ECONOMIC PULSE

CHINA: A STRONG START TO THE YEAR

Economic growth picked up in the first two months of 2022, but this improvement will probably halt in March.In the services sector, growth was 4.2% year-on-year (y/y) in January-February, which is low, yet this figure is higher than the 3.3% reported in Q4 2021. The same observation can be made for retail sales volumes, which rose 4.9% y/y in January-February, up from less than 2% in Q4 2021. Growth was more robust in the industrial sector, where it continued to accelerate, reaching 7.5% y/y in January-February, up from 3.9% in Q4 2021. It was notably driven by the upturn in coal and electricity production and by improvements in supply-chain conditions in the automobile sector. Moreover, export growth remained solid and reported a smaller-than-expected slowdown (+16.3% y/y in USD terms, compared to 22.9% in Q4 2021).

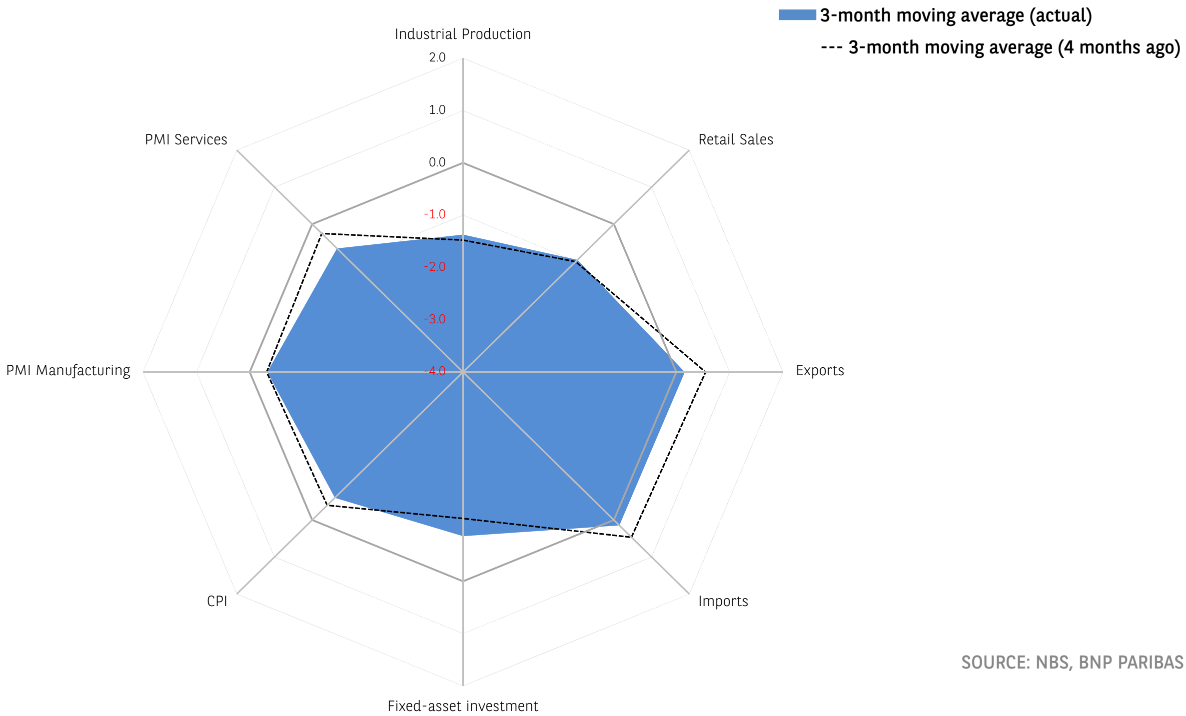
Investment growth rebounded in January-February (+12.2% y/y in value), with a visible acceleration in the majority of manufacturing industries, as well as in the mining sector and public infrastructure projects. In the real estate sector, the correction continued. The average house price in the 70 biggest cities declined in January (-0.3% month-on-month) for the 6th consecutive month. Yet the size of the contraction in housing transaction volumes and construction projects has eased slightly.

In the very short term, there are high downside risks to growth given the new lockdown restrictions introduced in several major cities over the past few days following a sharp rebound in the Covid-19 epidemic, and due to the repercussions of the war in Ukraine on world demand and commodity prices. The short-term impact on China's consumer prices should be moderate (notably due to price controls on certain grains). In contrast, the producer price index (PPI) is likely to reaccelerate rapidly (after slowing to 11.6% y/y in January-February, from 16.1% in Q4 2021), which will strain the performance of producers.

Under this environment, the authorities have continued to ease the policy mix. At the annual National People's Congress meeting, which ended on 11 March, the authorities announced their economic priorities for 2022. To reach the 2022 growth target of 5.5%, a series of fiscal and monetary stimulus measures will be introduced (economic growth was "only" 4% y/y in Q4 2021 and should not exceed 5% in Q1 2022). Moreover, after months of tightening the regulatory environment in the services sector, the authorities seem to be adjusting their strategy in recent days. They announced greater support for the property sector and adjustments for internet platforms. These measures would be aimed at "stabilising" the economy and should boost investor confidence considerably. As a matter of fact, China's equity markets rebounded after declining sharply over the past two weeks (the composite index of the Shanghai stock exchange fell by 12% between 1 and 15 March, before regaining 6% thereafter).

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.