China: Q1 GDP beat expectations amid mixed March activity data

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Bottom line:

Q1 GDP and March activity data point to a very strong growth recovery in China, led mainly by consumption and services sectors, thanks to the frontloading of reopening impulse and policy support. Retail sales and the Services Industry Output Index both rose significantly in year-on-year terms in March from January-February, led mainly by the continued improvement in Covid-sensitive services consumption and due partly to a weak comparison base. Year-on-year industrial production growth also rose in March from January-February, though slightly less than expected, driven by faster output growth of automobiles, telecom & electronics and general equipment. That said, year-on-year fixed asset investment growth slowed in March from January-February and missed expectations, with sequential deceleration in manufacturing and property investment. Property-related activity growth was mixed in March despite favorable base effects and continued housing easing, as evidenced by the plunge in new home starts and the surge in new home completions amid the shift in policy focus to secure the delivery of pre-sold homes. Nationwide unemployment rates moderated seasonally in March from January-February, but the youth unemployment rate rose further. Taking into consideration NBS revisions to historical sequential GDP growth estimates, stronger-than-expected Q1 GDP and a likely subsiding of pent-up demand, we revise down our Q2 sequential growth forecast to 4.9% qoq sa annualized from 5.5% previously, while our 2023 full-year GDP growth forecast remains unchanged at 6.0%.

Asia-MAP scores:

GDP: +10 (5, +2)

Industrial production: 0 (5, 0)

Fixed asset investment: -2 (2, -1)

Retail sales: +1 (1, +1)

Key numbers:

GDP: +4.5% yoy in Q1 2023 (GS: +4.0% yoy; Bloomberg consensus: +4.0% yoy), +2.2% quarter-over-quarter non-annualized sa, based on NBS estimate. Q4 2022: +2.9% yoy, +0.6% quarter-over-quarter non-annualized sa.

Industrial production (IP): +3.9% yoy in March (GS: +5.0% yoy; Bloomberg consensus: +4.4% yoy). January-February: +2.4% yoy. Note sequential figures are highly sensitive to the specific seasonal adjustment methodology (NBS estimates: +0.12% sa non-annualized in March, vs. +0.19% in January-February; GS estimates based on fixed seasonal factors: -0.7% sa non-annualized in March, vs. +4.7% in January-February).

Fixed asset investment (FAI): +5.1% ytd yoy in March (GS: +6.0% ytd yoy; consensus: +5.7% ytd yoy), vs. February: +5.5% ytd yoy; March single-month: +4.8% yoy, vs. January-February: +5.5% yoy.

Retail sales: +10.6% yoy in March (GS: +8.5% yoy; consensus: +7.5% yoy); January-February: +3.5% yoy.

Services Industry Output Index: +9.2% yoy in March; January-February: +5.5% yoy.

Surveyed unemployment rates:

- Nationwide: 5.3% in March, vs. 5.6% in January-February (5.5% in January and 5.6% in February).
- 31 major cities: 5.5% in March, vs. 5.8% in January-February (5.8% in January and 5.7% in February).

Property-related activity data:

- Floor space sold: -3.5% yoy in March, vs. January-February: -3.6% yoy (value of sales: +6.3% yoy in March, vs. January-February: -0.1% yoy).
- Floor area under construction: -5.2% yoy in March, vs. January-February: -4.4% yoy.
- New home starts: -29.0% yoy in March, vs. January-February: -9.4% yoy.
- New home completions: +32.0% yoy in March, vs. January-February: +8.0% yoy.
- Real estate investment: -5.9% yoy in March, vs. January-February: -5.7% yoy.

Main points

1. Based on NBS estimates, China's real GDP gained 2.2% qoq non-annualized sa in Q1 2023, vs. an upwardly-revised 0.6% in Q4 2022 (previously 0%), thanks to the reopening impulse and still-accommodative macro policies. On a year-over-year basis, GDP growth rose to a stronger-than-expected +4.5% yoy in Q1 from +2.9% in Q4. According to the breakdown by sector, Q1's growth acceleration was led by the tertiary sector (mainly services), growth of which rebounded to +5.4% yoy in Q1 from +2.3% in Q4. That said, real GDP growth in the primary (mainly agriculture) and secondary (mostly manufacturing and construction) sectors moderated to +3.7% yoy and +3.3%, respectively in Q1 from +4.0% and +3.4% in Q4.

2. Industrial production (IP) growth rose to +3.9% yoy in March from +2.4% in January-February, slightly below market expectations despite the significant upside surprise from March exports data. On a sequential basis after seasonal adjustments, we estimate IP contracted by 0.7% mom non-annualized in March, compared to a 4.7% sequential gain in January-February (Exhibit 1). Output of automobiles, telecom & electronics and general equipment contributed the most to the IP year-on-year growth

acceleration in March from January-February, more than offsetting the drag from the output of food and pharmaceuticals (Exhibit 2). Among major products, automobile production volume growth rebounded to +11.2% yoy in March from -14.0% in January-February thanks to a low base last year. Year-on-year growth in output of steel products and cement both rose in March, to +8.1% and +10.4% yoy, respectively from +3.6% and -0.6% in January-February, thanks partly to the frontloaded fiscal support and favorable base effects. Electricity production growth also increased to +5.1% yoy in March from +0.7% in January-February. By comparison, computer and smartphone output maintained their double-digit year-on-year contraction at -21.6% and -6.7%, respectively in March (vs. -21.9% and -14.1% in January-February).

3. Fixed asset investment (FAI) growth declined to a weaker-than-expected +4.8% yoy in March from +5.5% in January-February on a single-month basis. March deceleration in year-on-year FAI growth was across the board but mainly led by "other" investment (mostly services and agriculture-related sectors), growth of which declined significantly to +3.6% yoy in March from +8.2% in January-February. Infrastructure and manufacturing investment growth also slowed to +10.3% yoy and +6.2%, respectively in March from +12.4% and +8.1% in January-February (Exhibit 3).[1] Property investment growth remained sluggish at -5.9% yoy in March (-5.7% in January-February) despite continued housing easing and a low base.

4. Nominal retail sales growth jumped to +10.6% yoy in March from +3.5% in January-February, mainly driven by Covid-sensitive restaurant sales where growth surged to +26.3% yoy in March from +9.2% in January-February, suggesting that consumption recovery is shifting from goods to services amid the rapid reopening, especially given a low comparison base (given increased Covid restrictions in March 2022). Online and offline goods sales growth rose to +10.9% yoy and +8.4%, respectively in March from +5.3% and +2.2% in January-February. Year-on-year growth in automobile sales rebounded to +11.5% in March from -9.4% in January-February, boosted by favorable base effects and the ongoing price war among auto dealers. By comparison, medicine sales growth continued to slow to +11.7% yoy in March from +19.3% in January-February (vs. a multi-decade peak of +39.8% in December 2022), reflecting fading demand for stockpiling following the Covid "exit wave". On a sequential basis, nominal retail sales gained 2.9% mom non-annualized in March after seasonal adjustments (January-February: +3.4%).

5. The Services Industry Output Index, which is on a real basis and tracks tertiary GDP growth closely (53% of the economy as of 2022), gained 9.2% yoy in March (compared to the 5.5% yoy gain in January-February) and outperformed industrial production and investment, which is consistent with the general pattern that services have played an outsized role in reopening-related growth recoveries around the world. In sequential terms, the Services Industry Output Index contracted slightly by 0.3% mom sa

[1] Our estimate for infrastructure FAI is based on a GS definition, which includes not only the three sectors under the NBS classification (i.e., transportation, storage & postal service; water conservancy & environmental protection; and electricity, gas & water production and supply), but also four more industries that provide public goods mainly by the government sector (e.g., scientific research & polytechnic service; education; healthcare, social security & welfare; and culture, sport & entertainment).

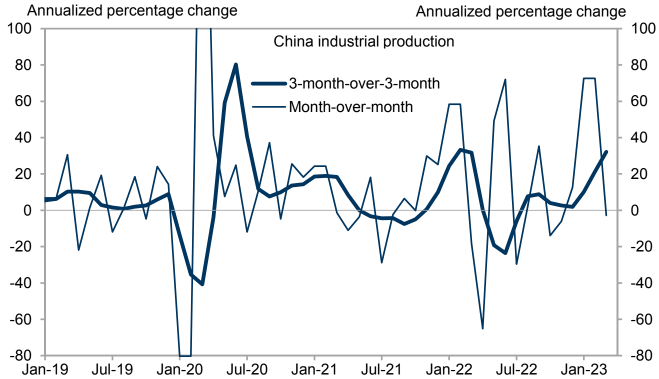
non-annualized in March (vs. +5.1% in January-February), compared to the continued improvement in March services PMIs. Services industry annualized output growth over the past four years was +5.4% yoy in March, still below its pre-Covid pace (+6.9% yoy in 2019).

6. Property-related activity data were mixed in March despite a favorable comparison base and continued housing easing. Growth in property sales in volume terms remained subdued at -3.5% yoy in March (vs. -3.6% in January-February), while in value terms it increased to +6.3% yoy from -0.1%, thanks to sequentially rising home prices. New home starts growth plunged to -29.0% yoy in March from -9.4% in January-February, and growth in floor space under construction also declined to -5.2% yoy from -4.4%. That said, new home completions growth surged to +32.0% yoy in March from +8.0% yoy in January-February, as the policy focus has been shifted to securing the delivery of developers' pre-sold new homes.

7. The nationwide surveyed unemployment rates and the 31-city measure (not seasonally adjusted) both moderated in March, to 5.3% and 5.5%, respectively from 5.6% and 5.8% in January-February on seasonal factors (Exhibit 4). The unemployment rate for migrant workers (without local Hukou) also declined to 5.6% in March from 5.8% in January-February. However, the unemployment rate for the 16-24 age group rose further to 19.6% in March from 17.7% in January-February, which was more significant than its seasonal patterns and well above pre-pandemic levels (March 2019: 11.3%), pointing to still-elevated job market pressure for the younger generation.

8. Strong Q1 GDP and March activity data, in addition to the continued strength showed by our high-frequency trackers, suggest a very strong growth recovery in China, thanks to the frontloading of reopening impulse and policy support, but we caution some strengths, such as pent-up demand and catch-up production post the Covid "exit wave", may fade sequentially in coming months. Taking into consideration NBS revisions to historical sequential GDP growth estimates (including H1 and Q4 2022), stronger-than-expected Q1 GDP and the above-mentioned rationale, we revise down our Q2 GDP growth forecast to 4.9% qoq sa annualized from 5.5% previously, with other quarterly sequential growth forecasts unchanged. Our full-year GDP growth forecasts remain intact for 2023-25, at 6.0%, 4.6% and 4.0%, respectively. In year-on-year terms, our Q2-Q4 2023 GDP growth forecast is 8.1%, 5.4% and 6.0%, respectively (vs. 8.0%, 5.2% and 6.5% previously). In a separate note, we recently raised our forecast for Hong Kong Q1 and 2023 full-year GDP growth to +0.5% yoy and +4.6%, respectively from -1.0% and +3.5% previously, and today's strong China data lend support to our upgrades.

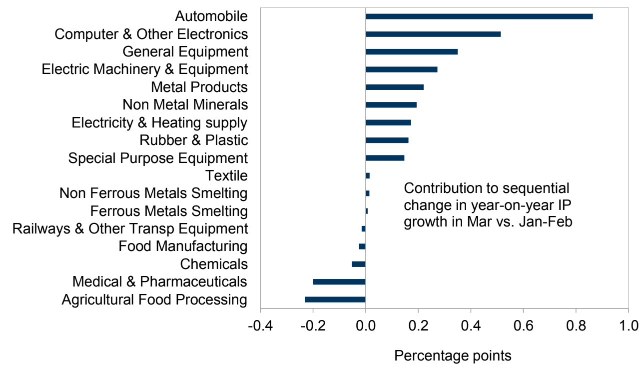
Exhibit 1: Industrial production declined sequentially in March from January-February



Sequential IP growth numbers refer to GS estimates.

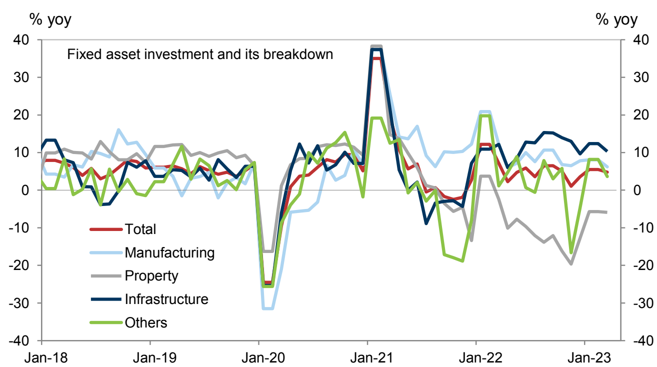
Source: NBS, CEIC, Goldman Sachs Global Investment Research

Exhibit 2: Output of automobiles, telecom & electronics and general equipment contributed the most to the IP year-on-year growth acceleration in March from January-February



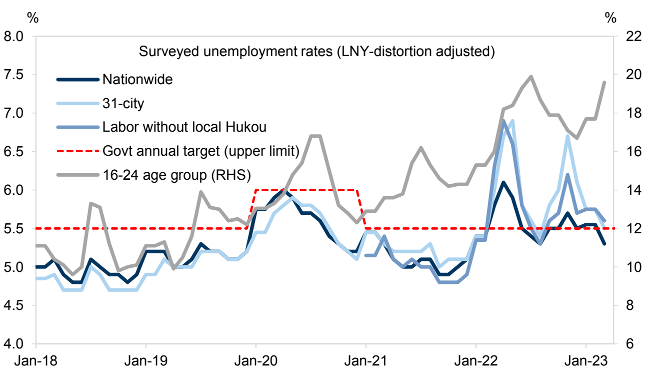
Source: NBS, CEIC, Goldman Sachs Global Investment Research

Exhibit 3: Year-on-year FAI growth slowed in March from January-February, with weakness broadly based and led by services-related investment



Source: CEIC, Data compiled by Goldman Sachs Global Investment Research

Exhibit 4: Nationwide surveyed unemployment rates moderated seasonally in March from January-February, while the youth unemployment rate rose further



We use Jan-Feb average to smooth out Lunar New Year (LNY) holiday-related distortions during Jan-Feb.

Source: WIND, Data compiled by Goldman Sachs Global Investment Research

Exhibit 5: Our 2023 full-year GDP growth forecast remains unchanged at 6.0%

China real GDP growth forecast					
		New YoY%	Previous YoY%	**New QoQ%, SAAR**	Previous QoQ%, SAAR
2020		**2.2**	2.2		
2021		**8.4**	8.4		
2022		**3.0**	3.0		
2023		**6.0**	6.0		
2024		**4.6**	4.6		
2025		**4.0**	4.0		
2019	Q4	**5.8**	5.8	**4.5**	4.5
2020	Q1	**-6.9**	-6.9	**-35.0**	-35.0
	Q2	**3.1**	3.1	**55.1**	55.1
	Q3	**4.8**	4.8	**13.4**	13.4
	Q4	**6.4**	6.4	**10.0**	10.0
2021	Q1	**18.7**	18.7	**3.6**	3.6
	Q2	**8.3**	8.3	**6.6**	6.6
	Q3	**5.2**	5.2	**1.2**	1.2
	Q4	**4.3**	4.3	**6.1**	6.1
2022	Q1	**4.8**	4.8	**3.2**	5.3
	Q2	**0.4**	0.4	**-8.9**	-9.3
	Q3	**3.9**	3.9	**16.5**	16.5
	Q4	**2.9**	2.9	**2.4**	0.0
2023	Q1	**4.5**	4.0	**9.1**	10.5
	Q2	**8.1**	8.0	**4.9**	5.5
	Q3	**5.4**	5.2	**5.3**	5.3
	Q4	**6.0**	6.5	**5.0**	5.0

Source: Goldman Sachs Global Investment Research, Haver Analytics

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