

ECONOMIC PULSE

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CHINA: PENDING THE ECONOMIC REBOUND

In Q4 2022, China's economic growth slowed to 2.9% year-on-year (y/y) from 3.9% in Q3. In quarter-on-quarter terms, activity stagnated. Our Pulse below highlights a broad-based weakening in economic activity during the last quarter of 2022.

Growth in exports and industrial production has worsened significantly. Exports in value terms contracted by -6.6% y/y in Q4 2022, after an increase of +10.1% in Q3. Industrial production growth slowed to +2.8% y/y in real terms in Q4 2022, after having picked up to +4.8% in Q3. The manufacturing sector has been hurt by the slowdown in world demand and by the weakness of domestic demand - which has resulted, in particular, from lower auto sales (due to the lessening impact of tax incentives, from the persisting crisis in the property and construction sector, and from new significant disruptions due to the Covid-19 pandemic).

Until the beginning of December, this disruption resulted from the mobility restrictions imposed in various regions as part of the zero-Covid policy. Since December 7th, the very sudden and ill-prepared abandonment of this strict policy has plunged the country into further turbulence. The spike in the number of Covid-19 cases has resulted in new disruptions in factories (due to absenteeism). It has also weighed on household consumption and activity in the services sector during several weeks. In Q4 2022, services production fell by -0.9% y/y and retail sales volumes by -4%.

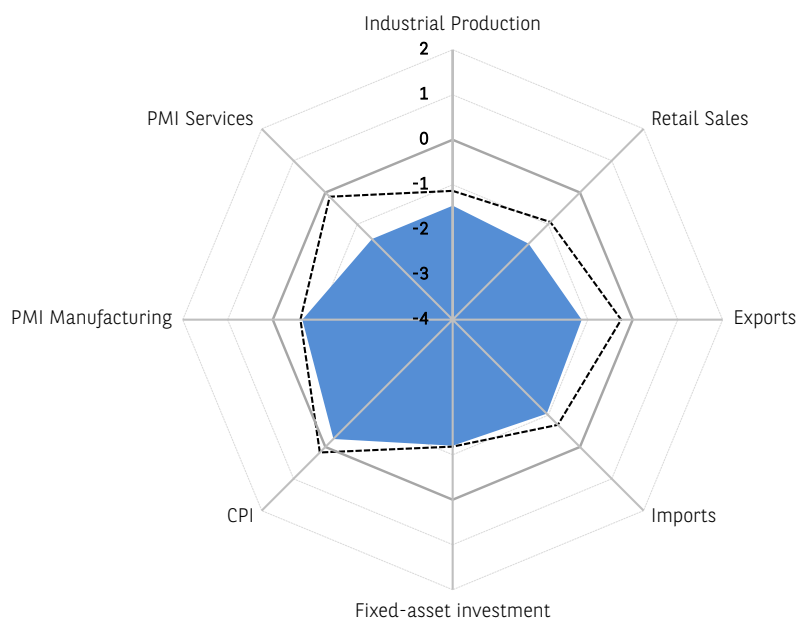
From the demand standpoint, data for 2022 as a whole show that economic activity has been firstly driven by investment. Its contribution to GDP growth reached 1.5 percentage point (pp) mostly thanks to public investment. The contribution of consumption was smaller (only 1.1 pp) and that of net exports was positive, standing at 0.5 pp. Real GDP growth reached 3% in 2022.

The epidemic wave and its effects on activity should ease from February 2023. This scenario assumes that the epidemic remains under control during the Chinese New Year period in the coming days, including in rural areas that have fewer hospitals and medical equipment.

Activity driven by domestic demand should then rebound, notably supported by a catch-up effect. The authorities are also considering a further strengthening of fiscal and monetary support policies, especially aimed at supporting the property sector. With these support measures, and assuming that the health situation improves, the property sector should, at best, stabilise over the course of 2023. Meanwhile, export growth should remain constrained by the slowdown in global growth.

Christine Peltier

CHINA: QUARTERLY CHANGES



SOURCE: NBS, BNP PARIBAS

The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -6 and +6. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.



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