

Economic Indicators

The Chinese economy has made a rebound in 2023, with major economic indicators seeing steady expansion, offering the latest evidence that the world's second-largest economy is set to secure a powerful recovery this year. Accordingly, the KIS Research Center aims to help investors understand by preparing reports that introduce major Chinese economic indicators. We hope that this report will be helpful in understanding global economic indicators centered on China

China GDP surprises the market

According to China's National Bureau of Statistics (NBS), China's GDP grew by 4.5% in the first quarter of 2023, 0.5% higher than market expectations. Notably, it marked the fastest pace of growth since the first quarter of 2022, indicating that China's economic recovery is picking up steam.

Industrial production is recovering

China's industrial production expanded at a slower rate at 5.6% YoY in April 2023 from 6.5% YoY in March. Overall, the April industrial production data is a mixed bag, but still showing that the Chinese economy is still growing, albeit at a slower pace.

Retail sales rebound significantly

China's retail sales continued its acceleration for the third consecutive month at 18.4% YoY in April, missing the market expectation of 21.00% but sharply surged from 10.60% last month. This was the highest reading since March 2021, standing at 3.49tn yuan, most likely due to the lag from fully lifted zero-COVID measurements in January 2023.

Trade surplus withholds

China's balance of trade in April recorded a surplus of \$90.21bn from \$88.19bn last month, beating the market forecast of \$71.60bn, contributed by the higher-than-expected export growth of 8.5% YoY and the unexpected import contraction of -7.9% YoY. The main drivers of export growth were automobiles, refined oil, and steel products while import contraction was due to weak domestic demand, lower commodity prices (oil, copper, soybeans, iron core), and a stronger dollar.

Inflation remains low

According to the latest data of NBS, China's annual inflation rate decreased to 0.1% in April 2023 from 0.7% in the previous month, far below the market consensus of 0.4%. This was the lowest print since a deflation in February 2021 amid an uneven economic recovery after the removal of a zero-COVID policy.

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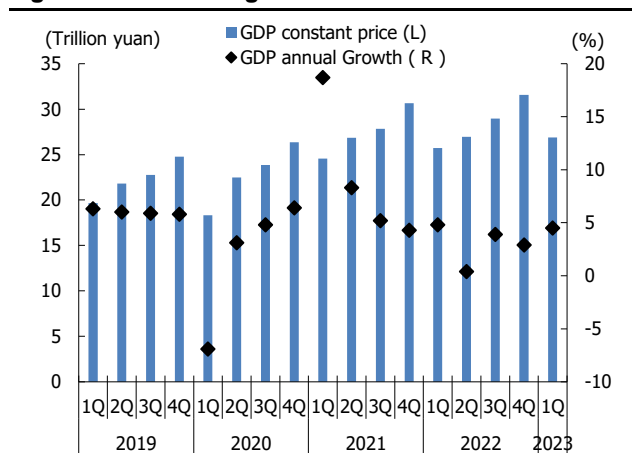
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I. China GDP surprises the market

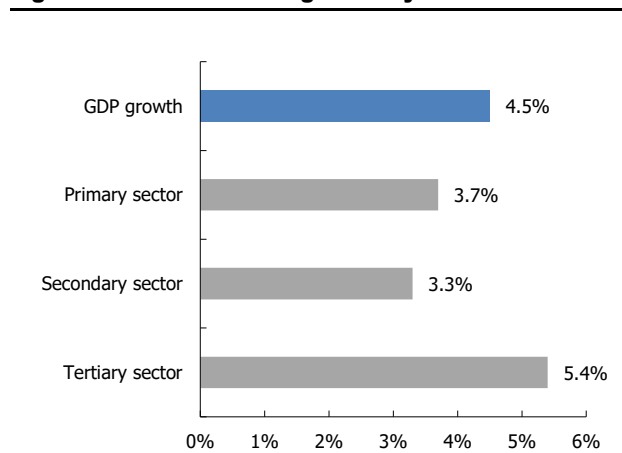
According to China's National Bureau of Statistics (NBS), China's GDP grew by 4.5% in the first quarter of 2023, 0.5% higher than market expectations. Notably, it marked the fastest pace of growth since the first quarter of 2022, indicating that China's economic recovery is picking up steam. Several factors have driven the growth of China economy in the first quarter of 2023, including a dramatic recovery in travel-related consumption and service activity, stronger-than-expected export. Besides, the Chinese government has applied some front-loaded macro support for the economy, such as cutting taxes and increasing government spending.

Figure 1. The GDP growth of China



Source: National Bureau of Statistics of China, KIS

Figure 2. The China GDP growth by sector



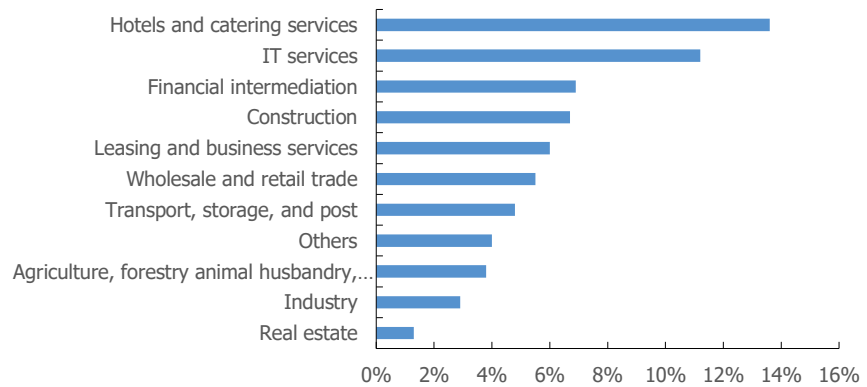
Source: Bloomberg, KIS

Regarding GDP by sector,

- The tertiary sector, which includes services, is the largest contributor to China's GDP, accounting for 50.5% of total GDP and 40% work force, grew by 5.4% YoY in the first quarter of 2023.
- The secondary sector, which includes industry and construction, is the second largest contributor, accounting for 40.5% of total output and 30% labor force, jumped 3.3% YoY in 3M23.
- The primary sector, which includes agriculture, forestry, and fishing, is the smallest contributor, accounting for 9% of total output, increased by 3.7% YoY in 3M23.

The GDP growth rate in China in 2023 was 4.5%, which was slightly higher than the growth rate in 2022. The growth rate was driven by strong growth in the service sector, which benefited from the continued recovery of the Chinese economy. The growth rate was also supported by government investment in infrastructure and manufacturing.

Figure 3. The China GDP by sub-sector



Source: NBS, Bloomberg, KIS

The strong growth in the first quarter is a positive sign for the Chinese economy. However, there are concerns that growth could slow in the second quarter as the government tightens monetary policy to cool inflation.

The following are some of the key drivers of China's GDP growth in the first quarter of 2023:

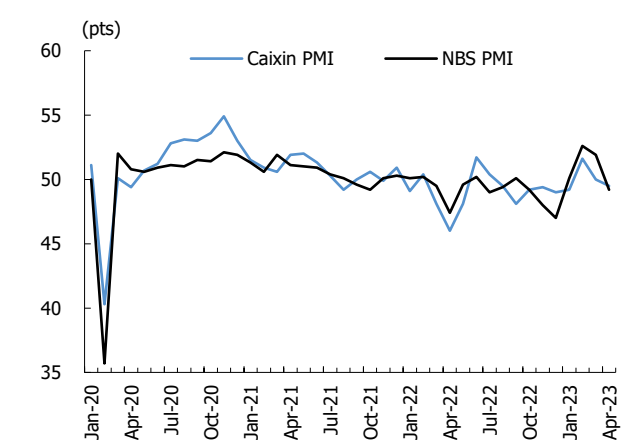
- Strong consumer spending: Consumer spending increased significantly in the first quarter of 2023, rising 3.3% YoY. This was due to a rise in both retail sales and services consumption.
- Solid industrial production: Industrial production also grew at a solid pace, increasing by 5.4% YoY. This was supported by strong growth in both manufacturing and mining.
- Rising fixed asset investment: Fixed asset investment increased by 6.8% year-on-year in the first quarter. This was driven by higher investment in infrastructure and real estate. The strong growth in the first quarter is a positive sign for the Chinese economy. However, there are some concerns that growth could slow in the second quarter as the government tightens monetary policy to cool inflation.

II. PMI uneven in 2 sectors

The China service sector continued its expansion in April, but at a slower pace compared to March data as businesses benefitted from a return toward pre-pandemic levels of demand and output. Specifically, the Caixin PMI stood at 56.4 in April, above the 50-point mark that separates expansion and contraction in activity on a monthly basis, down from 57.8 the month prior.

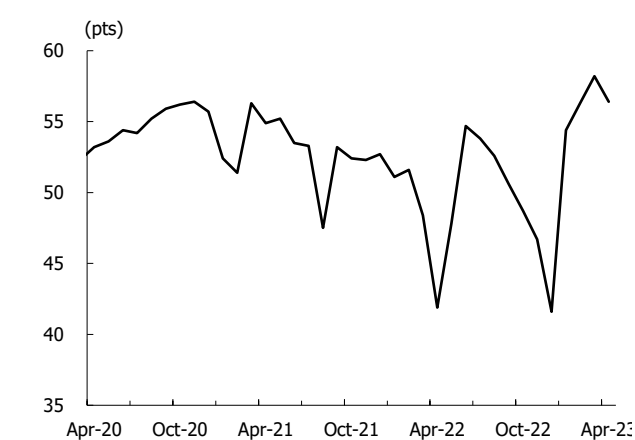
Higher activity levels were frequently linked to the return to more normal operating conditions as the impact of the pandemic continued to fade, leading to firmer demand and higher customer numbers.

Figure 4. China Manufacturing PMIs



Source: Caixin, S&P Global, KIS

Figure 5. China Service PMIs



Source: Bloomberg, KIS

However, the manufacturing sectors of China seem to have slowed down, as both the NBS and Caixin manufacturing PMIs declined. To be more specific, the NBS manufacturing PMI declined by 2.7 percentage points to 49.2, while the Caixin manufacturing PMI also decreased by 0.5 percentage points to 56.4 compared to prior month. The decline in the PMI was driven by a number of factors, including:

- Weaker demand: New export orders edged down to 48.8 from 53.6 in March, the PMI showed.
- Sluggish production: Production growth slowed to the slowest pace in 12 months.
- Higher input costs: Input prices rose at the fastest pace in 14 months.

Table 1. China PMI

Effective date	2022	Jan-23	Feb-23	Mar-23	Apr-23
Manufacturing (NBS)	49.1	50.1	52.6	51.9	49.2
Output	49.2	49.8	56.7	54.6	50.2
New orders	48.0	50.9	54.1	53.6	48.8
Service (NBS)	49.1	54.4	56.3	58.2	56.4

Source: NBS, KIS

Both the service PMI and the manufacturing PMI have been on an upward trend since January 2023. However, the Service PMI has been growing at a faster pace than the Manufacturing PMI. This suggests that the services sector is growing more rapidly than the manufacturing sector in China, mainly due to a surge in demand for travel and other activities that were restricted during the COVID-19 pandemic.

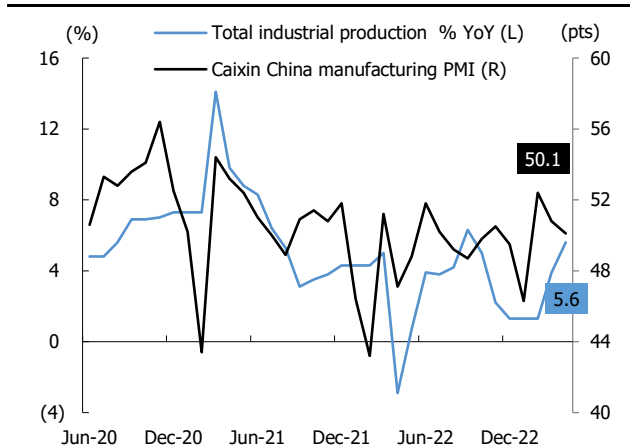
III. Industrial production is recovering

Industrial production growth slowed

China's industrial production expanded at a slower rate at 5.6% YoY in April 2023 from 6.5% YoY in March. Specifically, manufacturing sector in April accelerated at 6.5% YoY from 4.2% last month while mining & quarrying (MQ) and electricity, heat, gas, & water (EHGW) decelerated to 0% and 4.8%. Despite the slowdown in industrial production growth, manufacturing PMI rose to 50.1 in April from 49.5 in March, suggesting manufacturing sector started to recover. Overall, the April industrial production data is a mixed bag, but still showing that the Chinese economy is still growing, albeit at a slower pace.

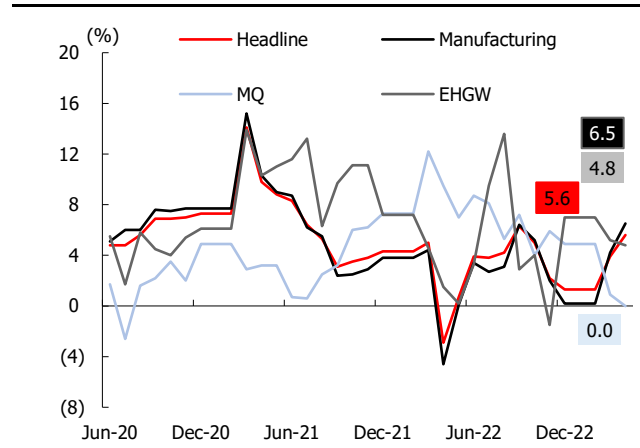
Notably, the recent May manufacturing PMI reading showed a diverged recovery. Large state-owned enterprises witnessed a further contraction to 48.8 in May from 49.2 in April. In contrast, medium and small private enterprises expanded to 50.9 from 49.5 last month.

Figure 6. China industrial production



Source: Bloomberg, KIS

Figure 7. China industrial production's components



Source: Bloomberg, KIS

Note: MQ: mining & quarrying; EHGW: electricity, heat, gas, & water

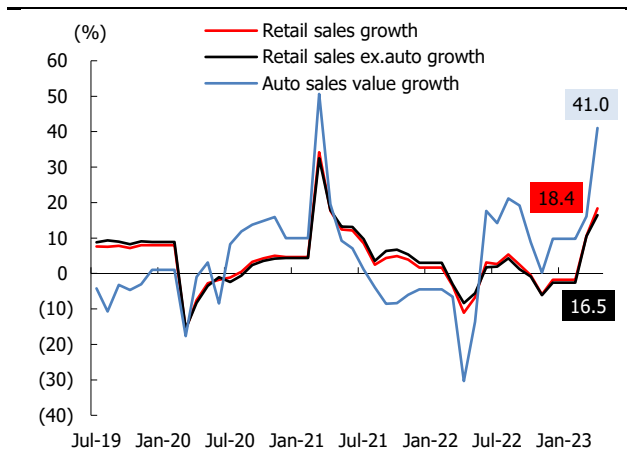
IV. Retail sales rebound significantly

Services sectors led the rebound

China's retail sales continued its acceleration for the third consecutive month at 18.4% YoY in April, missing the market expectation of 21.00% but sharply surged from 10.60% last month. This was the highest reading since March 2021, standing at 3.49tn yuan, most likely due to the lag from fully lifted zero-COVID measurements in January 2023.

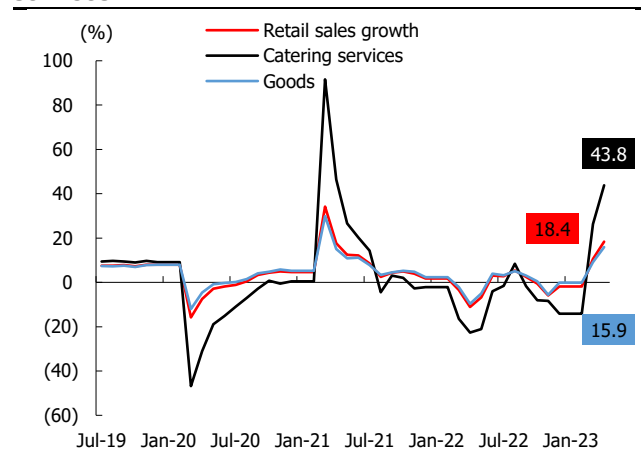
Catering and travel related was mainly attributable to this sharp rebound, where catering services surged by 43.80% YoY. Currently, the service sector, particularly tourism, is shouldering the economic recovery in China and the US, as evidenced by the recovery data in the services PMI, while the manufacturing PMI has not shown any improvement.

Figure 8. China's retail sales



Source: Bloomberg, KIS

Figure 9. China's retail sales: Goods vs. Catering services



Source: Bloomberg, KIS

Table 2. Retail sales components heat map

	2021												2022												2023			
	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4
Total retail sales	4.6	4.6	34.2	17.7	12.4	12.1	8.5	2.5	4.4	4.9	3.9	1.7	1.7	1.7	-3.5	11.1	-6.7	3.1	2.7	5.4	2.5	-0.5	-5.9	-1.8	-1.8	-1.8	10.6	18.4
Catering services	0.4	0.4	91.6	46.4	26.6	20.2	14.3	-4.5	3.1	2	-2.7	-2.2	-2.2	-2.2	-16.4	22.7	-21.1	-4	-1.5	8.4	-1.7	-8.1	-8.4	-14.1	-14.1	-14.1	26.3	43.8
Goods	5.2	5.2	29.9	15.1	10.9	11.2	7.8	3.3	4.5	5.2	4.8	2.3	2.3	2.3	-2.1	-9.7	-5	3.9	3.2	5.1	3	0.5	-5.6	-0.1	-0.1	-0.1	9.1	15.9
- Garments, Footwear, Hats, Knitwear	3.8	3.8	69.1	31.2	12.3	12.8	7.5	-6	-4.8	-3.3	-0.5	-2.3	-2.3	-2.3	-12.7	22.8	-16.2	1.2	0.8	5.1	-0.5	-7.5	15.6	-12.5	-12.5	-12.5	17.7	32.4
- Cosmetics	9	9	42.5	17.8	14.6	13.5	2.8	0	3.9	7.2	8.2	2.5	2.5	2.5	-6.3	22.3	-11	8.1	0.7	-6.4	-3.1	-3.7	-4.6	-19.3	-19.3	-19.3	9.6	24.3
- Gold, Silver & Jewelry	11.6	11.6	83.2	48.3	31.5	26	14.3	7.4	20.1	12.6	5.7	-0.2	-0.2	-0.2	-17.9	26.7	-15.5	8.1	22.1	7.2	1.9	-2.7	-7	-18.4	-18.4	-18.4	37.4	44.7
- Daily use articles	8	8	30.7	17.2	13	14	13.1	-0.2	0.5	3.5	8.6	18.8	18.8	18.8	-0.8	10.2	-6.7	4.3	0.7	3.6	5.6	-2.2	-9.1	-9.2	-9.2	-9.2	7.7	10.1
- Household Appliances and AV Equipment	11.2	11.2	38.9	6.1	3.1	8.9	8.2	-5	6.6	9.5	6.6	-6	-6	-6	-4.3	-8.1	-10.6	3.2	7.1	3.4	-6.1	-14.1	17.3	-13.1	-13.1	-13.1	-1.4	4.7
- Traditional Chinese and Western Medicines	12.1	12.1	11.5	8	7.3	8.5	8.6	10.2	8.6	5.6	9.3	9.4	9.4	9.4	11.9	7.9	10.8	11.9	7.8	9.1	9.3	8.9	8.3	39.8	39.8	39.8	11.7	3.7
- Recreational goods	2.2	2.2	44.4	23.6	23.9	26.2	20.7	22.7	13.4	8	0.3	18.7	18.7	18.7	-8.8	12.7	-0.9	9.7	10.1	3.8	3.3	1.8	-8.2	-13.3	-13.3	-13.3	15.8	25.7
- Books, newspapers, magazines	7.7	7.7	23.6	38.8	11.2	-4.3	-2.4	16.6	7.5	27.5	-4.9	-8	-8	-8	1.6	3.3	1.2	9.6	2.2	3.2	7.5	5.1	0.2	11	11	11	14	3.1
- Cultural and Office Appliances	9.6	9.6	22.2	6.7	13.1	25.9	14.8	20.4	22.6	11.5	18.1	7.4	7.4	7.4	9.8	-4.8	-3.3	8.9	11.5	6.2	8.7	-2.1	-1.7	-0.3	-0.3	-0.3	-1.9	-4.9
- Furniture	0.4	0.4	42.8	21.7	12.6	13.4	11	6.7	3.4	2.4	6.1	-3.1	-3.1	-3.1	-8.8	-14	-12.2	-6.6	-6.3	-8.1	-7.3	-6.6	-4	-5.8	-5.8	-5.8	3.5	3.4
- Communications Equipment	21	21	23.5	14.2	8.8	15.9	0.1	14.9	22.8	34.8	0.3	0.3	0.3	0.3	3.1	21.8	-7.7	6.6	4.9	-4.6	5.8	-8.9	17.6	-4.5	-4.5	-4.5	1.8	14.6
- Petroleum and Petroleum Products	-3.8	-3.8	26.4	18.3	20.3	21.9	22.7	13.1	17.3	29.3	25.9	16.6	16.6	16.6	10.5	4.7	8.3	14.7	14.2	17.1	10.2	0.9	-1.6	-2.9	-2.9	-2.9	9.2	13.5
- Automobiles	6.4	6.4	48.7	16.1	6.3	4.5	-1.8	-7.4	-11.8	-11.5	-9	-7.4	-7.4	-7.4	-7.5	31.6	-16	13.9	9.7	15.9	14.2	3.9	-4.2	4.6	4.6	4.6	11.5	38.0
- Building and Building Decoration Materials	12.9	12.9	43.9	30.8	20.3	19.1	11.6	13.5	13.3	12	14.1	7.5	7.5	7.5	0.4	11.7	-7.8	-4.9	-7.8	-9.1	-8.1	-8.7	-10	-8.9	-8.9	-8.9	-4.7	-11.2

Source: Bloomberg, KIS

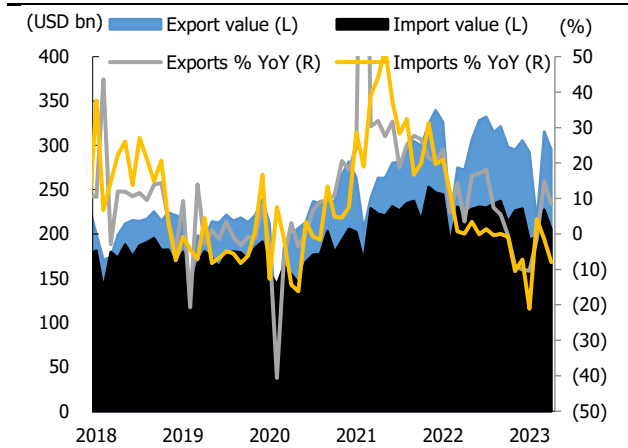
V. Trade surplus withholds

Trade activities improved

China's balance of trade in April recorded a surplus of \$90.21bn from \$88.19bn last month, beating the market forecast of \$71.60bn, contributed by the higher-than-expected export growth of 8.5% YoY and the unexpected import contraction of -7.9% YoY. The main drivers of export growth were automobiles, refined oil, and steel products while import contraction was due to weak domestic demand, lower commodity prices (oil, copper, soybeans, iron core), and a stronger dollar.

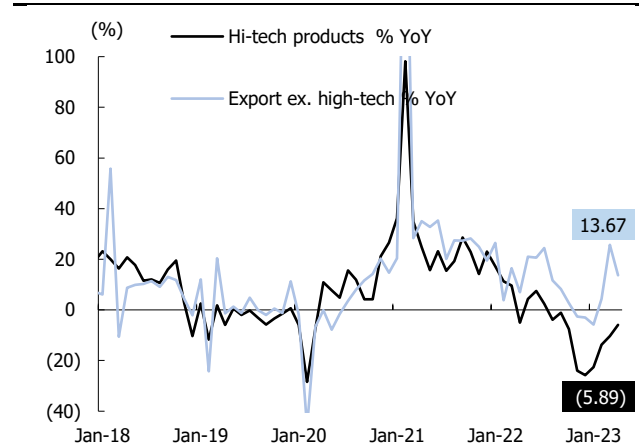
Among major export categories, non-hi-tech products remained the main driver for export growth since March 2021 with 76.96% weight given the more conservative consumer spending awareness, standing at \$227.36bn revenue or 13.67% YoY in April. In contrast, the hi-tech products remained underperformed, but made improvement this month with -5.89% YoY growth from -10.39% last month.

Figure 10. China monthly import and export



Source: Bloomberg, KIS

Figure 11. China's major export categories



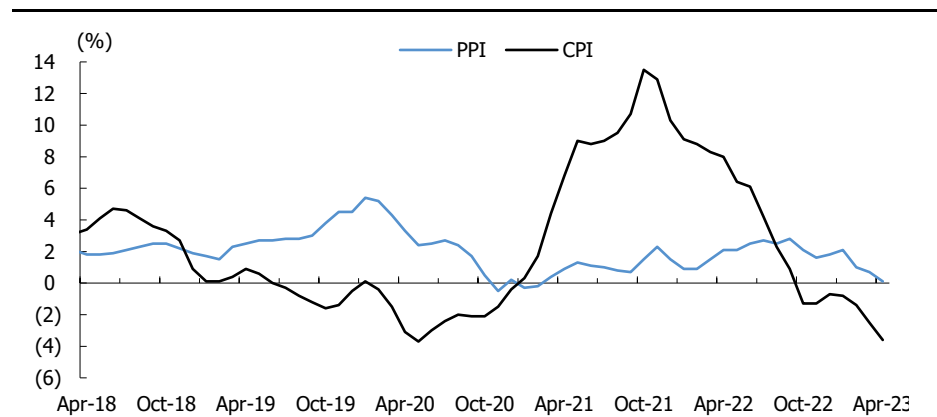
Source: Bloomberg, KIS

Note: MQ: mining & quarrying; EHGW: electricity, heat, gas, & water

VI. Inflation remains low

According to the latest data of NBS, China's annual inflation rate decreased to 0.1% in April 2023 from 0.7% in the previous month, far below the market consensus of 0.4%. This was the lowest print since a deflation in February 2021 amid an uneven economic recovery after the removal of a zero-COVID policy.

Figure 12. China's inflation



Source: NBS, Bloomberg, KIS

The producer price index (PPI) fell at the fastest clip since May 2020 and was down for a seventh consecutive month, declining 2.5% YoY after a 1.4% drop the previous month.

China's economy grew faster than expected in the first quarter of 2023, but the recovery has been uneven. The lifting of COVID-19 restrictions helped to boost economic activity, but other sectors, such as manufacturing and the property market, have continued to struggle.

The reopening of the economy likely led to an increase in services inflation, but this was offset by a slowdown in the growth of food and energy prices. Overall, the inflation rate remained relatively low in the 4M2023.

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