

ECONOMIC PULSE

7

CHINA: REBOUND

In Q1 2023, Chinese economic growth stood at +2.2% quarter-on-quarter (compared to +0.6% in Q4 2022) and +4.5% year-on-year (compared to +2.9% in Q4 2022). Activity has indeed recovered rapidly since the abandonment of all the health restrictions last December. The real GDP growth rate in year-on-year terms is expected to accelerate further in Q2 2023.

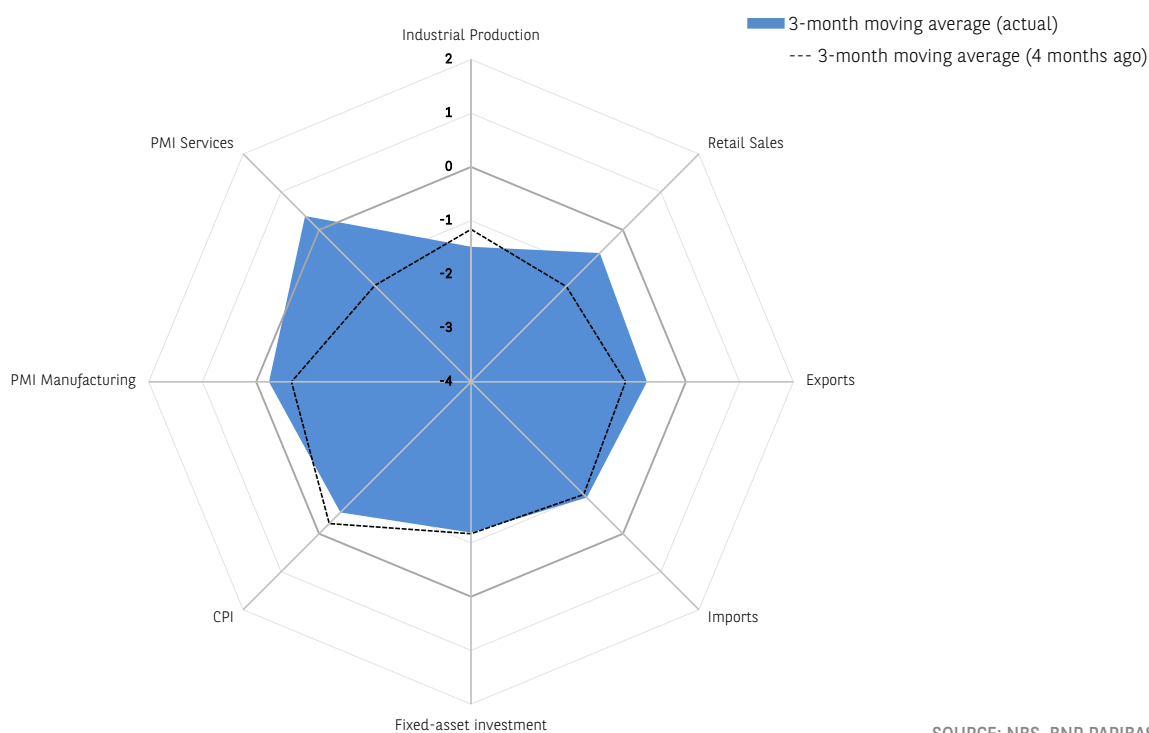
As shown in the graph below, the services sector has experienced the most significant recovery since the beginning of 2023, while acceleration in industry has been more moderate. Growth in services was driven by the strong recovery in retail trade, transport, restaurants and accommodation, which had contracted in 2022. The rebound in private consumption did not lead to an inflationary surge. On the contrary, consumer price inflation slowed in Q1 2023 (reaching +1.3% y/y vs. +1.8% in Q4 2022), notably due to the slower increase in food and fuel prices. Core inflation only accelerated slightly and remained low (+0.8% in Q1 2023 compared to +0.6% in Q4 2022).

Thanks to the reopening of the economy and support measures implemented by the authorities, the crisis in the real estate sector has subsided: completed floor space increased y/y in Q1 2023, after five consecutive quarters of decline. Property sales continued to fall, but at a much slower pace than in previous months (-3.5% y/y in Q1 2023, compared to -24.3% in 2022), and the average house price in the country's 70 main cities has started to stabilise. On the other hand, floor space under construction and real estate investment continued to fall in Q1 2023.

In industry, the weakening of activity during the zero-Covid policy period was much less severe than in services. The recovery in industrial production since January has naturally been more modest. However, growth in the industrial sector was also held back by the contraction in computer and semiconductor production, which resulted from the turnaround of the global electronic cycle as well as very strict controls imposed by Washington on electronic component sales to Chinese companies. Geopolitical tensions and the slowdown in global demand, added to regulatory uncertainties on the domestic market, should continue to fuel uncertainties among Chinese investors at least in the short term. Neither manufacturing investment nor total investment growth accelerated in Q1 2023.

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 -4 and +2. 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.



BNP PARIBAS

The bank
for a changing
world