 2020. An area of concern is a sharp drop in utilisation capacity in the automobile industry, down -7.1% YoY. Amid high price competition, industry consolidation pressures will continue to build.

China's industrial activity is increasing geared toward higher value added sectors



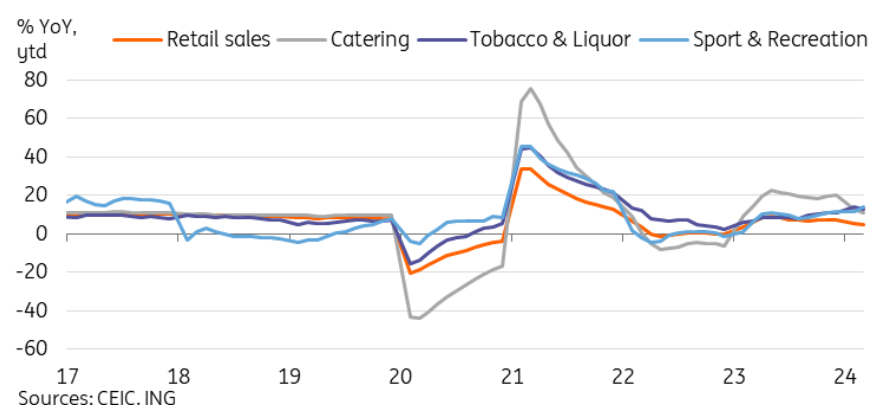
Retail sales miss highlighted sluggish consumption

As expected, after carrying growth in 2023, March data illustrates that it will be difficult to rely on consumption alone this year to drive growth. Retail sales fell to 3.1% YoY in March, bringing the 1Q24 growth to 4.7% YoY.

By subcategory, our "eat, drink, and play" theme continued to outperform in the first quarter. Catering (10.8%), tobacco and alcohol (12.5%), and sports and recreational products (14.2%) were significantly stronger than the overall numbers. Online retail sales growth continued to outperform at 11.6% YoY in 1Q24 as consumption patterns shifted.

The rollout of the trade-in policies will likely support housing appliances and auto sales in the coming quarters. These rose 5.8% YoY and 3.8% YoY in 1Q24 respectively.

Eat drink and play theme a bright spot amid overall slowdown of consumption



Property market has yet to confirm the bottom and continued to drag on growth

The 70-city average home price data showed that housing prices have yet to reach a bottom, with new home prices falling -0.34% MoM, and secondary home prices dropping -0.53% MoM. The silver lining was that the overall sequential drop was slower than in previous months, the smallest drop since September 2023. New homes showed some positive signs, with 11 of 70 cities seeing an uptick in average prices. The secondary market remained downbeat, with 69 of 70 cities still seeing falling prices.

In the first quarter of 2024, the sales value of newly built residential properties contracted sharply by -30.7% YoY ytd. Office and commercial properties continued to outperform, up 6.3% YoY ytd and 1.5% YoY ytd respectively.

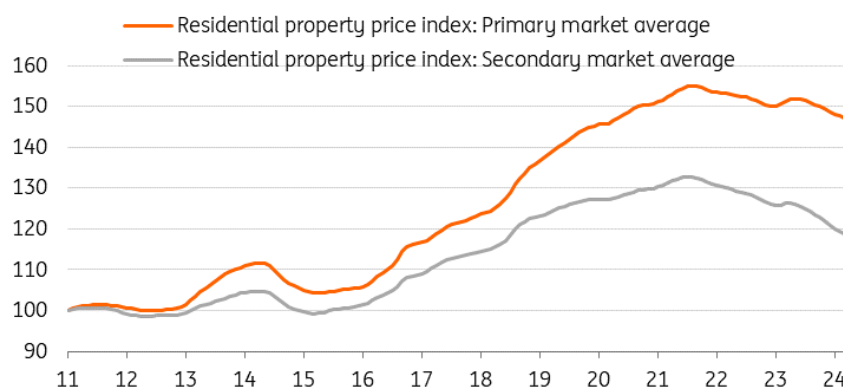
Housing inventories have been building this year, and with sluggish sales, it was unsurprising that real estate investment continued to show negative growth. Real estate investment slowed further to -9.5% YoY ytd, down from -9.0% in the first two months. New housing starts declined -27.8% YoY ytd, while completions fared little better at -20.7% YoY ytd.

Given these developments, it was unsurprising to see the sentiment index has yet to bottom out

as well, falling further to 92.07 from 92.13 in February, continuing to mark new lows. Establishing a trough for property prices would go a long way toward stabilising confidence indicators.

As the bottom has yet to be confirmed, we expect property to remain a major drag on growth this year. Policies to stabilise the market will likely still be needed in the months ahead.

Housing prices have yet to confirm a bottom



Source: CEIC, ING

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 www.ing.com.