

# China's GDP for 1Q23 is better than expected

1Q23 GDP grew 4.5%YoY, much faster than the 2.9%YoY recorded for 4Q22. This is a better-than-expected data report. We expect that the government will hold back extra stimulus plans and the yuan should strengthen



China's manufacturing PMI rose to 50.1 in October

**4.5%YoY**

China GDP 1Q23

2.9%YoY 4Q22

Better than expected

**GDP grew faster than expected in the first quarter of 2023 with consumption the main growth engine**

China's GDP increased 4.5%YoY in 1Q23, which was better than our forecast of 3.8%YoY, and stronger than the previous quarter's 2.9%YoY.

The main reason for the faster-than-expected growth was much stronger growth in retail sales, which accelerated to 10.6%YoY in March and 5.8%YoY for 1Q23 after 3.5%YoY growth in January to February. Such rapid retail sales growth has not been seen since June 2021, when it grew 12.1%YoY. The growth in retail sales was mainly boosted by catering.

In contrast, we did not expect infrastructure investment growth to slow to 8.8%YoY for 1Q23, compared to 9%YoY growth in the first two months of the year though infrastructure investment still increased at a speed faster than overall fixed asset investment growth of 5.1%YoY in 1Q23 (5.5%YoY YTD in February).

Even with slower growth in March, we still believe infrastructure should grow faster from 2Q23 after the strong loan growth in March, much of which was for infrastructure projects.

Industrial production grew only at 3.9%YoY in March and 3.0%YoY in 1Q23 and was only slightly faster than the 2.4%YoY growth in the previous quarter. We see fairly modest growth in industrial production as a result of the drag imposed by weakening external demand in the US and Europe. By categories, most electronic production recorded contraction in 1Q23. Micro-computers, integrated circuits and smart devices fell 22.5%YoY, 14.8%YoY and 7%YoY in 1Q23, respectively, and reflecting the burden of US export bans.

10.6%YoY Retail sales

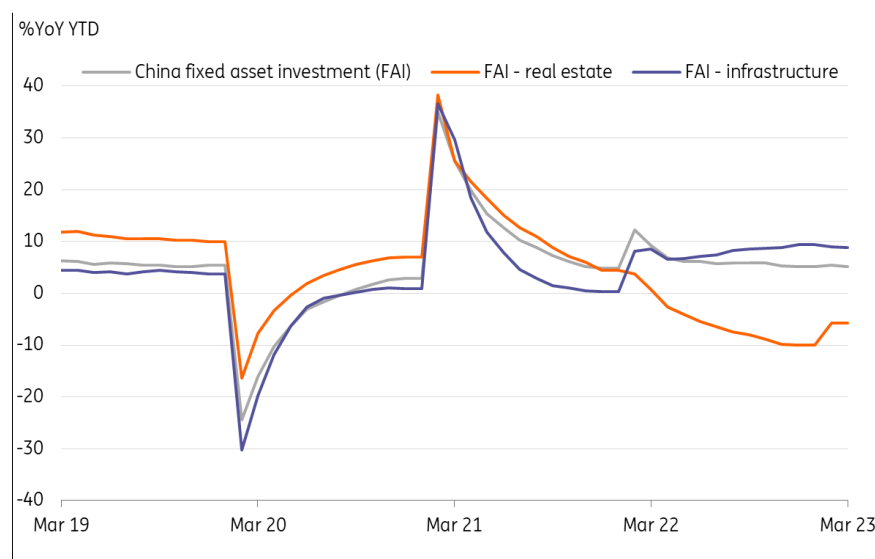
Better than expected

### China's retail sales jumped, led by catering



Source: CEIC, ING

## China's investment is led by infrastructure



Source: CEIC, ING

## Property investment is gradually recovering

Investment by the property sector contracted 5.8%YoY in the first quarter which is slightly worse than the 5.7%YoY contraction in the first two months of 2023. This could be due to the large housing inventories in the market even though property developers that have not defaulted on their bonds and loans should be able to get financing to continue their existing construction.

On the other hand, residential property sales increase 7.1%YoY YTD in 1Q23 compared to 3.5% in 4Q22. This is quite encouraging as it suggests that some home buyers are regaining confidence in property developers. If pre-sold housing is digested by the market, property developers should be able to get fresh cash flow from home sales in 2024.

## What is the implication of this GDP report?

With consumption as high as 10%YoY in March, there is no immediate need for fiscal stimulus to support consumers.

But the government will probably keep its plan of infrastructure investment as a supplementary growth engine as we expect the external market to deteriorate further in 2023.

In short, with this GDP report, we believe there is no immediate need for the government to put massive stimulus into the economy.

## Yuan should be supported by this GDP report

USDCNY and USDCNH should strengthen on the back of this report. When comparing the fundamentals of the US and China, China's economy is strengthening and will get stronger over the rest of the year. In contrast, the US economy will likely continue to slow. This should support the yuan against the dollar from the second quarter. Our forecast on USDCNY and USDCNH is 6.5 by the end of 2023.