

ECONOMIC PULSE

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CHINA: IN LOCKDOWN

China's economic growth reached 4.8% year-on-year (y/y) in Q1 2022. It improved slightly over the first two months of the year, both in industry and in services, but this recovery was cut short in March. Economic conditions have worsened rapidly, as our barometer shows (narrowing of the blue area relative to the dotted area). This deterioration has resulted primarily from the resurgence of Covid-19 and mobility restrictions imposed in a number of regions in the country. In addition, short-term growth prospects are also looking bleaker due to deterioration in the international climate triggered by the war in Ukraine.

Measures to contain the pandemic have been applied since early March to varying extents and for varying durations depending on the area, ranging from very strict lockdowns disrupting all activities (such as in Shanghai) to local restrictions partly affecting consumer spending (such as in Nanjing). In mid-April, cities and provinces concerned by restrictions (of any kind) represented more than 60% of China's GDP. Economic growth is therefore expected to continue to weaken until at least April as a result of the health crisis.

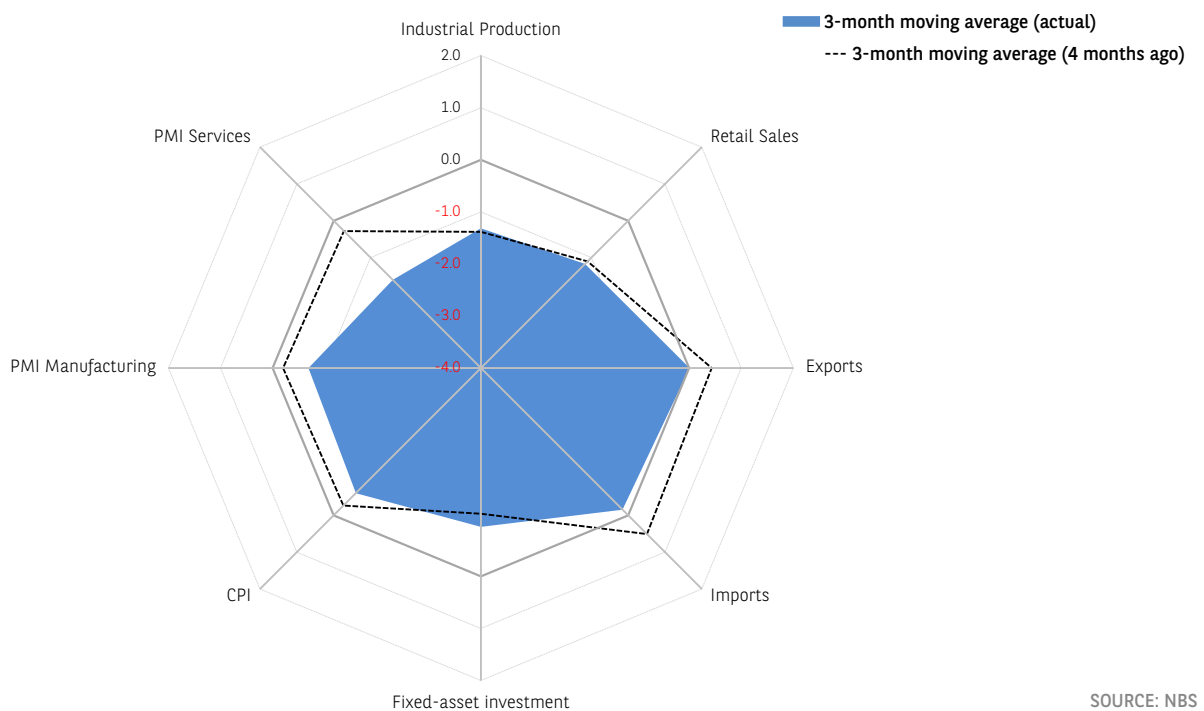
Services sector activity contracted slightly in March (-0.9% y/y in real terms vs. +4.2% in January-February), and retail sales fell by almost 5% y/y (-3.5% in nominal terms) following an increase of 4.9% in January-February. The health crisis has also severely penalised the property sector, with transaction volumes plummeting 17% y/y in March (vs. -10% in January-February). Finally, industrial growth slowed to 5% y/y in March and cement production fell by 5.6%.

In the very short term, consumer demand will be held back by mobility restrictions and worsening labour market conditions. The unemployment rate rose from 5.1% at end-2021 to 5.8% in March, the highest level since May 2020. Meanwhile, inflationary pressure should remain moderate: firstly, consumer spending is down; secondly, the effect of higher global commodities prices on Chinese consumer prices will be mitigated by partial controls of energy and cereal prices, as well as the possibility for China to draw on its wheat stocks. Lastly, meat prices continue to fall rapidly (-25% y/y in March). CPI inflation reached 1.5% y/y in March vs. 0.9% in January and February.

Industrial activity is expected to be affected by further supply chain disruptions and the slowdown in world demand as a result of the conflict in Ukraine. Export growth, which has been normalizing over the last few months (in current dollar terms, it decelerated to 15% y/y in Q1 2022 from 23% in Q4 2021), should slow down more significantly in the short term.

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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