China Economic Quarterly Q1 2023

China's GDP growth increased by 4.5% in Q1 2023, beating market expectations.

June 2023

Content

1 Major economic indicators

China's economic growth was restored in the first quarter owing to the country's economic reopening as it lifted its COVID-19 control measures at the end of 2022, and GDP grew by 4.5% year-on-year (YoY) in Q1, reaching 28.50 trillion yuan, with an increase of 2.2% from Q4 2022 on a quarterly basis.

With the end of its pandemic measures, China can expect economic recovery, but not without challenges. As the government report emphasised, the external environment is still uncertain and recovery will face headwinds, among which are global inflation, weakening world economic and trade growth and dangers arising from Russia-Ukraine tensions, strained China-US relations, geopolitics and other complex factors.

Complete economic recovery will also face domestic headwinds, including the fragile foundation for economic growth, insufficient demand and volatility of private investment and private enterprises. At the same time, micro, small and medium-sized enterprises and individual businesses remain in a precarious situation. It is daunting to maintaining stable employment. Government revenue and expenditure at some local levels are at risks of serious contraction. Last but not least, the real estate market will be confronted by hidden threats.

In Q1, the employment situation improved. The average surveyed urban unemployment rate was 5.5%, 0.1 percentage points lower than Q4 2022. In March, the surveyed urban unemployment rate was 5.3%, down 0.3 percentage points month-on-month (MoM).

Within the labour force aged 25 to 59, the surveyed unemployment rate of those with a junior high school level education or below, a high school level education, a junior college level education, and bachelor's degree or above was 4.8%, 4.8%, 4%, and 3.1%, respectively.

This indicates that the unemployment rate is inversely correlated with education level. However, this does not apply to fresh college graduates. In March, the surveyed unemployment rate for those aged 16 to 24, with many having pursued higher education, was 19.6%.

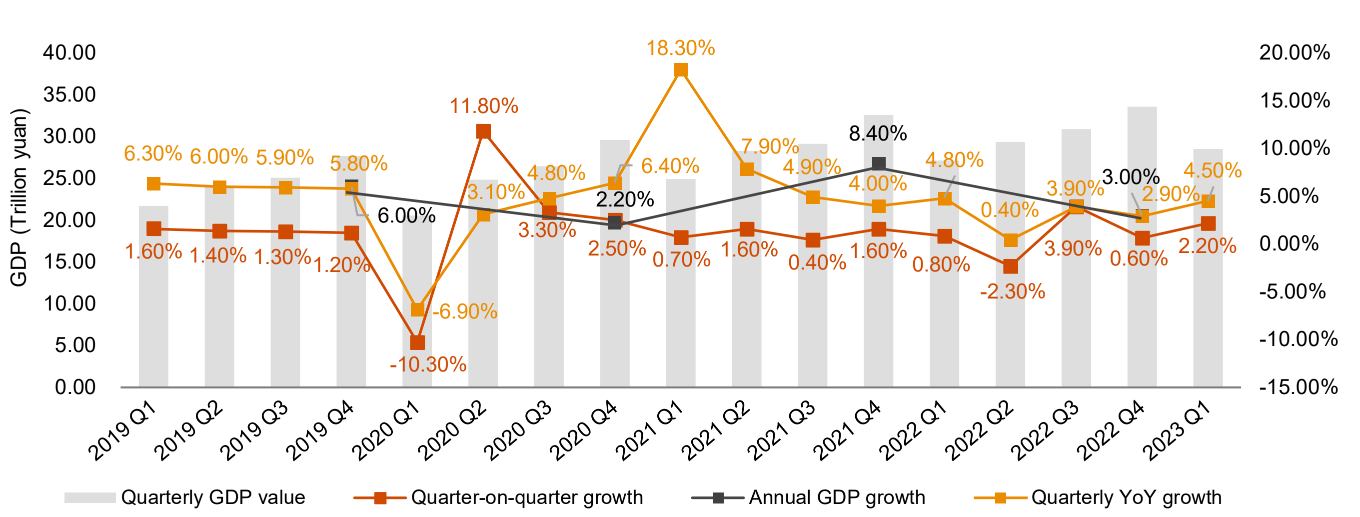
The average number of enterprise employee working hours reached 48.7 hours per week in Q1. By the end of Q1, 181.95 million rural workers migrated out of their hometowns to work.

In addition to a GDP growth target of around 5%, this year, approximately 12 million new urban jobs will be created, maintaining a surveyed urban unemployment rate of around 5.5%. Other major development targets include raising the consumer price index (CPI) by around 3% and increasing personal income in step with economic growth. Keeping consumer prices within a reasonable range and maintaining personal income growth are both indispensable for achieving full recovery of consumption.

While China's full economic recovery is in sight, the International Monetary Fund's (IMF) latest forecast, released in April, outlined that the global economy may only grow by 2.8% in 2023 (0.1% slower than its previous projection), with China contributing 34.9% to global growth this year.

Global development in the past three years was largely influenced by the pandemic. In 2023, ongoing volatility in the financial markets, abnormal weather conditions and geopolitical tensions may continue to threaten economic growth. If the global interest rate hikes by Federal Reserve and the European Central Bank come to an end in the second half of the year, the financial markets may become less volatile. The unusual global weather pattern that began last year, on the hand, shows no sign of slowing down, with an ongoing drought in Spain and record high temperatures across Southeast Asia. Climate anomalies are a threat to global food security and other issues. In this context, while COVID-19 is over, it may take more time than expected for the world to return to its pre-pandemic state.

Quarterly GDP values and quarterly and annual GDP growth rate



Source of data: Unless otherwise stated, economic data are from the National Bureau of Statistics, Wind and financial data from the People's Bank of China.

In Q1, the outputs of the primary, secondary and tertiary industries were 1.16, 10.79 and 16.55 trillion yuan respectively, corresponding to a growth rate of 3.7%, 3.3% and 5.4% YoY.

More specifically, the primary industry contributed 0.2% to economic growth, the secondary industry, 1.2%, and the tertiary industry, 3.2%. The added value of the three industries accounted for 4.1%, 37.9% and 58.1% of the GDP respectively. The proportion of GDP contribution of each sector is similar to the average proportion in the first quarters of 2017, 2018 and 2019, recovering to the levels of the same pre-pandemic periods.

More specifically, production in the secondary industry recovered steadily. In the first quarter, industrial added value grew by 2.9% YoY, a 0.4% increase from the previous quarter, contributing 1% to economic growth.

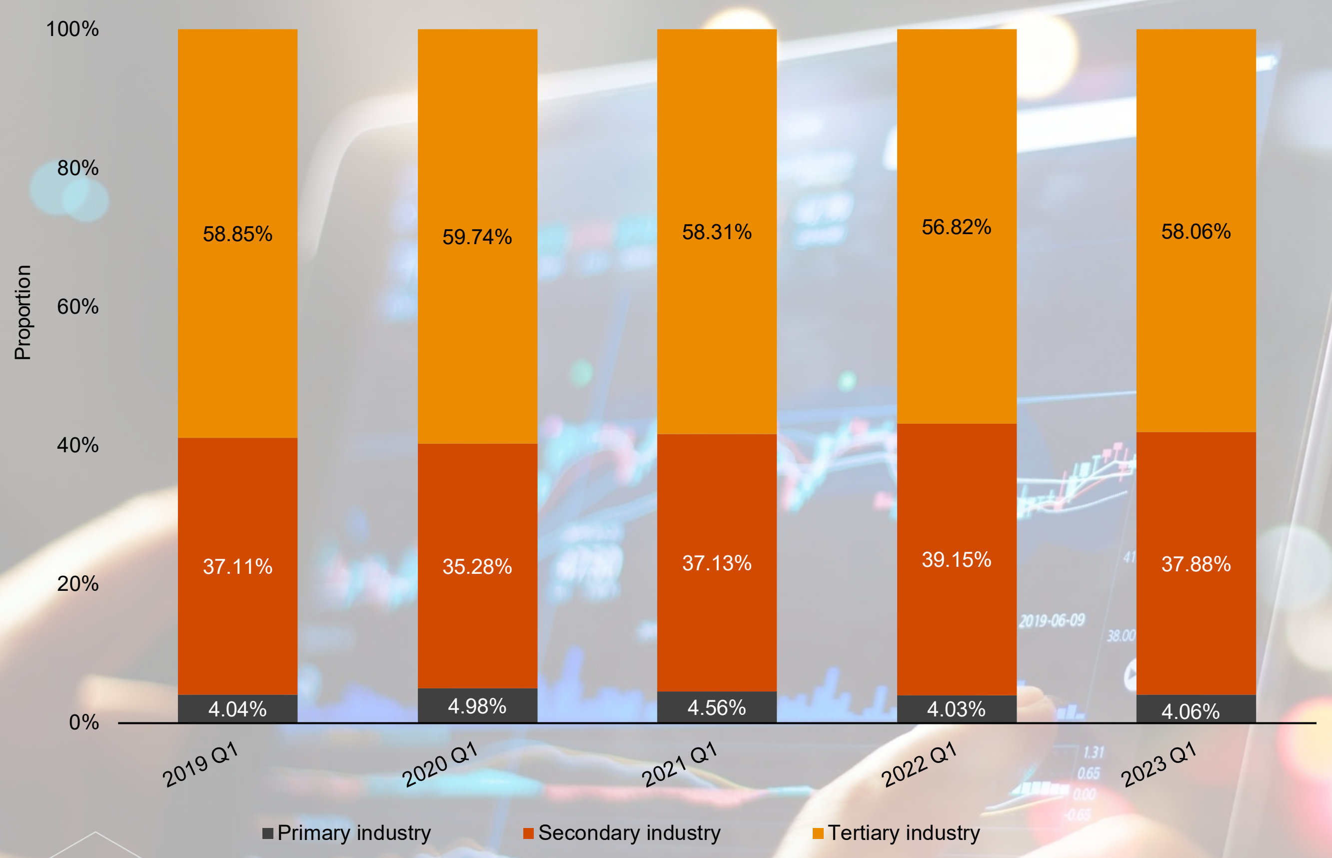
In the first quarter, consumption saw a relatively fast recovery, and its role in driving economic growth was amplified. Final consumption expenditure contributed 66.6% to economic growth and 3 percentage points to GDP growth, significantly higher than last year's contribution.

Investment grew steadily in Q1 thanks to policies to stabilise investment such as policy-based development financial instruments, the construction of major projects and the accelerated upgrade of equipment. These supported economic stability and recovery. In Q1, total capital formation contributed 34.7% to economic growth and 1.6 percentage points to GDP growth.

Net exports fell slightly along with its contribution to economic growth. This was due to low global economic growth, slowing external demand and a widening service trade deficit. In Q1, net exports of goods and services contributed -1.3% to economic growth, lowering GDP by 0.1 percentage point.

According to the World Trade Organisation's latest forecast, global trade volume in goods is expected to grow by 1.7% in 2023, significantly lower than last year. At the same time, as geopolitical risks persist, unilateralism and protectionism are on the rise, intensifying uncertainties in the global economy and trade. These unfavourable factors may impact China's foreign trade growth.

GDP composition



Total fixed asset investment reached 10.73 trillion yuan in the first quarter, increasing 5.1% YoY. On a MoM basis, investment in fixed assets fell 0.25% in March.

More specifically, **by ownership**, private investment reached 5.85 trillion yuan in Q1, an increase of 0.6%. In contrast, state-owned investment rose by 10%.

The sluggish recovery in private investment is due to several factors. First, the economic impact of the former pandemic prevention and control policies has not been fully subdued, with the business performance of many private enterprises declining and their growth prospects remaining unstable.

Second, real estate investment accounted for a large portion of private investment – private investment accounted for around 80% of real estate investment in 2022. In Q1, private investment in real estate development fell by 13.8%, dragging down the growth rate of overall private investment by 5 percentage points. With the increasing number of national policies to support the private economy and a full recovery of the macro economy, private sector investment is expected to recover slowly.

Furthermore, fixed asset investment from Hong Kong SAR-, Macao SAR- and Taiwan-owned companies decreased by 3.4% in 2022. Fixed investment of foreign-owned enterprises continued to decline by 3.7%.

By sector, fixed asset investment of the primary, secondary and tertiary industry increased by 0.5%, 8.7%, and 3.6% in Q1 to 0.24, 3.4 and 7.09 trillion yuan respectively.

By industry, within the secondary industry, the industrial sector went up 8.6%. In Q1, investment in mining increased by 0.6%, while investment in the production and supply of electricity, gas and water rose by 22.3%.

Fixed asset investment in the manufacturing sector rose by 7% boosting fixed asset investment by 1.7 percentage points.

Within the manufacturing sector, investment in textiles, pharmaceuticals, and railways, ships, aerospace and other transport equipment fell 4.3%, 1.9% and 7.9% respectively. Similar to Q4 2022, investment in electrical machinery and equipment manufacturing grew the most, by 43.1%.

Other sub-sectors that maintained a fixed asset investment rate of around 15% include chemical fibre manufacturing (19.2%); manufacturing of computers, communications and other electronic equipment (14.5%); and automobile manufacturing (19.0%).

In the tertiary industry, infrastructure investment, excluding the production and supply of electricity, gas and water, increased by 8.8%. Within which, investments in water conservancy management and public facilities management increased by 10.3% and 7.7% respectively. Investment in road transport and railway transport grew by 8.5% and 17.6%.

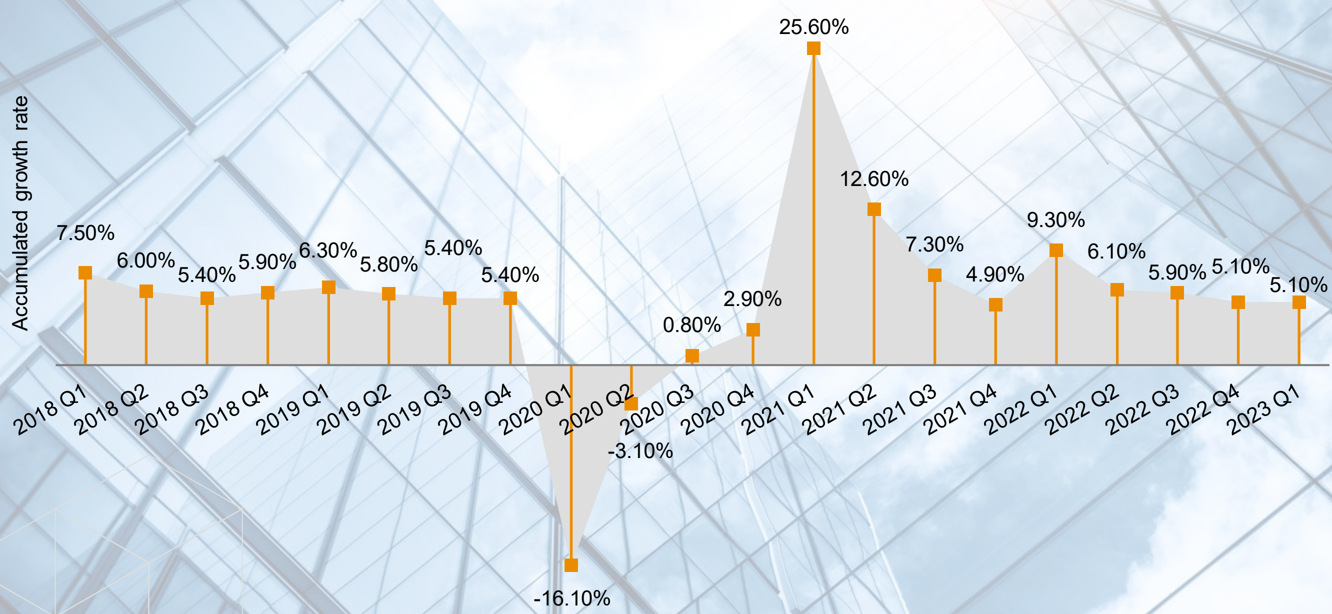
Real estate investment, as one of the three key areas of fixed asset investment, apart from manufacturing and infrastructure, contracted by 5.8% in Q1 YoY following a 10% reduction in 2022.

Lastly, in 2022, investment in high-tech industries increased by 16% YoY, up 10.9 percentage points. Among them, investment in high-tech manufacturing and high-tech services increased by 15.2% and 17.8% respectively.

Investment in health and social work grew by 18.5% while investment in education grew by 6.2%.

To actively increase investment, China will push forward with the construction of the 102 major projects outlined in the 14th Five-Year Plan along with other major economic and social projects. China will continue to foster a world-class, market- and law-based international business environment to boost market confidence. As a result, investment in fixed assets by foreign and private enterprises is expected to pick up gradually.

Fixed Asset Investment



Total real estate investment contracted by 5.8% in Q1 following a 10% reduction in 2022, reaching 2.6 trillion yuan. The total investment in residential buildings was 1.98 trillion yuan, down 4.1% after a 9.5% reduction in 2022.

In Q1, nearly all major indicators of the real estate sector saw an improvement from the previous quarters as a result of the adjustment to the strict macro control policies on the property market. For instance, the decline in investment in real estate development slowed down, housing sales, in terms of value and area, improved, the availability of funds for real estate development companies improved significantly and the real estate development sentiment index saw a rebound.

More specifically, the national housing climate index continued to improve throughout Q1 from 94.45% in January to 94.71% in March.

The total sales value of all properties reached 3.05 trillion yuan, an increase of 4.1% YoY following a 26.7% decrease in 2022.

Among all properties, sales of residential properties increased by 7.1% YoY in Q1 after a 28.3% drop in 2022. In addition, the sales area or floor space of all properties was 299 million square meters, down 1.8%, following a 24.3% reduction in 2022.

In March, the prices of newly built properties in tier one cities of Beijing, Shanghai, Guangzhou and Shenzhen increased by 1.7% YoY. Prices of resale residential properties increased by 1.1%.

During the same time frame, housing prices of non-tier one cities declined at a slower rate than before. In tier two cities, prices of newly built properties declined by 0.2% YoY while prices of resale properties decreased by 2.4%. In tier three cities, prices of newly built and resale properties saw a more moderate decline of 2.7% and 3.9% respectively, or 0.6 and 0.5 percentage points lower than the previous month.

In March, 18 out of 70 large and medium-sized cities saw YoY increases in new commercial housing prices and eight saw YoY increases in second-hand housing prices.

In the first quarter, the funds for real estate development enterprises reached 3.37 trillion yuan, a YoY contraction of 9% following a 25.9% reduction in 2022. More specifically, 1.02 trillion yuan was generated from self-raised funds, a 17.9% decrease. Deposits and prepayments accounted for 1.19 trillion yuan, a 2.8% decrease after a 33.3% reduction in 2022. Personal mortgage loans and domestic bank loans contributed 0.62 and 0.5 trillion yuan to the total funds, a decrease of 2.8% and 9.6% respectively.

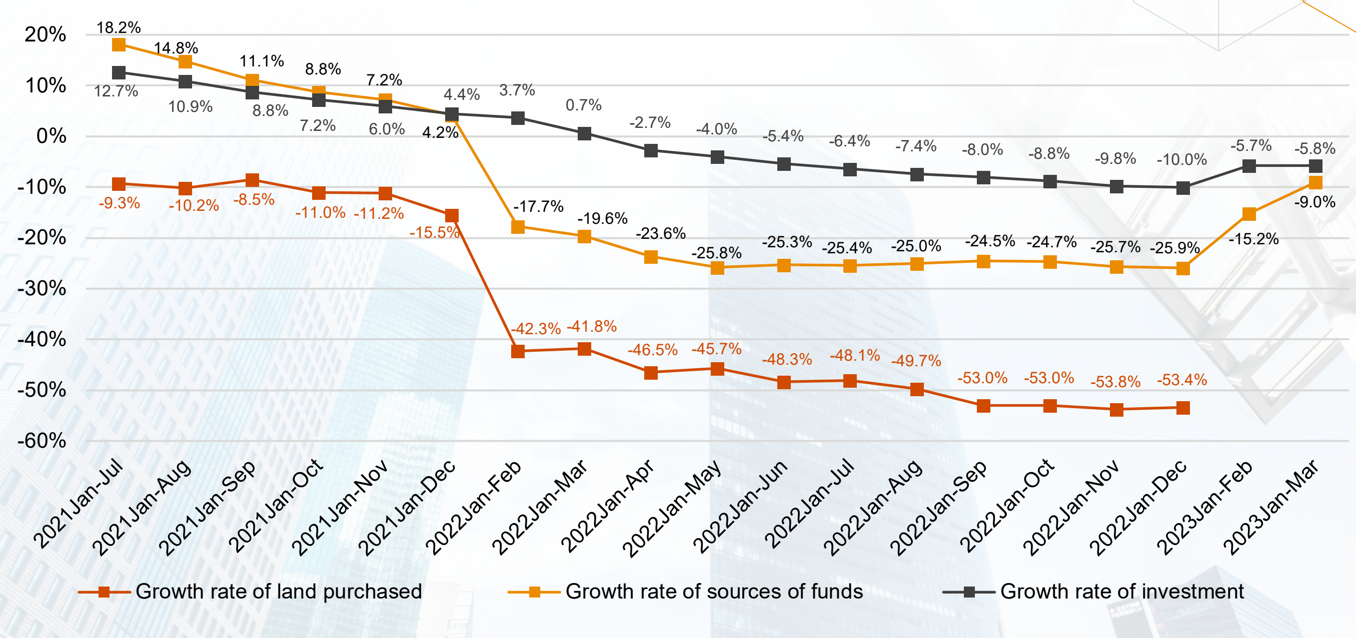
Many additional indicators also saw decline slowing in Q1, including:

- Total value of land transactions (final amount in land use rights transactions by developers) shrank by 12.18% to 545 billion yuan;
- The provinces with higher land transaction volumes and YoY increases in Q1 are mainly those with better economic conditions. Among the 31 provinces in the country, the transaction value increased in 13 provinces, Xizang (Tibet) remained steady, and the values for the rest of the provinces fell. Six provinces saw declines of greater than 50%;
- Land acquisition area, also known as volume of land purchased, contracted by 37.8%;
- Floor space of buildings, including residential and commercial buildings, at the start of construction decreased by 19.2%; residential space decreased by 17.8%.

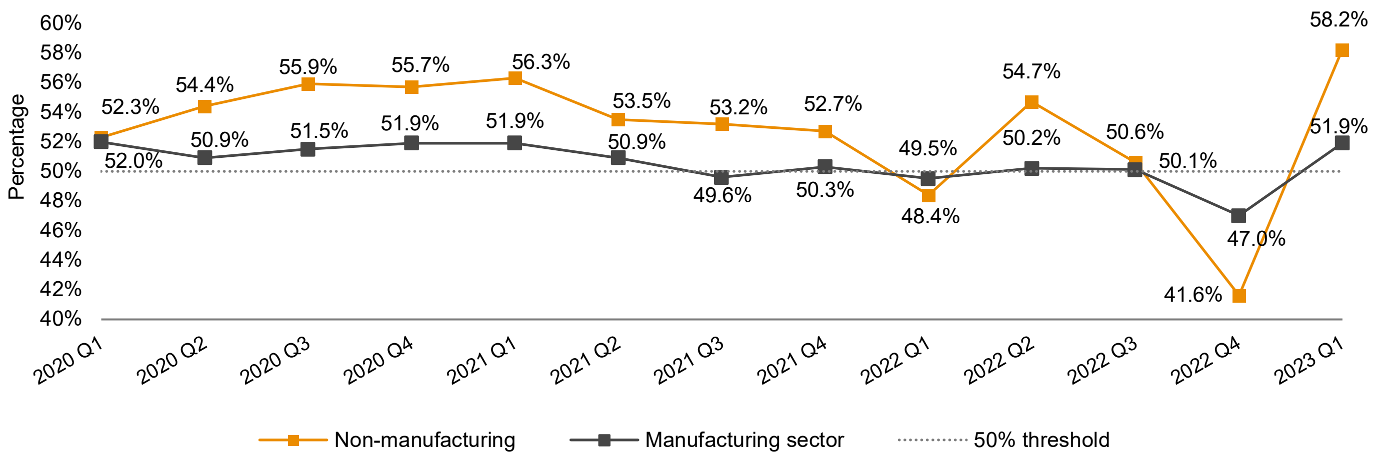
Additionally, in Q1:

- Floor space of completed residential buildings increased by 14.7%;
- Floor space under construction decreased by 5.2%.

Growth rates in real estate



Purchasing Managers' Index



China's Purchasing Managers' Index (PMI) for the manufacturing sector rebounded to above 50% in Q1 – 50.1%, 52.6% and 51.9% from January to March.

In March, it fell 0.7 percentage points to 51.9 percent which was still above the critical point of 50%, indicating that the manufacturing sector maintained its expansion.

As the world's factory, the performance of China's manufacturing industry is closely related to global economic growth. With slow global economic growth, the export expansion of Chinese products is weak. As such, it is ~~un~~ likely that the manufacturing PMI might fluctuate.

In March, two of the five sub-indices that constitute the manufacturing PMI were below the critical level of 50% while the remaining three remained above this level:

- The production index increased to 54.6% in March, from 44.6% in December, indicating manufacturing production recovered rapidly;
- The new orders index rose to 53.6% in March, from 43.9% in December, confirming the trend of increasing manufacturing market demand;
- The raw materials inventory index grew to 48.3% in March from 47.1% in December. It was down 1.5 percentage points from the previous month, indicating a sharper decline in the stocks of major raw materials in the manufacturing sector;
- The employment index improved from 44.8% in December to 49.7% in March. A 0.5 percentage point drop from the previous month indicates a slight deterioration in the employment situation of manufacturing companies;
- The supplier delivery time index increased from 40.1% in December to 50.8% in March. While down 1.2% MoM, it remained above the critical point, indicating that delivery times for raw material suppliers remain stable.

Besides manufacturing PMI, in March, the non-manufacturing business activity index increased to 58.2%, from 41.6% in December, up 1.9% MoM, indicating the accelerated recovery of the non-manufacturing sector.

The composite PMI output index improved from 42.6% in December to 57% in March. The 0.6 percentage point increase from the previous month pointing to improvement in the general situation of production of companies.

Furthermore, among the eight related indices of manufacturing PMIs, three remained below the critical point of 50%. These include ex-factory price, finished goods inventory and orders in hand indices at 48.6%, 49.5%, and 48.9% respectively.

In terms of enterprise size, the PMIs of large, medium and small enterprises were all below the critical point of 50% in December 2022, rebounding to above 50% in Q1. The PMIs of large, medium and small enterprises were 53.6%, 50.3% and 50.4% respectively.

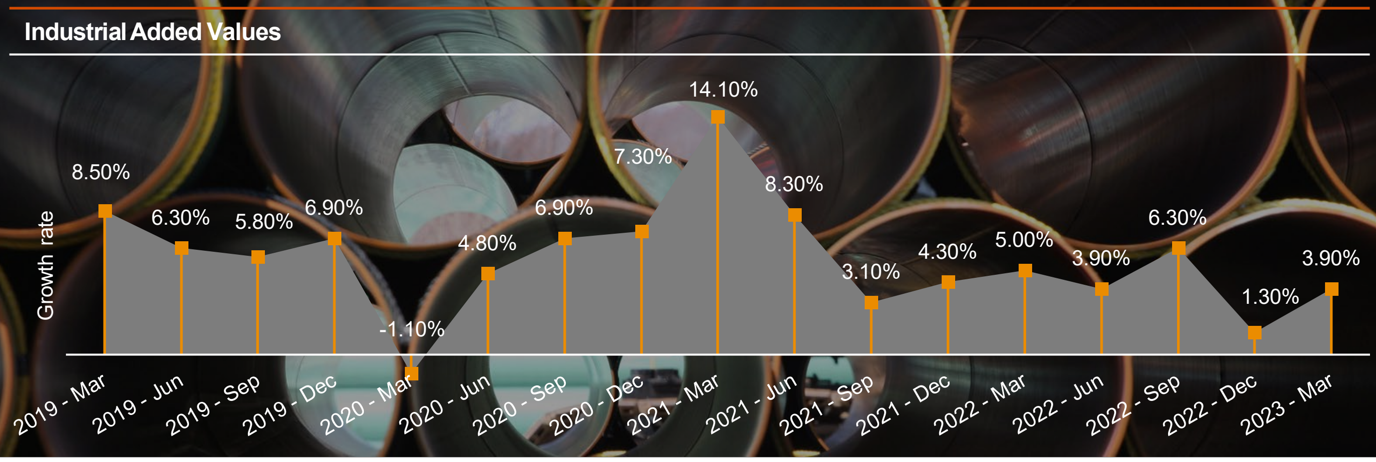
Non-manufacturing PMI increased from 41.6% in December to 58.2% in March as the sector saw accelerated recovery.

The business activity index rose to 56.9%, up 1.3% MoM and up 10.2 percentage points YoY, as the service sector owing to local policies and measures that boosted consumption.

In terms of industries, the business activity index of retail, railway transport, road transport, air transport, leasing and business services was over 60% in March, indicating that consumer consumption and business travel intentions have increased recently, and market activity in related industries has picked up rapidly.

Besides, business activity indices of telecommunications, radio, television and satellite transmission services, Internet software and information technology services recovered to high levels of over 55%. As the progress of construction projects across different regions accelerated as the weather warmed up, production activities in the construction industry saw accelerated expansion, and its business activity index rose to 65.6%.

The non-manufacturing PMI is expected to remain in a relatively high range in 2023 as the domestic economy recovers and consumption rebounds, leading to continued expansion of the service sector.



In Q1, growth of **Industrial Added Values** for companies over a designated size rose by 3% YoY in real terms after deducting price factors, a 0.3 percentage point growth from Q4 2022.

In March, industrial added values grew by 3.9% YoY, an increase of 0.12 percentage points MoM.

In Q1, China's **Utilisation Rate of National Industrial Capacity** stood at 74.3%, 1.5 percentage points lower YoY and 1.4 percentage points lower on a quarter-on-quarter (QoQ) basis.

In Q1, the total profit of industrial enterprises above designated size was 1.52 trillion yuan, down 21.4% YoY. Meanwhile, total revenue of these companies decreased by 0.5%, reaching 31.18 trillion yuan.

Among the 41 industrial categories, the total profits of 10 industries increased YoY. For instance, the total profit of electricity and heat production and supply grew by 47.9% YoY, that of electrical machinery and equipment manufacturing by 27.1%, and that of general equipment manufacturing by 7.4%.

At the same time, the added value of the mining industry grew by 3.2% YoY while that of the manufacturing industry increased by 2.9%. The production and supply of electricity, heat, gas and water grew 3.3%. In March, added value of these sectors (mining, manufacturing, production and supply of electricity and etc.) increased by 0.9%, 4.2%, and 5.2% YoY respectively.

In the first quarter, the added value of 23 of the 41 industrial categories grew, representing an increase of over 50%.

Furthermore, according to the China Association of Automobile Manufacturers (CAAM), car output and sales in the first three months of 2023 decreased by 4.3% and 6.7% YoY to 6.21 and 6.08 million units respectively. In March, the production and sales of automobiles were 2.58 million and 2.45 million respectively, up 15.3% and 9.7% YoY.

In Q1, the withdrawal of the preferential policy for the purchase tax for fuel vehicles and the termination of subsidies for new energy vehicles added downward pressure on the performance of automobile production and sales.

New energy vehicles will still play an important role in China's economic development. In Q1, the production and sales of new energy vehicles reached 1.65 million and 1.59 million, with a YoY growth of 27.7% and 26.2% respectively. The market share reached 26.1%, and among every four new cars sold, one is a new energy vehicle.

Although the new energy vehicle subsidy policy was withdrawn this year, the sales of new energy vehicles will continue to get benefit from the vehicle purchase tax exemption policy. The cost performance of corresponding products will also be prominent. Thus, CAAM predicts that in 2023, the domestic sales of new energy vehicles is expected to exceed 9 million, with a YoY growth rate greater than 35%.

In Q1, China exported 0.99 million vehicles, up 70.6% YoY. For 2023, total automobile exports might hit the sales target of 4 million units (3.11 million in 2022), according to CAAM's forecasts. If such target is reached, China will overtake Japan as the world's largest car exporter by volume. Besides, the average export price of Chinese cars has risen from 12,900 US dollars in 2018 to 18,900 US dollars in 2022, with the average price of pure electric cars reaching 25,800 US dollars.

The competitiveness of automobile manufacturing underscores a country's comprehensive industrial strength. The rapid growth of China's automobile export in recent years symbolises the great progress of the country's industrial capabilities. In 2012, China exported over 1 million vehicles (1.06 million units) for the first time. In 2021, the number of cars sold exceeded 2 million (2.02 million) for the first time after years of hovering around the 1 million range. Among them, the export of new energy vehicles reached 310,000 units, up 304.6% YoY. That year, China ranked third in auto exports, only behind Japan (3.82 million units) and Germany (2.3 million units).

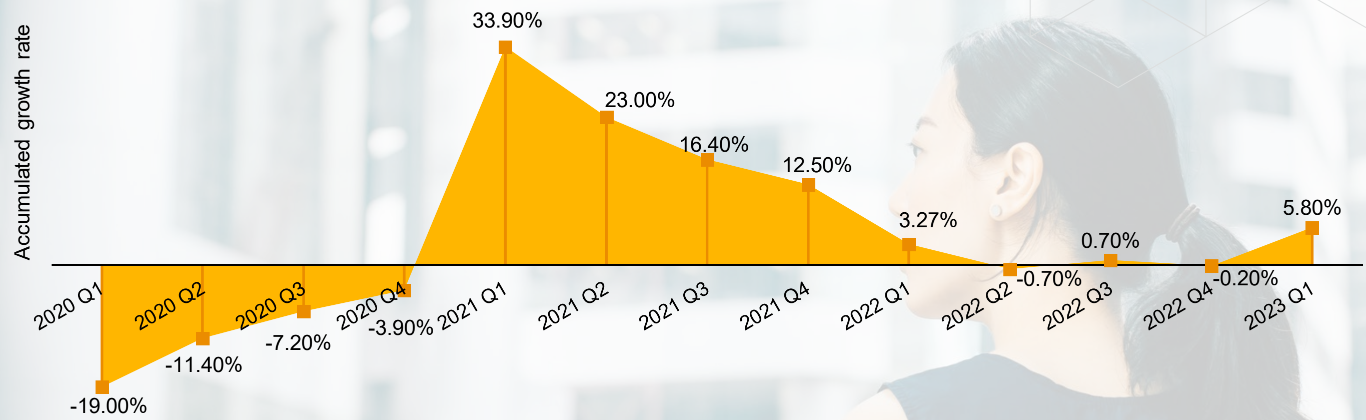
By ownership, while total profit for all industrial companies over a designated size decreased by 21.4% YoY in Q1, all types of enterprises faced declining profits.

- Profits of SOEs decreased by 16.9% to 0.59 trillion yuan;
- Profits of foreign-owned enterprises, including Hong Kong SAR, Macao SAR and Taiwan-owned enterprises, decreased by 24.9% to 0.33 trillion yuan;
- Profits of joint-stock enterprises decreased by 20.6% to 1.13 trillion yuan;
- Profits of private companies decreased by 23% to 0.39 trillion yuan.

Lastly, **by industry**, in Q1, the total profits of the mining and manufacturing industries declined by 5.8% and 29.4% YoY respectively. The production and supply of electricity, heat, gas and water grew 33.2%.

In general, the profit decline of industrial enterprises is still large and enterprise losses still high. However, the reduction of upstream prices YoY is conducive to improving profits of downstream industries. As the economy continues to recover, rising market demand will likely boost corporate sales and accelerate the rebound of industrial profits.

Retail Sales of Consumer Goods



Total retail sales of consumer goods increased by 5.8% YoY to 11.49 trillion yuan in the first quarter. Retail sales of consumer goods totalled 3.79 trillion yuan in March, up 10.6% YoY.

In Q1, the consumer market gradually recovered – consumption of upgraded services picked up; consumption of catering and other contact services improved; the proportion of online retail increased; and physical store sales recovered at a faster pace.

However, a full recovery of the consumer market still takes time as consumer confidence is yet to improve. The recovery of automobiles, home appliances and other bulk consumption is still lagging. The consumer market is expected to further recover in both Q2 and the second half of the year as the economy grows and policies that promote domestic consumption take effect. Market vitality will be restored, and both people's willingness and demand to consume will increase.

In Q1, retail sales of urban consumer goods reached 9.97 trillion yuan, up 5.7%, while that of rural consumer goods increased by 6.2% reaching 1.53 trillion yuan.

Considering the types of consumption in Q1, retail sales of goods reached 10.28 trillion yuan, up 4.9% YoY, while catering revenue reached 1.21 trillion yuan, up 13.9%.

In March, retail sales of goods increased by 9.1% to 3.42 trillion yuan. Catering revenue increased by 26.3% to 371 billion yuan.

Out of the 16 retail categories, five recorded negative growth in Q1, but the decline has somewhat relaxed. In March, only three categories recorded negative growth.

Categories with a sales reduction in Q1 include household appliances and audio-visual equipment (-1.7%), cultural office supplies (1.4%), communication equipment (-5.1%), automobile and related products (-2.3%), as well as building and decoration materials (-2.4%).

Furthermore, in the Q1, supermarket, convenience store, specialty shop, exclusive shop and department store sales grew by 1.4%, 8.8%, 5.7%, 0.2%, and 9.2% YoY respectively.

National online retail sales went up 8.6% to reach 3.29 trillion yuan in Q1.

Online retail sales of physical goods rose by 7.3% to 2.78 trillion yuan, accounting for 24.2% of total retail sales of goods. Within online retail sales of physical goods, the sale of food, clothing, and daily necessities increased by 7.3%, 8.6% and 6.9% respectively.

Per capita disposable nominal income rose to 10,870 yuan in Q1, an increase of 5.1% YoY. After deducting price factors, the real growth rate was 3.8% YoY.

For the following data, nominal growth rates are represented on a YoY basis unless specified otherwise.

For urban residents, average disposable income rose by 4% to reach 14,388 yuan. At the same time, the average income of rural residents grew 6.1% to 6,131 yuan.

By source of income, in Q1,

- Per capita wage income was 6,163 yuan, an increase of 5%, accounting for 56.7% of disposable income.
- Per capita net operating income, i.e. net income obtained by a household or household member after deducting operating expenses, depreciation of fixed assets and production tax from the total operating income, was 1,834 yuan, up 5.8%, accounting for 16.9% of disposable income.
- Per capita net property income, i.e., the income earned by households from deposits, securities, houses, land, etc., was 958 yuan, up 4.1%, accounting for 8.8% of disposable income.
- Net transfer income per capita, i.e., the payments to households by the state or social organisations including pensions, social relief and subsidies, policy-based living allowances, regular donations, etc., was 1,915 yuan, up 5.1%, accounting for 17.6% of disposable income.

Per capita consumption expenditure in the first quarter was 6,738 yuan, an increase of 5.4% YoY in nominal terms, and an increase of 4% in real terms after deducting price factors.

Spending on clothing fell 3.3% YoY while spending on all other consumption goods rose. Spending on housing, education, culture and entertainment, medical care, and other supplies and services increased by over 5% to 8.7%, 9.2%, 14.7% and 8.2%, respectively.

As the national economy has stabilised, the overall employment level has remained relatively stable, laying a solid foundation for the steady recovery of personal income and consumption. In Q2 and the second half of the year, per capita disposable income is expected to see continued growth with consumer spending recovering at a faster pace.

China's **total imports and exports** increased by 4.8% YoY to 9.89 trillion yuan in the first quarter, up 2.6 percentage points from Q4 2022. Imports and exports fell by 7% in January. In February, both figures increased by 8%, and in March, the YoY growth rate increased to 15.5%, a MoM improvement.

In the past three years, China's foreign trade has maintained relatively strong growth, significantly contributing to stabilising economic growth. However, after three consecutive years of high growth, China's import and export will face many challenges in 2023. For example, global inflation and weak growth prospects of major economies cause weakening external demand, which directly impacts China's foreign trade growth. At the same time, trade protectionism and geopolitical tensions have further increased the uncertainty of global trade and added complications for China's foreign trade development. Therefore, trade will likely remain stable in the Q2 and the second half of the year as the likelihood of significant growth is not high.

More specifically, in Q1, exports increased by 8.4% to 5.65 trillion yuan, while imports increased by 0.2% to 4.24 trillion yuan. The trade surplus reached 1.41 trillion yuan.

In Q1, the import and export volume of the central and western regions grew rapidly, 7.8 percentage points higher than national figure. Its proportion in the total value of China's import and export volume increased by 18.6%, and its contribution to China's import and export growth reached 45.8%.

By product, in Q1, the import and export of mechanical and electrical products reached 3.27 trillion yuan, up 7.6%, accounting for 57.9% of China's foreign trade.

More specifically, exports of automobiles, household appliances and batteries reached 147.47, 141.24 and 116.34 billion yuan, up 96.6%, 3.2% and 84.8%, respectively.

Exports of labour-intensive products reached 947.46 billion yuan, up 5.7%. Among which, exports of clothing, plastic products and furniture reached 241.85, 170.24 and 107.26 billion yuan, up 6.7%, 11.1% and 0.8%, respectively.

In addition, the total import of energy products such as crude oil, natural gas and coal was 758.72 billion yuan in Q1, up 9.1%, accounting for 17.9% of the total import value. The import of agricultural products reached 478.74 billion yuan, up 6.9%. Of this total, the import of meat and edible aquatic products reached 50.15 and 31.46 billion yuan, up 22.5% and 21.9% respectively.

In addition, in Q1, the total export of electric vehicles, lithium batteries and solar cells increased by 66.9%, a YoY increase of over 100 billion yuan, raising the overall export growth rate by 2 percentage points.

By geography, according to the General Customs Administration, in Q1, trade values with ASEAN, the EU, the US, Japan, and South Korea, reached 1.56, 1.34, 1.11, 0.55, and 0.53 trillion yuan respectively.

In Q1, China maintained positive growth to most of its top ten export markets. Exports to ASEAN, Japan and the EU grew by 28%, 5.3% and 0.3% respectively, while exports to South Korea, India and Mexico saw double-digit growth.

In Q1, China's trade with the US went down 13.1% YoY, according to the National Development and Reform Commission. Exports to the US decreased by 17%.

During the same period, China's total trade with countries and regions along the Belt and Road reached 3.43 trillion yuan, up 16.8%, 12 percentage points higher than the overall growth rate of foreign trade. Of which, exports were 2.04 trillion yuan, up by 25.3% while imports reached 1.39 trillion yuan, up 6.3%.

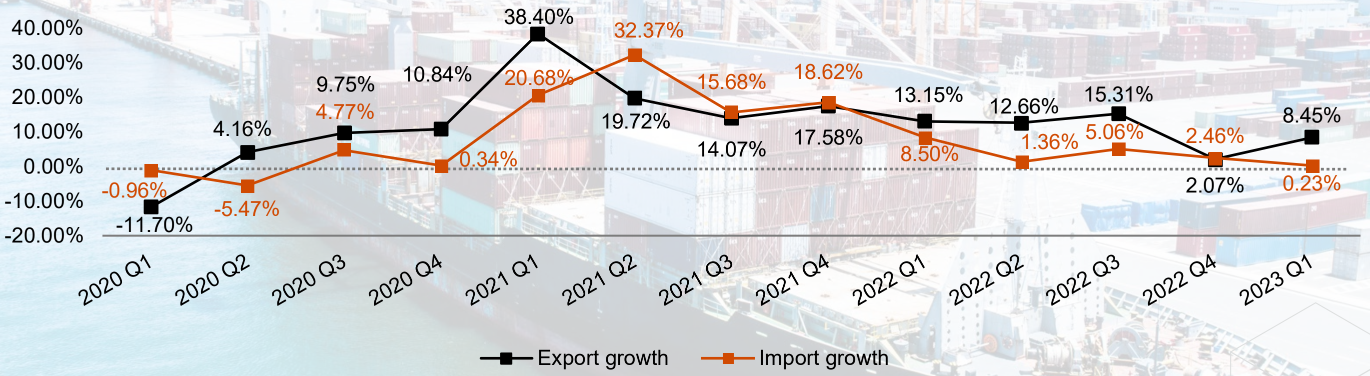
This year marks the 10th anniversary of the Belt and Road Initiative. In the past 10 years, China's trade with countries along the Belt and Road have increased significantly, from 25% of China's total foreign trade in 2013 to 32.9% in 2022.

More specifically, in Q1, China's trade with West Asia, North Africa, Central Asia and South Asia increased by 16.1%, 12.5%, 32.2% and 4.1% respectively. Exports to the United Arab Emirates, Türkiye and Kazakhstan increased by 21.9%, 33.6% and 36.7% respectively.

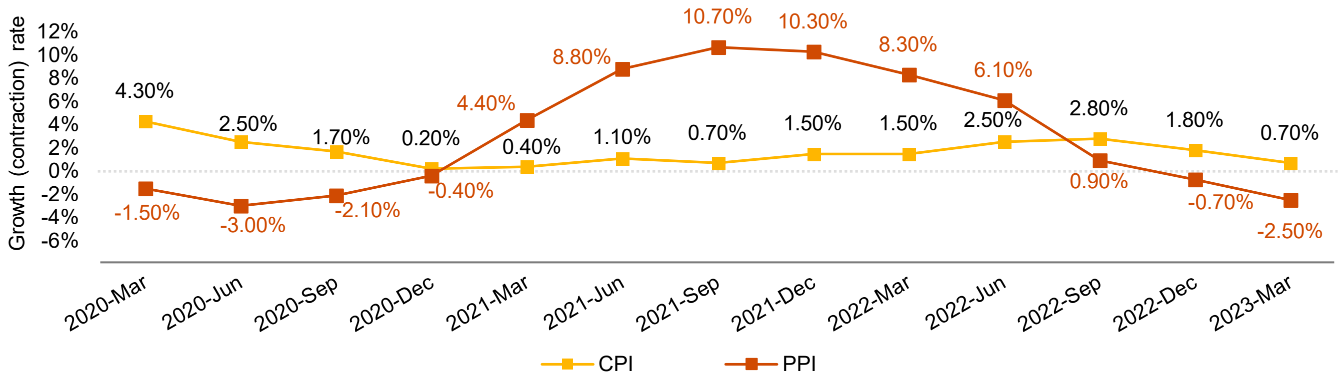
In 2022, China's trade with 14 other RCEP member countries reached 3.08 trillion yuan, up 7.3%, accounting for 31.2% of the country's total foreign trade value. In particular, China's exports reached 1.65 trillion yuan, up 20.2% while its imports were 1.43 trillion yuan, down 4.5%.

By ownership, in Q1, import and export of private enterprises reached 5.18 trillion yuan, an increase of 14.4%, accounting for 52.4% of China's total foreign trade. The import and export of foreign-invested enterprises reached 3.04 trillion yuan, accounting for 30.7% of China's total foreign trade. Imports and exports of state-owned enterprises stood at 1.65 trillion yuan, accounting for 16.7% of the country's total.

Quarterly Balance of Trade



Producer Price Index and Consumer Price Index



The **Producer Price Index (PPI)** declined by 1.6% YoY in Q1 off a high base.

In March, PPI decreased by 2.5% YoY as it bore the effects of a recovering domestic economy (increasing supply) and downward price pressure on some commodities in the international market. The YoY decline in March was impacted by a higher base. PPI remained steady MoM.

On a YoY basis, the PPI decline widened from 0.8% in January to 2.5% in March, with a decline of 1.4% in February. On a MoM basis, PPI fell 0.4% in January and remained flat in February.

In Q1, the price of means of production reduced by 2.3%. The price of means of living rose by 1.2%.

The prices of mining, raw material and processing industries decreased by 0.9%, 1.9% and 2.6% YoY respectively in Q1. In March, producer prices for mining declined by 4.7%, raw materials by 4.2% and processing industries by 2.8%.

In Q1, the average price of ferrous metal smelting and rolling processing fell by 11.2% YoY, adding to the PPI decline by about 0.67 percentage points. The same figure fell by 11.7%, 10.9% and 11% in January, February and March respectively, following a high base in the same period of last year.

Meanwhile, on a MoM basis, the price of ferrous metal smelting and rolling processing rose by 1.3% in March, rising for the fourth consecutive month. As the impact of COVID-19 controls gradually fades and market demand continues to improve, the ex-factory prices of steel and other industries have risen MoM.

In Q1, the prices of the oil and natural gas mining fell by 5.3% YoY. The prices of the chemical raw materials and chemical products manufacturing fell by 6.3%. The prices of the non-ferrous metal smelting and rolling processing fell by 5.9%. All together, these prices affected the PPI decline by about 0.75 percentage points as the prices of domestic oil, non-ferrous metals and related industries are significantly lower than that of last year due to fluctuation of international crude oil, non-ferrous metals and other commodities.

In Q1, coal mining and washing prices fell 0.8% YoY. The policy of maintaining energy supply and stabilising energy prices has achieved remarkable results. The orderly release of advanced coal production capacity, coupled with a decrease in demand for heating coal, due to rising temperatures in February and March, led to a slight price decline in the coal industry.

More specifically, the PPI for manufactured goods in the following sectors increased by around 5% YoY in Q1:

- Mining and processing of non-ferrous metals (5.8%);
- Processing of food from agricultural product (4.9%);
- Gas production and supply industry (7.1%).

On the other hand, the PPI for manufactured goods in the following sectors decreased by over 5% YoY in Q1:

- Petroleum and natural gas extraction (-5.3%);
- Chemical raw materials and chemical (-6.3%);
- Non-metallic mineral (-6.2%);
- Ferrous metal mining (-5.8%);
- Ferrous metal smelting and rolling (-11.2%);
- Nonferrous metal smelting and rolling (-5.9%).

In Q1, PPI for means of living increased by 1.2%; food prices edged up by 2.5%, clothing by 1.8% and general daily necessities by 0.8%.

The **Consumer Price Index (CPI)** increased by 0.7% YoY in March and 1.3% in Q1. In January, CPI went up 2.1% due to the Lunar New Year effect. After the holiday, consumer demand fell seasonally, and coupled with ample supply, CPI dropped 1% YoY in February.

In Q1, food prices rose 3.7% YoY, contributing about 0.68 percentage points to CPI growth. The price of fresh fruit rose by 11% in the first quarter. With sufficient pig production capacity, pork prices in Q1 were down on a MoM basis, but due to the low base in the same period last year, its price was still up by 8.5% YoY in Q1. Prices of eggs, poultry meat and edible oil rose 8.1%, 7.3% and 6.2% respectively.

In Q1, non-food prices rose 0.7% YoY. Due to the fluctuation of international crude oil prices, domestic energy prices have declined. The demand for travel continued to recover, and the prices of air tickets, tourism, vehicle rental and hotel accommodation went up by 30.6%, 6.5%, 4.2% and 3.5% respectively.

CPI growth in Q1 was relatively low. There are even concerns that China may face the challenge of deflation. However, with the world still facing inflation and domestic consumption continuing to rebound as the economy recovers, the probability of deflation is minor. Nevertheless, CPI growth in Q2 and the second half of the year will likely remain low.

2 Policy updates

Growth of aggregate financing to the real economy increased by 10% in Q1.

According to the People's Bank of China (PBoC), China's monetary policy will continue to regard stability as the top priority in 2023. The PBoC will adhere to prudent regulation and control, placing emphasis on domestic goals. The PBoC will adjust policies primarily according to changes in the domestic economy and prices. With the exchange rate being determined by the market, the flexible exchange rate formation mechanism has created conditions that improve the autonomy of monetary policy. The PBoC will also make innovative and effective use of structural monetary policy tools to provide support to key areas and strengthen weak links.

The total aggregate financing to the real economy (AFRE) increased by 14.52 trillion yuan in Q1, up 2.47 trillion yuan YoY. By the end of Q1, total AFRE reached 359.02 trillion yuan, up 10% YoY.

M2 money supply, which includes cash, checking deposits, and easily convertible near money, and AFRE, increased by 12.7%, reaching 281.46 trillion yuan, up 3% YoY.

In terms of AFRE, the balance of RMB loans reached 225.45 trillion yuan, up 11.8%. More specifically, total RMB loans to the real economy increased by 10.7 trillion yuan, 2.36 trillion yuan more YoY, accounting for 73.6% of AFRE in Q1, up 4.5% YoY. In the past two years, new loans in Q1 accounted for approximately 40% of annual new loans.

As part of the total RMB loans to the real economy, household loans increased by 1.71 trillion yuan.

At the end of March, the outstanding loans of the household sector stood at 77.48 trillion yuan, an increase of 1.71 trillion yuan from the beginning of the year and an increase of 449 billion yuan YoY. In terms of loan structure, the consumer loans balance was 57.16 trillion yuan, an increase of 314.8 billion yuan when compared with the beginning of the year. Operating loans amounted to 20.32 trillion yuan, an increase of 1.39 trillion yuan from the beginning of the year and 506 billion yuan more on a YoY basis.

At the same time, household deposits continued to increase in Q1 as consumption has not fully recovered and the growth in investment in asset management products is slower. By the end of Q1, the balance of household deposits was 130.23 trillion yuan, a MoM increase of 2.91 trillion, or up 9.9 trillion from the beginning of the year.

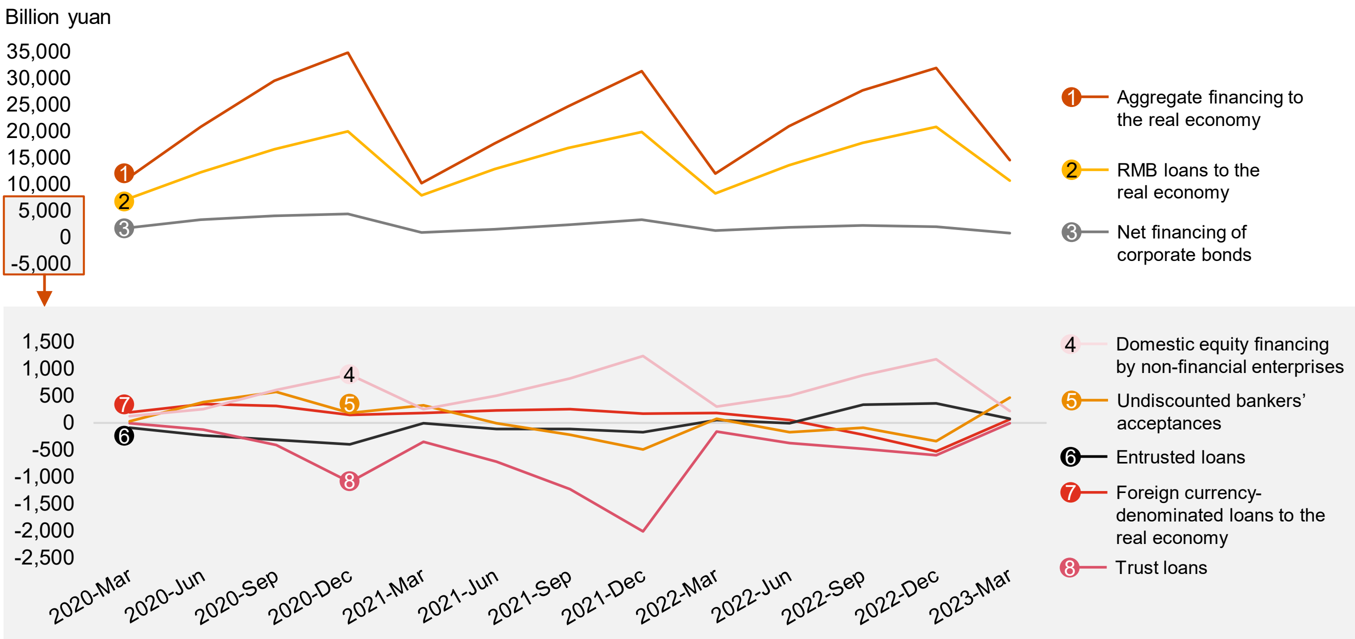
Loans to enterprises and public institutions increased by 8.99 trillion yuan in Q1. Bill financing reduced by 0.98 trillion yuan.

From the industry perspectives, by the end of March, medium-and long-term loans in manufacturing increased by 41.2% YoY, 23.6% higher than the total figure. In Q1, 1.3 trillion yuan was added. The same loans in the infrastructure sector grew 15.2%. A total of 2.16 trillion yuan was added in Q1. The same loans to the service sector (excluding real estate) grew by 16.1%. In Q1, 3.07 trillion yuan was added. The medium - and long-term loans to the real estate sector increased by 6.4%. In Q1, 654 billion yuan was added.

Net financing of government bonds reached 1.83 trillion yuan in Q1, up 0.25 trillion yuan YoY. For enterprise direct financing, net corporate bond financing was 848 billion yuan, a YoY decrease of 472 billion yuan. Equity financing of non-financial enterprises reached 215 billion yuan, a reduction of 83 billion yuan YoY.

By the end of March, outstanding foreign currency loans were 759 billion US dollars, down 19.6% YoY. Foreign currency loans rose by 17 billion US dollars in Q1, but was down 13.4 billion YoY.

Aggregate financing to the real economy (flows)



Source: Wind

Fiscal revenue increased by 0.5% while fiscal spending grew by 6.8%.

In Q1, national fiscal revenue increased by 0.5% YoY to 6.23 trillion yuan. According to the Ministry of Finance, there were a few factors affecting the growth of fiscal revenue. First, part of the revenue at the end of 2021 was collected in the beginning of last year, raising last year's base and dragging down this year's revenue growth. Second, last year's tax reprieve (tax suspension) for micro, small and medium-sized enterprises in the manufacturing sector was halted this year, pushing up this year's revenue growth.

More specifically, Central Government revenue decreased by 4.7% to 2.76 trillion yuan while local government revenue increased by 5% to 3.47 trillion yuan. The income growth rates of the local governments in the eastern, central, western, and north-eastern regions were 4.3%, 5.8%, 5.3%, and 9% respectively.

National tax revenue was reduced by 1.4% YoY to 5.17 trillion yuan in Q1. Non-tax revenue increased by 10.9% and reached 1.06 trillion yuan.

Among the 13 major sources of tax revenue, nine categories decreased in Q1. The top five sources of tax revenue include:

- **Value-added tax revenue:** up 12.2% to 2.16 trillion yuan;
- **Enterprise income tax revenue:** up 9.3% to 1.17 trillion yuan;
- **Domestic consumption tax revenue:** down 22.2% to 465 billion yuan;
- **Value-added tax and consumption tax revenues on imported goods:** down 14.4% to 458 billion yuan; customs duties totalled 62 billion yuan, down 19.9% YoY off a high base;
- **Personal income tax:** down 4.4% to 444 billion yuan due to restricted stock transfer and decrease in other property transfer income.

In Q1, tax revenue from land ownership decreased by 2.1% to 161 billion yuan. Land value-added tax revenue shrank by 18.7% to 180 billion yuan. Property tax revenues increased by 23.1% to 87 billion yuan. Urban land use tax increased by 18.6% to 55 billion yuan. Farmland occupation tax revenue decreased by 5.5% to 41 billion yuan. With the implementation of a series of policies to support the sustainable development of the real estate market, related tax is expected to recover gradually.

On the other hand, the national public budget expenditure increased by 6.8% YoY to 6.79 trillion yuan in Q1. The Central Government's expenditure increased by 6.4% to 0.72 trillion yuan. Local government expenditure grew 6.9% to 6.07 trillion yuan. Other major items contributing to fiscal expenditure included:

- 1.23 trillion yuan on social security and employment (9.6% YoY increase);
- 1.02 trillion yuan on education (4.1% increase);
- 457 billion yuan on agriculture, forestry and water conservancy (10.9% increase);
- 501 billion yuan on urban and rural communities, including administration, public facilities, planning, environmental sanitation (1.8% increase);
- 642 billion yuan on healthcare and sanitation (12.2% increase);
- 328 billion yuan on transportation (0.4% increase).

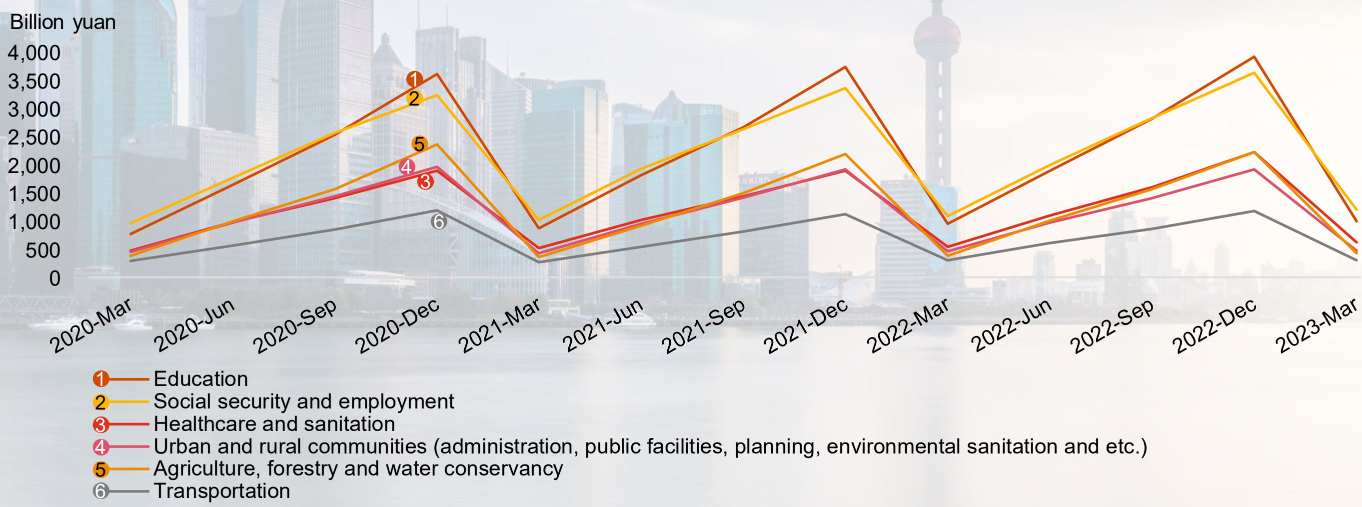
Expenses on debt interest payments increased by 15.9% to 231 billion yuan. Spending on science and technology increased by 9.4% to 202 billion yuan, while spending on energy conservation and environmental protection increased by 2.4% to 126 billion yuan. Spending on culture, tourism, sports and media reached 777 billion yuan, down 2.7% YoY, which was the only expenditure registering a decrease in Q1.

In Q1, income of government funds declined by 21.8% and reached 1.08 trillion yuan, while the spending of government funds decreased by 15% to 2.11 trillion yuan.

The budget revenue of Central Government funds reached 91 billion yuan, a YoY increase of 6.1%. The budget revenue of local government funds was 992 billion yuan, a decrease of 23.6%. Within which, the revenue from the transfer of state-owned land use rights was 873 billion yuan, a decrease of 27%.

The budget expenditure of Central Government funds reached 25 billion yuan, a YoY decrease of 1.4%. The budget expenditure of local government funds was 2.08 trillion yuan, a decrease of 15.2%. Within which, the expenditure related to the transfer of state-owned land use rights was 1.28 trillion yuan, a decrease of 17.1%.

General public budget expenditure



Source: Wind

3 Mega trends of China's population and labour force

Highlights

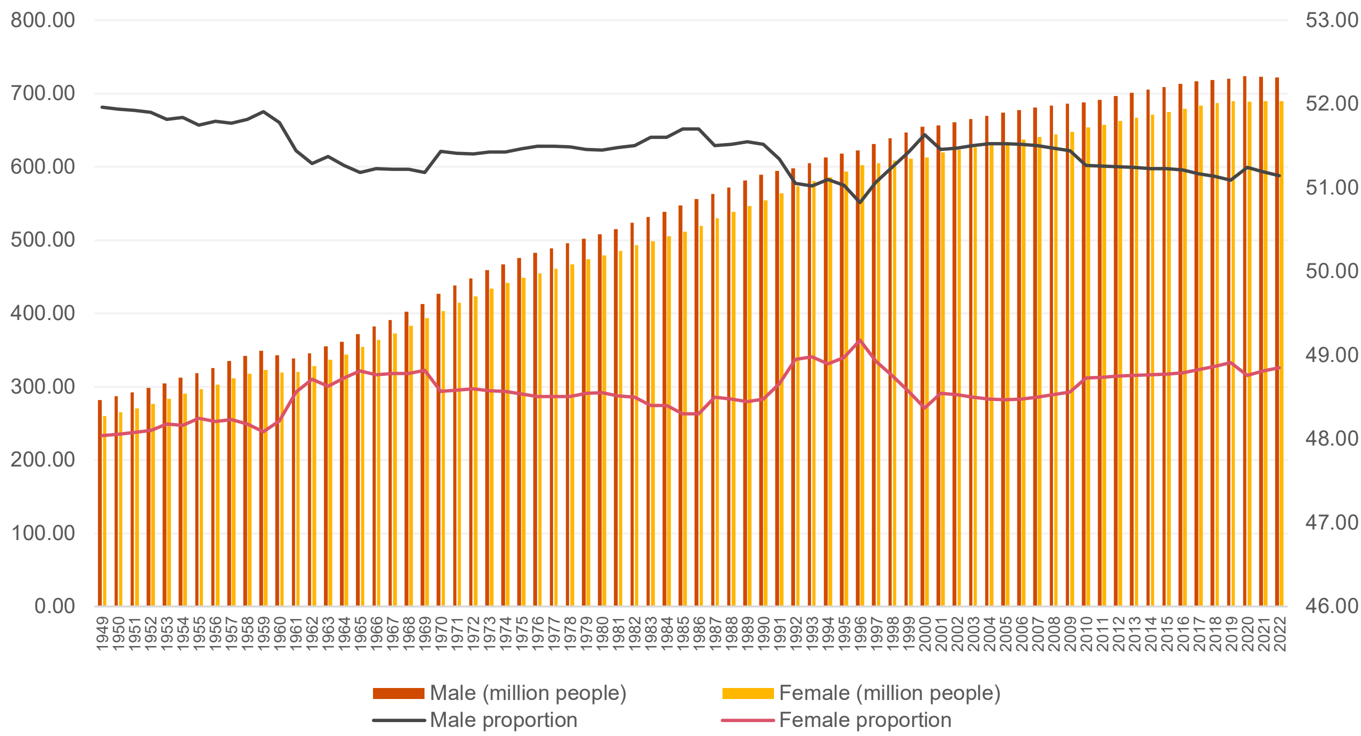
- In 2022, China's population saw a negative growth for the first time, occurring earlier than the forecasted year of 2025.
- The labour force, the number of 16 to 59 year olds, peaked in 2010, followed by a total decline of 45 million between 2010-2020 (from 939.68mn to 894.36mn). In the same period, however, the total number of migrant workers increased by over 43 million.
- The number of people that have completed higher education and secondary vocational education have increased substantially. At the end of 2022, the number of graduate students (including doctors), undergraduate and junior college students and students with secondary vocational education totalled 58.09mn.
- In recent years, there has been a sharp rise in China's overall labour productivity. While there is still a large gap between that of China and some developed economies, there is huge scope for improvement.
- China has a long way to go to reach the urbanisation level of developed countries, and its population of 133mn migrant workers will be the country's key driver in achieving that. However, the number of migrant workers may have reached its peak and labour shortages may become the norm.

China's total population is declining and the size of the country's labour force has also decreased

In 2022, China's national population decreased by 850,000 from 2021, marking the first negative annual growth in 61 years.

According to official data, as of the end of 2022, China's total population reached 1,412mn, with 9.56mn births and a birth rate of 6.77‰. With 10.41mn deaths and a death rate of 7.37‰, the natural growth rate was -0.60‰. There were 32.37mn more men than women. In terms of gender composition, the male population reached 722.06 million while the female population reached 689.69 million. With this, the sex ratio of the total population was 104.69 males to 100 females.

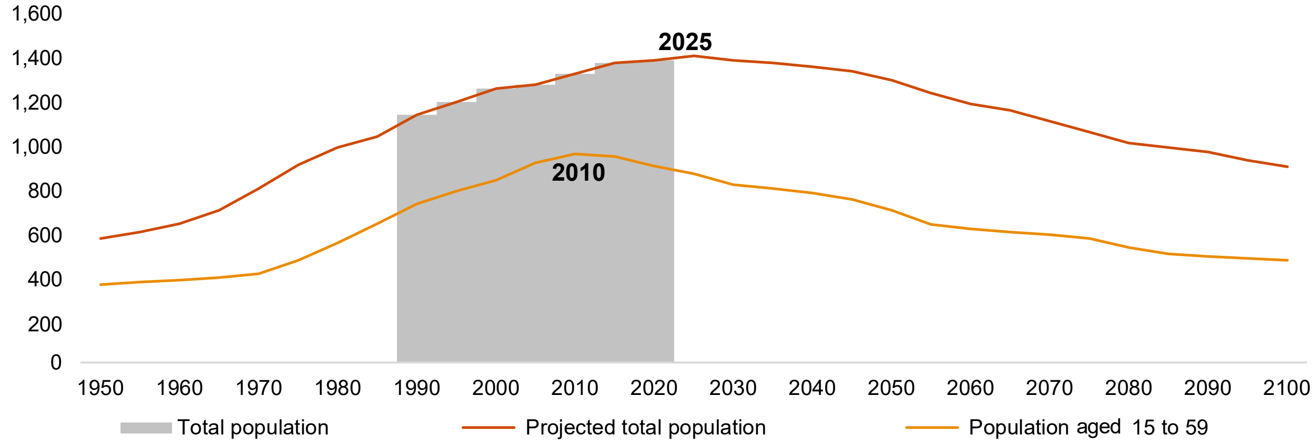
Gender population structure and its proportion



Source: Wind (National Bureau of Statistics)

The occurrence of a negative population growth in China was earlier than previously predicted for 2025. The main reason for the sharp decline is likely the impact the COVID-19 pandemic and uncertain economic prospect that weighed on birth rate.

Projected total population (Unit: million people)



Source: CAI Fang, Chinese Academy of Social Sciences 2021; National Bureau of Statistics; China Economic Quarterly Q2 2021; Business implications of the seventh national population census

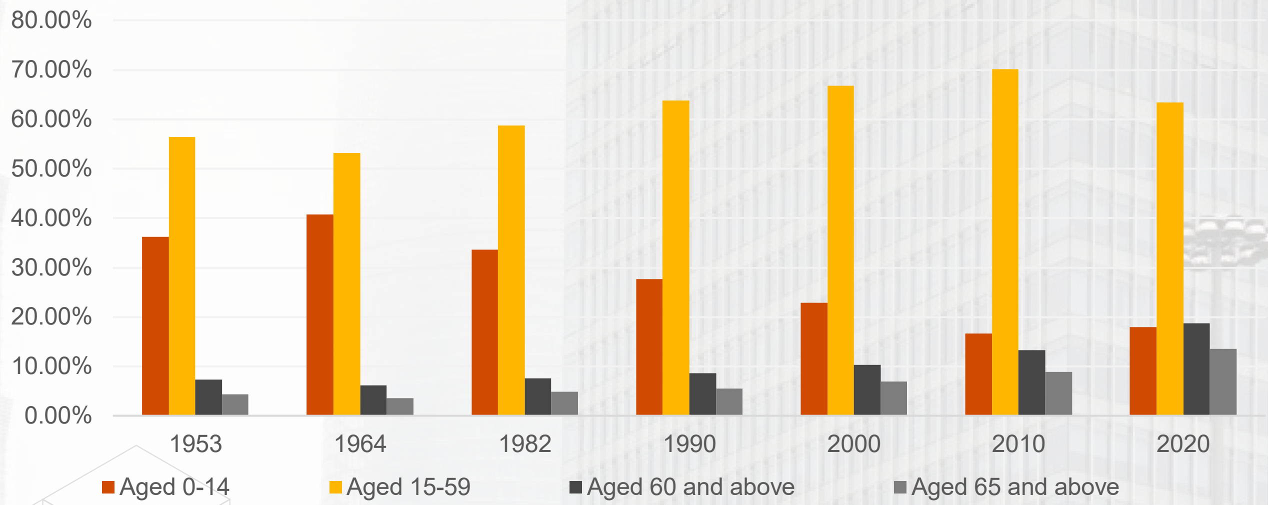
According to a report by the United Nations Population Fund, it is predicted that by mid-2023, India will surpass China to become the most populous country. However, due to the uncertainty of India's population data, the United Nations cannot determine a more precise timing when India's population will surpass China's.

The size of China's labour force, those aged 16 to 59, has been decreasing annually after peaking in 2010.

As of the end of 2022, the population aged 16 to 59 in China reached 875.56mn, accounting for 62% of the total population. At the end of 2020, these figures were 894.36mn and 63.35%, respectively. In 2019, before the outbreak of the pandemic, the same figures were 896.40mn and 64%. The size and proportion of the labour force to the total population have been declining continuously.

According to data from the 10-year census, China's labour force reached its peak at the end of 2010 with 939.68mn people aged 16 to 59, accounting for 70.14% of the total population.

The proportion of population by different age groups in the process of population census over the years

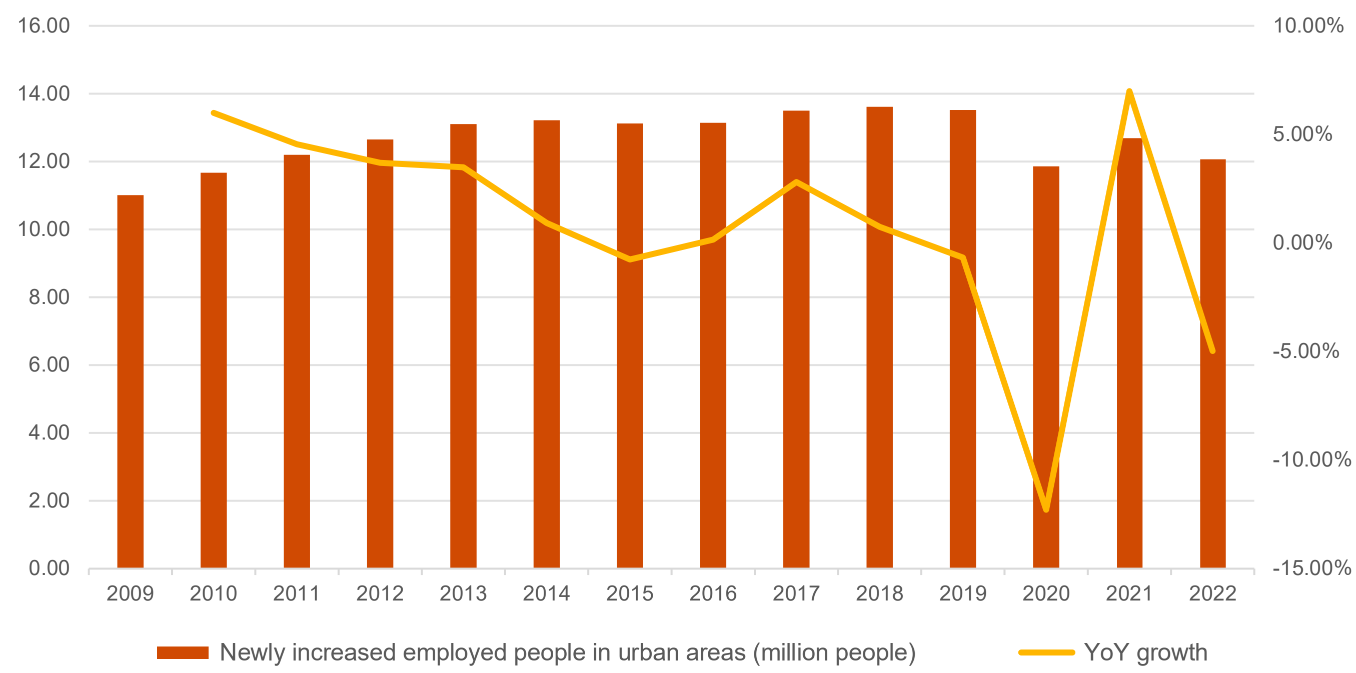


Source: National Bureau of Statistics

In terms of employment, although the size of China's labour force peaked in 2010, the number of people newly employed in urban areas reached a new high of 13.61mn in 2018, implying that new urban employment has also reached its peak.

Taking 2010 as an example, China's total population was approximately 1.34bn, with a labour force of around 939.68mn. The total number of employed individuals in urban and rural areas, including migrant workers, was approximately 790mn. Among them, the total number of migrant workers reached 242.23mn; at the time, this was calculated based on the sum of two components – migrant workers who worked outside their hometown for over six months in a year and local migrant workers who worked in non-agricultural industries within their own town or village for more over six months. A large number of migrant workers have lived and worked in cities for a long time, especially those born in the 1980s and 1990s. As they do not have a household registration (hukou) that's local to the city they work in, they are still counted as migrant workers.

Newly increased employed people in urban areas by the year end



Source: Wind (Ministry of Human Resources and Social Security of the People's Republic of China)

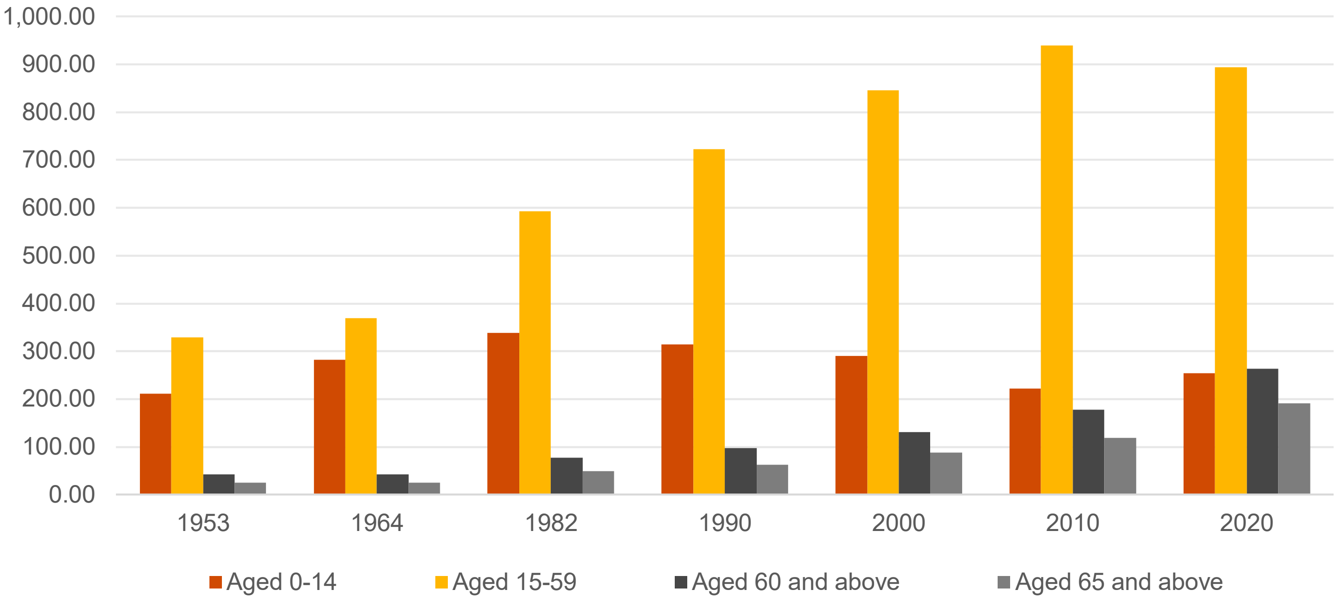
While the peak occurred in 2010, China's demographic dividend, though diminishing, is still evident; there is still a large surplus in the labour force, i.e. those unemployed, and the employment of rural labour force is still insufficient (with relative low employment participation).

Furthermore, in 2010, the difference between China's 9.4bn labour force and the employed population of 7.9bn was 150mn. Approximately two-thirds, about 94.65mn of those unemployed were students, including high school, vocational education, undergraduate and college students between the ages of 16 and 22, as well as graduate and doctoral students over the age of 22. The number of students aged 16 to 22 was approximately 92.57mn, and includes 6.62mn enrolled in undergraduate and college programmes and 22.32mn in vocational education. There were 24.27mn enrolled in regular high schools. The number of graduate students aged over 22 was 2.08mn.

Based on the aforementioned approximates, the unemployed labour force in China in 2010 reached around 55mn, accounting for 5.32% of the total labour force after excluding students. At the same time, many of the 242mn migrant workers did not work full-time unlike their urban counterparts.

By the end of 2020, China's total population grew to 1.41bn, but the size of the labour force decreased to 894.36mn, 45.30mn lower than that in 2010, accounting for 63.35% of the total population, down about 7% from 2010.

Number of people by different age groups in the process of population census over the years (Unit: million people)



Source: National Bureau of Statistics
*The population of each age group is calculated as a percentage of the total population

Meanwhile, according to a report (the Statistical Communiqué of Human Resources and Social Security Development of China 2020) released by the Ministry of Human Resources and Social Security, the total number of employed persons in China reached 750.64mn by the end of 2020. Based on this, approximately 143.72mn people in the country were unemployed. Among them, 103.57mn were students. Overall, nearly 40mn people were unemployed, accounting for 4.49% of the total labour force, excluding students. In addition, the total number of rural migrant workers in China increased to 285.6mn in 2020, an increase of over 43mn from 2010. This may be the main reason for the relatively stable labour force.

The proportion of rural migrant workers in the total rural population is 60.2%, much higher than the proportion of employed workers in the total urban population at 49.89%.

By the end of 2022, the total labour force in China had dropped to 875.56mn, with 733.51mn employed workers, which includes 295.62mn rural migrant workers.

It is worth noting that although the total labour force in China decreased by about 45mn from 2010 to 2020, the total number of rural migrant workers increased by over 43mn in 2020 and has since continued to expand moderately. In 2010, the total rural population was about 671.13mn, and rural migrant workers made up 242.23mn, accounting for approximately 36.09% of the total population. In 2022, the total rural population decreased to 491.04mn while the total number of rural migrant workers reached 295.62mn, accounting for 60.20% of the total population.

This means that more surplus labour from rural areas has been released, and more peasants are not only engaged in agricultural production, but also working locally or in other regions. There are multiple reasons behind this trend including poverty alleviation policies and economic development. More flexible employment opportunities, higher wages and improved material living standards have prompted rural migrant workers to seek more income.

In contrast, China's total urban population in 2022 was 920.71mn with 459.31mn employed workers, accounting for 49.89% of the total urban population. In contrast, rural migrant workers make up a much higher proportion of the total rural population at 60.2%.

Despite the difference in definitions of employed rural and urban works, the participation rate of the rural labour force in work is relatively high. With the continuous promotion of urbanisation and the decrease in China's total population, the rural population may also decrease, potentially leading to reduced number of rural migrant workers in the future.

On the economic impact of a negative population growth and labour force decline, Cai Fang, a population expert at the Chinese Academy of Social Sciences, has pointed out that the impact is mainly on the demand side, including exports, investment and consumption. In terms of exports, the decline in population leads to a labour shortage, which in turn reduces the competitiveness of labour-intensive products in export markets. In terms of investment, the decline in population leads to a slowdown in economic growth, weakened comparative advantages and reduced corporate investment. When the development of the real economy slows down, the demand for infrastructure investment will also weakens. With respect to consumption, the population is in effect the sum of consumers, and when the population itself grows rapidly, so will consumption, and vice versa. Changes to the age demographics of the population will also affect consumption, and as the population ages, the demand, ability, and inclination to spend will all decline.

Population education level and labour productivity have significantly improved

While Professor Cai Fang's views are supported by academic theory, the negative population and labour force growth will not reverse China's trend of sustained economic growth, nor will it affect the country's continued transformation and upgrade of its economy. It will also not hinder China from eventually becoming a developed economy that's led by technological innovation.

Another renowned Chinese economist and the President of the China (Shenzhen) Development Institute, Fan Gang, pointed out that the success of China's economic development over the past 40 years was not only due to its initial comparative advantages (the ***theory of comparative advantage***), such as cheap labour and resources, but more importantly, was due to its late-development advantages. By participating in international exchanges and introducing international knowledge, China has rapidly caught up with its international counterparts and made progress in various fields and industries. The ***theory of late-development advantage*** refers to the ability of less developed countries to achieve rapid, yet sustainable growth by learning, introducing, absorbing, and utilising existing knowledge and technology at a lower cost and with faster implementation speed.

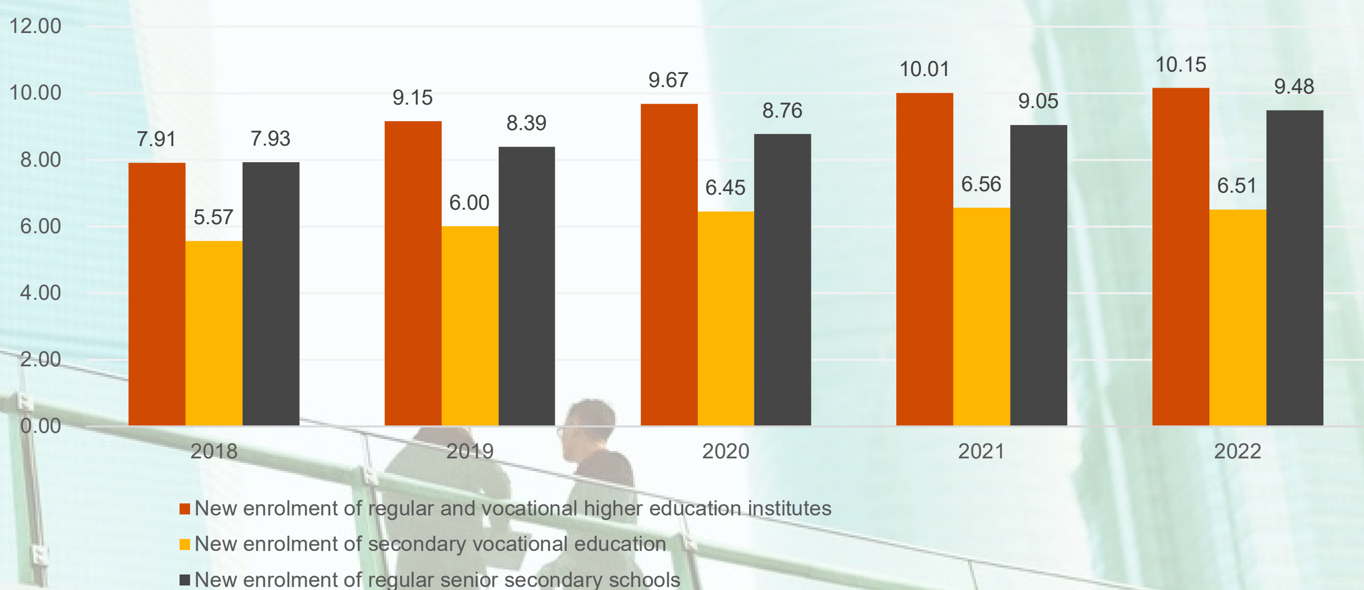
Therefore, China's future development will continue to rely on its late mover advantages and ultimately achieve a stage where high-tech industries intensive in human or knowledge capital will dominate. This is because the gap between less developed countries and developed countries ultimately lies in the level of science and technology, the gap in human capital, rather than population size, and the gap in knowledge structure and innovation capabilities. While population size is one of the many conditions for attracting foreign technology, China, despite its negative population growth, still has a sizable population.

The number of people with higher and secondary vocational education has significantly increased.

China deeply understands that nurturing talents through education is a key way to improve science and technology levels. As such, education is highly valued by everyone, from the Central Government to local governments and families.

In 1978, as China began to reform and open up, the total number of students in higher education institutions (including graduate, undergraduate, and junior college students) was around 850,000 and the number of students in secondary vocational education schools was around 880,000, bringing the total to 1.73mn, accounting for 0.2232% of China's population at that time.

Enrolment in education (2018-2022; unit: million people)

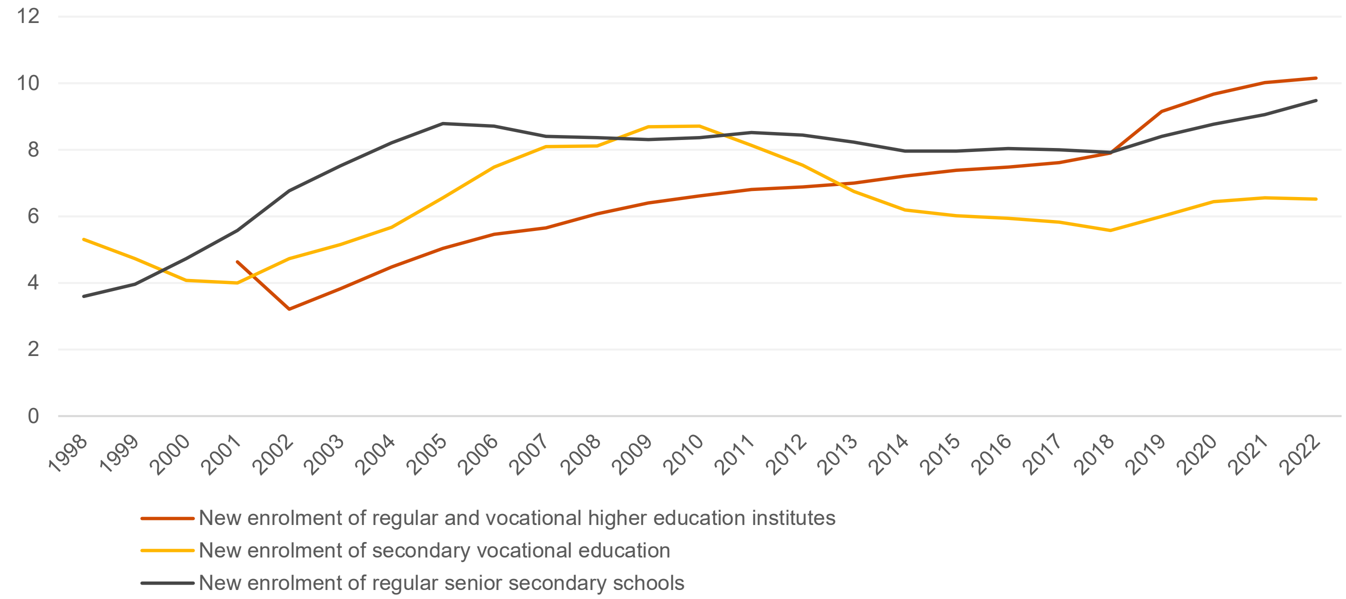


Source: Wind (Ministry of Education); National Bureau of Statistics

By the end of 2022, the number of graduate students (including doctoral students) in Chinese universities reached 3.65mn. 36.59mn students were completing their undergraduate and junior college qualifications and 17.85mn students undergoing secondary vocational education. The total number of students receiving higher and secondary vocational education in school reached 58.09mn, accounting for 4.11% of the total population.

In addition, according to statistics from the Ministry of Education, as of the end of 2021, the population in China pursuing higher education at any of its four levels – college diploma, bachelor's degree, master's degree, and doctoral degree – reached 240 million. The average length of education for those newly added to the labour force was 13.8 years. This has led to significant improvement in the quality structure of the labour force. China's gross enrolment ratio for higher education increased from 30% in 2012 to 57.8% in 2021.

Enrolment in education (1998-2022; unit: million people)



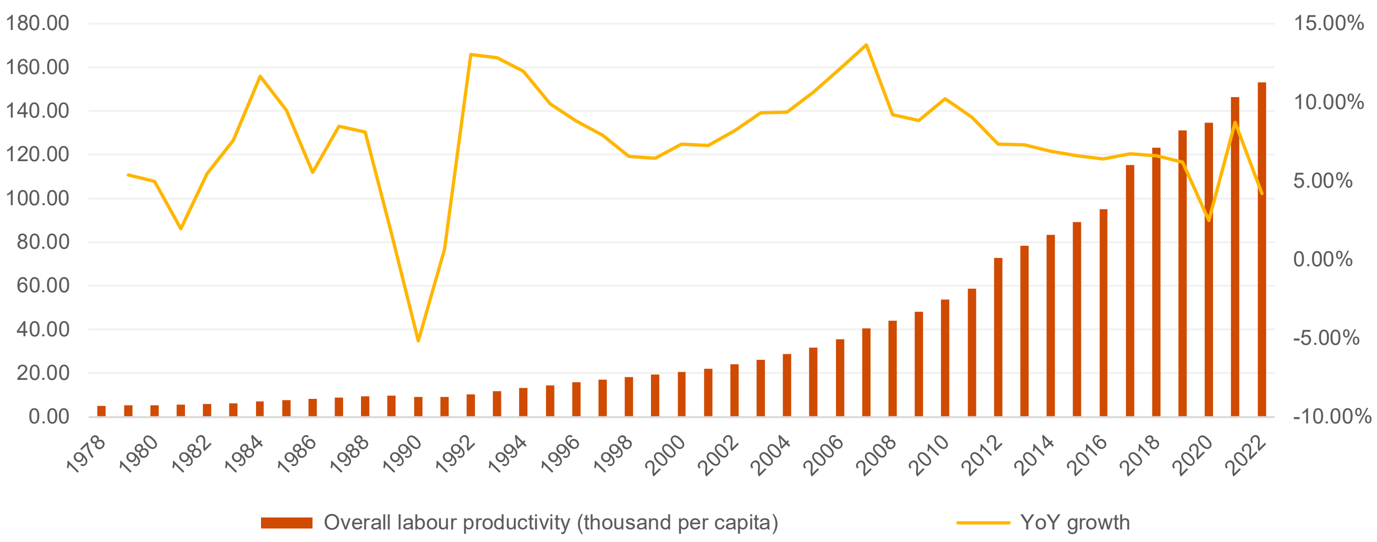
Source: Wind (Ministry of Education); National Bureau of Statistics

As of the end of 2021, universities in China have won over 60% of the three major national science and technology awards: the National Natural Science Award, the National Technology Invention Award, and the National Science and Technology Progress Award. Over 60% of the country's basic research and over 80% of the national natural science fund projects are undertaken by local universities. Universities have provided key technologies for critical areas such as high-speed rail, nuclear power, biological breeding, vaccine research and development, and national defence and military industry. They have also participated in the development of national projects such as supercomputers, Beidou satellite navigation system and Shenzhou series.

Overall labour productivity has increased significantly, with room remaining for further growth.

The overall labour productivity indicator reflects the improvement in labour allocation efficiency and human capital level, as well as the average productivity of all workers and the improvement in technology equipment and management systems. In 2022, China's overall labour productivity was 152,977 yuan per person, an increase of 4.2% from the previous year, where the overall labour productivity is GDP divided by the average number of employees in a year, calculated at 2020 prices.

Overall labour productivity

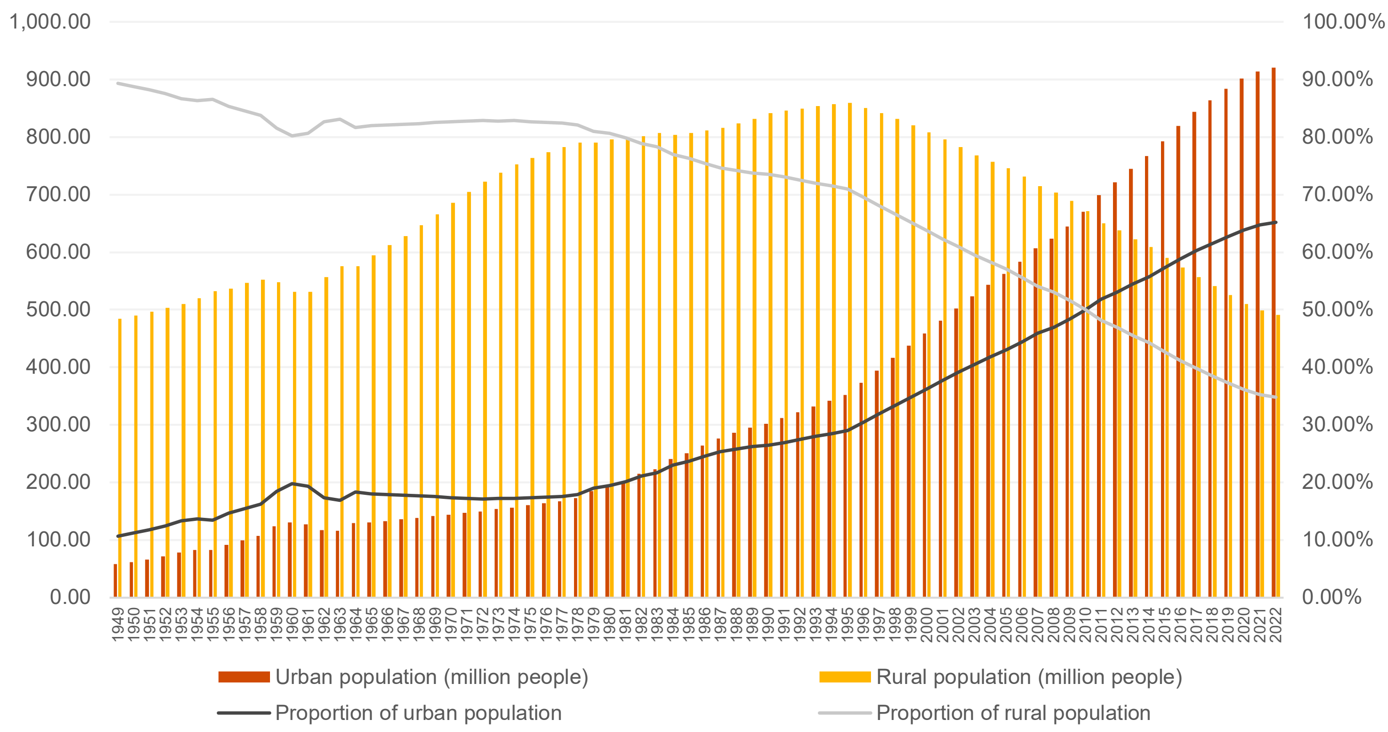


Source : Wind (National Bureau of Statistics)

There is still an urbanisation gap between China and developed countries, and its 133mn migrant worker population will be the key driver

Compared with the urbanisation rate of over 80% in developed countries, where OECD members had a rate of 83% in 2021, China's urbanisation rate was 65% at the end of 2022. This indicates that there is still significant room for development driven by the population segment of 172mn migrant workers who have moved out from rural areas. As mentioned, the rural population in China is still at 491mn, of which, the total number of migrant workers is 295.62mn, which includes 123.72mn local migrant workers and 171.9mn migrants working in areas outside their hometown.

Urban and rural populations and their proportions

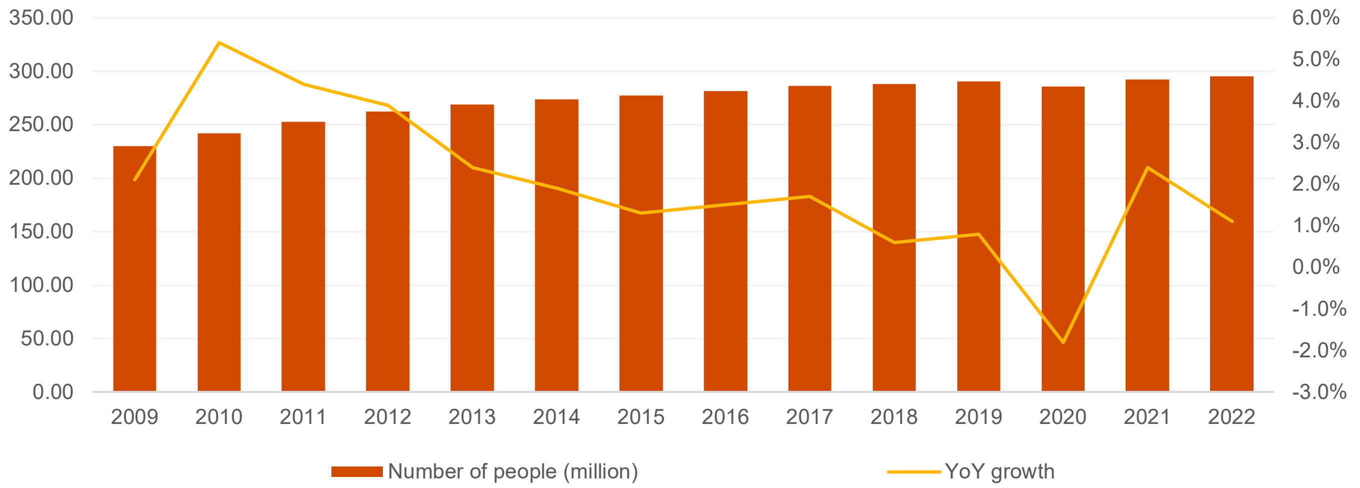


Source : Wind (National Bureau of Statistics)

China's urbanisation has developed rapidly in recent years, especially with measures such as reforms to the hukou system, which has effectively promoted the mobility of the rural population to urban areas. According to data from the Ministry of Public Security, during the 'Thirteenth Five-Year Plan' period of 2016 to 2020, over 100mn agricultural migrant workers were granted urban citizenship (hukou), which increased China's urbanisation rate by approximately 10%. In the future, if the 133mn migrant workers who already reside in urban areas (not including some immediate family members, i.e., children and spouses) are allowed to register as local residents, it will further increase the urbanisation rate by 10-15%. With that, China's urbanisation rate will be able to catch up with that of OECD countries.

Reforms in national policies have eliminated some, but not all, institutional barriers for migrant workers that have kept them from gaining hukou in the cities where they reside. The '14th Five-Year Plan' for new urbanisation implementation, issued by the National Development and Reform Commission in 2022, stipulated relaxing residency restrictions except for a few super large cities, where the permanent population is greater than 10mn, and implementing a registration system based on the place of habitual residence. The plan also completely lifted the residency restrictions for cities with a permanent population under 3mn, ensuring that migrant workers, local or otherwise, are treated equally in terms of entering and residing in urban areas.

Scale and growth rate of rural migrant workers



Source: Wind (National Bureau of Statistics)

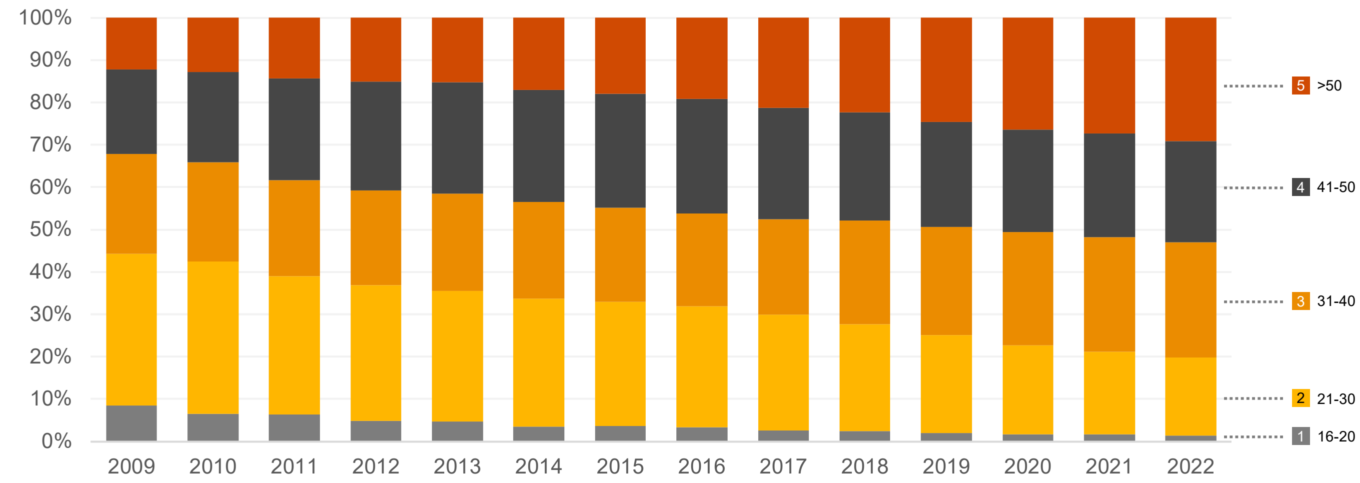
In addition, in 2022, the number of rural migrant workers in the country reached a high of 296mn with signs of peaking, indicating that labour shortages may become the norm.

As mentioned earlier, in 2022, employed migrant workers accounted for 60.2% of the total rural population. According to data from the 2020 population census, the labour force accounted for 63.35% of the total population. That is to say, only 3% of the rural labour force is unemployed, meaning that there is almost no surplus labour resource in rural areas. In the future, the trend of labour shortages in China may become increasingly apparent, especially in industries that employ more migrant workers, where labour costs and shortages will become more pronounced.

According to the '2022 Survey Report on Migrant Workers', among all migrant workers, males accounted for 63.4%, and females accounted for 36.6%. Among them, women accounted for 31.1% of migrant workers who work outside their hometown and 41.7% of local migrant workers. Unmarried workers accounted for 17.4%, workers with spouses accounted for 79.6% and widowed or divorced workers accounted for 3%.

The average age of migrant workers is 42.3 years, but there is a significant age difference between those who work locally and those who work outside their hometown. This indicates that more migrant workers choose to stay in their hometown as they grow older. In terms of age structure, those aged 40 and below accounted for 47% of migrant workers, those aged 41-50 accounted for 23.8%, and those aged above 50 accounted for 29.2%. In terms of the employment location for migrant workers, the average age of local migrant workers is 46.8 years, and those aged 50 and above accounted for 41%; the average age of migrant workers who work outside their hometown is 37.4 years, and those aged 50 and above accounted for 16.4%.

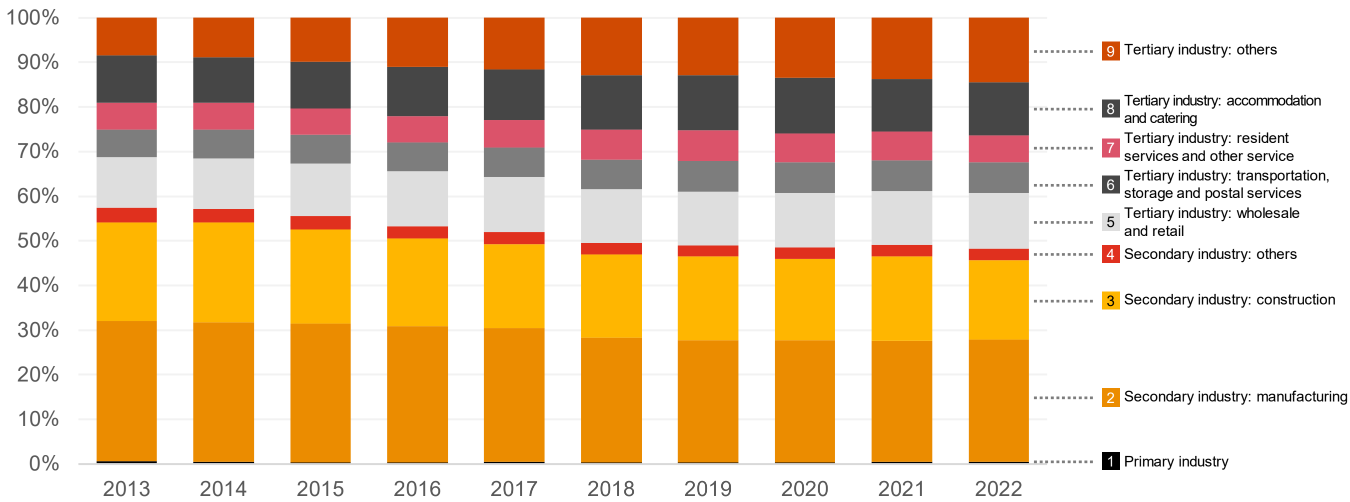
Age composition of migrant workers



Source: Wind (National Bureau of Statistics)

The education level of migrant workers is generally lower, but the proportion of those with college degrees or higher qualifications is increasing. Among all migrant workers, 0.7% have never attended school, 13.4% have completed primary school, 55.2% have completed junior high school, 17% have completed senior high school, and 13.7% have a college degree or higher qualification. Migrant workers with higher education levels tend to work outside their hometown, with 18.7% of non-local migrant workers having college degrees or higher qualifications, compared to 9.1% of local migrant workers.

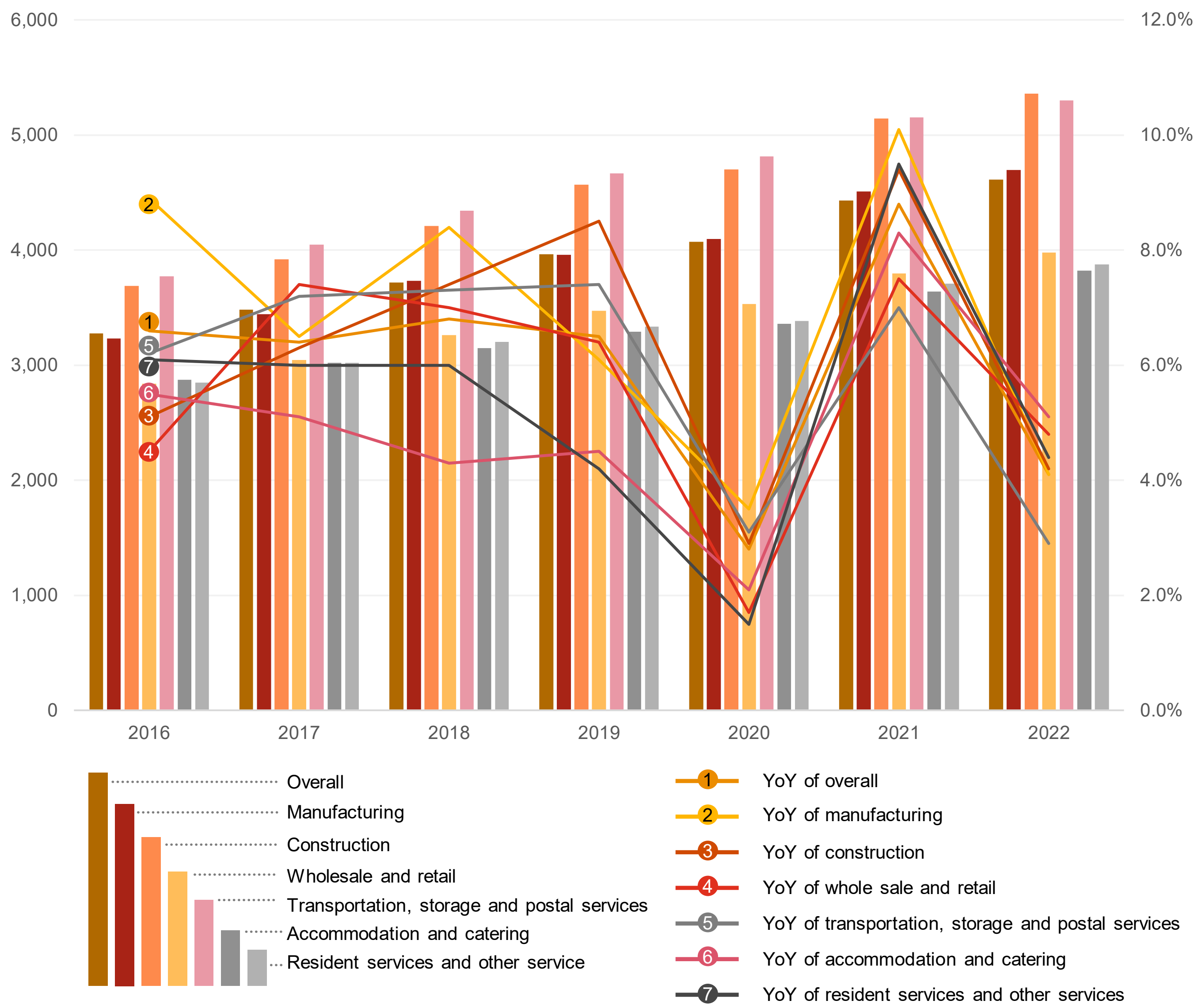
Distribution of employment industries for rural migrant workers



Source: Wind (National Bureau of Statistics)
*The other industry for the secondary and tertiary industry is calculated by PwC

Over half the migrant workers are employed in the tertiary industry, with the six major employment sectors including manufacturing, construction, wholesale and retail, transportation and warehousing, postal services, and accommodation and catering. In terms of industries, 51.7% of migrant workers are engaged in the tertiary industry, while 47.8% are engaged in the secondary industry. The average monthly income of migrant workers is 4,615 yuan. Among them, the average monthly income of non-local migrant workers is 5,240 yuan, while that of local migrant workers is 4,026 yuan. The six main industries employing the most migrant workers are manufacturing (27.4% with average monthly income of 4,694 yuan), construction (17.7% with average monthly income of 5,358 yuan), wholesale and retail (12.5% with average monthly income of 3,979 yuan), transportation and warehousing (6.8% with average monthly income of 5,301 yuan), accommodation and catering (6.1% with average monthly income of 3,824 yuan), and residential services, repairs, and other services (11.9% with average monthly income of 3,874 yuan).

Average monthly income and growth rate of rural migrant workers by industry (Unit: RMB yuan)



Source: Wind (National Bureau of Statistics)

In summary, the negative population growth and the shrinking labour force, coupled with an aging population are unfavourable factors for China's long-term economic development. However, the large population base and continuous growth are not the only factors contributing to China's economic development. For example, many developing countries have a fast-growing population but are lagging in economic development, while developed countries have slow population growth but maintain long-term prosperity. Despite the negative growth, China's large population size will remain an advantage for years to come.

The difference between China and developed countries lies in the gap in scientific and technological levels, human capital, knowledge structure, and innovation capability, rather than population size. Therefore, as Professor Fan Gang pointed out, China's future development will continue to rely on its late-development advantage which are vital to ultimately achieving a dominant position in knowledge-intensive high-tech industries. From this perspective, the education level and quality, global competitiveness, and mastery of leading scientific and technological advancements of the population are far more important than its size. Looking at the global experience of various countries' development, the population and labour force sizes are not necessarily positively correlated with a country's economic development level. Therefore, negative population growth and a shrinking labour force alone will not become obstacles for China as it pursues becoming a leading technological innovation-driven developed economy in the future.

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