ECONOMIC PULSE

CHINA: SOFT PATCH

Chinese economic activity contracted by 2.6% quarter-on-quarter in Q2 2022, with almost zero growth (0.4%) year-on-year. This poor performance was primarily the result of mobility restrictions introduced in several of the country's provinces in response to the latest wave of the Covid-19 pandemic, with the strictest restrictions in force from March to May in major economic centres such as Shanghai. The economic shock in Q2 2022 was severe and unexpected, but was nevertheless less violent than that in Q1 2020, when the lockdown measures introduced at the beginning of the crisis resulted in a collapse in activity of 10.3% q/q and 6.9% y/y.

Industrial activity restarted during May, more rapidly than activity in the services sector. Yet, industrial production growth slowed to 0.6% y/y in Q2 2022 as a whole (from 6.5% in Q1 2022). Industrial activity was supported by a rebound in exports, which were hit hard by supply disruptions in the manufacturing sector and difficulties in the transport of goods from March to May. Export performance in June was even a positive surprise (+17.7% y/y in current USD in June and +12.7% in Q2 vs. 14.9% in Q1). Imports of goods increased by only 2.4% y/y in Q2 2022 (from 11.4% in Q1), reflecting weak domestic demand. As a result, the trade surplus increased sharply: it rose from USD163 billion in Q1 to USD228 billion in Q2, and in June set a new record for a single month at USD98 billion.

In the services sector, activity fell by 3.3% y/y in Q2 2022 (after an increase of 2.5% in Q1). After three months of contraction, activity in the tertiary sector made only a timid recovery in June (1.3% y/y). Retail sales remained weak: sales volumes fell by 9% y/y per month on average between March and May, and their recovery in June was very feeble (estimated at 0.6% y/y). The crisis in the real estate sector continued to hit the consumption of durable goods and activity in services. In June, property sales volumes fell 18.3% y/y, the 12th consecutive monthly fall.

Chinese consumers are anxious and worried by the possibility of further lockdowns. Growth in real disposable income has been held back by the (still very modest) acceleration in consumer price inflation (from 1.5% y/y in December 2021 to 2.5% in June 2022) and, most importantly, by the deterioration in the labour market. The recovery in activity in June helped bring average national urban unemployment down to 5.5%, from 5.9% in May (compared to 5.1% in June 2021), and the unemployment rate in the country's 31 biggest cities to 5.8% (from 6.9% in May). However, unemployment for those aged between 16 and 24 continued to increase with the arrival of graduates onto the labour market, hitting the record level of 19.3% in June (it was 11.6% in June 2019).

Lastly, domestic investment growth slowed slightly to 6.1% y/y over the whole of the first half of 2022. It was boosted by a small acceleration in infrastructure investment, but manufacturing investment growth continued to decelerate (+10.4% y/y in H1) and real estate investment continued to shrink in June (-5.4% y/y in H1).

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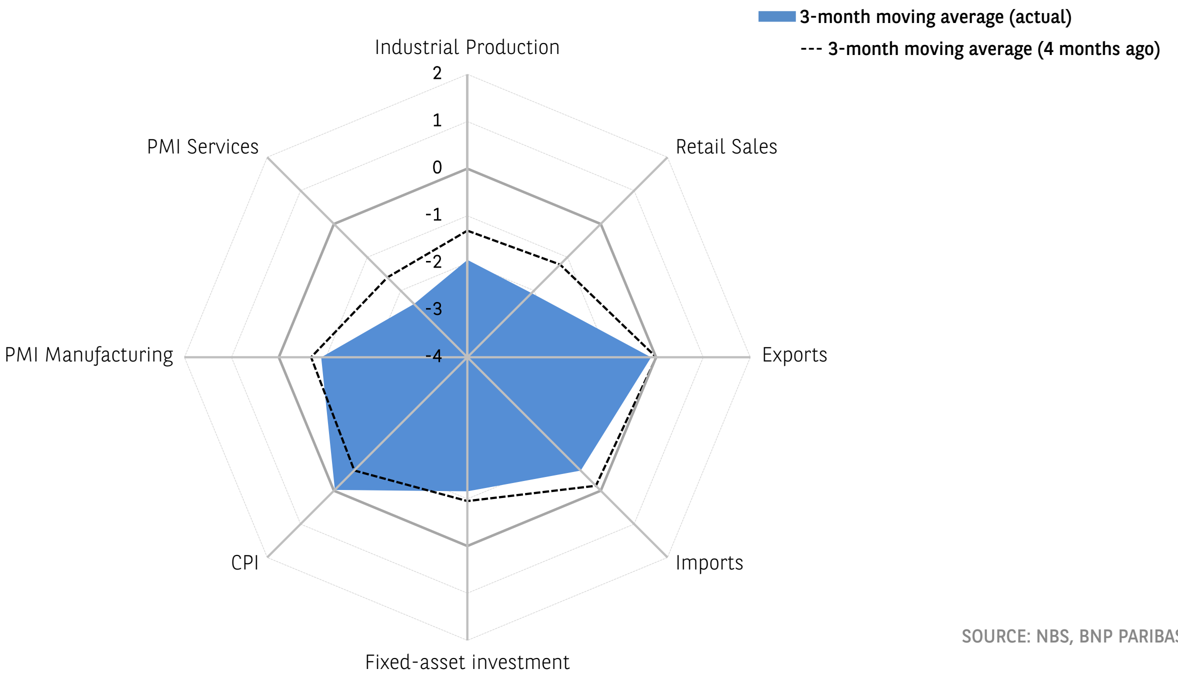
CHINA: QUARTERLY CHANGES



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.