

ECONOMIC PULSE

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CHINA: STILL HIGH DOWNSIDE RISKS TO SHORT-TERM ECONOMIC GROWTH

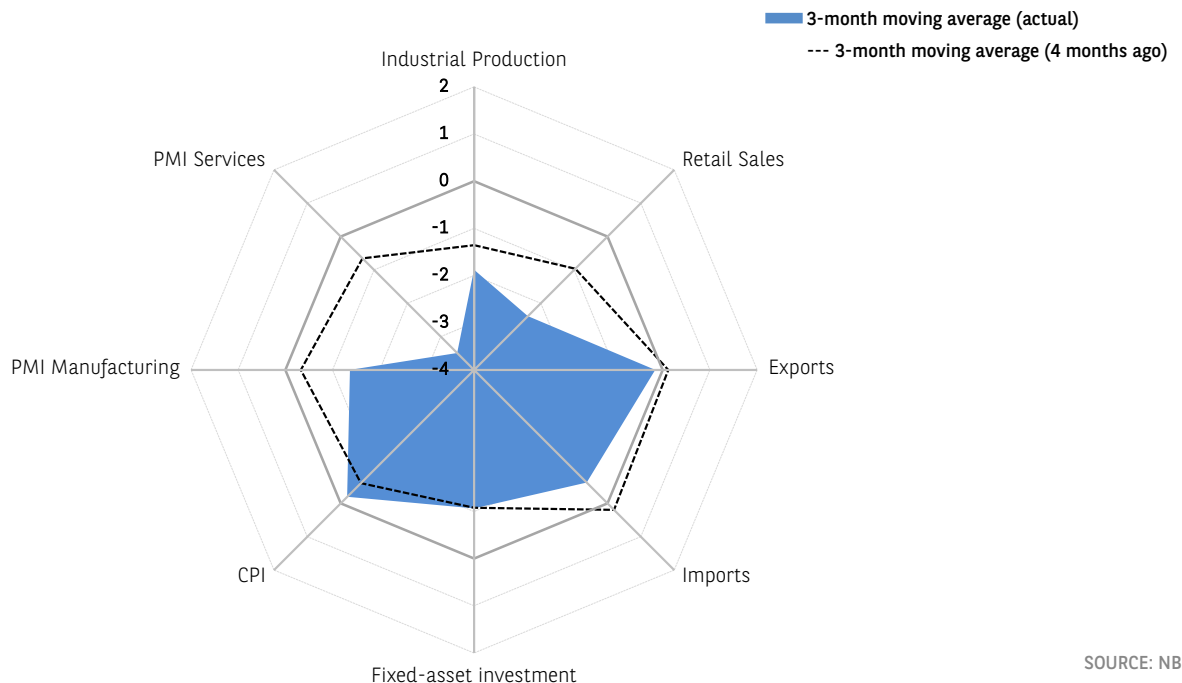
The significant contraction of the blue area relative to the dotted area illustrates the magnitude of the shock faced by the Chinese economy since March 2022. The resurgence of the Covid epidemic has led to the introduction of mobility restrictions in many provinces, with the most stringent lockdowns affecting major industrial and port regions, notably Shanghai. Restrictions have depressed household demand and dampened activity in factories, disturbed the transportation and export of goods, and led to supply-chain disruptions in China and abroad.

Mobility restrictions have eased gradually (but not totally) in Shanghai and across the country since mid or late May. Industrial production activity started to rebound (+0.7% y/y in May vs. -2.9% in April and +5% in March), notably encouraged by reviving exports (+16.8% y/y in USD terms vs. 3.7% in April). Meanwhile, production of services, which was hit harder and longer by the lockdowns, still contracted in May (-5.1% y/y vs. -6.1% in April and -0.9% in March). Total retail sales also continued to fall rapidly (-9% y/y in May vs. -13% in April) – only sales of basic necessities posted an increase in May (food & beverage, medicines and oil products). Finally, fixed-asset investment growth reaccelerated in May (+4.6% y/y), mostly driven by infrastructure investment.

Economic growth should recover slowly in the coming months. On the one hand, fiscal and monetary policies are increasingly expansionary. On the other hand, downside risks remain substantial. First, the health situation is still uncertain and the authorities will maintain a tough Covid strategy. Second, private consumption will also struggle to recover not much because of inflation pressures (which remain moderate), but because of the significant slack in the labor market. Third, the contraction in the property sector continues. Fourth, weaker global demand will constrain activity in the manufacturing sector.

Christine Peltier

CHINA: QUARTERLY CHANGES



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.



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