

China Economic Quarterly Q4 2022

China's GDP growth slowed to 2.9% in Q4 to an overall 3% growth in 2022, eyeing a full recovery in 2023.

March 2023

Major economic indicators p2/ Policy updates p11/ Hot topic analysis p13



Content

1 Major economic indicators 2

Total GDP reached 121 trillion yuan with 3% growth in 2022 2

Total fixed asset investment reached 57 trillion yuan, a 5.1% increase 4

Total real estate investment reduced by 10% to 13 trillion yuan 5

PMI continued to fall in Q4 6

Industrial added values grew 3.6% in in 2022 7

Total retail sales of consumer goods decreased by 0.2% to 44 trillion yuan 8

Imports and exports increased by 7.7% to 42 trillion yuan 9

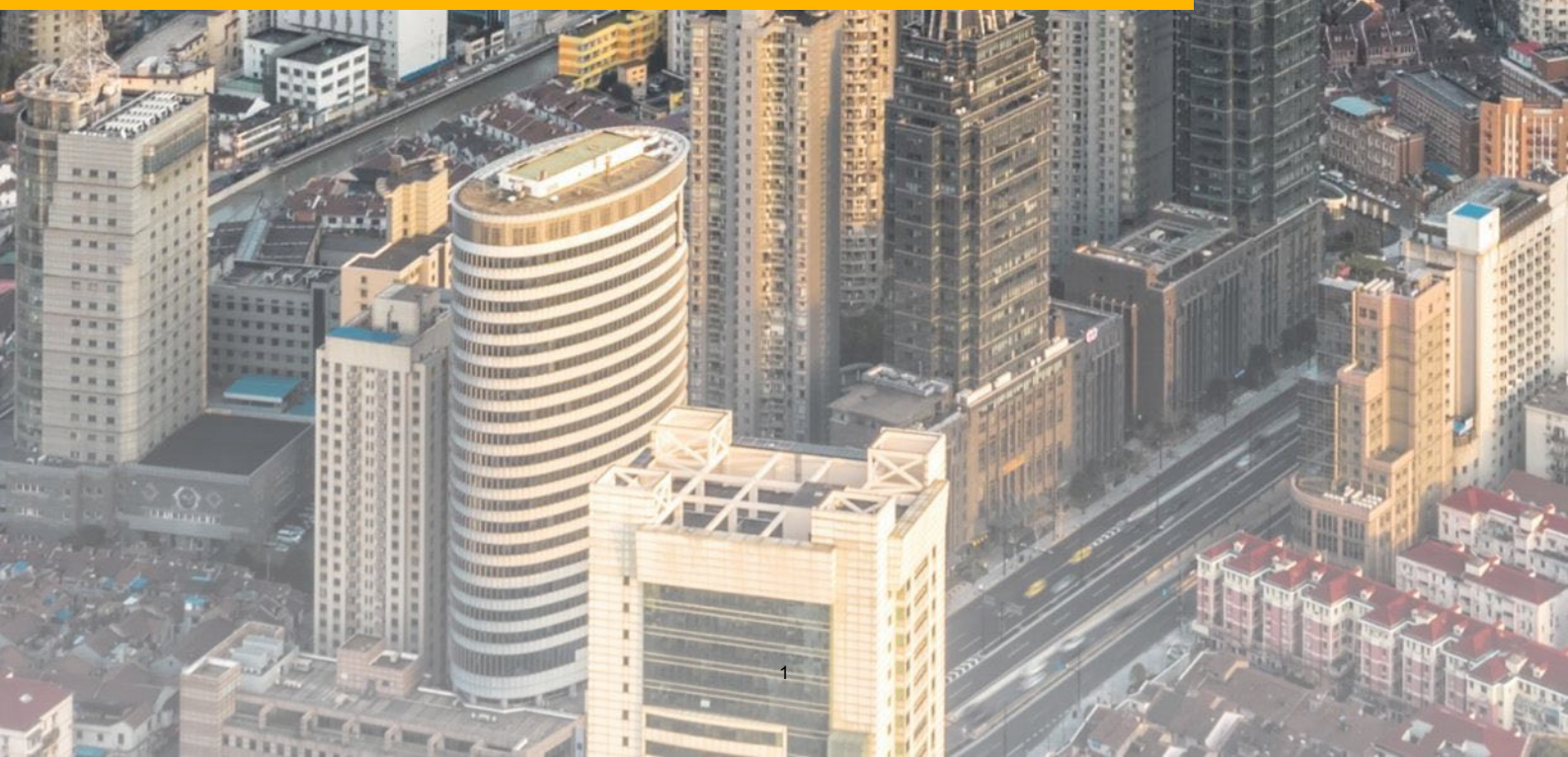
PPI dropped to -0.7% and CPI went up 1.8% in December 10

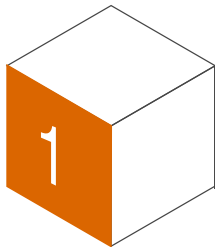
2 Policy updates 11

Growth of aggregate financing to the real economy reached 9.6% 11

Fiscal revenue decreased by 0.6% while fiscal spending grew by 6.1% 12

3 Hot topic analysis: China's consumption trend and economic growth 13





Major economic indicators

China's economic growth continued to decelerate in the fourth quarter. Growth slowed to 2.9% year-on-year (YoY) primarily due to the lasting impacts of the COVID-19 control policy that was in place for the majority of last year. The rate was below market expectations and a drag on 2022 GDP growth.

During the year, China's GDP grew by 4.8% YoY in the first quarter, 0.4% in the second, 3.9% in the third and 2.9% in the fourth. Aside from Q1, COVID-19 significantly influenced economic growth during the year. On a quarterly basis, GDP in the fourth quarter plateaued following the third quarter.

As a result, China's GDP grew 3% to reach 121.02 trillion yuan, or over 18 trillion US dollars. For 2022, the United Nations Conference on Trade and Development (UNCTAD) expected the world economy to grow by 2.5%. China's GDP grew at an annual compounded rate of 4.5% over the past three years with 2019 as the base period.

The moderate economic growth also greatly affected the market value of companies and the wealth of entrepreneurs. The total wealth of those on the 2022 China's 100 Richest list by Forbes fell by nearly 40%. The combined wealth of Chinese entrepreneurs in the 2022 list fell to 907 billion from 1.48 trillion US dollars the year prior, marking the biggest drop in the 20+ years of history of Forbes' Mainland China survey.

In 2022, the surveyed urban unemployment rate fluctuated. The average surveyed urban unemployment rate in Q3 was 0.4 percentage points lower than Q2. The rate then rose in the fourth quarter, to 5.7% in November.

The outlook of the employment situation of the urban youth labour force aged 16-24 was gloomy but has gradually improved. Through supporting policies, the respective unemployment rate gradually dropped to 16.7% in December, 3.2 percentage points lower than its peak in July.

For 2023, as economic recovery is set to accelerate, the job market is also anticipated to improve significantly from 2022 while incomes of flexible employment and self-employed groups will also see signs of recovery. Meanwhile, the youth unemployment rate will remain high as the number of college graduates will reach 11.58 million in 2023.

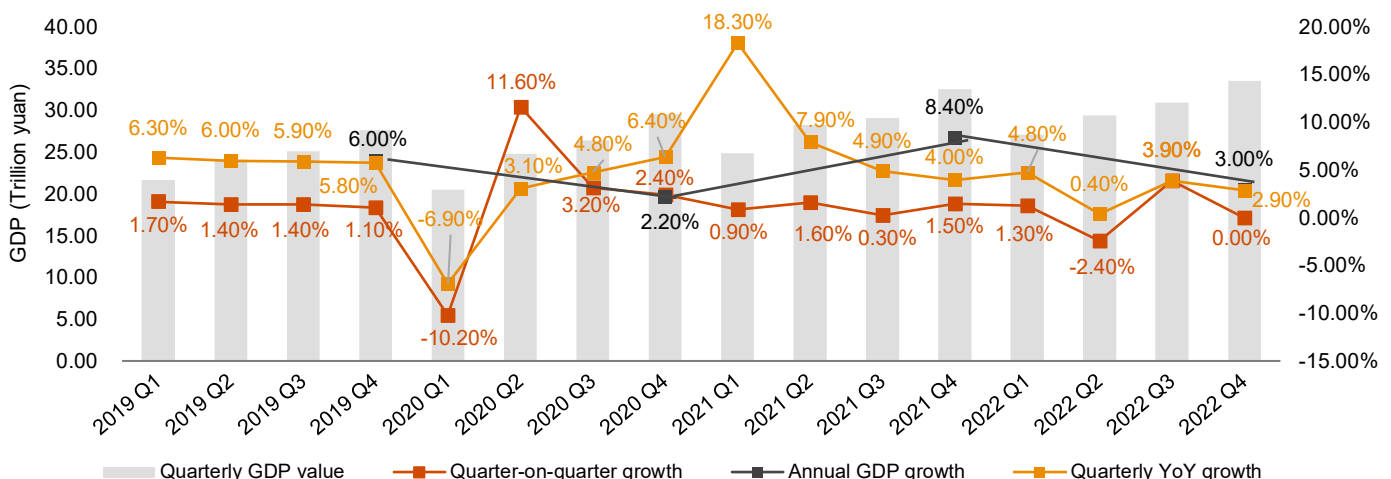
Despite this, China's working-age population is decreasing as the aging population continues to grow. Compared to 2021, the 16-59 working-age population decreased by 6.66 million, or 0.4 percentage points. At the same time, the population of those aged 60 and above increased by 12.68 million, a 0.9 percentage point increase. The population aged 65 and above increased by 9.22 million, or 0.7 percentage points.

While China's economy is expected to recover in 2023, the slowdown of global economic growth will give way to a more challenging external environment. As such, the International Monetary Fund (IMF) forecasted global economic growth to slow to 2.9% in 2023.

Based on the data released by local governments, China's GDP growth target for 2023 is likely to around 5%. Given that China is still in a period of relatively rapid development, in spite of the current circumstances, raising the macro leverage ratio will not have much impact on China's economic health as long as a reasonable economic growth rate is maintained in the future.

Among the a number of challenges that China may face in 2023 as its economy reopens, the first is the weak global economic outlook in 2023, affecting the demand for Chinese goods and adding pressure on China's import and export sector. In addition, it should be noted that whether the conflict between Russia and Ukraine escalates. Besides, the US Federal Reserve and the European Central Bank are likely to continue raising interest rates, which in turn will have an adverse impact on the global economy and financial markets, and to some extent, affecting the pace of China's economic recovery.

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 2022, the outputs of the primary, secondary and tertiary industries were 8.83, 48.32 and 63.87 trillion yuan respectively. The corresponding growth rates were 4.1%, 3.8% and 2.3% YoY.

More specifically, the primary industry contributed 0.3% to economic growth, the secondary industry, 1.4%, and the tertiary industry, 1.3%. The added value of the three industries accounted for 7.3%, 39.9% and 52.8% of the GDP respectively. Compared to 2021, the contribution of the primary and secondary industries to GDP increased by 0.1 and 0.6 percentage points respectively, while that of the tertiary industry decreased by 0.7 percentage points.

In the fourth quarter, China's GDP reached 33.55 trillion yuan, up 2.9% from the same period last year at constant prices, slowing from Q3. In particular, the quarterly value added of the primary, secondary and tertiary industry was up by 4%, 3.4% and 2.3% respectively and each sector accounted

for 9.98%, 39.52% and 50.49% of total GDP respectively in Q4.

In 2022, during the height of the pandemic, while consumption took a hit, it still played an essential role in supporting economic development. Final consumption expenditure exceeded 60 trillion yuan, accounting for over 50% of GDP and contributing 32.8 percent to economic growth, boosting GDP by 1 percentage point.

Investment, especially state and state-owned enterprise (SOE) investment, played a key role in stabilising the economy. The construction of infrastructure projects accelerated and related investment saw steady growth. In 2022, total capital formation contributed 50.1% to China's economic growth, boosting GDP by 1.5 percentage points. In Q4, total investment continued to drive economic growth, with gross capital formation contributing 3.9 percentage points to GDP growth.

Despite the complex international environment, net exports grew rapidly. In 2022, net exports of goods and services contributed 17.1% to economic growth and 0.5 percentage points to GDP growth. However, in Q4, due to the contraction of external demand, net exports of goods and services dragged GDP down by 1.2%.



GDP composition



Total fixed asset investment reached 57.21 trillion yuan in 2022, increasing 5.1% YoY. To stabilise economic growth following COVID-19, China has introduced a number of policies to support investment. As a result, investment in fixed assets grew steadily. These measures include accelerating the issuance and use of local government special bonds, as well as promoting the construction and upgrading of major projects. From October to December, fixed asset investment saw a monthly rise of 5.8%, 5.3% and 5.1%.

For 2023, China is expected to pay more attention to maintaining policy stability and optimising the supply side economics by increasing investment. In particular, China will promote the development of private enterprises, activate private investment, expand effective investment, and promote steady economic and social development. At the same time, the domestic economy is expected to recover, along with the further expansion of fixed asset investment.

More specifically, **by ownership**, private investment reached 31.01 trillion yuan in 2022, an increase of 0.9%. In contrast, state-owned investment rose by 10.1%.

Furthermore, fixed asset investment from Hong Kong SAR-, Macao SAR- and Taiwan-owned companies increased by only 0.2% in 2022. Fixed investment of foreign-owned enterprises continued to decline by 4.7%.

According to the Ministry of Commerce, on the basis of double-digit growth in 2021, foreign investment in 2022 continued to grow steadily, exceeding 1.2 trillion yuan for the first time, up 6.3% YoY. The scale of foreign investment reached a record high while the country remains one of the top investment destinations globally.

By sector, fixed asset investment of the primary, secondary and tertiary industry increased by 0.2%, 10.3%, and 3% in 2022 to 1.43, 18.4 and 37.38 trillion yuan respectively.

By industry, within the secondary industry, the industrial sector went up 10.3%. In 2022, investment in mining increased by 4.5%, while investment in the production and supply of electricity, gas and water rose by 19.3%.

Fixed asset investment in the manufacturing sector rose by 9.1% while the growth rate was 4 percentage points higher than total fixed asset investment. Within the manufacturing sector, investment in electrical machinery and equipment

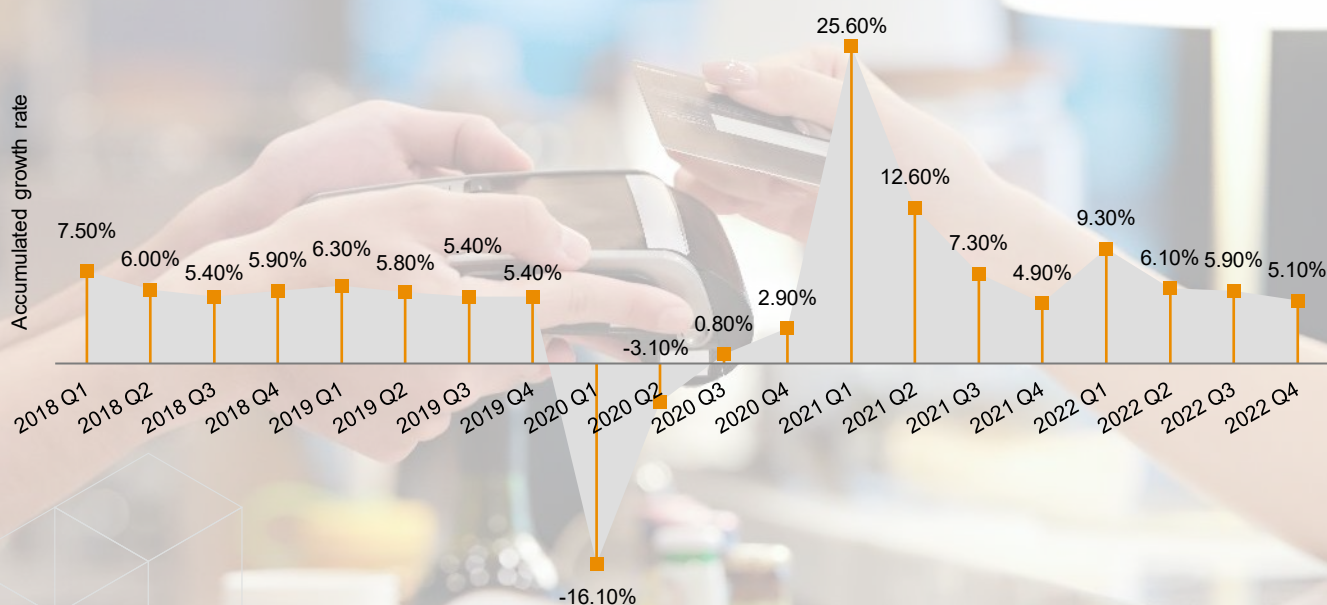
manufacturing grew the most, by 42.6%. Other sub-sectors that maintained a fixed asset investment rate of over 15% include chemical fibre manufacturing (18.8%); food processing (15.5%); nonferrous metal smelting and rolling (15.7%); manufacturing of computers, communications and other electronic equipment (18.8%); wine, beverage and refined tea manufacturing (27.2); and textile, clothing and apparel (25.3%).

In the tertiary industry, infrastructure investment, excluding production and supply of electricity, gas and water, increased by 9.4%, 9 percentage points higher than the previous year. Within which, investments in water conservancy management and public facilities management increased by 13.6% and 10.1% respectively.

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

Lastly, in 2022, investment in high-tech industries increased by 18.9% YoY, 1.8 percentage points higher. Among them, investment in high-tech manufacturing and high-tech services increased by 22.2% and 12.1% (4.2 percentage points higher YoY) respectively.

Fixed Asset Investment



Total real estate investment

contracted by 10% in 2022, reaching 13.29 trillion yuan. The total investment in residential buildings was 10.06 trillion yuan, down 9.5%.

As the real estate industry is closely linked to a wide range of economic activities, the substantial decline of real estate investment had significant impact on the national economy. According to the National Bureau of Statistics, real estate and related industries account for approximately 13-14% of China's total economic output. In 2022, the added value of the real estate industry decreased by 5.1% YoY. Affected by the downturn of the real estate market, the 10% decline in real estate development investment dragged down fixed asset investment by 2.7 percentage points. Private fixed asset investment grew by 0.9%, with the slowdown stemming from the industry downturn. Private investment accounts for around 80% of real estate investment. As such, the decline in real estate development investment had a clear impact on private investment.

To stabilise the economy, China introduced a series of policies to revive its real estate market. As a result, in December, the decline of real estate-related indicators eased. The decline of real estate investment fell by 7.7 percentage points month-on-month (MoM). The decline of commercial housing sales area, sales volume, funds in place, new housing construction area and other indicators also eased by

varying degrees. The real estate market is expected to stabilise in 2023 as relevant policies begin to take effect.

In addition to investment, nearly all the other major indicators were negative in 2022. Meanwhile, the housing inventory, floor space of commercial housing ready for sale, including residential and commercial buildings, also increased by 10.5%.

More specifically, the national housing climate index continued to decline throughout the year from 94.86% in September to 94.35% in December, a further reduction from 100.28 in December 2021.

The total sales value of all properties reached 13.33 trillion yuan, a decrease of 26.7% YoY in 2022. Among all properties, sales of residential properties dropped by 28.3%. In addition, the sales area or floor space of all properties was 1.36 billion square meters, down 24.3%.

In December, the prices of newly built properties in tier one cities of Beijing, Shanghai, Guangzhou and Shenzhen increased by 2.5% YoY. Prices of resale residential properties increased by 0.6%. At the same time, housing prices of non-tier one cities declined. In tier two cities, prices of newly built properties declined by 1.1% YoY in December while prices of resale properties decreased by 3.2%. In tier three cities, prices of newly built and resale properties fell by 3.9% and 4.8% respectively.

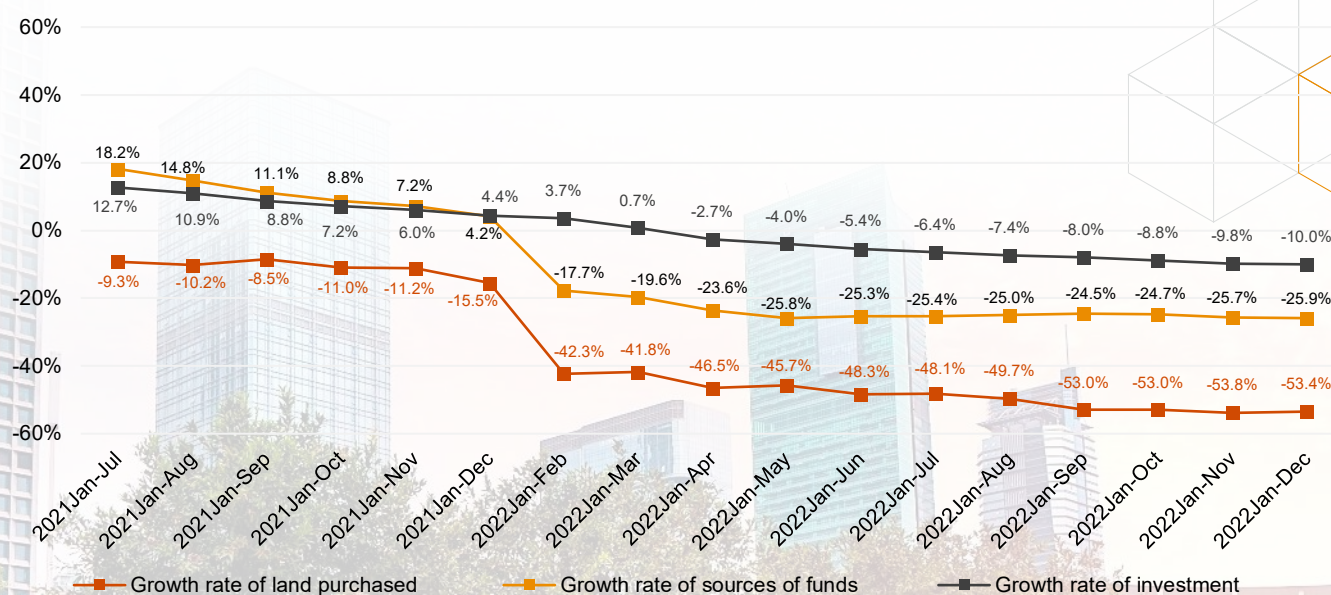
In 2022, the funds for real estate development enterprises reached 14.9 trillion yuan, a contraction of 25.9% YoY. More specifically, 5.29 trillion yuan was generated from self-raised funds, a 19.1% decrease. Deposits and prepayments accounted for 4.93 trillion yuan, a 33.3% decrease. Personal mortgage loans and domestic bank loans contributed 2.38 and 1.74 trillion yuan to the total funds, a decrease of 26.5% and 25.4% respectively. Many additional indicators declined in 2022 including:

- Total value of land transactions (final amount in land use rights transactions by developers) shrank by 48.4% to 917 billion yuan (2021: 2.8% increase to 1.78 trillion yuan);
- Land acquisition area, also known as volume of land purchased, contracted by 53.4% (2021: 15.5% decrease);
- Floor space of buildings, including residential and commercial buildings, at the start of construction decreased by 39.4% (2021: 11.4% decrease); residential space decreased by 39.8%.

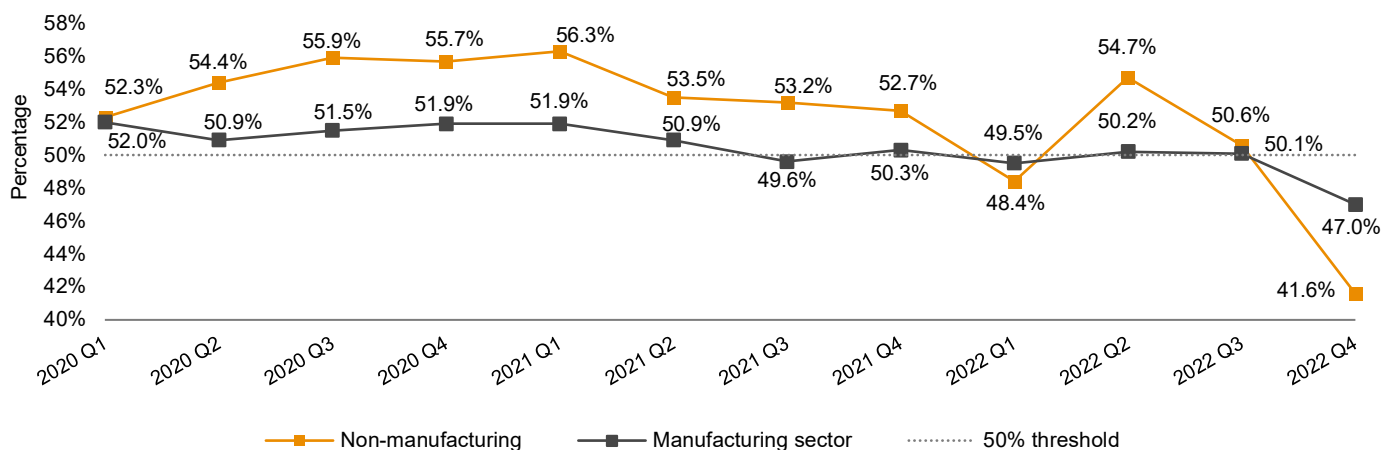
Additionally, in 2022:

- Floor space of completed residential buildings dropped by 15% (2021: 11.2% increase);
- Floor space under construction decreased by 7.2% (2021: 5.2% increase).

Growth rates in real estate



Purchasing Managers' Index



China's Purchasing Managers' Index (PMI) for the manufacturing sector

continued to fall in Q4 – 49.2%, 48.0% and 47.0% from October to December. In December, it was 1 percentage point lower MoM, indicating that the business environment for the manufacturing industry declined again.

In December, the five sub-indexes that constitute the manufacturing PMI were all below the critical level of 50%:

- The production index was 44.6%, down 3.2 percentage points MoM, indicating manufacturing production decline;
- The new orders index was 43.9%, down 2.5 percentage points MoM, cooling demand in the manufacturing market;
- The raw materials inventory index was 47.1%, up 0.4 percentage points MoM, indicating that the decline in major raw materials stock in the manufacturing sector narrowed;
- The employment index stood at 44.8%, down 2.6 percentage points MoM, indicating reduced employment by manufacturing companies;
- The supplier delivery time index was 40.1%, down 6.6 percentage points MoM, indicating that manufacturing materials suppliers are taking longer to deliver.

The relatively sharp drop in the PMI sub-indexes was a reflection of the tough business environment the

manufacturing industry faced as a result of COVID-19 control measures in 2022.

Besides manufacturing PMI, in December, the non-manufacturing business activity index was 41.6 percent, down 5.1 percentage points MoM, much lower than the critical point of 50%. The composite PMI output index declined to 42.6%, down 4.5 percentage points, indicating a slowdown in overall production and business activities.

Furthermore, among the seven related indexes of manufacturing PMIs, only purchasing quantity index stood slightly above the critical point of 50%.

In terms of enterprise size, the PMIs of large, medium and small enterprises were 48.3%, 46.4% and 44.7% respectively, down 0.8%, 1.7% and 0.9% MoM, all below the critical point of 50%. It is rare for the PMI of large enterprises to fall below such point.

Non-manufacturing PMI decreased to 41.6% in December, down 5.1 percentage points MoM, indicating that the business environment for the non-manufacturing sector continued to decline. Its PMI measure was 46.7% in November and 48.7% in October.

Business conditions in the service sector continued to fall due to the then-effective COVID-19 control measures. In December, according to survey by National Bureau of Statistics, 61.3% of the service companies said they were affected by the pandemic, up 10 percentage points MoM. As a result, the business activity index fell to 39.4%,

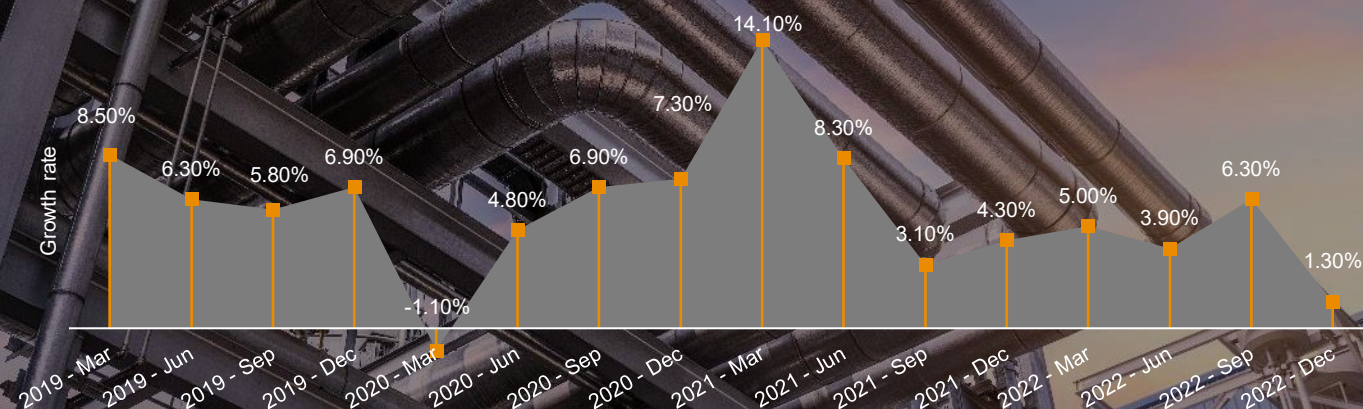
down 5.7 percentage points MoM, with the service sector becoming significantly less active.

In terms of industries, the construction business activity index was 54.4% in December, thanks to strong investment in infrastructure and other projects. Within which, the business activity index of civil engineering and construction industry was 57.1% and was above the critical point of 50% for 11 consecutive months. This indicated that civil engineering and construction enterprises conducted relatively fast construction under the drive of various policies and measures to promote the construction of major projects.

The business activity index of air transport, telecommunications, radio, television and satellite transmission services, monetary and financial services was above 52% in December. The business activity index of retail, road transport, accommodation, catering and residential services was lower than 35%.

Finally, following an improvement in China's COVID-19 situation, and the adjustments to its prevention and control policies, the manufacturing and services PMI is expected to see a large rebound in Q1 of 2023. With the gradual stabilisation of the Chinese economy, a similar sharp drop in multiple PMI indicators as seen in Q4 of 2022 will probably not happen in 2023 provided that there is no unexpected shake up.

Industrial Added Values



Growth of **Industrial Added Values** for companies over a designated size rose by 3.6% in 2022 in real terms after deducting price factors. In December, industrial added values advanced by 1.3% YoY, an increase of 0.06 percentage points MoM. On a quarterly basis, in 2022, industrial added value grew by 6.5%, 0.7%, 4.8% and 2.7% respectively. It grew by 5%, 3.9% and 6.3% YoY in March, June and September respectively.

In Q4, China's **Utilisation Rate of National Industrial Capacity** stood at 75.7%, down 1.7 percentage points from the same period last year but up 0.1 percentage points from the previous quarter. In 2022, the rate was 75.6%, down 1.9 percentage points YoY. Within its three major categories, the capacity utilisation rate of the mining industry in Q4 was 76.5%, 0.5 percentage points lower than the same period last year. The rate of the manufacturing industry was 75.8%, down 1.8 percentage points. The rate of electricity, heat, gas and water production and supply was 74%, down 1.4 percentage points.

In 2022, the total profit of industrial enterprises above designated size was 8.4 trillion yuan, down 4% YoY. Among them, iron and steel, petroleum processing, and vaccine manufacturing saw a big drop in profits, and contributing to the drop in total profit. After excluding the aforementioned industries, the profits of other industrial enterprises increased by 5.6% YoY. Meanwhile, total revenue of these companies rose by 5.9%, reaching 137.9 trillion yuan.

More specifically, in December, the added value of the mining industry grew 4.9% YoY while manufacturing grew 0.2%. The production and supply of electricity, heat, gas and water grew 7%. In 2022, these figures increased by 7.3%, 3%, and 5% YoY respectively.

Among the 20 sectors assessed by the National Bureau of Statistics, the industry added values of six sectors reduced. Only one of 20 sectors grew over 10% – electrical machinery and equipment manufacturing (11.9%).

Furthermore, according to the China Association of Automobile Manufacturers (CAAM), car output and sales in the first nine months of 2022 increased by 3.4% and 2.1% YoY to 27.02 and 26.86 million units respectively.

COVID-19 also significantly influenced the automobile market in Q4. In December, car production fell slightly MoM, while sales rose slightly. Both figures saw a dip from the year prior. Production and sales of automobiles in December reached 2.38 million and 2.56 million respectively. Output decreased by 0.3% MoM, while sales increased by 9.7%; and both output and sales saw a YoY decrease of 18.2% and 8.4% respectively.

The halved purchasing tax policy for fuel vehicles and the subsidy policy for new energy vehicles expired at the end of 2022. While the policy stimulated some demand in advance, according to CAAM, the market is expected to experience great pressure in Q1 2023, with sales volume declining significantly.

In 2022, the production and sales of new energy vehicles reached 7.06 million and 6.89 million, respectively, up 96.9% and 93.4%, with a market share of 25.6%. Within which, pure electric vehicles, plug-in hybrid electric vehicles and fuel cell vehicles (FCV) production and sales continue to maintain rapid growth. China exported 679,000 new energy vehicles in 2022, up 1.2 times YoY.

In 2022, China exported 3.11 million vehicles, up 54.4% YoY. As a result, China has overtaken Germany as the world's second-largest car exporter after

Japan. This was probably due to the serious shortage of production capacity as a result of COVID-19-led disruption and the geopolitical conflict between Russia and Ukraine which impacted both the global automobile market and manufacturing industry in Europe. By virtue of its strong industrial resilience, China's automobile production and sales rose to new highs.

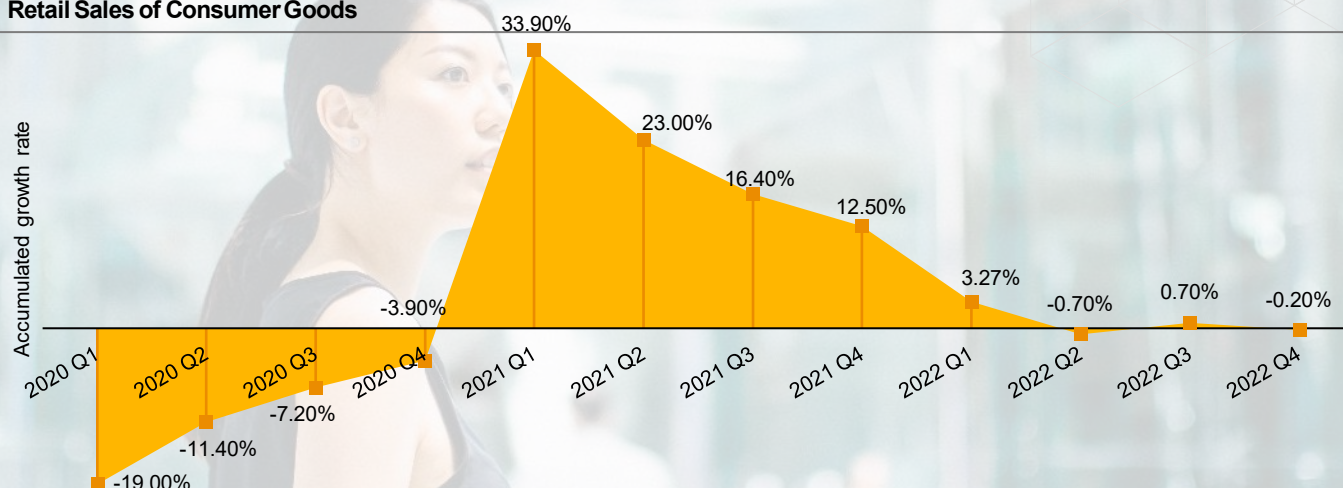
By ownership, while total profit for all industrial companies over a designated size decreased by 4% YoY in 2022, only SOE profits went up.

- Profits of SOEs increased by 3.0% to 2.38 trillion yuan;
- Profits of foreign-owned enterprises, including Hong Kong SAR, Macao SAR and Taiwan-owned, decreased by 9.5% to 2.0 trillion yuan;
- Profits of joint-stock enterprises decreased by 2.7% to 6.16 trillion yuan;
- Profits of private companies decreased by 7.2% to 2.66 trillion yuan.

Lastly, **by industry**, in 2022, the total profit of the mining industry reached 1.56 trillion yuan, up 48.6% YoY. The total profit of the manufacturing industry reached 6,415 billion yuan, down 13.4%. Among the 41 industrial categories, the profits of 21 industries increased YoY while that of 19 industries decreased. 2022 also saw one industry turn profitable.

The top three most profitable industries were oil and natural gas extraction, as a part of mining (total profits increased 1.1 times YoY), electricity, and heat production and supply (up 86.3%), and coal mining and washing (up 44.3%).

Retail Sales of Consumer Goods



Total retail sales of consumer goods decreased by 0.2% YoY to 43.97 trillion yuan in 2022. Retail sales of consumer goods totalled 4.05 trillion yuan in December, down 1.8% YoY.

In Q4, COVID-19 continued to impact the consumer market, with the total retail sales of consumer goods falling by 2.7% YoY.

Despite the downturn of the consumer market in 2022, it is important to note that China's consumer market remains resilient and has great potential. Therefore, in 2023, with adjustments to pandemic control measures and policies to expand domestic demand, the consumer market is expected to achieve stable recovery.

In 2022, retail sales of urban consumer goods reached 38.04 trillion yuan, down 0.3%, and rural consumer goods plateaued and reached 5.93 trillion yuan.

Looking at the types of consumption in 2022, retail sales of goods reached 39.58 trillion yuan, up 0.5% YoY, while catering revenue reached 4.39 trillion yuan, down 6.3% YoY.

In December, total retail sales of consumer goods decreased by 0.2% YoY. Among which, retail sales of goods decreased by 0.1%. Catering revenue fell 14.1% to 416 billion yuan.

Out of the 16 retail categories, nine recorded negative growth in 2022. In December, market contraction impacted to 12 categories. Categories with a sales reduction of over 5% in 2022 include catering (-6.3%); clothing, shoes, hats and textiles (-6.5%); furniture (-7.5%); and building and decoration materials (-6.2%).

Furthermore, in 2022, sales of supermarkets, convenience stores,

specialty shops, and exclusive shops grew by 3%, 3.7%, 3.5%, and 0.2% YoY respectively, while sales of department stores decreased by 9.3%.

National online retail sales went up 4% to reach 13.79 trillion yuan in 2022. Online retail sales of physical goods rose by 6.2% to 11.96 trillion yuan, accounting for 27.2% of total retail sales of goods. Within online retail sales of physical goods, the sales of food, clothing, and daily necessities increased by 16.1%, 3.5% and 5.7% respectively.

Per capita disposable nominal income rose to 36,883 yuan in 2022, an increase of 3.9% YoY. After deducting price factors, the real growth rate was 1.9% YoY.

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

For urban residents, the average income rose by 3.9% to reach 49,283 yuan. At the same time, the average income of rural residents grew 6.3% to 20,133 yuan.

By source of income, wage income continued to grow. The policy prioritising employment kept the employment landscape generally stable. In 2022, per capita wage income was 20,590 yuan, an increase of 4.9%, accounting for 55.8% of disposable income.

- Per capita net operating income, i.e. the 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 6,175 yuan, up 4.8%, accounting for 16.7% of disposable income;

- Per capita net property income, i.e. the income earned by households from deposits, securities, houses, and land, etc., was 3,227 yuan, up 4.9%, accounting for 8.7% of disposable income;
- Net transfer income, 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 6,892 yuan per capita, up 5.5%, accounting for 18.7% of disposable income.

Among the four major categories of personal income, the growth rate of transfer income was relatively fast, 0.5 percentage points faster than that of per capita disposable income, providing essential support in ensuring basic people's livelihood and maintaining personal income growth.

The number of migrant workers reached 296 million in 2022, an increase of 1.1% YoY. The average monthly income was 4,615 yuan, an increase of 4.1% YoY.

Per capita consumption expenditure in 2022 was 24,538 yuan, an increase of 1.8% over the previous year in nominal terms, and a decrease of 0.2% in real terms after deducting price factors. Spending on clothing, and education, culture and entertainment fell 3.8% and 5% YoY respectively while all other consumption spending rose slightly.

As China's economy gradually recovers, resident incomes are expected to rise in 2023, leading to a recovery in consumer spending.

China's total imports and exports increased by 7.7% YoY to 42.07 trillion yuan in 2022. It registered the highest growth among major economic indicators, amid the ongoing pandemic and the slowdown of global economic growth.

In 2022, while other economic indicators were greatly affected by COVID-19, imports and exports continued to grow steadily off a high base in 2021. In Q4, the total value of imports and exports remained at 11 trillion yuan.

More specifically, exports increased by 7.7% to 23.97 trillion yuan, while imports increased by 4.3% to 18.1 trillion yuan. The trade surplus increased by 53.7% to 5.86 trillion yuan.

The enhanced competitive advantages of products supported China's rising export. For example, in 2022, China's exports of industrial products increased by 9.9%, boosting overall export growth by 9.4 percentage points. By the end of 2022, China's exports made up 14.7% of international trade, ranking first in the world for 14 years in a row.

In 2022, the import of intermediate products grew by 7.5%, driving import growth by 5.9 percentage points. In addition, high international commodity prices drove import value growth to some extent.

In 2022, imports and exports of China's cross-border e-commerce reached 2.11 trillion yuan, up 9.8%. Among which, exports reached 1.55 trillion yuan, up 11.7%, while imports reached 0.56 trillion yuan, up 4.9%. As cross-border e-commerce has developed rapidly, China has introduced supporting policies to further develop the potential of the cross-border e-commerce market.

In December, the import and export value was 3.77 trillion yuan, up 0.6%. Of which, export value made up 2.16 trillion yuan, down 0.5%. Imports reached 1.61 trillion yuan, up 2.2%. The sluggish growth rate is not a good sign for 2023.

Looking ahead to 2023, China's economic recovery is likely to take place, but the external environment is volatile and the downward pressure on the world economy is increasing. As such, China's development of foreign trade development will face challenges in 2023.

By product, in 2022, the import and export of mechanical and electrical products reached 20.66 trillion yuan, up 2.5%, accounting for 49.1% of China's foreign trade. More specifically, exports of solar cells, lithium batteries and automobiles rose 67.8%, 86.7% and 82.2% respectively.

Exports of labour-intensive products reached 4.28 trillion yuan, up 8.9% and accounting for 17.9% of total exports. Among which, exports of luggage, shoes and toys increased by 32.6%, 24.4% and 9.1% respectively.

In addition, the total import of energy products such as crude oil, natural gas and coal was 3.19 trillion yuan in 2022, up 40.9%, accounting for 17.6% of the total import value. Imports of agricultural products reached 1.57 trillion yuan, up 10.8%, accounting for 8.7% of the total value of imports. Of which, China imported 247 billion yuan of agricultural products from ASEAN, an increase of 21.3%, accounting for 15.7% of the value of China's agricultural imports, 1.4% higher YoY.

By geography, according to the General Customs Administration, in

2022, trade values with ASEAN, EU, the US, South Korea, reached 6.52, 5.65, 5.05, and 2.41 trillion yuan respectively.

These trade figures grew by 15% (ASEAN), 5.6% (EU), and 3.7% (US), and 3.2% (South Korea) in 2022.

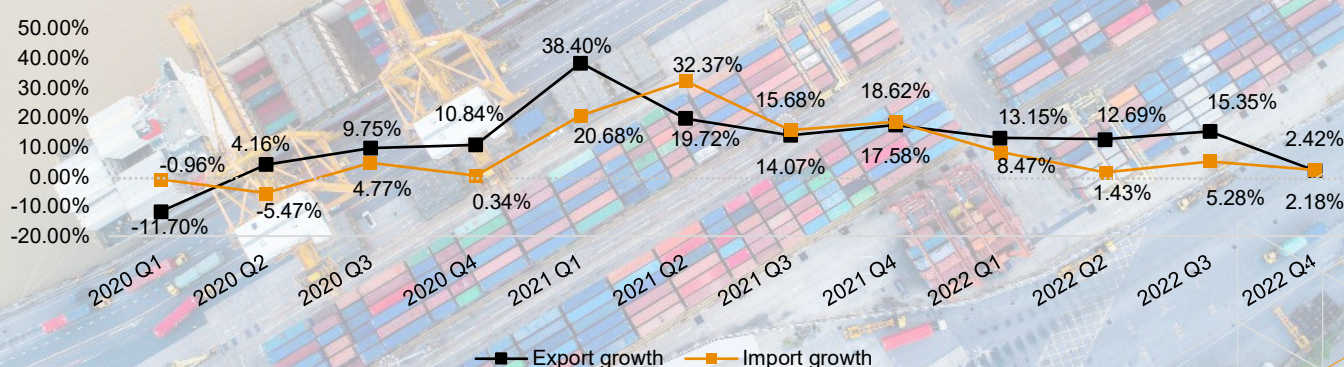
During the same period, China's total imports and exports to countries and regions along the Belt and Road reached 13.83 trillion yuan, up 19.4%. Of which, exports were 7.89 trillion yuan, up by 20% while imports reached 5.94 trillion yuan, up 18.7%. This boosted overall exports by 6.1 percentage points, with exports to Africa and Latin America increasing by 14.8% and 14.1% respectively.

More specifically, China's imports and exports to the five Central Asian countries, the United Arab Emirates and Saudi Arabia increased by 45.4%, 42.1% and 37.2% respectively in 2022. China's import and export to Russia reached 1.28 trillion yuan in the year, accounting for 3% of the total value of China's foreign trade.

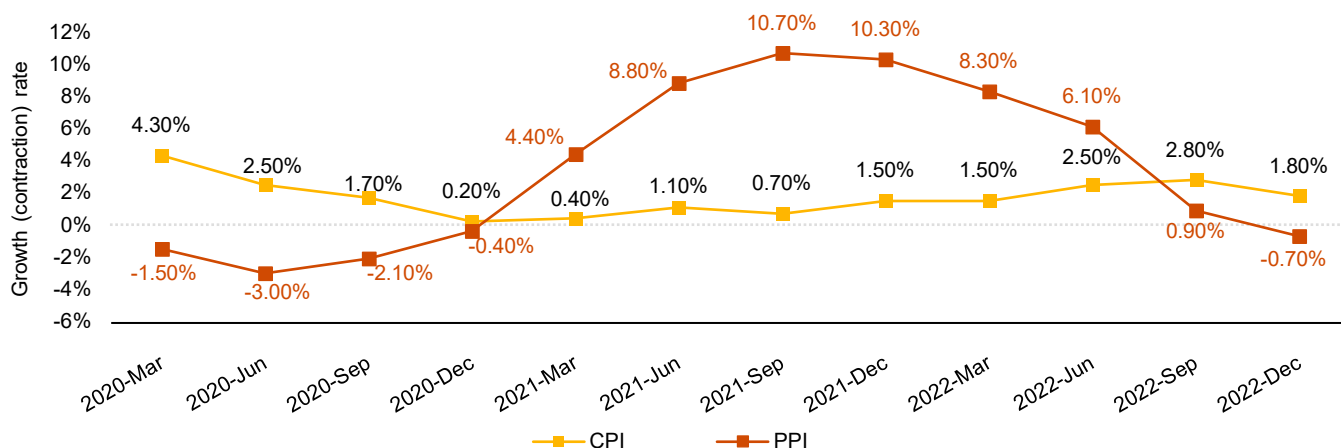
In 2022, China's imports and exports to 14 other RCEP member countries reached 12.95 trillion yuan, up 7.5%, accounting for 30.8% of China's total foreign trade value.

By ownership, in 2022, import and export of private enterprises reached 21.4 trillion yuan, an increase of 12.9%, accounting for 50.9% of China's total foreign trade, up 2.3% YoY. The import and export of foreign-invested enterprises reached 13.82 trillion yuan, accounting for 32.9% of China's total foreign trade. Imports and exports of state-owned enterprises reached 6.77 trillion yuan, accounting for 16.1% of the country's total.

Quarterly Balance of Trade



Producer Price Index and Consumer Price Index



Throughout 2022, PPI showed a downward trend, falling from 9.1% in January to -1.3% in October and -0.7% in December. CPI remained stable, mostly staying below 2% in Q1 and Q4, and exceeding 2%, but remaining below 3% in Q2 and Q3. Over the year, prices in the consumer sector rose modestly, while that in the production sector declined.

The growth of **Producer Price Index (PPI)** rose by 4.1% in 2022 with the growth rate 4 percentage points lower than the previous year. It rose 8.7% in Q1, 6.8% in Q2 and 2.5% in Q3, but declined by 1.1% in Q4, with growth rate falling quarter on quarter.

The YoY growth rate slowed down to 6.1% in June from 9.1% in January due to a higher base in the same period last year. In July, the pace of decline accelerated, with YoY growth of 4.2%, 2.3% and 0.9% in July, August and September respectively. In October and November, off a high base, YoY growth declined by 1.3% each month. The YoY decline eased to 0.7% in December.

In 2022, the price of means of production rose by 4.9%, 5.8 percentage points lower YoY. The price of means of living rose by 1.5%, 1.1 percentage points higher YoY. The price increase of means of production was 3.4 percentage points higher than that of means of livelihood, with the difference 6.9 percentage points lower YoY. This has eased the cost pressure faced by middle and downstream industries to some extent as many of these enterprises' purchase prices are means of production, while their product prices are means of livelihood.

The prices of mining, raw material and processing industries increased by 16.5%, 10.3% and 1.5% respectively in 2022. The growth rate was 17.9, 5.5 and 5.1 percentage points lower YoY.

In December, producer prices for mining rose by 1.7%, raw materials by 1.2% and processing industries by 2.7%. The 1.4% drop in the prices of means of production led to the overall decline in producer prices of 1.09 percentage points.

In 2022, PPI for consumer goods increased by 1.5%. Food prices went up 2.7%, clothing up 1.8% and general daily necessities up 1.6%. The price of means of living saw a moderate rise.

As a large manufacturing country with abundant production capacity and output of means of living products, these prices are unlikely to rise sharply in 2023. It is important to note that domestic demand has not recovered completely yet.

In 2022, international prices of crude oil, natural gas, copper and other commodities fell from high levels. As a result, from June to December, the YoY price increase of oil and natural gas dropped from 54.4% to 14.4%, while the price increase of oil, coal and other fuel processing dropped from 34.7% to 10.1%.

More specifically, the PPI for manufactured goods of the following sectors increased by more than 10% YoY in 2022:

- Mining (16.5%); raw materials (10.3%); fuel (20.9%);
- Mining and washing of coal (17%);
- Petroleum and natural gas extraction (35.9%);
- Processing of petroleum, coking, processing of nucleus fuel (23.6%);
- Production and distribution of gas (15.9%).

The **Consumer Price Index (CPI)** increased by 1.8% YoY in December and 2.0% in 2022, both figures were

much lower than the official target of approximately 3%. In 2022, the increase of CPI is 1.1 percentage points higher than that of 2021. By quarter in 2022, the YoY growth rate was 1.1%, 2.3%, 2.6% and 1.8% respectively.

More specifically, in December, on a YoY basis, CPI rose 1.8%. Food prices rose 4.8%. Among food products, the price of pork rose 22.2%. Potato and fresh fruit prices increased by 12.7% and 11%, respectively. Prices of eggs, edible oil and grain rose by 10%, 7.2% and 2.6% respectively. The price of fresh vegetables decreased by 8%. Among non-food products, gasoline and diesel prices rose 10.5% and 11.4% respectively. Air ticket prices rose 26.7%. The prices of transportation and communications, other goods and services, and daily necessities and services went up by 2.8%, 2.8% and 1.5% respectively. The prices of education, culture and entertainment, medical care and clothing went up by 1.4%, 0.6% and 0.5% respectively. Housing prices fell 0.2%.

On a monthly basis, in December, the prices of fresh vegetables and fruits rose by 7.0% due to seasonal factors. Pig supply continued to increase, and pork prices fell 8.7%. For non-food products, gasoline and diesel prices fell by 6.1% and 6.5% respectively, due to the downward impact of international oil prices. As a result of the nationwide adjustments to COVID-19 control policies, travel and entertainment activities gradually resumed with the prices of air tickets, movie and performance tickets, and transportation rental fees increasing by 7.7%, 5.8% and 3.8% respectively.

2 Policy updates

Growth of aggregate financing to the real economy increased by 9.6% in 2022.

The last impacts of COVID-19 controls in 2022 significantly curbed macroeconomic development. In this context, the People's Bank of China (PBoC) implemented a package of policies to stabilise the economy in a bid to effectively support the real economy and achieve market stabilisation. PBoC's policies included two cuts to reserve requirement ratio, providing long-term liquidity of over a trillion yuan to the real economy and turning over 1.13 trillion yuan in balance profits to the Treasury within the Ministry of Finance. In 2023, the PBoC is expected to maintain its relatively loose monetary policy to support economic recovery.

As a result, China's financial system remained steady throughout the year, providing stronger and higher quality support to the real economy.

The total aggregate financing to the real economy (AFRE) increased by 32.01 trillion yuan in 2022, up 0.67 trillion yuan YoY. By the end of 2022, total AFRE reached 344.21 trillion yuan, up 9.6% YoY.

M2 money supply, which includes cash, checking deposits, and easily convertible near money, and AFRE, increased by 11.8%, reaching 266.43 trillion yuan, up 2.8% YoY.

In terms of AFRE, the balance of RMB loans reached 213.99 trillion yuan, up 11.1%. More specifically, total RMB loans to the real economy increased by 21.31 trillion yuan, 1.36 trillion yuan more YoY, accounting for 61.7% of AFRE in 2022.

As part of the total RMB loans to the real economy, household loans increased by 3.83 trillion yuan, of which short-term loans and medium- and long-term loans increased by 1.08 and 2.75 trillion yuan respectively. Loans to enterprises and public institutions increased by 17.09 trillion yuan in 2022, of which short-term loans increased by 3.03 tn yuan, medium- and long-term loans by 11.06 trillion yuan and bill financing by 2.96 trillion yuan.

Net financing of government bonds reached 7.12 trillion yuan in 2022, up 0.11 trillion yuan YoY. For enterprise direct financing, net corporate bond financing was 2.05 trillion yuan, a YoY increase of 1.24 trillion yuan. Equity financing of non-financial enterprises reached 1.18 trillion yuan, almost plateauing YoY.

By the end of 2022, foreign currency loans to the real economy reached 1.84 trillion yuan, down 17.4% YoY. The balance of entrusted loans stood at 11.24 trillion yuan, up 3.4%. The balance of trust loans reached 3.75

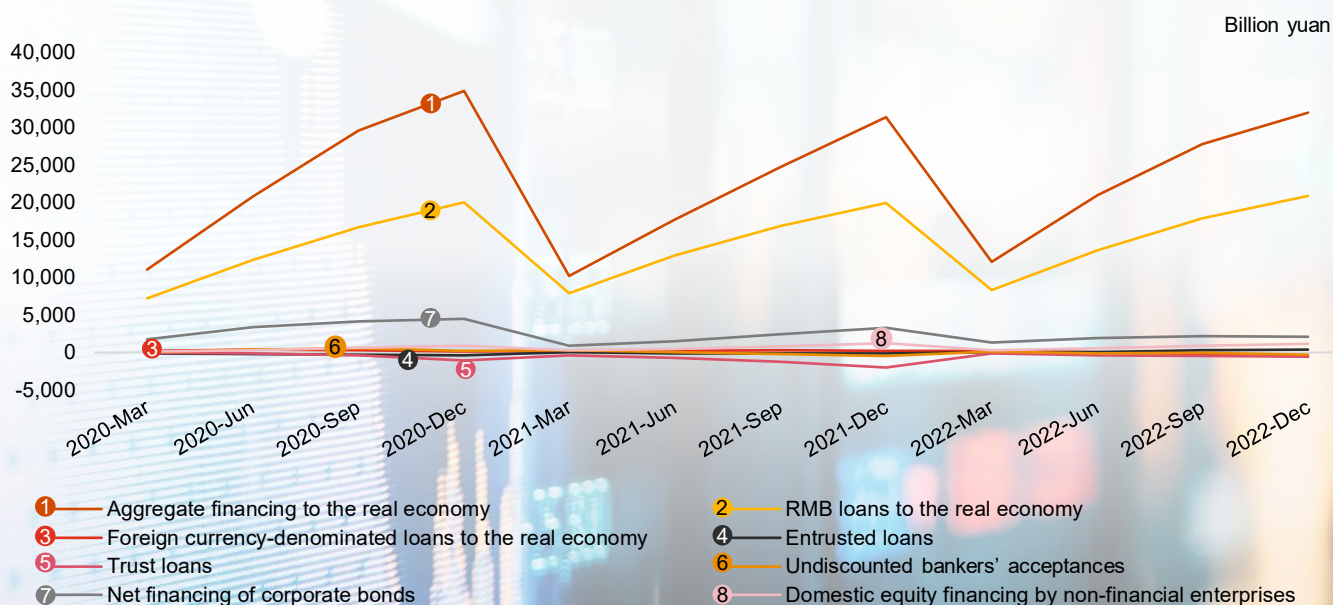
trillion yuan, down 14%. The balance of undiscounted bank acceptances was 2.66 trillion yuan, down 11.6%.

Total outstanding corporate bonds increased by 3.6% to 31.01 trillion yuan. Outstanding government bonds reached 60.19 trillion yuan, up 13.4%. Total outstanding domestic stock of non-financial enterprises expanded by 12.4% to 10.64 trillion yuan.

In terms of loan structure, 61.7% of AFRE was made up by RMB loans by the end of 2022, up 0.7 percentage points YoY. Foreign currency loans to the real economy accounted for 0.5% of AFRE; entrusted loans for 3.3%; trust loans for 1.1%; undiscounted bank acceptance for 0.8%; corporate bonds for 9% (down 0.5 percentage points YoY); government bonds for 17.5% (up 0.6 percentage points YoY); and domestic stock of non-financial enterprises for 3.1% (up 0.1 percentage points YoY).

Finally, in 2022, the regular cross-border RMB settlement amount reached 10.51 trillion yuan. Cross-border RMB settlement of direct investment was 6.76 trillion yuan, of which outbound direct investment made up 1.92 trillion yuan and foreign direct investment, 4.84 trillion yuan.

Aggregate financing to the real economy (flows)



Source: Wind

Fiscal revenue increased by 0.6% while fiscal spending grew by 6.1%.

In 2022, fiscal revenue dropped by 0.6% YoY to 20.37 trillion yuan. According to the Ministry of Finance, this was a result of slower growth mainly caused by COVID-19 control measures. Excluding value-added tax credit refunds, fiscal revenue grew by 9.1%. Meanwhile, national public budget expenditure increased by 6.1% to 26.06 trillion yuan. Income of government funds declined by 20.6% and reached 7.79 trillion yuan, while the spending of government funds increased by 2.5% to 11.06 trillion yuan.

In terms of 2022 fiscal revenue, Central Government revenue increased by 3.8% to 9.49 trillion yuan while local government revenue decreased by 2.1% to 10.88 trillion yuan. However, those figures registered an increase of 13.1% and 5.9% respectively excluding value-added tax credit refunds.

National tax revenue reduced by 3.5% YoY to 16.66 trillion yuan in 2022; excluding value-added tax credit refunds, it saw an increase of 6.6%. Non-tax revenue increased by 24.4% to 3.71 trillion yuan. Non-tax revenue of the Central Government increased by 96.5%, primarily driven by profit returns handed over to the Treasury by state-owned financial institutions, as well as the increase in special revenue from the petroleum revenue fund thanks to rising crude oil prices.

As economic recovery is expected to continue in 2023, it is very likely that fiscal revenue will recover soon.

Among the 13 major sources of tax revenue, four categories decreased in 2022. The top five sources of tax revenue include:

- **Value-added tax revenue:** down 23.3% to 4.87 trillion yuan; up 4.5%

increase after deducting value-added tax credit refunds;

- **Enterprise income tax revenue:** up by 3.9% to 4.37 trillion yuan;
- **Domestic consumption tax revenue:** up 20.3% to 1.67 trillion yuan;
- **Value-added tax and consumption tax revenues on imported goods:** up 15.4% to 2 trillion yuan; customs duties totalled 286 billion yuan, up 1.9% YoY;
- **Personal income tax:** up 6.6% to 1.49 trillion yuan.

In 2022, tax revenue from land ownership decreased by 22% to 579 billion yuan. Land value-added tax revenue shrank by 7.9% to 635 billion yuan. Property tax and urban land use tax revenues increased by 9.5% and 4.7% respectively to 359 and 223 billion yuan. Farmland occupation tax revenue went up 18% to 126 billion yuan.

In 2022, national public budget expenditure reached 26.06 trillion yuan with a 6.1% YoY growth. The Central Government's expenditure increased by 3.9% to 3.56 trillion yuan. Local government expenditure grew 6.4% to 22.50 trillion yuan. Other major items contributing to fiscal expenditure included:

- 3.60 trillion yuan on social security and employment (8.1% YoY increase);
- 3.95 trillion yuan on education (5.5% increase);
- 2.25 trillion yuan on agriculture, forestry and water conservancy (2.3% increase);
- 1.95 trillion yuan on urban and rural communities, including administration, public facilities,

planning, environmental sanitation (0.2% decrease);

- 2.25 trillion yuan on healthcare and sanitation (17.8% increase);
- 1.20 trillion yuan on transportation (5.3% increase).

Expenses on debt interest payments increased by 8.7% to 1.14 trillion yuan. Spending on science and technology increased by 3.8% to 1 trillion yuan, while spending on energy conservation and environmental protection decreased by 3.2% to 540 billion yuan. Spending on culture, tourism, sports and media reached 391 billion yuan, down 2% YoY.

Income of government funds declined by 20.6%, reaching 7.79 trillion yuan.

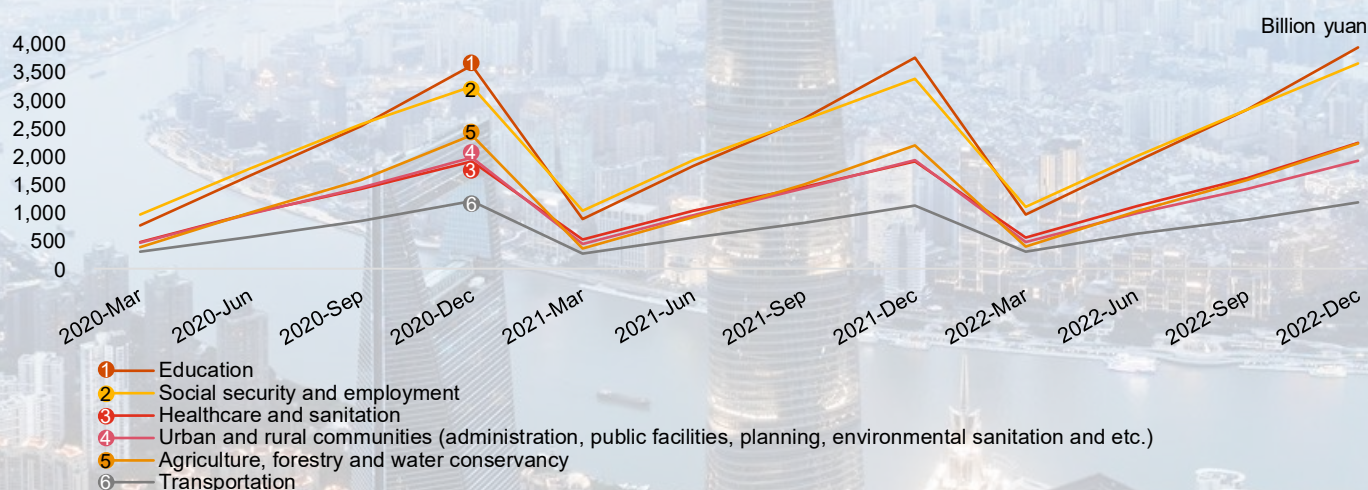
Out of which, local government funds reached 7.38 trillion yuan with a decrease of 21.6%. 6.68 trillion yuan was obtained from the transfer of state-owned land use rights, a 23.3% reduction YoY. Central Government funds rose by 3% to 412 billion yuan.

In contrast, the spending of government funds decreased by 2.5% to 11.06 trillion yuan.

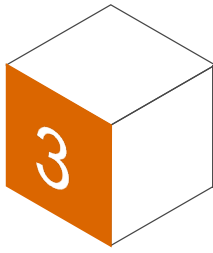
From which, 10.5 trillion yuan was spent by local governments, a decrease of 4.7%. Spending on the transfer of state-owned land use rights contracted by 17.8% to 6.37 trillion yuan. Spending by the Central Government increased by 76.8% YoY, reaching 554 billion yuan.

Lastly, in 2022, China increased tax and fee cuts, as well as tax rebates by 4.2 trillion yuan; of which, 2.4 trillion yuan was set aside for VAT rebates, the highest in recent years. These measures have played an important role in easing the burden of enterprises, especially small, medium and micro enterprises, while boosting consumer consumption.

General public budget expenditure



Source: Wind



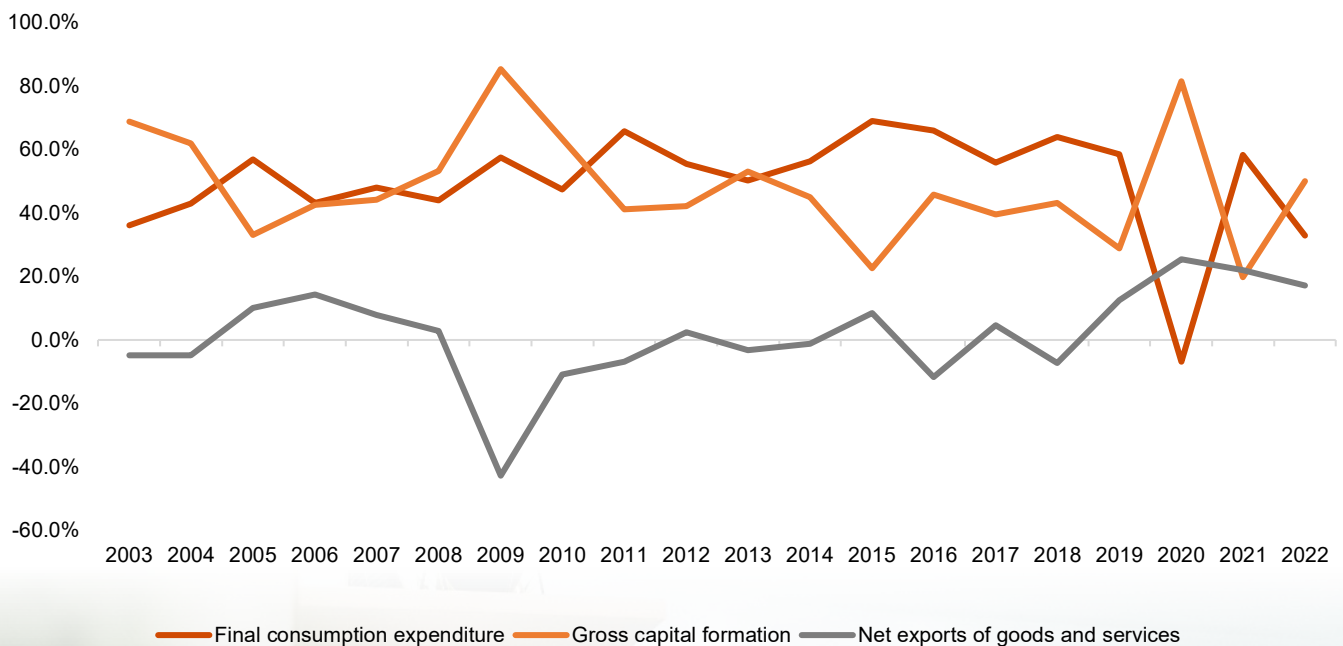
China's consumption trend and economic growth

With the COVID-19 pandemic impacting China head-on, the country's total retail sales of consumer goods reduced by 0.2% YoY in 2022. It is the lowest figure in recent years following the 3.9% contraction in 2020. However, China is still the world's second largest consumer market with a market size of almost 44 trillion yuan, and the largest

online retail marketplace. Although the contribution of final consumption expenditure to GDP growth dropped to 32.8% in 2022, consumption is expected to regain its status as a critical driver of China's economic growth in 2023 and the future.



Contribution rate of three major demands to GDP growth in the past 20 years



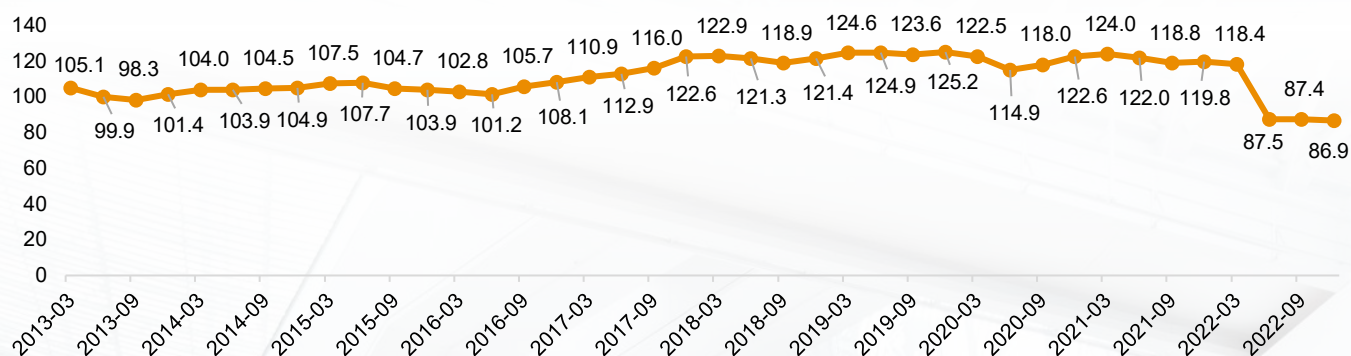
Source: Wind



The COVID-19 disruption over the past three years significantly influenced consumption. In 2022, the quarterly reading of consumer confidence index hit its lowest in the

past years. With the end of its stringent control measures, life, work and travel are gradually returning to normal. 2023 is anticipated to be the year of revival for China's overall consumption.

Quarterly consumer confidence index in the past 10 years



Source: Wind

Besides, according to China's Ministry of Commerce, policy support is aimed at boosting bulk consumption. Policy support primarily focuses on the 'four major categories', namely, automobile, household appliances, catering (dining

out) and home furnishing, which account for approximately 25% of the total retail sales of consumer goods. Consider automobiles, in the second half of 2022, automobile sales recovered with a growth of 10.7%

thanks to purchase tax reduction on some passenger cars, following a sales decline of 6.6% in the first half of the year.

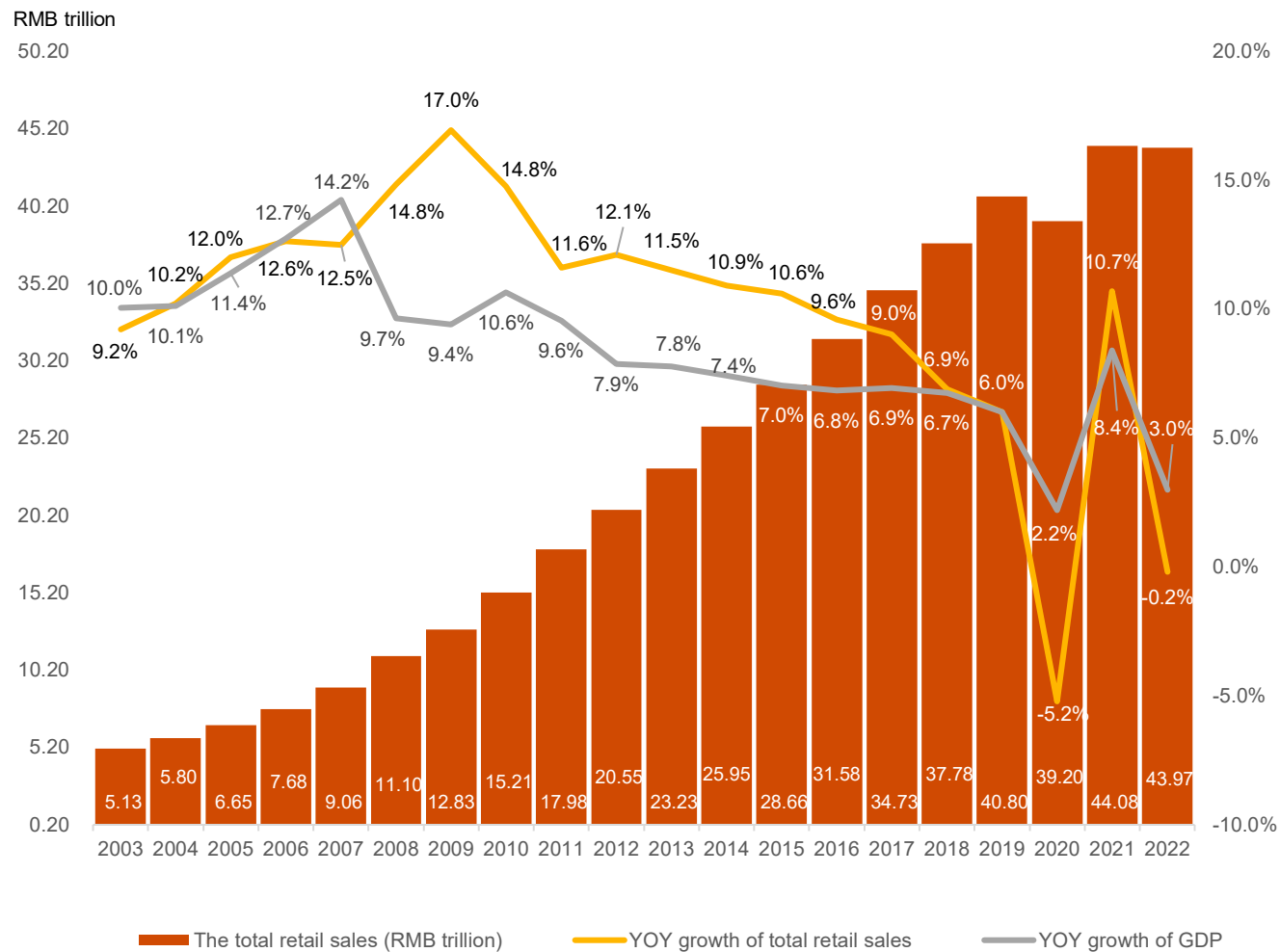


■ Huge potential in the consumer market despite rapid expansion

While the size of China's consumer market has continued to grow over the past 20 years – from 5 trillion yuan in 2003 to 44 trillion yuan in 2022 – only to slow along with subdued GDP growth.

In the last decade, consumer spending grew rapidly, and consumption remained as the main driver of economic growth.

The total retail sales of consumer goods in the past 20 years



*The YoY growth is all by actual growth rate.

Source: Wind



The final consumption rate, the ratio of final consumption, including total private consumption and social consumption to GDP, reached 54.5% in 2021, up 3.4 percentage points from 2012. Within the final consumption expenditure, household consumption expenditure maintained accelerated growth. From 2013 to 2021, consumer expenditure grew at an annual average of over 9%, and its contribution to final consumption expenditure remained steady at around 70%. During the same period, the annual contribution of final consumption expenditure to economic growth exceeded 50%. For instance, in 2021, final consumption expenditure contributed 65.4% to economic growth, 51.7 percentage points higher than total

capital formation, and was the first driving force for economic growth. In 2022, the same measure was only 32.8% due to strict pandemic control measures and the resulting economic challenges.

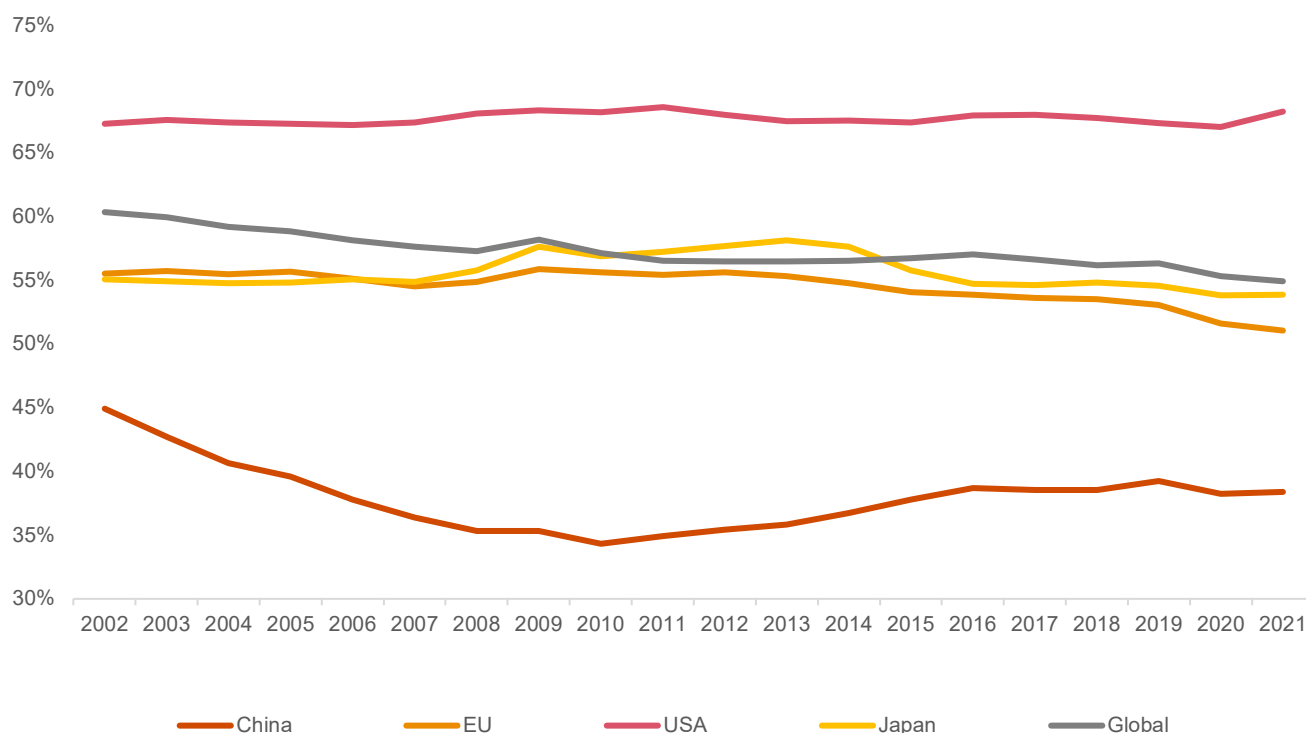
When compared to developed countries, China's rate of household final consumption expenditure as a share of GDP is far lower. Considering this, China's consumption potential is still remarkable.

Before COVID-19, from 2010 to 2019, final consumption expenditure remained at around 55% in EU, 68% in the United States and around 55% in neighbouring

Japan. The global average was approximately 57%, while for China it was around 36%. In the decade leading up to 2010, the global average rate of household final consumption expenditure as a share of GDP fell slightly – the US remained steady while China's ratio saw a downward trend.

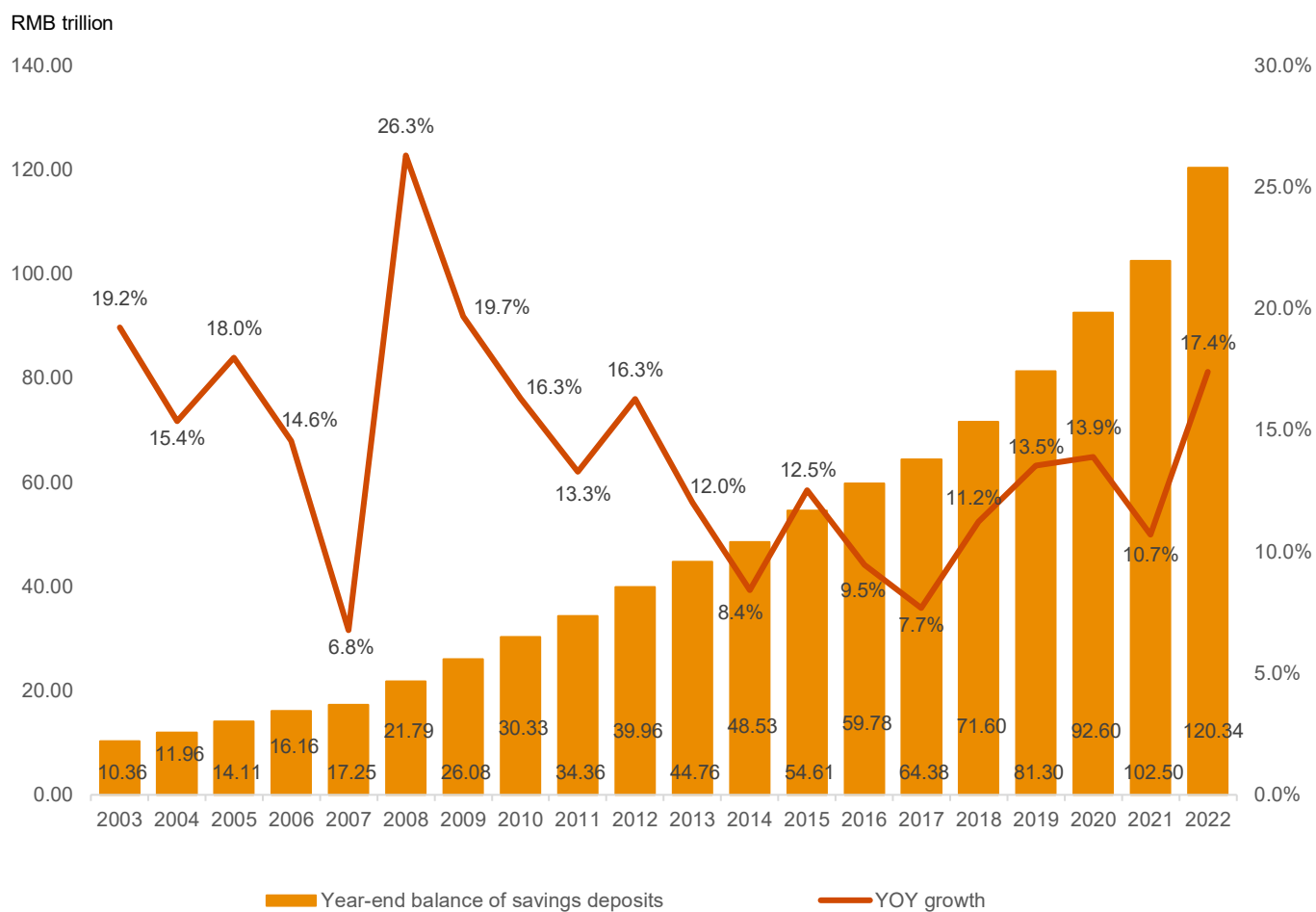
In China, the rate of household final consumption expenditure as a share of GDP is low for other reasons, such as the lack of social welfare, a high savings habit to cover medical expenses for serious illnesses, a down payment on an apartment, or even child and university education expenses.

The Household final consumption expenditure as a share of GDP in the past 20 years



Source: Wind

Year-end balance of savings deposits in the past 20 years



*The data of each year is the monthly data in every December.

Source: Wind

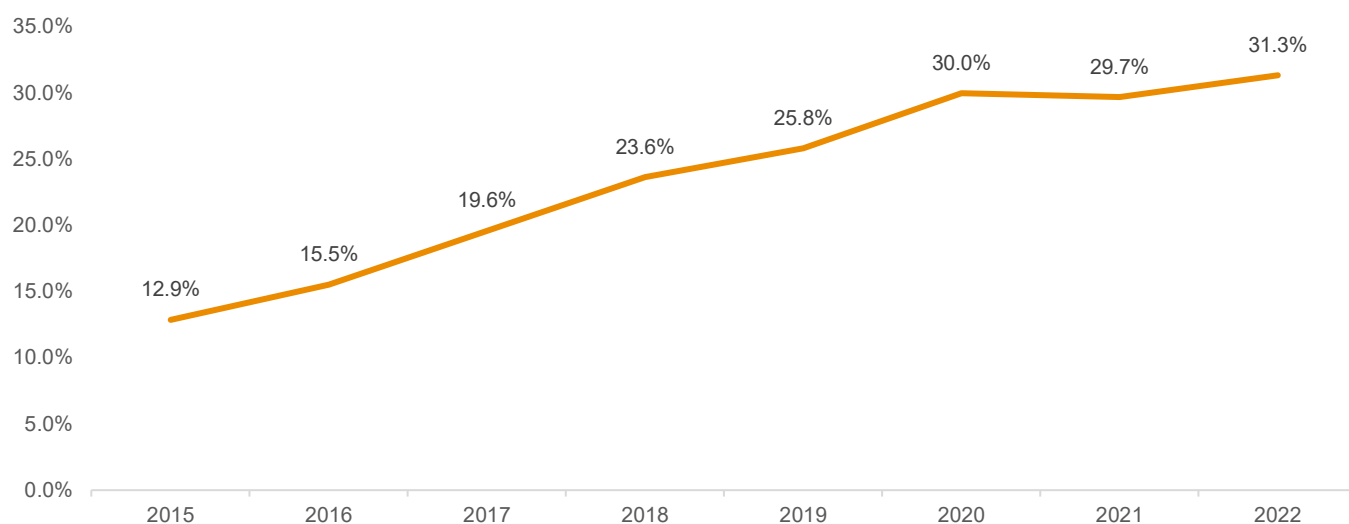


■ Online shopping has become an important growth pillar for the consumer market

As the world's largest online retail market, the popularity of online shopping in China continues to grow rapidly. Thanks to the accelerated adoption of the Internet, especially mobile technology and

payment systems, logistics and distribution systems, there have been profound changes in people's consumption patterns, making online shopping an important growth engine of China's consumer market.

Proportion of online retail sales of goods and services in the total retail sales of consumer goods since 2015



*The data are monthly cumulative values at the end of each year.

Source: Wind

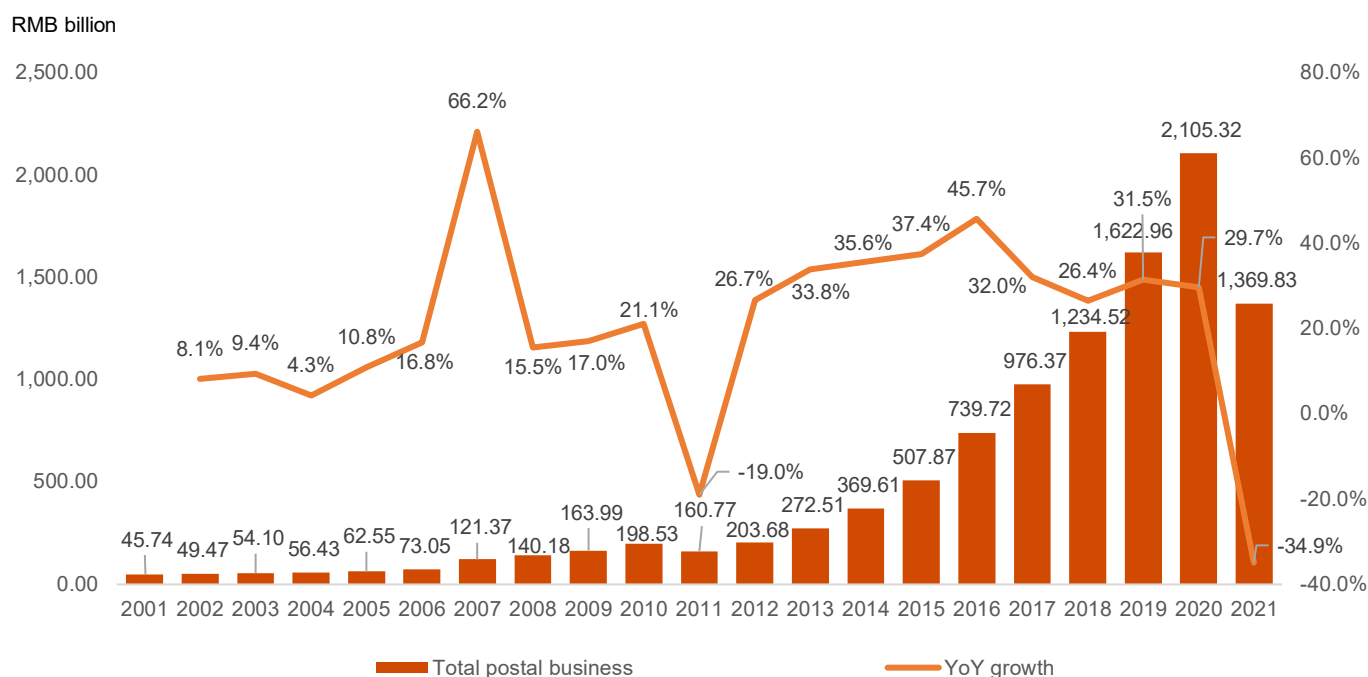


During the three years of heightened COVID-19 restrictions, offline consumption was significantly impacted. During this time, online shopping has played a pivotal role in

maintaining some degree of activities, but was nevertheless affected by the weak consumption, delivering a slower growth rate. At the same time, China's total postal business

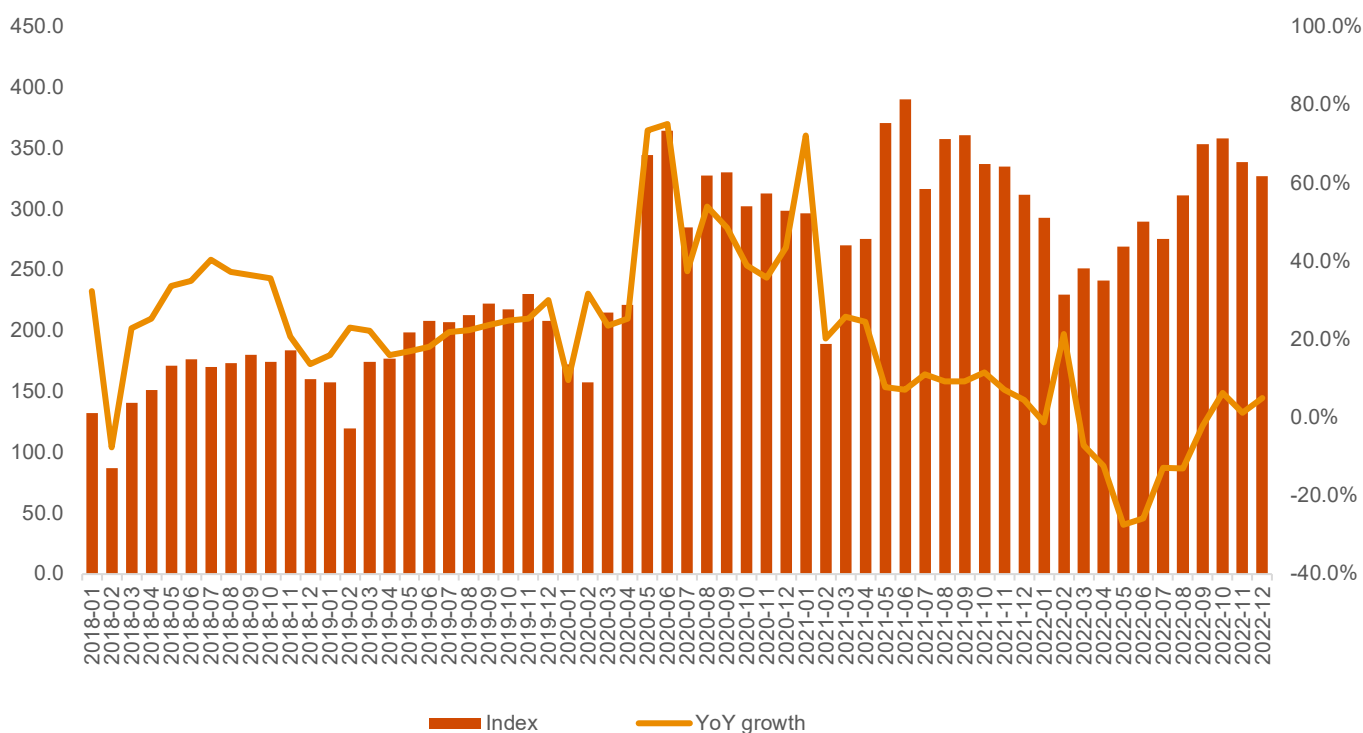
contracted by almost 35% in 2021, while China Express Development Index also dropped in 2021 and 2022.

Total postal business in the past 20 years



Source: National Bureau of Statistics

China Express Development Index in the past 5 years



Source: Wind

More specifically, in 2022, China's online retail sales reached 13.79 trillion yuan, a YoY increase of 4%. In particular, the online retail sales of physical goods reached 11.96 trillion yuan, up 6.2% and accounting for 27.2% of total retail sales of consumer goods. Among physical goods, online retail sales of food, clothing and consumer goods grew by 16.1%, 3.5% and 5.7%, respectively.

In 2021, when the pandemic's impact on consumption was moderate, online retail sales of physical goods reached 10.8 trillion yuan, a YoY increase of 12%. In 2021, the total volume of express logistics business exceeded 1.3 trillion yuan. Between 2013 and 2021, its growth rate averaged over 50%.

In 2021, online retail sales of physical goods accounted for 24.5% of total retail sales of consumer goods. From 2015 to 2021, online retail sales of physical goods grew at an average annual rate of over 20%. In 2020, online retail sales of physical goods grew despite the decline in the total retail sales of consumer goods. During the year, online retail sales of physical goods reached 9.8 trillion yuan, a YoY increase of 14.8%.

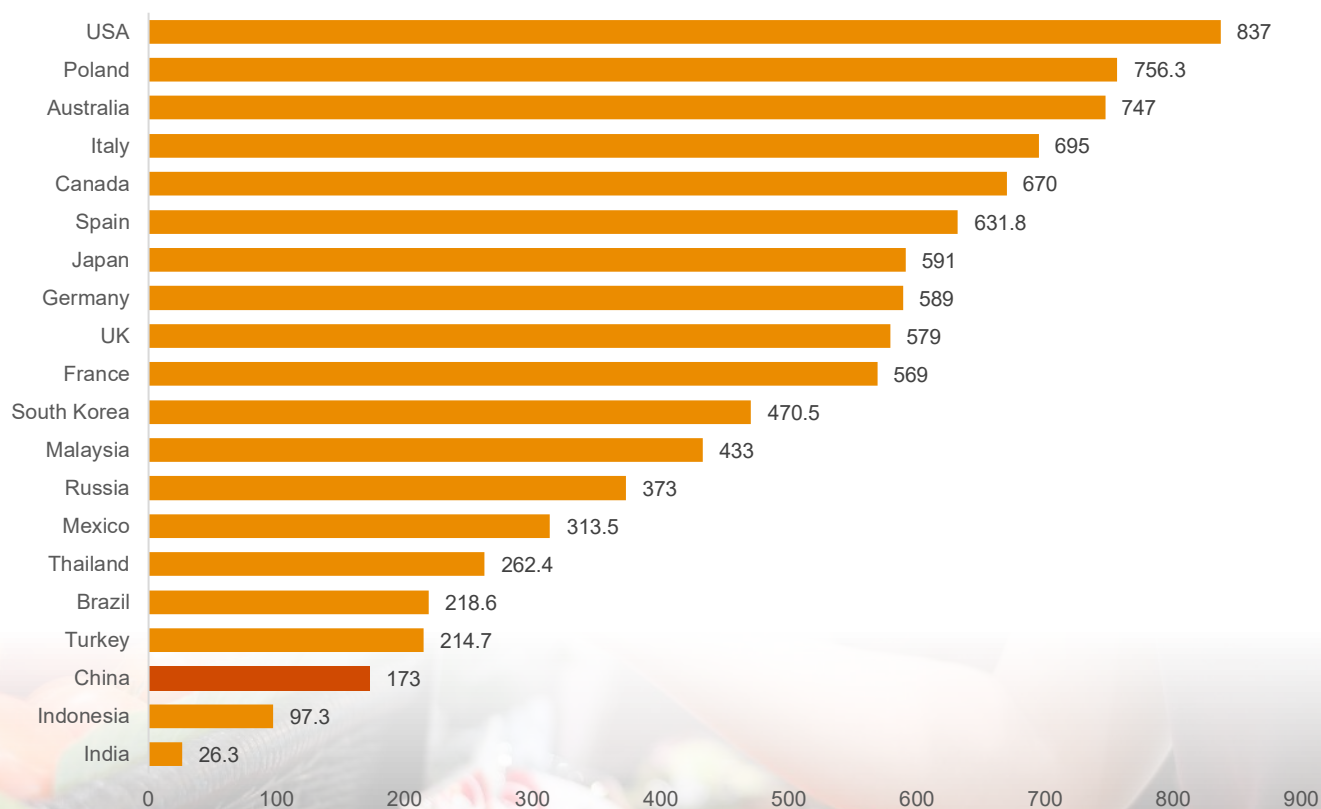
■ Automobile plays a vital role in consumption upgrading

With the steady growth of income and continuous improvement of market supply in the past two decades, China's consumption structure has gradually upgraded. The market size expanded from 5 trillion yuan in 2003 to 44 trillion yuan in 2022.

More specifically, consumption of major durable consumer goods is on the rise, with automobiles, air conditioners and mobile phones becoming increasingly popular in Chinese households. In 2021, the average number of cars owned by urban and rural residents per 100

households reached 50.1 and 30.2, 132.7% and 358.3% higher than in 2012, respectively.

The number of cars per 1,000 people in 2020 by countries



Source: <http://weiot.net>



On the other hand, according to data from the Seventh National Population Census in 2021, the number of cars per capita in China is only 0.16, and the number of cars per 1,000 people is only 173. In contrast, such figures for developed countries including the United States, Australia, Italy, and Canada are 837, 747, 695 and 670 cars per 1,000 people, respectively, surpassing China's. The number of cars per 1,000 people in China is even lower than in some developing countries, such as Russia (373), Brazil (219), Malaysia (433), Mexico (314), Turkey (275) and Thailand (262).


From this perspective, the growth potential of China's automobile market is still huge. However, due to China's large population base, the number of cars per 1,000 people may not reach the same level as


developed countries, especially that of the United States, in the future. In addition, parking and traffic jams have already become common challenges in many Chinese cities. China's future automobile consumption may gravitate towards intelligent and new energy vehicles – autonomous driving will not only reshape China but the global automobile market as well.

Furthermore, the number of air conditioners in urban and rural areas, per 100 households, reached 161.7 and 89, up 27.5% and 250.8% over 2012, respectively. The number of mobile phones in urban and rural areas, per 100 households, reached 253.6 and 266.6, up 19.3% and 34.8% over 2012, respectively. The number of basic household appliances in rural areas has increased rapidly. In 2021, rural


residents owned 103.5 refrigerators per 100 households, a 53.8% increase from 2012. The average number of washing machines in urban and rural areas, per 100 households, was 96.1, up 42.9% from 2012.


(Note: The total retail sales of consumer goods above designated size of enterprise demonstrated the change in consumption, which reached 16.03 trillion yuan in 2022. These include: wholesale businesses including foreign trade enterprises where the total annual sales of commodities is 20 million yuan or more; the retail businesses with annual gross merchandise sales over 5 million yuan; accommodation or catering businesses where the main business' annual income is over 2 million yuan.)


 The proportion of automobiles within the total retail sales of consumer goods above designated size of enterprise has increased every year, from 14.5% in 2003 to 28.6% in 2022.


 Sales of furniture, building and decoration materials, household appliances, and audio and video equipment experienced a gradual slowdown, from accounting for 12.7% in 2003, to 7.8% in 2022. Furniture sales grew from 0.8% in 2003 to 1% in 2022 and remained between 1.4% and

1.9% in the few years before the pandemic. The proportion of household appliances, and audio and video equipment sales decreased from 11% in 2003 to 5.5% in 2022.

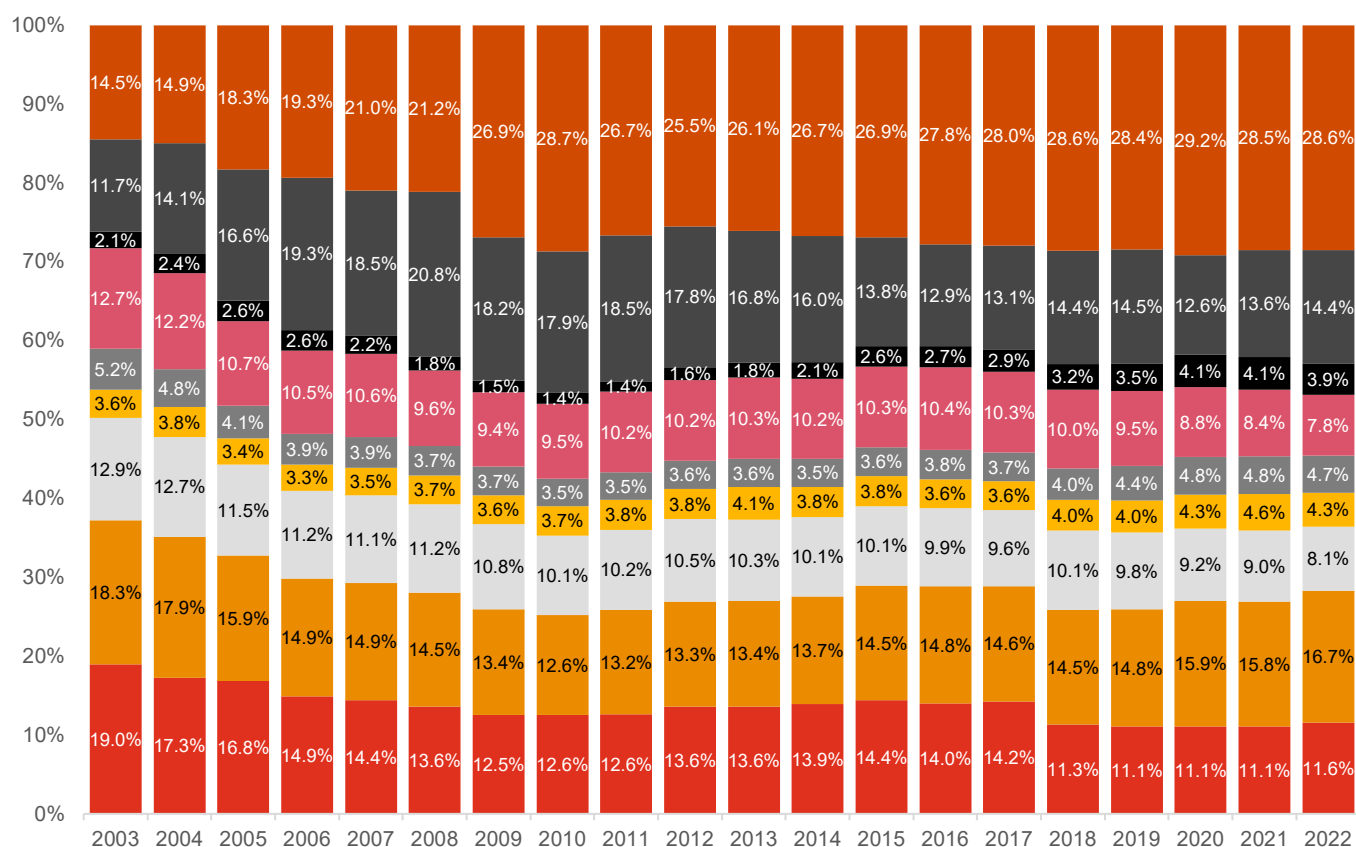
 The proportion of clothing, shoes, hats and knitwear decreased from 12.9% in 2003 to 8.1% in 2022.

 The contribution of communication equipment, including mobile phones, increased from 2.1% in 2003 to 3.9% in 2022. Without the COVID-19 impact, such figure would have accounted for over 4%.

 Possibly due to government intervention on drug prices, the proportion of Chinese and Western drugs decreased significantly, from 8.8% in 2003 to 4.2% in 2022.

 The proportion of automobile related oil consumption fluctuates due to variation in international oil prices. The proportion of grain and cooking oil, food, beverage, tobacco and alcohol, cosmetics, gold, silver and jewellery, daily necessities, cultural and office supplies have remained stable in the past 20 years.

The composition of total retail sales of consumer goods above designated size of enterprise 2003-2022



- Automobile
- Oil and products
- Communication equipment
- Furniture, construction and decoration materials, household appliances and audio-visual equipment
- Daily necessities
- Cosmetics, gold and silver jewelry
- Clothing, shoes and hats, needles, textiles
- Grain and oil, food, beverage, tobacco and alcohol
- Others

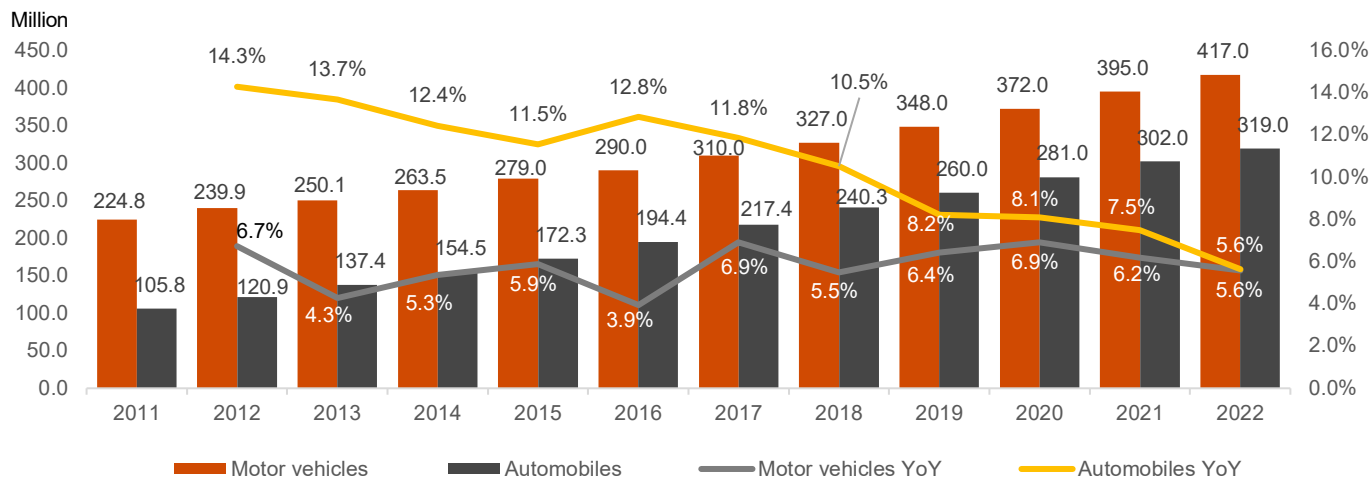
Note: The data are monthly cumulative values at the end of each year of the proportion of retail sales above designated size.

Automobile's role in the economy has grown to a vital position in recent years. China's automobile sales reached 26.86 million units in 2022, taking up the spot globally for 14

consecutive years. In 2022, the number of motor vehicles in China reached 417 million, which includes 319 million automobiles. The number of new energy vehicles reached 13.1 million,

accounting for 4.1% of the total, up 67.13% YoY. The output of new energy passenger vehicles exceeded 7 million in 2022.

Vehicle retention in the past 10 years



*The data are annual year-end data.

Source: Wind

(Note: In China, motor vehicles generally refers to vehicles that run on roads and are used for riding or transporting goods or carrying out special operations. Motor vehicles includes automobiles, trailers, trolleybuses, agricultural transporters, motorcycles, motor tricycles, transport tractors (including wheeled tractors with trailers) and wheeled special mechanical vehicles, among others, but do not include vehicles that run on railways.)

From 2013 to 2021, the average annual growth rate of car ownership was 11.6%. In 2021, the number of cars owned by every 100 households in China was 41.8, 2.5 times of that in 2013. Over 17 million used cars were sold in 2021, 3.7 times of that in 2012, with an average annual growth rate of over 14% from 2013 to 2021. At the same time, consumers continue to pursue increasingly better quality and performance, leading to strong demand for the replacement of high-end cars and strong sales of MPVS, SUVs and other models.

As such, the recovery of automobile consumption is key to stabilising and maintaining overall consumption in 2023. Cars, as one of the four biggest categories of consumption, which includes

household appliances, catering and home furnishing, accounted for 10% of total consumption of retail sales of consumer goods. With the addition of oil, the two items account for nearly 15% of total consumption. Through policy incentives, China will maintain a conducive environment for automobile consumption to give play to its role in pulling and driving the consumption as whole. According to the Ministry of Commerce, major policy measures in 2023 will include the followings:



First, China will stabilise the consumption of new cars. The country will promote car consumption, from purchase management to use management, for example, there are calls for removing the restrictions for purchasing cars in some local governments. In addition, various promotion activities will be carried out to stabilise the increase of new car consumption.



Second, China will support the consumption of new energy vehicles. Policy measures will guide the further optimisation of an environment friendly for new energy vehicles in various aspects such as license plates, charging and traffic.



Third, China will continue to expand the circulation of second-hand cars. China will accelerate the development of a national second-hand car information inquiry platform and revise the Administrative Measures for the Circulation of Second-hand Cars to make vehicle information more transparent. By doing so, it is expected to re-invigorate the existing market of 319 million automobiles and promote automobile consumption.



Fourth, China will encourage scrapping old cars for buying new ones. China will revise and improve the regulations on motor vehicle scrapping management, improve the recycling and utilisation system for motor vehicles, encourage, where conditions permit, the exchange of old vehicles for new ones, and promote the recycling of automobiles.



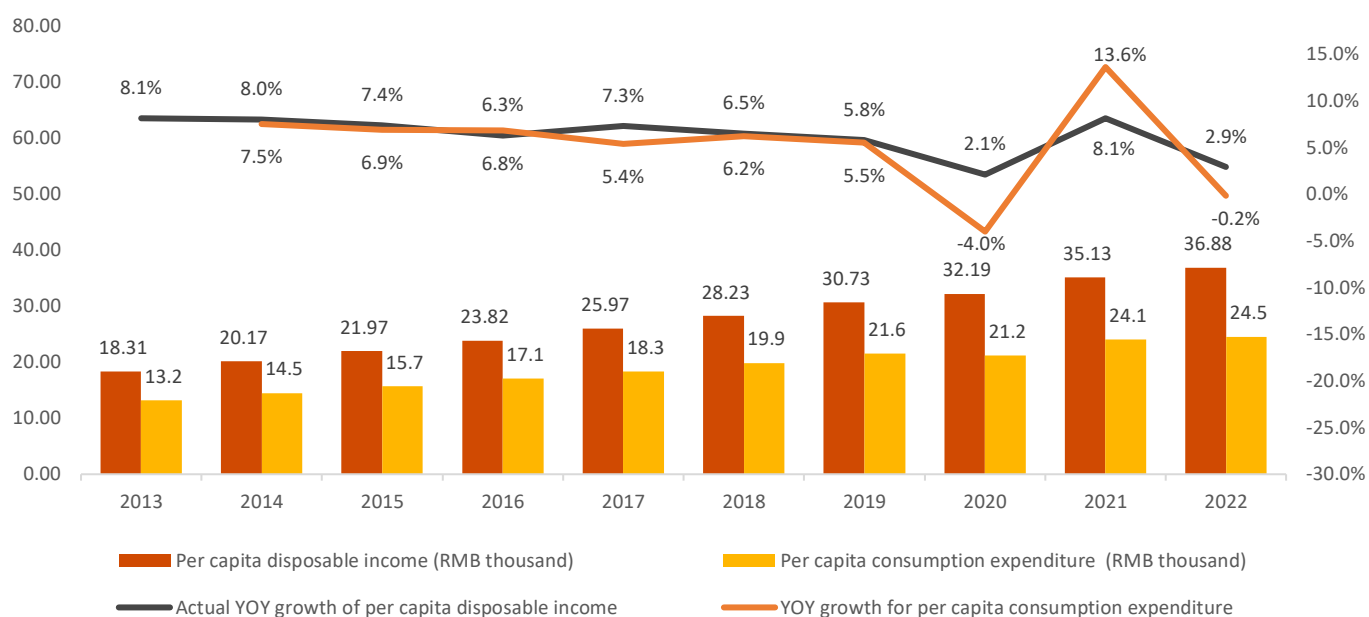
■ From the perspective of resident income, consumption expenditure changed dramatically in recent years

Steady growth of per capita GDP and personal income is a key factor supporting consumption upgrade. In 2021, per capita GDP reached 12,551 US dollars based on an annual average exchange rate. Including 2022, China's per capita GDP exceeded 10,000 US dollars for four consecutive years, reinforcing its rank among middle-income countries, while nearly reaching the threshold of high-income countries as classified by the World Bank.

In 2022, disposable income per capita was 36,883 yuan, a YoY nominal increase of 5%, or a real increase of 2.9% after deducting price factors. Disposable income per capita in 2021 increased by 18,618 yuan from 2012, reaching 35,128 yuan from 16,510 yuan. The 2021 increase represented a cumulative nominal growth of 112.8% and an average annual nominal growth of 8.8%. Deducting price factors, cumulative real income increased by

78% while average annual real income increased by 6.6%. Personal income growth is in-step with overall economic growth, and the average annual real growth rate of disposable income per capita from 2013 to 2021 is 0.5 percentage points ahead of per capita GDP.

China's per capita disposable income and per capita consumption expenditure in the past 10 years



Source: Wind

The steady growth of personal income means that the share of household income within gross national income gradually increased. In 2020, the total household income from primary income accounted for 62% of the total national income, 3.2 percentage points higher than in 2012. The workers' remuneration made up 52.7% of total household income, 2.9 percentage points higher than that of 2012. On the other hand, the share of household disposable income in gross national disposable income increased as a whole. In 2020, household disposable income accounted for 62.2% of national disposable income, an increase of 4.8 percentage points from 2012.

(Note: Primary income means, the first distribution of income through the market. For example, the salary of civil servants and corporate employees, and profit income of private company owners. Secondary income refers to transfer payments from the government, and includes funds injected by the state into urban and rural endowment insurance and medical insurance, basic

living security payments for laid-off workers, unemployment relief, the minimum living security of urban residents, among others.)

In 2022, growth in consumption expenditure slowed amid the height of the COVID-19 pandemic. More specifically the following was observed YoY and in relation to consumption expenditure per capita.



Per capita expenditure on food, tobacco and alcohol was 7,481 yuan, an increase of 4.2%, accounting for 30.5% of consumption expenditure per capita.



Per capita expenditure on clothing was 1,365 yuan, down 3.8%, accounting for 5.6% of the total.



Per capita residential expenditure was 5,882 yuan, up 4.3%, accounting for 24%.



Per capita expenditure on daily necessities and services was 1,432 yuan, up 0.6%, accounting for 5.8%.



Per capita expenditure on transportation and communications was 3,195 yuan, up 1.2%, accounting for 13%.



Per capita expenditure on education, culture and entertainment was 2,469 yuan, down by 5%, accounting for 10.1%.

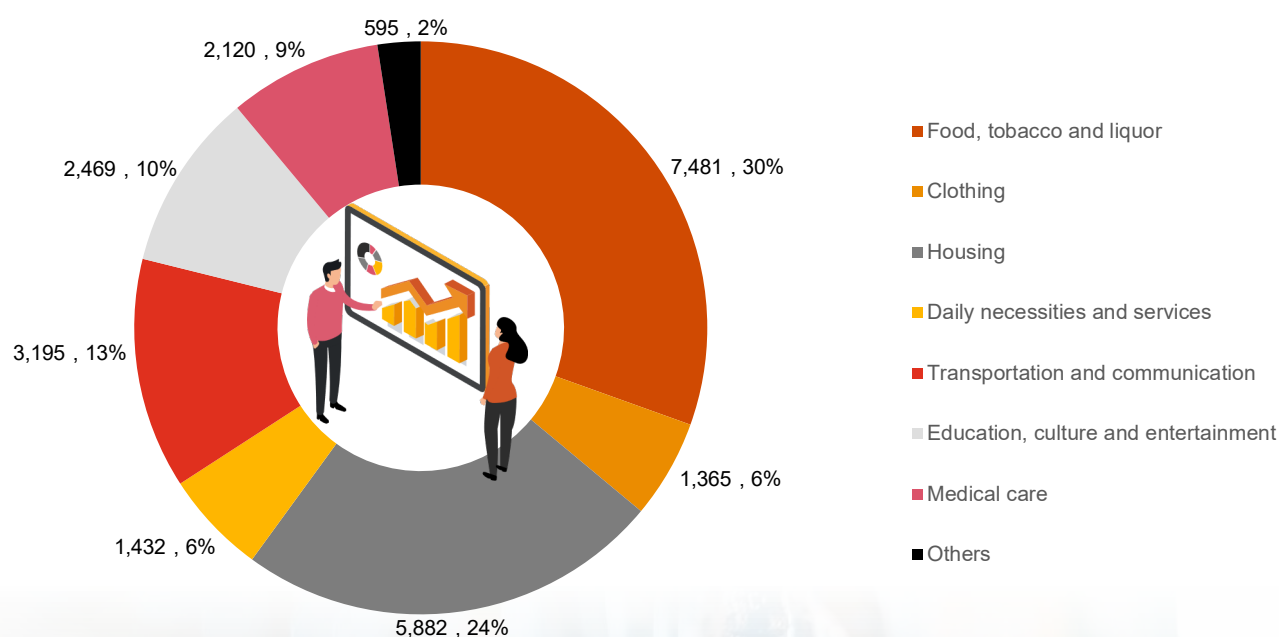


Per capita expenditure on medical and health care was 2,120 yuan, up 0.2%, accounting for 8.6%.



Per capita expenditure on other goods and services was 595 yuan, up 4.6%, accounting for 2.4%.

Consumption expenditure per capita and its growth rate in 2022



Source: National Bureau of Statistics

Additionally, in recent years, consumption expenditure on transportation, education, and medical and health care services has grown rapidly, and the proportion of spending on services has gradually increased. More specifically, in 2021, per capita expenditure on transportation and communications increased 117.5% from 2012 with an average annual growth rate of 9%. This was 1 percentage point higher than the average annual growth rate of national consumption

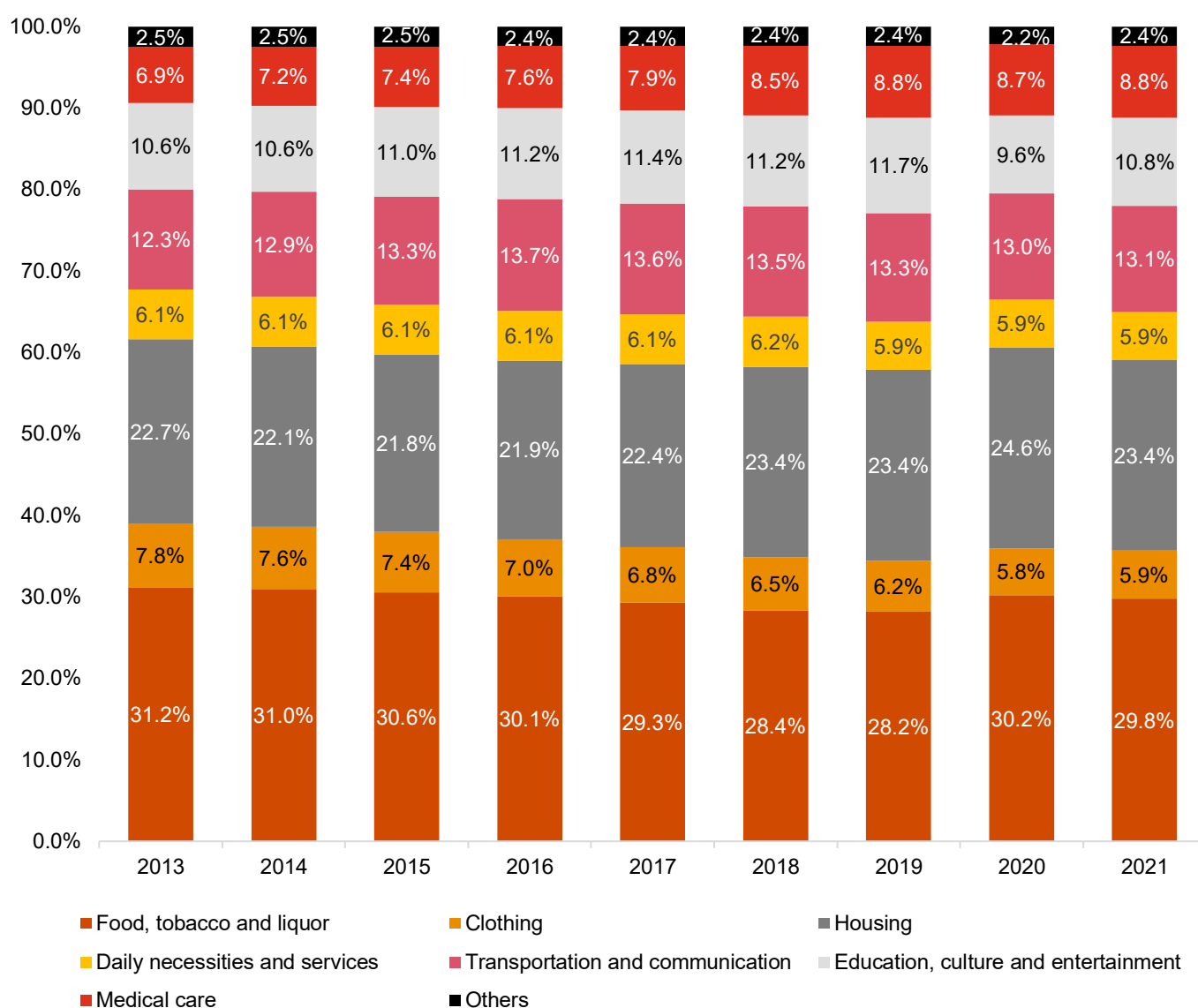
expenditure per capita, and accounted for 13.1% of per capita consumption expenditure.

Per capita expenditure on education, culture and entertainment in 2021 increased 106% from 2012 with an average annual growth rate of 8.4%, accounting for 10.8% of the per capita consumption expenditure.

In 2021, the per capita medical and health care expenditure increased

152.3% from 2012 with an average annual growth rate of 10.8%. It accounted for 8.8% of the per capita consumption expenditure, 1.8 percentage points higher than 2012. In 2021, per capita consumer spending on services accounted for 44.2% of per capita consumer spending, 4.5 percentage points higher than in 2013.

Composition of national consumption expenditure per capita from 2013 to 2021



Source: Wind

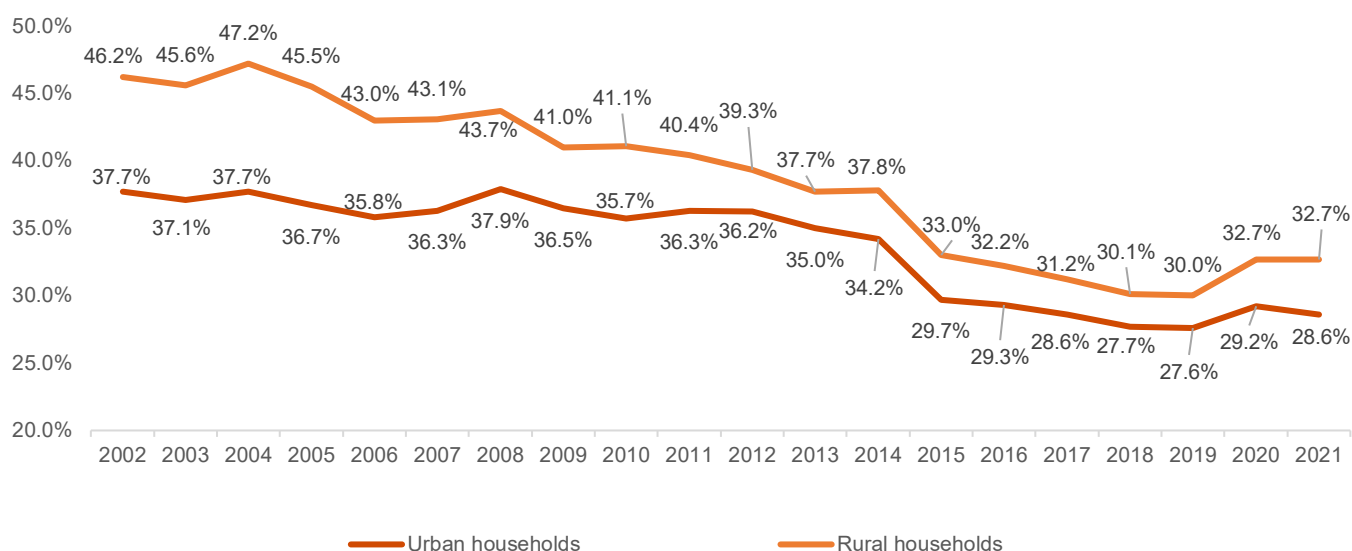
China's Engel Coefficient has gradually declined, which means that total expenditure on food makes up a smaller proportion of the total personal consumption expenditure. At the same time, food consumption has been upgraded. The decrease in the Engel Coefficient indicates an improvement in residents' living standard.

Per capita expenditure on food, tobacco and alcohol in 2021 was 7,178 yuan, an increase of 80.2%

from 2012 with an average annual increase of 6.8%. The proportion of spending on food, tobacco and alcohol in consumption expenditure decreased from 33% in 2012 to 29.8% in 2021, a decrease of 3.2 percentage points. Excluding tobacco and alcohol, food's share in consumer spending would see a greater drop. Per capita expenditure on food, tobacco and alcohol for urban residents was 8,678 yuan, an increase of 58.6% from 2012 with an

average annual increase of 5.3%. The Engel Coefficient of urban residents decreased by 3.4 percentage points from 32% in 2012 to 28.6% in 2021. At the same time, the Engel Coefficient of rural residents decreased by 3.2 percentage points from 35.9% in 2012 to 32.7% in 2021.

The Engel's Coefficient in the past 20 years



Source: Wind

Nevertheless, the consumption of food is also upgrading. For example, the consumption of animal food is gradually increasing with income growth. In 2021, China's total meat output increased by 5.19 million tons from 2012 with an average annual growth rate of 0.7% from 2013 to 2021. The proportion of pork consumption decreased, while that of cattle, sheep and poultry continued to rise, as consumers prefer a larger variety of meat. In 2021, pork production accounted for 58.9% of total meat production, down 5.4 percentage points from 2012. Meanwhile, the output of cattle, sheep, poultry and other meat increased to 41.1%. The output of poultry eggs saw an average annual growth of 1.9% from 2012 to

2021. Milk production also continued to increase, 4.71 million tons more in 2021 than 2012, representing an annual growth rate of 1.5%. Most of the food produced was consumed domestically in China. Some food imports were not included in the calculation.

To conclude, the COVID-19 pandemic and accompanying restrictions has been a challenge for the economy, which in turn dampened consumption growth. However, the trend of consumption being the most important driver of the Chinese economy will not change.

In 2023, sectors hardest hit by the pandemic, such as catering, tourism, airlines and hotels, will see the most

increases in spending. Policy stimulus is the main driver for the rapid recovery of automobile consumption, but it may bring forward future demand causing an overdraft. At the same time, the trend of new energy vehicles gradually replacing traditional combustion engine vehicles has become increasingly prominent. E-commerce will also likely return to its pre-pandemic high growth rate as consumption recovers. Finally, assuming the global economy and geopolitical situation does not further deteriorate in 2023, Chinese consumption will recover and become an important stabilising force for the overall economy.



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