

## CHINA: THE LOSS OF MOMENTUM IS CONFIRMED

China's post-Covid economic rebound is running out of steam with surprising speed. Indicators for May 2023 show a slowdown in all demand components. The authorities announced slight cuts in policy rates on 13 and 15 June and are expected to introduce further support measures in the coming weeks. There is indeed an urgent need to strengthen consumer and investor confidence in China. However, stimulus policy measures should remain cautious.

The recovery in services and household consumption growth, which followed the abandonment of the zero-Covid policy last December, is already losing momentum. For example, retail sales volumes increased 12.5% year-on-year in May, down from 18.3% in April and about 5% in Q1 2023. However, year-on-year growth figures are still inflated by favourable base effects stemming from the very strict lockdown imposed in the Shanghai region in spring 2022. This explains the apparent improvement, visible on our Pulse, in economic conditions in the three months between March and May 2023 compared to the previous three months.

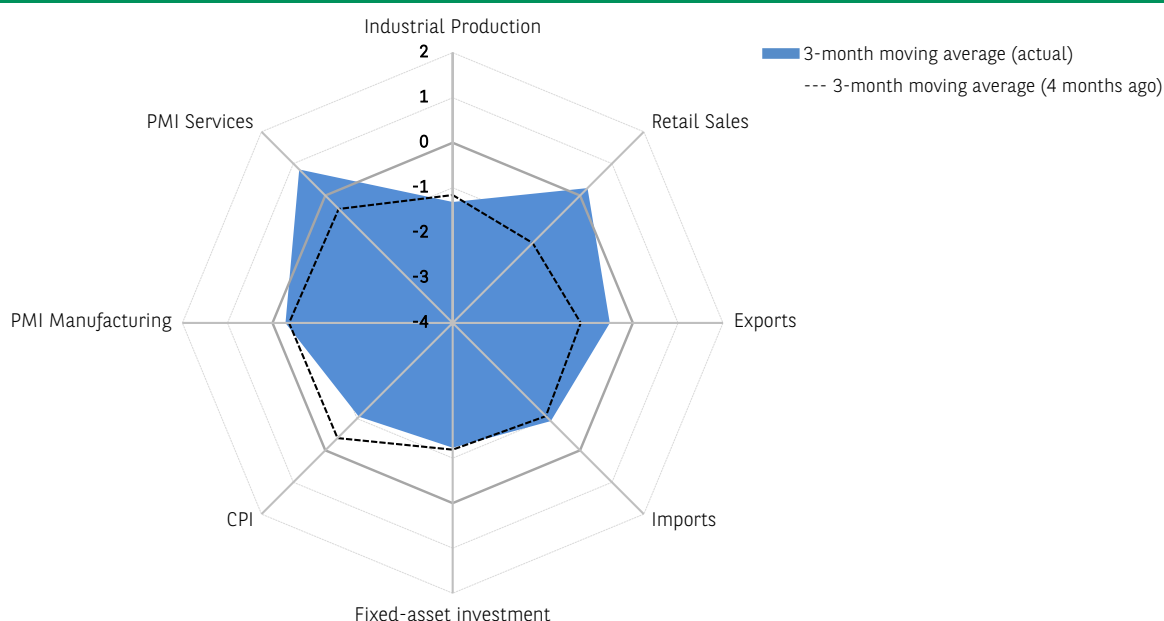
In fact, Chinese households contain their spending and prefer to deleverage. They remain cautious given uncertainty about their income prospects and the ongoing crisis in the real estate sector. The unemployment rate in urban areas remained stable at 5.2% in May, after two months of slight decline, and is close to its pre-Covid level. However, the unemployment rate among young people aged 16-24 continued to rise, reaching a record high of 20.8% (vs. 12% in 2019). Consumer price inflation remains very low (+0.2% in May in g.a. after +0.1% in April and +1.3% in Q1 2023).

The property market crisis is persisting. Admittedly, the number of construction sites completed has recovered since the beginning of the year, thanks in particular to support measures of the authorities, which have targeted real estate developers able to finalize ongoing projects and deliver pre-paid housing in order to strengthen confidence in the housing market. Nevertheless, potential buyers sentiment still appears depressed and many developers continue to face significant financial difficulties. Housing sales fell by 16% in g.a. in May, and the contraction in real estate investment worsened (reaching -7.2% in g.a. the first five months of 2023). This contributed significantly to the slowdown in total investment growth (+4% in value terms only in the first five months of 2023).

Finally, industrial production growth slowed down to +3.5% in May from +5.6% in April and +3% in Q1 2023. It is heavily penalized by the slowdown in world demand and tensions with the US. In May, China's exports of goods fell again (-8% in g.a. in current USD) after the rebound posted in March-April, and the decline in imports continued (-5.1% in g.a. May after -7.8% in April).

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.

