

China’s Economy Rebounds After Covid Reopening

- 1Q23 GDP growth outperformed expectations at 4.5% YoY
- China's March industrial output rises 3.9%
- Retail sales in March saw a 10.6% YoY increase
- Fixed asset investment saw a 5.1% YTD YoY growth in March
- The unemployment rate fell from 5.6% to 5.3%, returning to the level of December 2021
- Strong exports in March boost recovery
- Inflation continued to ease in March
- China’s economy shakes off Covid legacy and is beginning to show a hoped-for healthy rebound

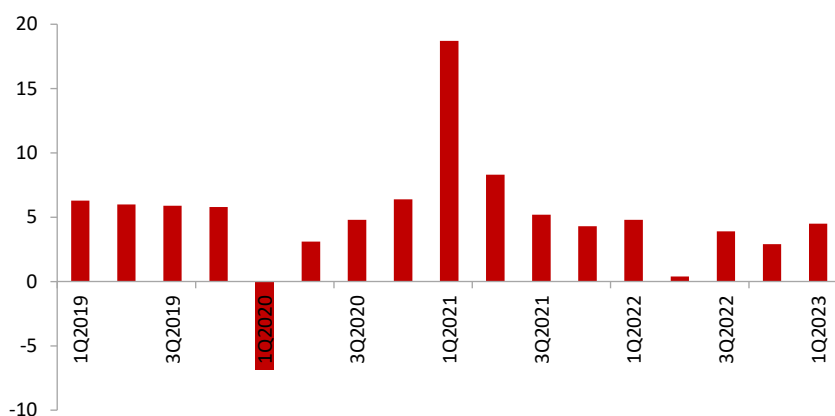
China's economic growth accelerated in the latest quarter led by a surge in consumer spending and a pickup in factory output, showing the recovery is well on track.

Gross domestic product (GDP) accelerated to 4.5% YoY in 1Q23. The GDP growth in 1Q23 was the fastest in the past year, and outpaced the 2.9% growth in 4Q22 when the relaxation of pandemic prevention measures led to a wave of illness. GDP expanded 2.2% QoQ in 1Q23 following a 0% reading in the previous quarter.

The key beneficiary of China’s reopening was the services sector while manufacturing was weighed by softer external demand even as the reopening improved the logistics and supply chain activities in manufacturing. By industry, there was a strong rebound in China’s service (tertiary) sector growth as the sector surged by more than double the pace at 5.4% YoY in 1Q23 from 2.3% YoY in 4Q22. This sector had the greatest potential for gain, as it was heavily impacted by zero-COVID policies. In contrast, the secondary sector (manufacturing and construction) grew marginally more slowly – up by 3.3% YoY from 3.4% YoY in 4Q22. The primary industry also registered a moderation in the growth rate (1Q23: 3.7% YoY; 4Q22: 4.0% YoY).

The growth in the first quarter of this year was a considerable improvement from the 2.9% pace in the final quarter of last year, when a wave of illness swept across the country after pandemic controls were lifted, and is close to the 5.0% YoY target Beijing has set for 2023.

Chart 1: GDP Growth (% YoY)



Source: Bloomberg, BIMB Securities

Imran Nurginias Ibrahim

imran@bimbsec.com.my

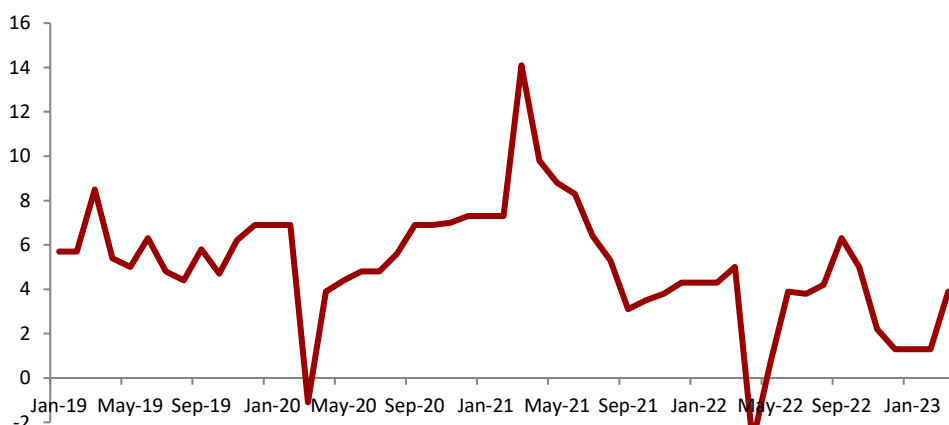
(603) 2613 1733

GDP grew faster than expected in 1Q23 with consumption the main growth engine. Retail sales growth was at a near 2-year high in March, industrial output rose the most in 5 months, and surveyed jobless rate fell to its lowest in 7 months. Data released earlier showed that exports from China unexpectedly rebounded last month due to efforts to grow trade further with developed countries and explore new possibilities with emerging economies, bringing a larger-than-expected trade surplus.

China’s industrial production grew more strongly in March, up by 3.9% YoY, compared with 2.4% YoY in January-February and 3.0% YoY in 1Q23. It is worth noting that this remains a relatively weak rate of growth when compared with the pre-pandemic trend. On a MoM seasonally adjusted basis, industrial production rose for the fourth consecutive month in March and by a similar magnitude to Feb of 0.12%. Output trends among major industrial categories remained quite mixed in March. The improvement in March was driven by the utilities sector which expanded by 5.2% YoY followed by manufacturing sector at 4.2% YoY while mining & quarrying rose just 0.9% YoY. High-tech manufacturing has remained subdued with growth of 1.5% YoY on the downturn in the electronics cycle. In terms of products and in volume terms, motor vehicle production rose strongly – up by 11.2% YoY – along with construction related heavy industries – with cement and crude steel increasing by 10.4% YoY and 6.9% YoY respectively. In contrast, production of consumer electronics products grew by just 1.2% YoY. By categories, most electronic production recorded contraction in 1Q23. Micro-computers, integrated circuits and smart devices fell 22.5% YoY, 14.8% YoY and 7.0% YoY in 1Q23, respectively, and reflecting the burden of US export bans.

China’s main manufacturing surveys were softer in March – albeit the scale of the softening differed between the two. The Caixin PMI declined to a neutral 50.0 points, from 51.6 points previously, which may suggest that the rebound from the end of zero-COVID has run its course for private sector firms. In contrast, the official NBS PMI was only marginally weaker – at 51.9 points from 52.6 points in February. We see fairly modest growth in industrial production as a result of the drag imposed by weakening external demand in the US and Europe.

Chart 2: Industrial Output (% YoY)

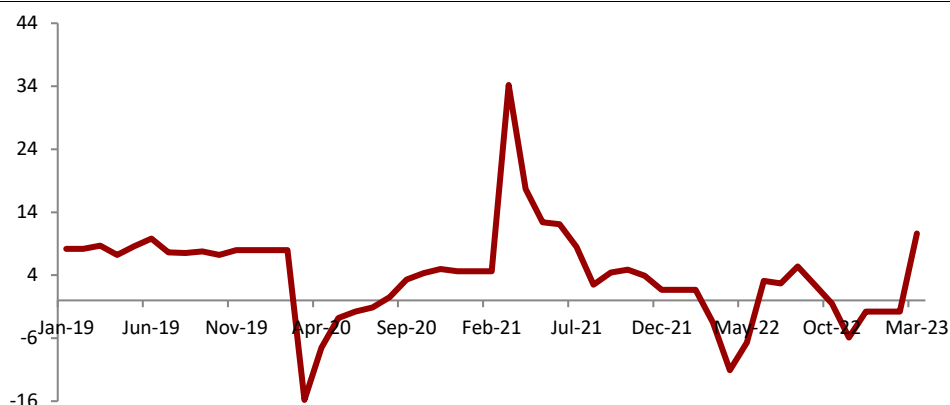


Source: Bloomberg, BIMB Securities

Retail sales, a key gauge of China's consumption, rose by 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. It is worth noting that this growth rate was boosted by base effects – with retail sales falling by almost 1.4% in March 2022 as the COVID-19 outbreak in Shanghai that led to a long running hard lockdown began to emerge. Sequentially, retail sales rose a further 0.15% MoM in March compared to 0.67%

MoM in February and 0.31% MoM in January. The growth in retail sales was mainly boosted by catering. Catering recorded the strongest rise - up 26.3% - though part of that reflected a low base from a double-digit fall a year earlier. Auto sales increased 11.5%, swinging from a 9.4% drop in the January-February period. Online consumption remained a bright spot, with online retail sales rising 8.6% YoY to reach about CNY3.3tn in the first three months. Since the beginning of this year, overall consumption has shown recovery momentum, with service consumption rebounding significantly, goods sales increasing steadily, online and offline consumption growing faster, and people's propensity to consume picking up. The combination of a steady uptick in consumer confidence as well as the still-incomplete release of pent-up demand suggest to us that the consumer-led recovery still has room to run.

Chart 3: Retail Sales (% YoY)

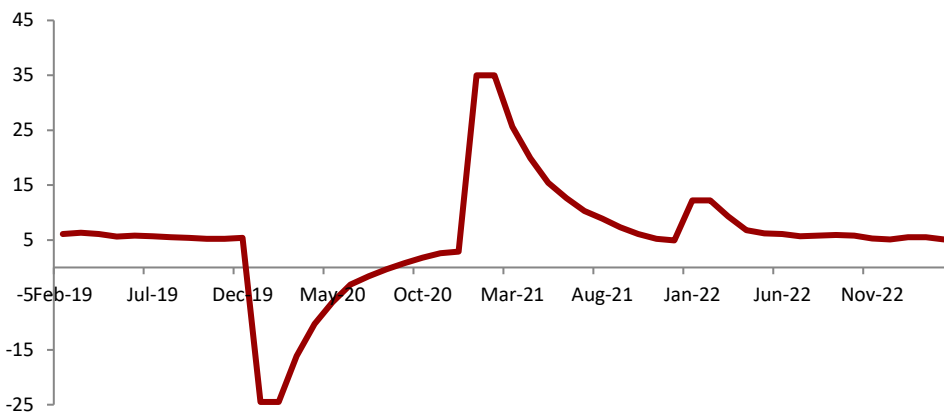


Source: Bloomberg, BIMB Securities

Fixed-asset investment (FAI) - a gauge of expenditure on items including infrastructure, property, machinery and equipment – slowed to 5.1% YoY in 1Q23 from 5.5% in the January-February period. FAI fell sequentially after rising strongly in the three preceding months as it registered -0.25% MoM in March compared to +0.48% MoM in February. In 1Q23, FAI growth was led mainly by the secondary industry (+8.7%) of which manufacturing investment rose 7.0%, followed by tertiary industry (+3.6%) and primary industry (+0.5%). Within the tertiary industry, infrastructure investment (+8.8%) continued to offset declines in real estate investment which fell more than expected by -5.8% YTD YoY in Mar (Feb: -5.7%). It is however worth highlighting that the pace of decline in real estate investment has eased compared to -10.0% in 2022. Investment growth continues to be driven by state-owned enterprises (SOE) – with private sector investment growth relatively weak since the early months of 2022. SOE investment rose by 9.6% YoY in March, down from 10.5% in January-February, while private investment grew by just 1.8% YoY, from 2.6% previously. The investment in high-tech industries grew by 16.0%, of which the investment in high-tech manufacturing and high-tech services grew by 15.2% and 17.8% respectively. In terms of high-tech manufacturing, the investment in manufacturing of electronic and communication equipment and in manufacturing of medical equipment, measuring instrument and meter grew by 20.7% and 19.9% respectively. In terms of high-tech services, the investment in e-commerce services and services for transformation of scientific and technological achievements grew by 51.5% and 51.3% respectively. The investment in social sectors grew by 8.3%. Specifically, the investment in health and education grew by 21.6% and 6.2% respectively. In March, the investment in fixed assets (excluding rural households) declined by 0.25% MoM. There are signs emerging of a turn-around in the property sector, with residential sales (by floor area) increasing by 1.4% YoY in March, the first increase since mid-2021, however construction starts continue to contract. 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.

Chart 4: Fixed Asset Investment YTD (% YoY)



Source: Bloomberg, BIMB Securities

China's surveyed urban unemployment rate declined to a seven-month low of 5.3% in March 2023 from February's three-month high of 5.6%. The unemployment rate of the population aged 25-59 declined to 4.3% in March from 4.8% in February. Youth unemployment in China worsened in March, even as the country's economy recovers from years of COVID-era isolation. Unemployment among those aged 16 to 24 rose to 19.6% in March, up from 18.1% in both January and February, and inching toward the 19.9% of last July, the highest level since records began in 2018. Youth unemployment was 16% in March 2022. China's worsening youth unemployment situation was an outlier in a report that otherwise showed an improving economy. Meanwhile, the jobless rate in 31 large cities and towns decreased to 5.5% from 5.7%. The wage growth also has not returned to normal yet. Incomes of urban residents grew just 2.7% YoY in inflation-adjusted terms during the first quarter, well below growth rates above 5% in pre-pandemic times.

Chart 5: Unemployment (% YoY)



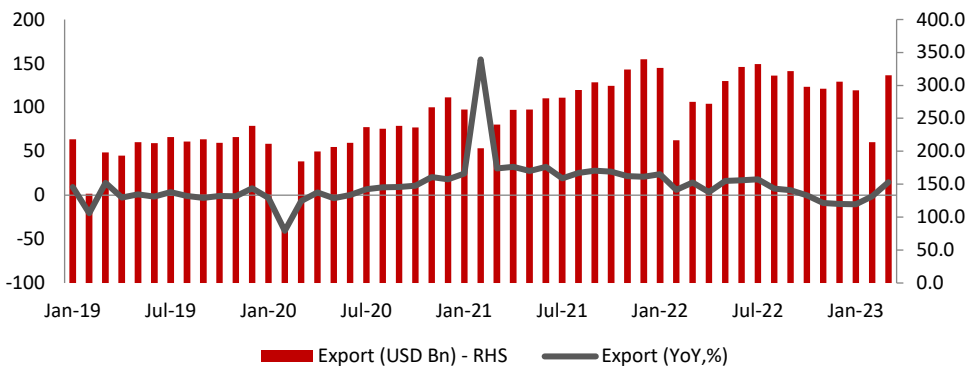
Source: Bloomberg, BIMB Securities

Meanwhile, other indicators this month have also provided conflicting signals about the recovery - exports surged in March, while inflation remained weak, a sign of muted domestic demand in the economy.

China's exports totalled USD315.6bn in March, up from an average of USD253.2bn in the first two months. In year-on-year terms, this represented an increase of 14.8%, marking a turnaround from five preceding months of contraction, and the strongest in eight months

– albeit this may reflect base effects, given the disruptions to activity due to the COVID-19 wave that commenced in March 2022. That said, the strong month-on-month rebound was somewhat surprising, given the weakening prospects in global demand. **Meanwhile, imports fell by a smaller than expected -1.4% YoY (Feb: 4.2%).** In CNY terms, the export surge was sharper at 23.4% YoY in March (Feb: 5.2%) while imports rose a more moderate 6.1% YoY (Feb: 11.1%). **The trade surplus came to USD88.19bn in March** (Feb: USD16.82bn), higher than the monthly average of USD58.44 bn in Jan-Feb and nearly double of USD44.35bn in March 2022. Overall, the trade surplus in 1Q23 was USD204.71bn compared to USD153.81bn in the same period last year. In 1Q23, exports rose 0.5% YoY while imports contracted by 7.1% YoY.

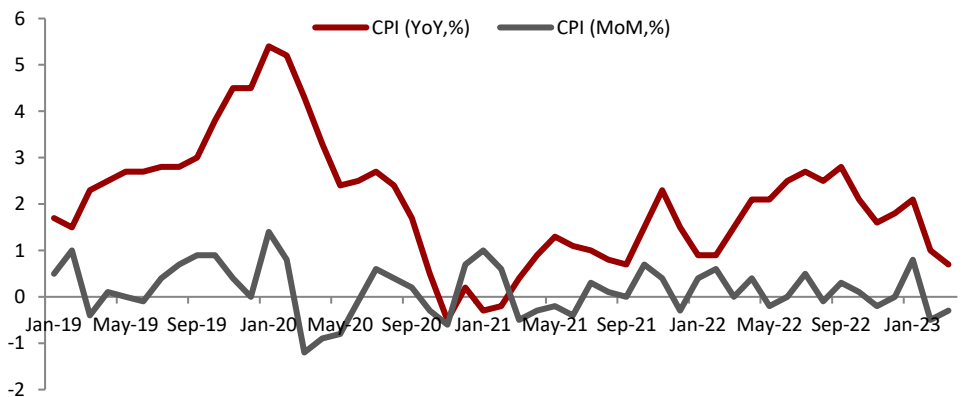
Chart 6: China Exports



Source: Bloomberg, BIMB Securities

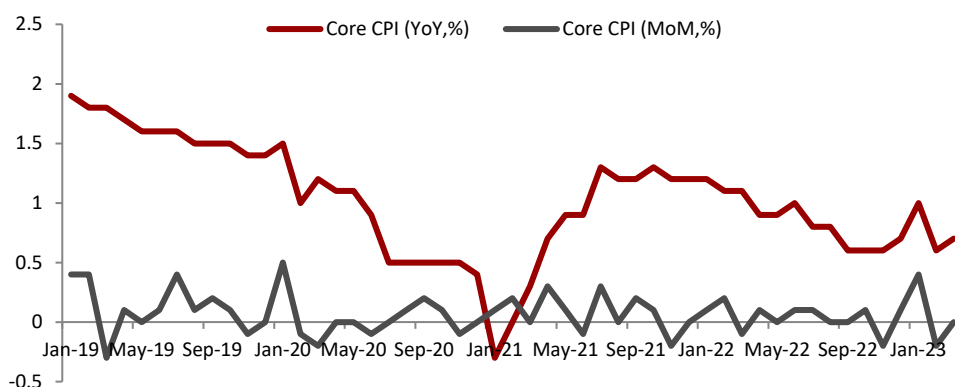
Consumer price growth slowed considerably in March – down to 0.7% YoY, from an average of 1.5% YoY across January and February, the lowest since September 2021 when it was at the same level. This remains consistent with a modest rebound in consumer spending following China’s reopening. Growth in food prices continued to slow in March, rising by 2.4% YoY compared with a 4.4% YoY increase across the first two months of 2023. Non-food prices have continued to grow more slowly – rising by just 0.3% YoY compared with a 0.9% YoY increase in January-February. Vehicle fuel prices fell by 6.4% YoY in March, compared with a 2.9% YoY increase over the first two months – reflecting broader trends in global energy markets. Prices continued to fall on a sequential basis, by -0.3% MoM following -0.5% MoM in February. This was due entirely to a 1.4% MoM decline in food prices while non-food prices were flat in March. **Core inflation (excluding food & energy) edged marginally higher to 0.7% YoY from 0.6% YoY in February .Overall, headline and core inflation averaged 1.3% YoY and 0.8% YoY respectively in 1Q23.**

Chart 7: CPI



Source: Bloomberg, BIMB Securities

Chart 8: Core CPI



Source: Bloomberg, BIMB Securities

China's Producer Price Index (PPI) remained in deflation for the sixth consecutive month. PPI fell at a sharper pace of -2.5% YoY in March (Feb: -1.4%). On a sequential basis, PPI was flat for the second straight month. The year-on-year decline was attributed to the high comparison base while the stabilization of the PPI on the monthly basis was due to the recovery of the domestic economy and also reflected the price trend of some bulk commodities in the international market. PPI decline averaged -1.6% YoY in 1Q23.

Table 1: China's key macroeconomic data (% YoY)

Indicators	1Q23			4Q22		
	Mar	Feb	Jan	Dec	Nov	Oct
GDP % YoY	4.5			2.9		
GDP % QoQ SA	2.2			0.6		
Primary Industry	3.7			4.0		
Secondary Industry	3.3			3.4		
Tertiary Industry	5.4			2.3		
Industrial Output	3.9	1.3	-	1.3	2.2	5.0
FAI YTD	5.1	5.5	-	5.1	5.3	5.8
Retail sales	10.6	-1.8	-	-1.8	-5.9	-0.5
Manufacturing PMI NBS	51.9	52.6	50.1	47.0	48.0	49.2
Manufacturing PMI Caixin/Markit	50.0	51.6	49.2	49.0	49.4	49.2
CPI	0.7	1.0	2.1	1.8	1.6	2.1
PPI	-2.5	-1.4	-0.8	-0.7	-1.3	-1.3
Exports (% YoY)	14.8	-1.3	-10.5	-9.9	-9.0	-0.3
Imports (% YoY)	-1.4	4.2	-21.4	-7.5	-10.6	-0.7
Trade Balance (USD'bn)	88.2	16.8	100.1	77.6	68.9	84.8

Source: National Bureau of Statistic, Bloomberg, BIMB Securities Research

China's economy shakes off Covid legacy and is beginning to show a hoped-for healthy rebound

The latest report on GDP indicates that China, the world's second-largest economy, is coming back to life. China's consumers, while wary of big-ticket purchases, are spending again. Many factories are still running below capacity, but exports are strengthening. Even as construction of new housing is slowing, investment in infrastructure and manufacturing is robust. Despite lingering pockets of economic weakness, China is recovering faster than expected after the government abruptly lifted stringent "zero Covid" measures in early December.

The rebound in the first quarter puts the economy on track for faster growth this year after being dragged down last year because of the property market slump and pandemic restrictions. Growth is expected to accelerate in the second quarter, largely due to the low base of comparison from last year, when Shanghai was in lockdown - but also as the housing market stabilizes and consumers continue to spend.

We expect the policymakers to maintain support, especially through public spending on big infrastructure projects. Strong credit expansion in 1Q23 – particularly long-term corporate loans – bodes well for investment in 2Q23.

Taking into consideration of the latest data and factoring in further stabilisation in the property market, we think China's full-year 2023 GDP growth could now potentially come in stronger at 5.6% (previous forecast 4.7%) compared to the official target of 5.0%.

DEFINITION OF RATINGS

BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

BUY	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
TRADING BUY	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
HOLD	Share price may fall within the range of +/- 10% over the next 12 months
TAKE PROFIT	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
TRADING SELL	Share price may fall by more than 15% in the next 3 months.
SELL	Share price may fall by more than 10% over the next 12 months.
NOT RATED	Stock is not within regular research coverage.

SECTOR RECOMMENDATION

OVERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
NEUTRAL	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
UNDERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

Applicability of ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

Disclaimer

This report has been prepared for information and educational purposes only and are not recommendation or endorsement to sell or solicitation to buy any securities, subscription of financial products or otherwise to be taken as investment advice of any form or kind and neither should be relied upon as such. The information herein was obtained or derived from publicly available information, internally developed data and other sources believed to be reliable. Whilst all reasonable care has been taken to ensure that all information and data are accurate and the opinions are fair and reasonable, we do not represent or warrant their accuracy, timeliness, completeness and currentness or applicability of such information for any particular purpose. The investments advice or idea discussed or recommended in this report may not be suitable for all investors. Any recommendation presented in this report is general in nature and does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this report. The investors are advised to conduct own research and seek independent professional advice prior to taking any investment or investment related decisions. The directors and employees of BIMB Securities Sdn Bhd and BIMB Group of Company may from time to time have a position in either the securities mentioned or may provide services to any company and affiliates of such companies whose securities are mentioned herein. BIMB Securities Sdn Bhd and BIMB Group of Company accept no liability for any direct, indirect or consequential losses, claims and damages arising from any use of this report BIMB Securities does not have a financial interest in the securities or other capital market products of the subject company(ies) covered in this report. Unless stated otherwise, BIMB Securities is not a market maker in the securities or other capital market products of the subject company(ies) covered in this report. BIMB Securities did not receive compensation for corporate finance services from the subject company(ies) in the past 12 months. BIMB Securities did not receive compensation or benefit (including gift and special cost arrangement e.g. company/issuer-sponsored and paid trip) in relation to the production of this report. The analyst(s) who prepared this research report is applicable is/are prohibited from receiving any compensation, incentive or bonus based on specific transactions or for providing a specific recommendation for, or view of, a particular company.

Printed and published by

BIMB SECURITIES SB (290163-X)

A Participating Organisation of Bursa Malaysia Securities Berhad
Level 32, Menara Multi Purpose, Capital Square,

No. 8 Jalan Munshi Abdullah,

50100 Kuala Lumpur

Tel: 03-2613 1600 Fax: 03-2613 1799

<http://www.bimbsec.com.my>

Dr. Rosnani Rasul
Head of Research