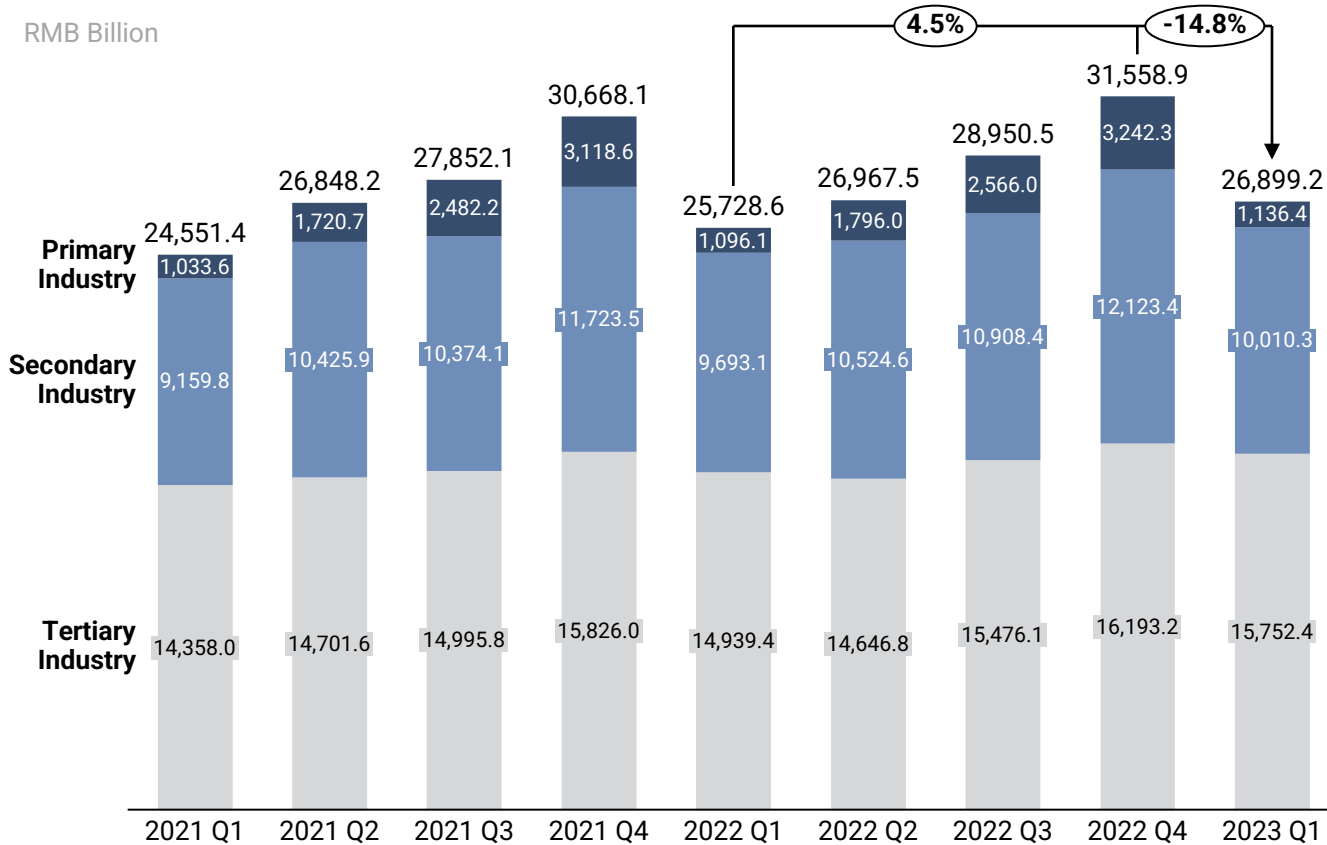




China Macroeconomic Developments 2023 Q1

China's GDP grew in Q1 2023 by 4.5% and has beaten the market expectation slightly.

Macroeconomic Trend: China's Quarterly GDP, 2021 - 2023



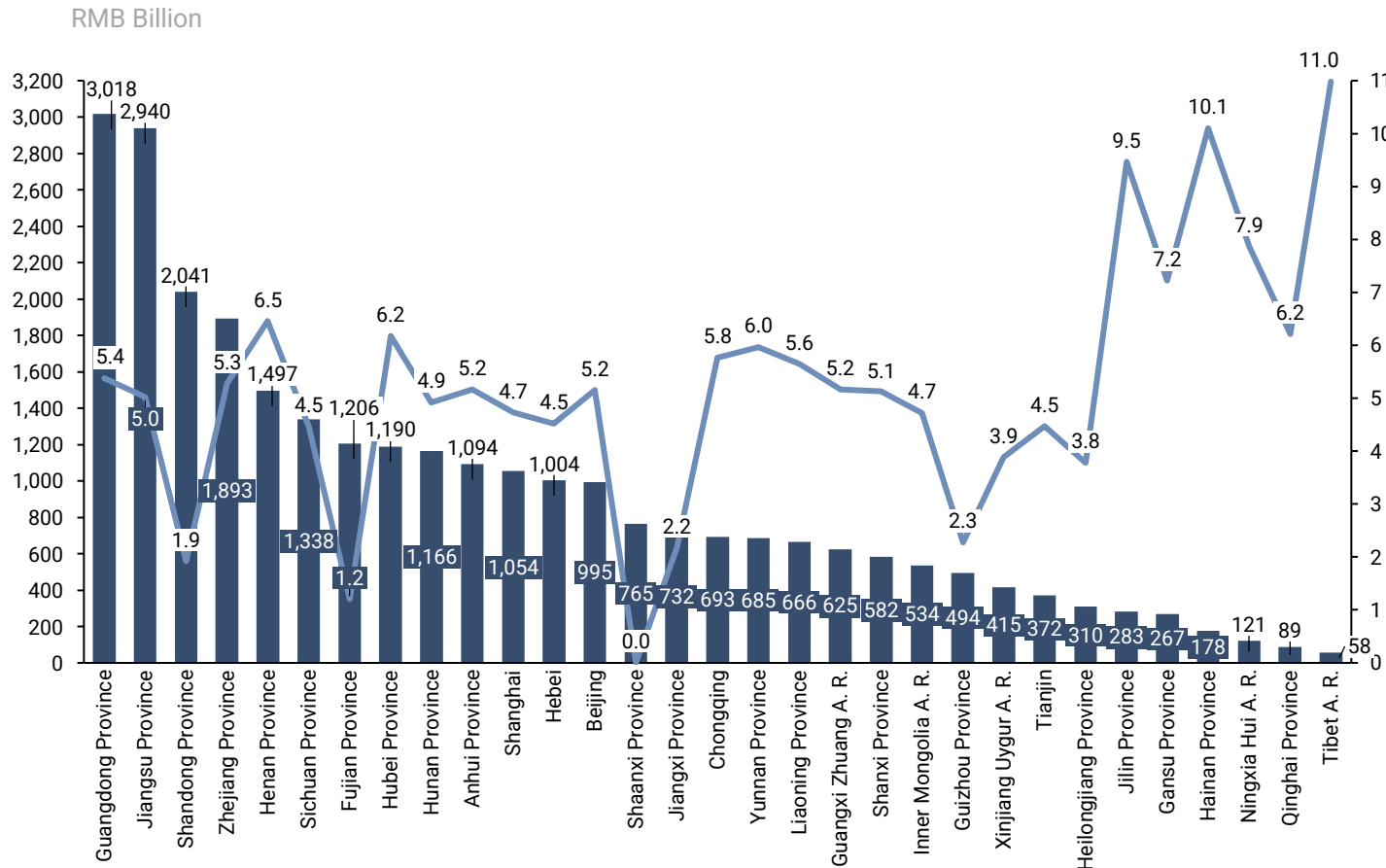
Source: National Bureau of Statistics

Take Away

- GDP (at constant prices) increased by 4.5% year-on-year in the first quarter of 2023. The GDP growth expectation of 4% has been beaten. This is significantly higher than the GDP growth of 2.9% in the fourth quarter of 2022.
- The tertiary sector is currently growing the fastest at 5.44% year-on-year. The primary and secondary sectors grew only by 3.68% and 3.27%, respectively.
- In the services sector, GDP growth was particularly strong in accommodation and food services (13.6%), information transmission, software and information technology (11.2%), and financial services (6.9%).
- The added growth of companies financed by foreign investors or investors from Hong Kong, Macao, and Taiwan fell by 2.7%.
- Large GDP growth was also seen in investment in high-tech manufacturing (15.2 percent) and high-tech services (17.8 percent).
- The overall GDP growth target for 2023 was set around 5% and thus was not yet achieved in the first quarter.

The recovery of GDP growth is proceeding at different rates in the individual provinces.

Macroeconomic Trend: GDP & GDP Growth Rate Q1 2023, per Province



Source: National Bureau of Statistics

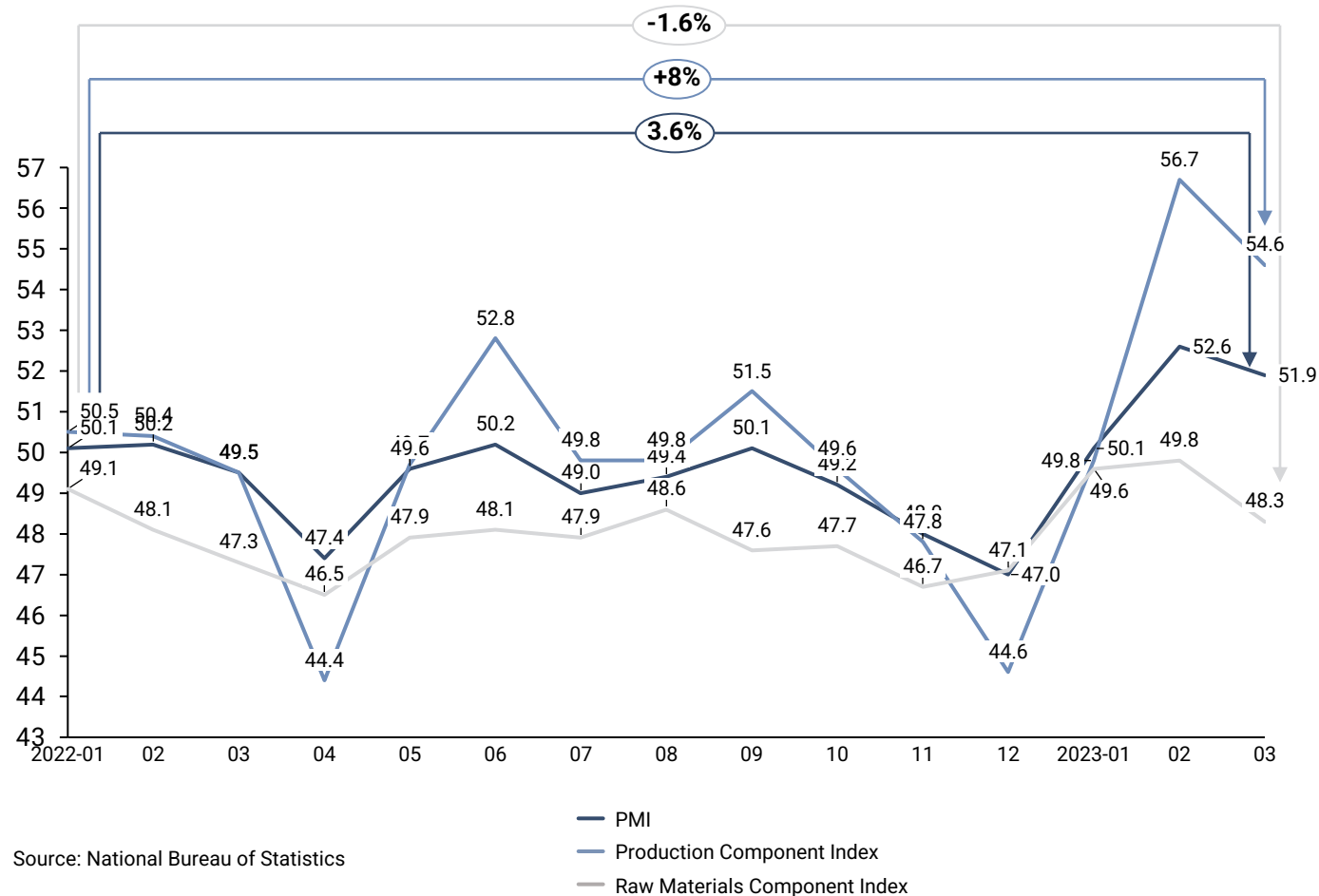
— Year-on-year growth ■ GDP

Take Away

- Compared to the previous year, GDP growth is noticeable in all provinces.
- Of the six economically most important provinces, all except Shandong Province (1.9%) grow by more than 5%.
- The lowest growth occurred in Shandong Province (1.9%), Fujian Province (1.2%), and Shaanxi Province (0.0%). This is due to a lack of market demand, increasing operating costs for enterprises, and the fact that the peak of COVID disease occurred later in the province than in other parts of China.
- The highest GDP growth was recorded in the following five more underdeveloped provinces: Tibet A. R. (11.0%), Hainan Province (10.1%), Jilin Province (9.5%), Ningxia Hui A. R. (7.9%), Gansu Province (7.2%), and Qinghai Province (6.2%). Infrastructure projects continue to be the drive growth in that provinces.

The Purchasing Managers' Index recovered strongly in the first quarter of 2023, breaking through the important 50-point barrier.

Macroeconomic Trend: Purchasing Managers' Index, Last 12 Month



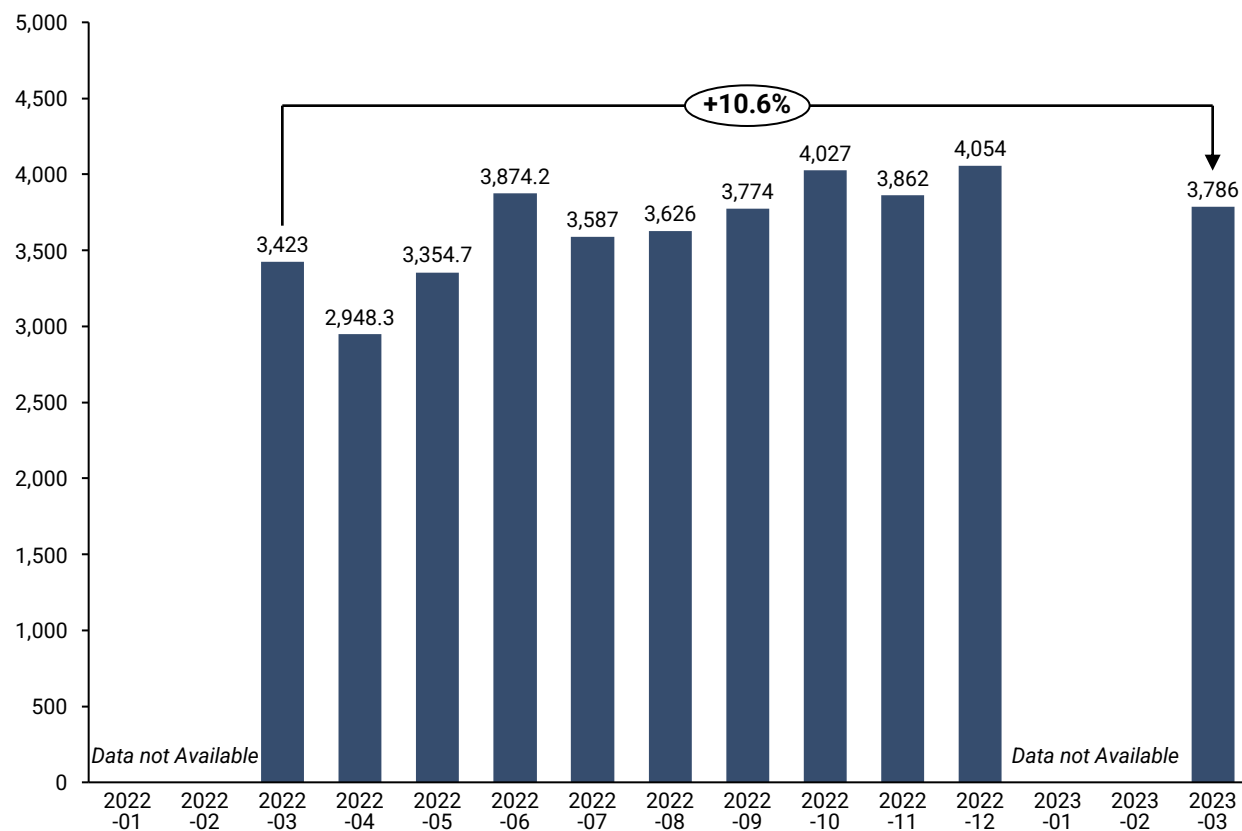
Take Away

- The manufacturing purchasing managers' index (PMI) is a composite index calculated by weighting the following five indices: New Orders Index, Production Index, Employee Index, Supplier Lead Time Index, and Raw Materials Inventory Index.
- The PMI rose by 3.6% year-on-year, following two-quarters of declining PMI. In particular, the Production Component Index rose significantly by more than 10 points to 56.7 in February.
- In particular, the production of goods in solar cells (53.2%) and new-energy cars (22.5%) continued to grow year-on-year strongly.
- However, it can be seen that the Raw Materials Component Index remains below 50 points, therefore indicating that commodity prices continue to decline.

Retail sales of consumer goods increased 10.6% year over year, in line with the expected increase following the end of COVID restrictions.

Macroeconomic Trend : Retail Sales of Consumer Goods, Last 12 Months

RMB Billion



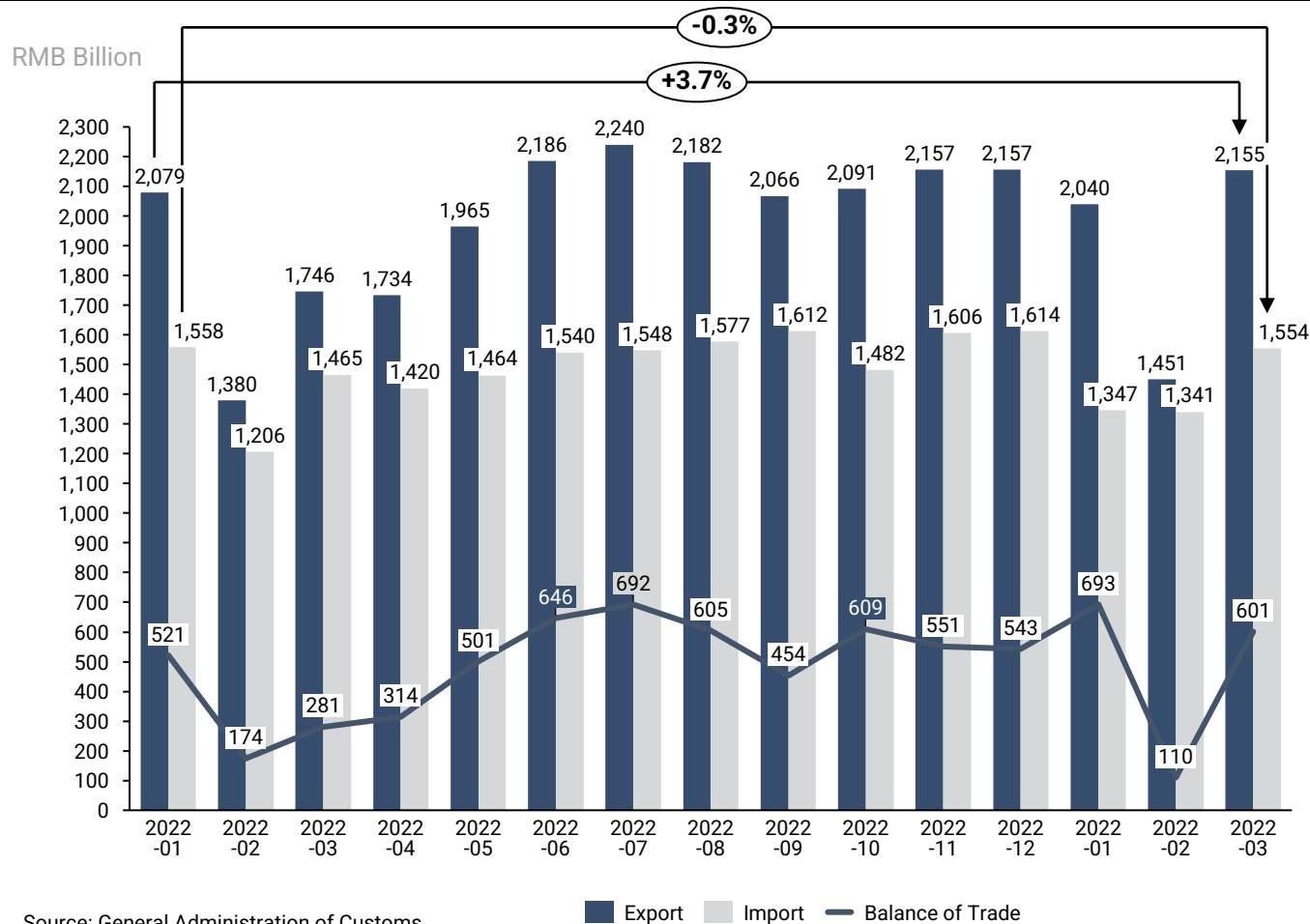
Source: CSMAR (China Stock Market Accounting Research)

Take Away

- In March alone, total consumer goods sales were up 10.6% year-over-year, indicating positive consumer sentiment about the future.
- This mainly goes back to the end of all control mechanisms regarding COVID. Boosting travel activities and offline consumption.
- The online retail segment grew 7.3% and accounted for 24.2% of total consumer goods sales in the first quarter of 2023.
- At the same time, Chinese consumers deposited CNY 9.9 trillion in bank deposits in the first quarter alone, more than half of the CNY 17.8 trillion for the whole of 2022.
- For the Chinese economy to continue to grow in the rest of 2023, a further increase in domestic consumption is of great importance.

The 3.7% increase in export value following the opening of the country after COVID was considered rather underwhelming.

Macroeconomic Trend : Import and Export Values, Last 12 Months



Source: General Administration of Customs

■ Export ■ Import — Balance of Trade

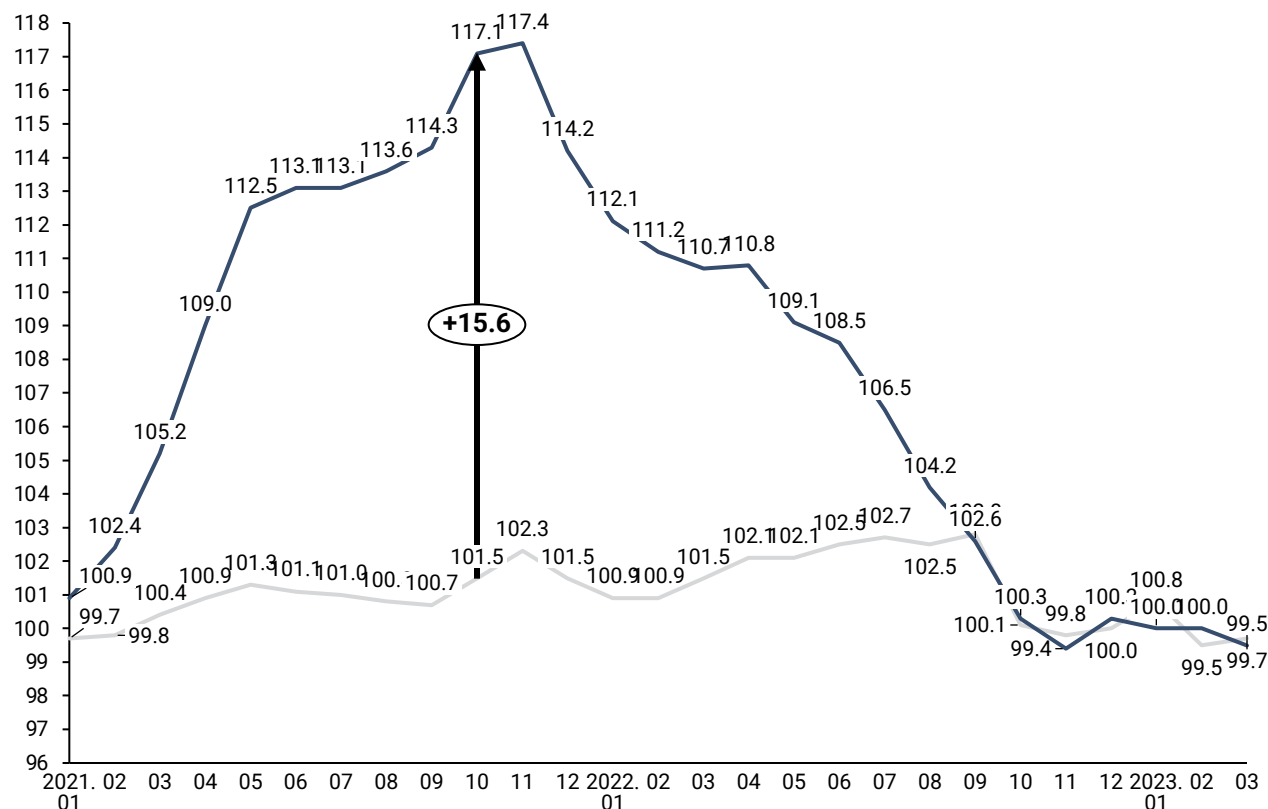


Take Away

- China's exports rose 3.7% year-on-year to RMB 2,155 billion in March 2023, while imports fell -0.3% year-on-year to RMB 1,554 billion
- After a decline in the last two quarters, a slight increase in exports is finally seen in the first quarter of 2023.
- This increase in exports is mainly due to a surge in demand from Southeast Asia and countries along the Belt and Road Initiative (BRI). The amount of goods trade between China and BRI countries rose 16.8% year-on-year in the first quarter of 2023.
- Goods trade between China and the Regional Comprehensive Economic Partnership (RCEP) countries grew by 7.3%, while exports increased by 20.2%.
- In the first quarter, exports to Germany fell by 11.7% to RMB 252.91 billion and are now below imports of RMB 261.52 billion, which fell by only 3.3%.

At the end of the Q1 2023, CPI and PPI fell below the important level of 100 points.

Macroeconomic Trend: CPI and PPI Index, Last 24 Months



Source: CSMAR

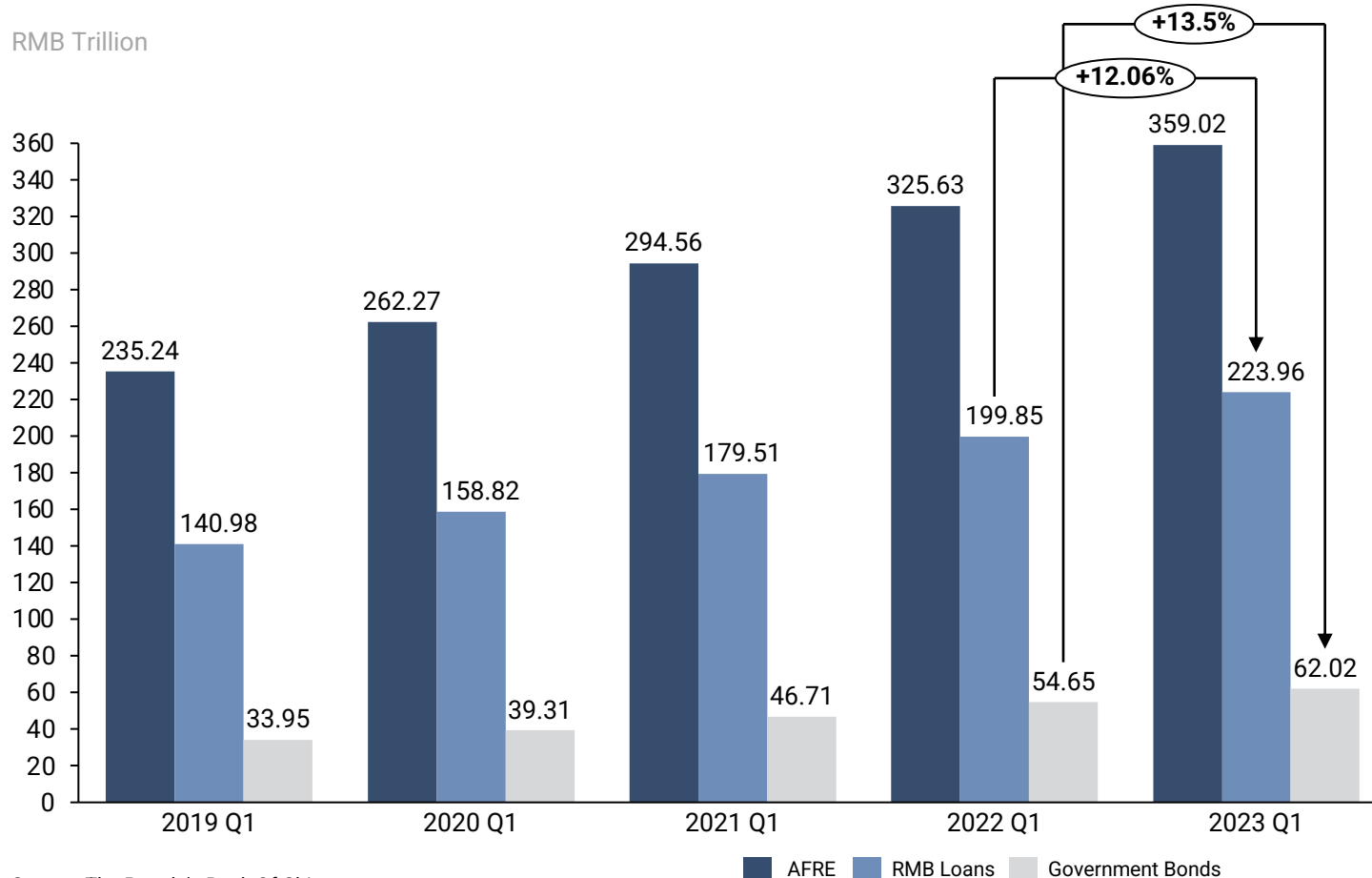
— Consumer Price Index — Producer Price Index

Take Away

- The Producer Price Index (PPI) has steadily declined since its peak in 2021 and now stands at 99.5 points in March 2023.
- The Consumer Price Index (CPI) continued to decline in the first quarter of 2023 and now stands at 99.7 points in March 2023.
- The reason for this decline is persistently low demand coupled with constant supply. Both consumer inflation and producer prices for industrial products were down from the previous year, reflecting the fact that demand has not recovered sufficiently to raise prices.
- The increase in food prices was also rather moderate: fresh fruit increased by 11.0%, pork by 8.5%, cereals by 2.5%, and fresh vegetables by 2.9%.
- This data has sparked a debate on whether China's economy is heading for deflation, but the Chinese government dismisses this, as the slowdown in CPI growth is mainly due to the impact of some seasonal factors, such as the drop in fuel prices, the large discounts offered by automakers due to the expiration of auto subsidies and the adjustment of China's emission standards.
- In the second half of 2023, the price index is expected to settle back to a reasonable level if the Chinese economy recovers steadily.

In the first quarter of 2023, government bonds issued (13.5%) expanded faster than the total AFRE (10.3%).

Macroeconomic Trend: Aggregate Financing to the Real Economy, Q1 2019 - 2023



Source: The People's Bank Of China

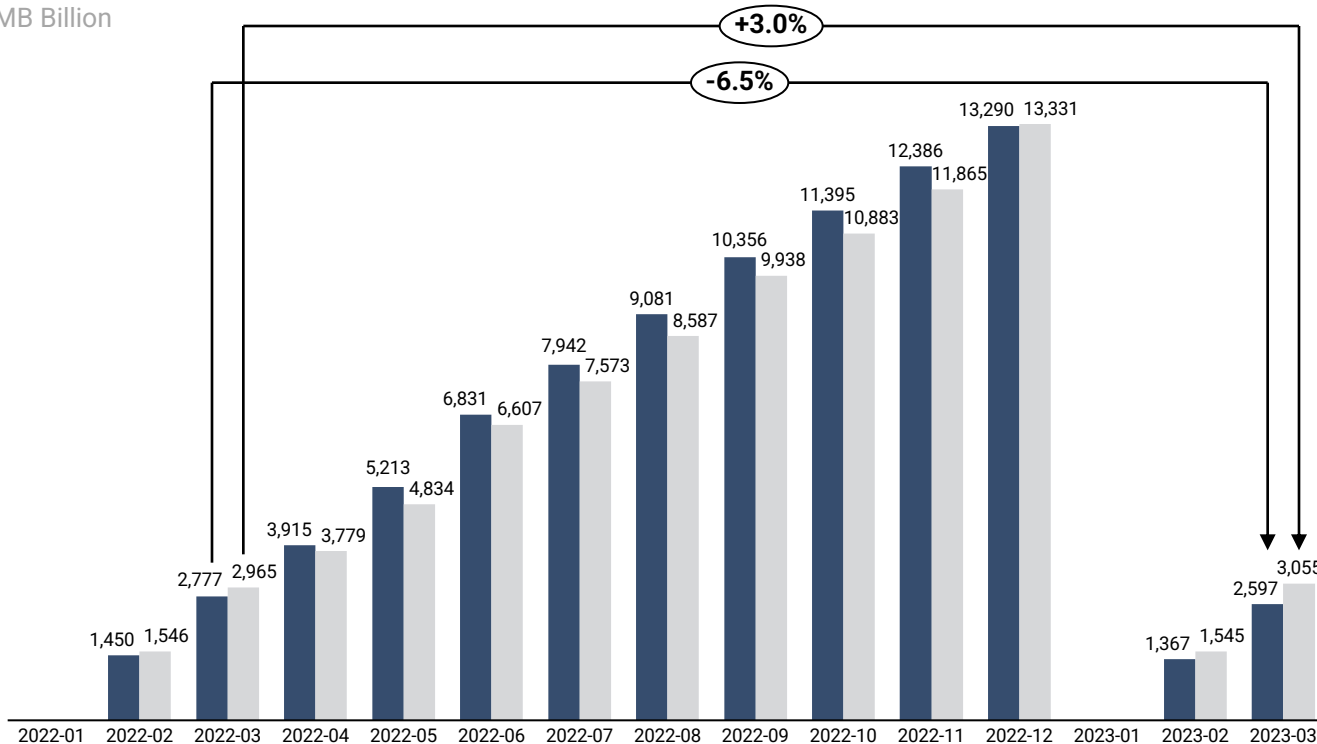
Take Away

- Aggregate Financing to the Real Economy (AFRE) is a broad measure of annual liquidity flow in China introduced by the Chinese central bank. It indicates how much funding the real economy has received from the financial system.
- In this context, the amount of AFRE increased by 10.25% to RMB 359.02 trillion at the end of the first quarter.
- The expansion in capital supply mainly originated from loans written off (+15.7% YoY), government bonds (+13.5% YoY) and RMB loans (+11.7 YoY).
- Foreign currency-denominated loans continued to show the sharpest decline, falling by -19.3% year-on-year.
- The decline in foreign currency-denominated loans is a further indication of the loss of confidence on the part of foreign investors.

Real estate investment fell by 6.5% year-on-year, indicating that the situation in the Chinese real estate sector remains challenging.

Macroeconomic Trend: China Real Estate Development Investment, Last 12 Months

RMB Billion



Source: National Bureau of Statistics

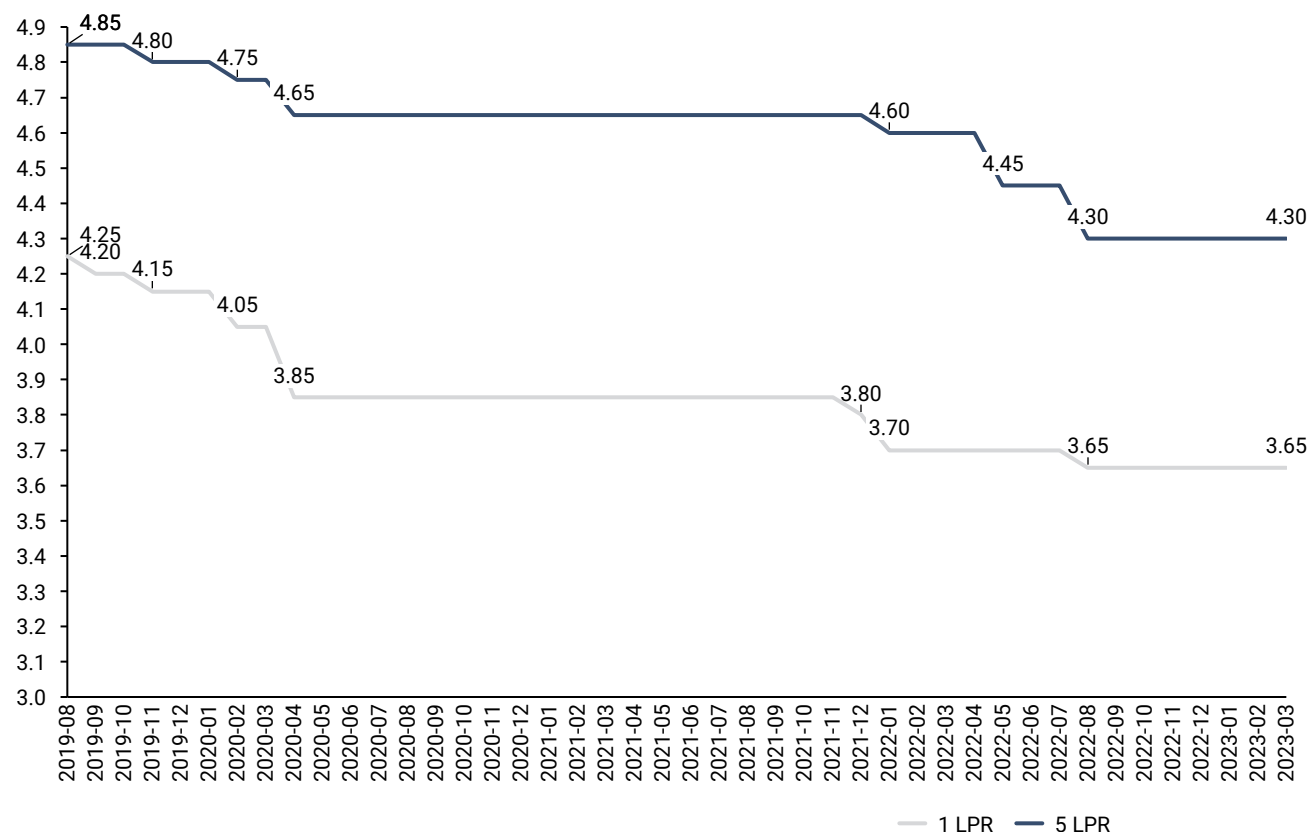
Real Estate Investment Sales of Commercial Properties

Take Away

- Real estate investments in March 2023 fell further by 6.5% year-on-year, which is a clear signal that demand in the real estate sector remains low.
- However, sales of commercial properties increased by 3.0% year-on-year. This indicates that local incentive systems are having a positive effect.
- The national housing sentiment index is still very low at 94.71 at the end of the first quarter. Chinese consumers still prefer to hoard their savings rather than invest in new real estate.
- In February, the price concessions in new housing projects were withdrawn in many places, and the prices of new apartments in 100 cities stopped falling and then rose again in March.
- However, a decline of 0.05% was recorded for used real estate in March. This price decline continues to increase ever so slightly.

China's central bank kept policy rates constant in the first quarter of 2023 as inflation remained very low.

Macroeconomic Trend: Central Banks Interest Rate LPR, Last 3 Years



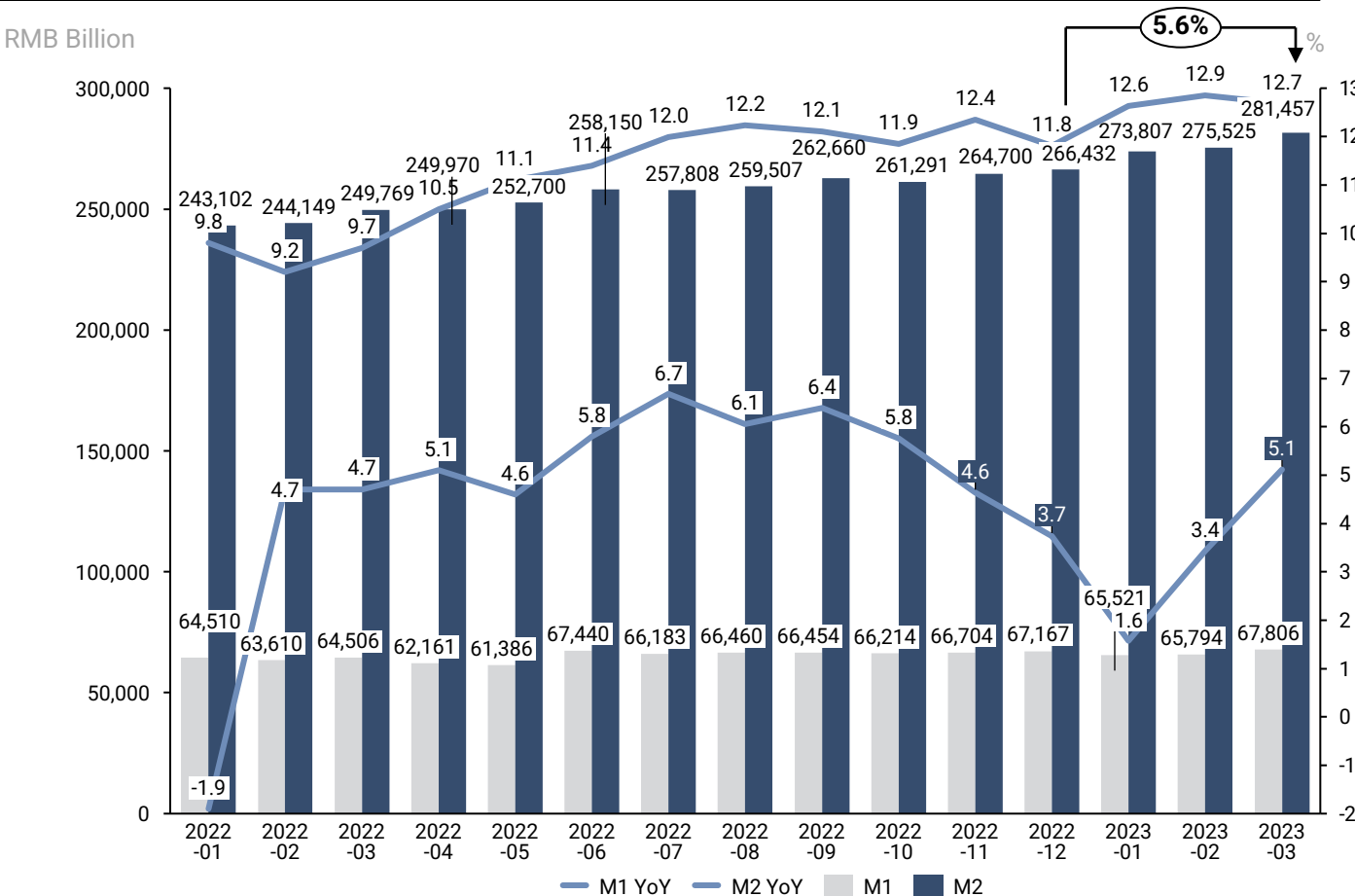
Source: The People's Bank Of China

Take Away

- Inflation for consumer and industrial goods remains very low compared to other countries. This is due to weak global demand and falling international commodity prices.
- Consumer inflation was 1.3% in the first quarter of 2023 (official target of 3 percent).
- In the first quarter of 2023, the USD depreciated against the RMB at the end of the first quarter, 1 USD now bought 6.87 RMB.
- Rising U.S. interest rates are increasing pressure on capital outflows from China. The ten-year Chinese government bond closed at the end of Q1 2023 with a yield of 2.874%, down 5 basis points from the end of Q4 2022.

At the end of Q1 2023, the M2 money supply has increased by 12.7% year-on-year, while the M1 available money supply has increased by only 5.1%.

Macroeconomic Trend: M0, M1 & M2, in 2022



Take Away

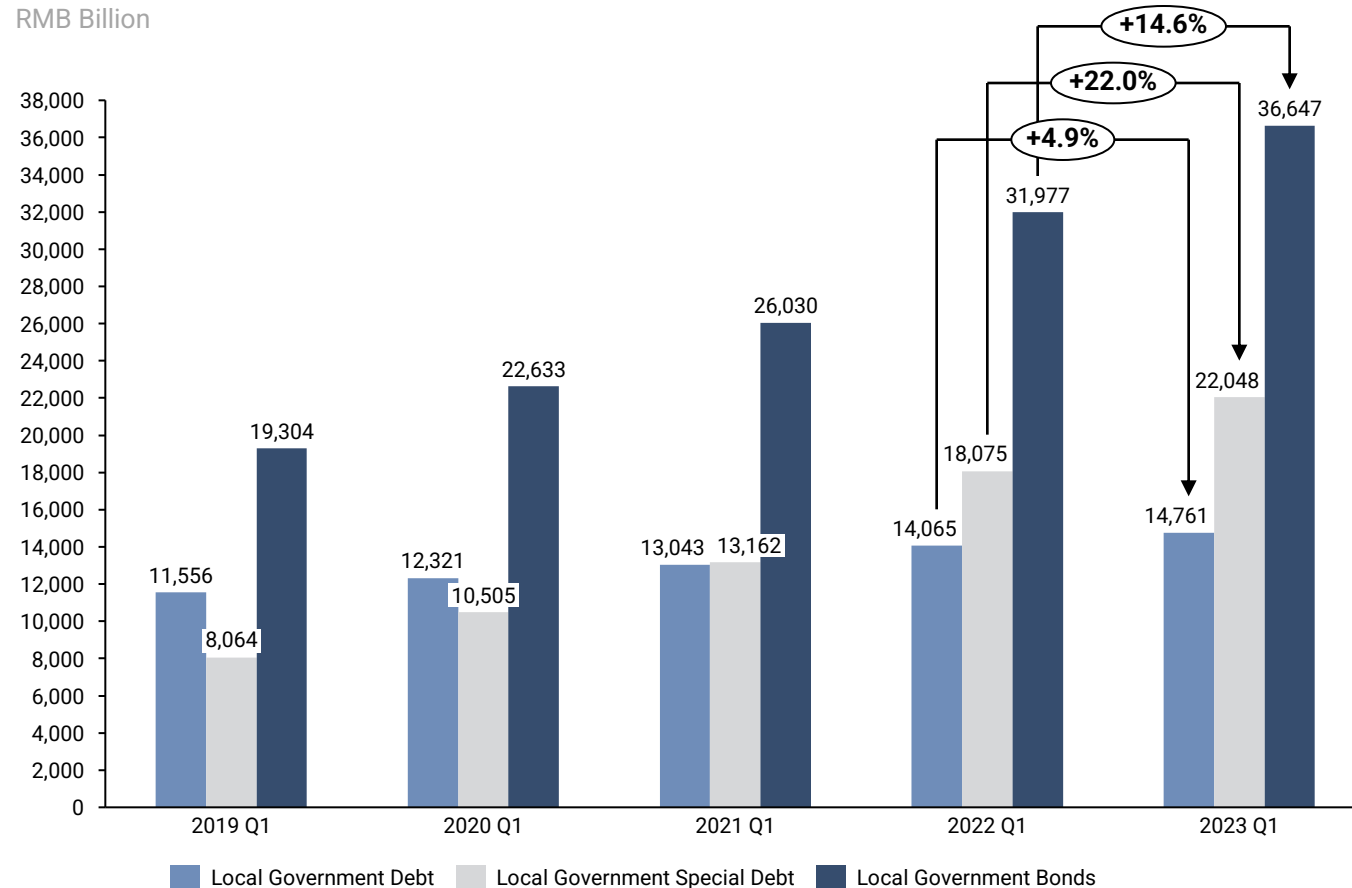
- The M2 money supply increased by 5.7% quarter-on-quarter to RMB 281,457 billion, and the M1 money supply increased by 1.0% quarter-on-quarter to RMB 67,806 billion in the first quarter of 2023.
- The expansion of the money supply is thus fairly linear by the central bank in the last 12 months, while less money arrives in the real economy.
- The People's Bank of China (PBOC) has launched different instruments to support small and micro enterprises based on a decision of the Central Committee of the Party and the State Council.
- Thus, from the start of 2023 to the end of June 2023, the People's Bank of China will provide funds equal to 1% of the increase in the balance of micro and small enterprise loans to local banks.

Source: National Bureau of Statistics

The local governments continue to raise substantial loans through the vehicle of local government special debt in Q1 2023.

Macroeconomic Trend: Government Debt, Last 4 Years

RMB Billion

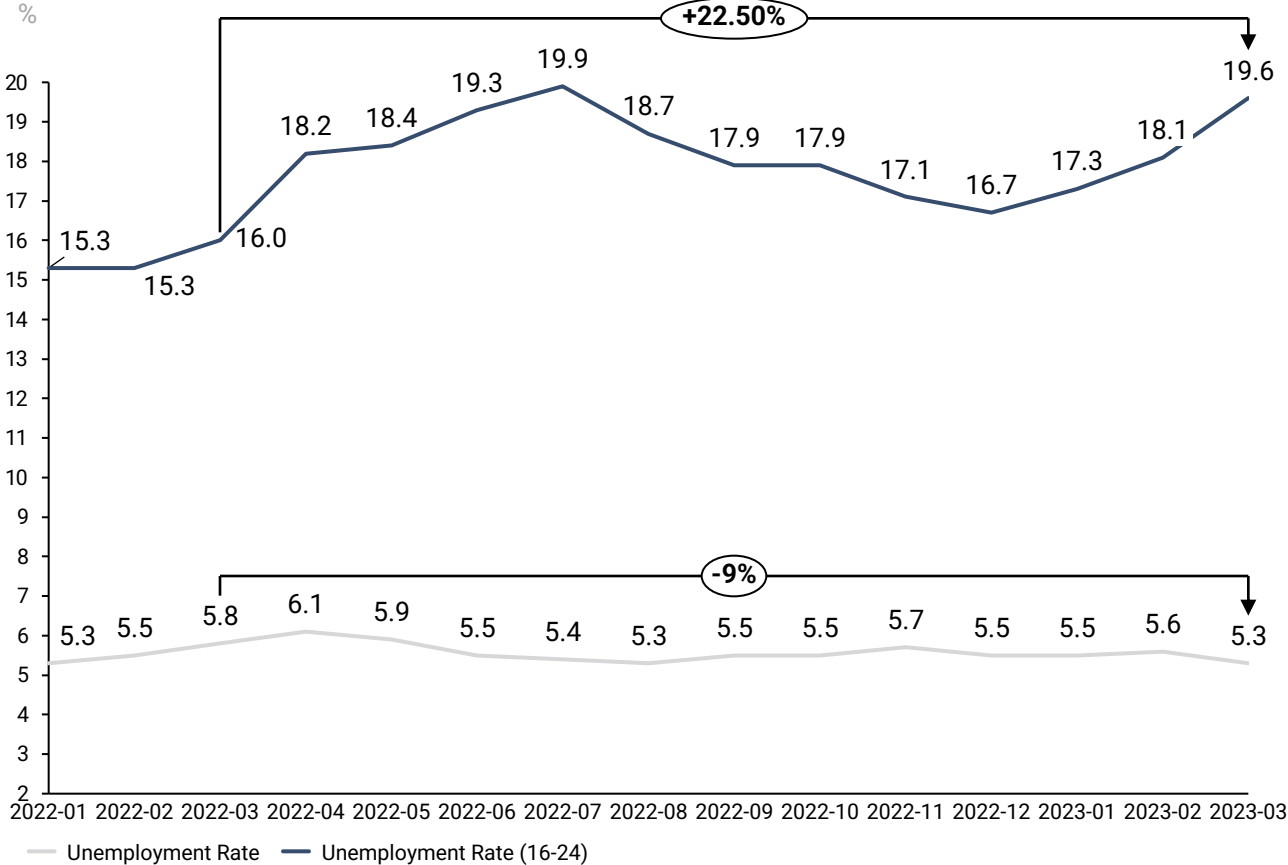


Take Away

- To stimulate the economy, government stimulus programs and tax breaks continue to be in place, further increasing central and local government debt.
- In Q1 2023, special debt continued to increase at the fastest rate of 22.0%, and thus this vehicle continues to be used to stimulate the economy.
- The decreased central government tax revenues are down 4.29% year-on-year to RMB 2.852 trillion at the end of Q1 2023.
- Overall, local government debt increased 14.78% to RMB 36.891 billion at the end of Q1 2023.

Youth unemployment has rises by 22.5% to 19.6% and thus remains a major problem in China.

Macroeconomic Trend: Monthly Unemployment Rate, Last 12 Months



Take Away

- Overall unemployment was reduced by 9% year-on-year to 5.3%.
- However, the youth unemployment rate of 19.6 in the first quarter is the second highest since the beginning of records.
- The youth unemployment rate indicates that the economy is currently still facing growth problems. When a record 11.6 million college graduates enter the job market this summer, the situation could worsen.

Source: CSMAR (China Stock Market Accounting Research)

CIMK (China Investment Market Knowledge) combines international market research capabilities with Chinese technological expertise.

CIMK Services

1 Data Strategy

- We support our clients in building a future-proof data strategy and infrastructure for the Chinese market.
- Optimize the use of data from internal and external data sources.
- China is fast and dynamic, so effective data structures are necessary for success.

2 Innovation & Trend

- China is increasingly becoming an innovation powerhouse. We utilize structured data processes to provide our clients with corporate innovation and startup-related innovation developments.
- With our help, our clients can stay up-to-date with the most relevant technological and innovation-related development in any of their industries.

3 Benchmarking

- We enable our clients to understand their situation in the Chinese market.
- We used the latest technology and experienced industry experts to identify your direct and indirect competition in China.
- We use customized criteria to compare your product to all of the competitor's products and product-related services.

4 Market Sentiment

- We capture all opinions and views Chinese consumers/ customers have on social media platforms or industry-specific associations.
- Understand better than ever what our client's customers feelings and what moves them.
- This allows our clients to adapt their products perfectly to the Chinese market.

5 Stakeholder Radar

- Based on all major company databases in China, we can offer our clients a structured and comprehensive process for finding the exact suppliers or B2B customers they need.
- By using various professional business networks in China, we are able to identify exactly the right contacts in the respective target companies.
- This way, we provide exactly the business information and contacts our clients need to expand in China.

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CEO



China Macroeconomic Developments 2023 Q1