

CHINA: AN UNEVEN RECOVERY IN Q3 2022

In the third quarter of 2022, Chinese economic activity apparently regained ground that was lost during the very strict lockdowns that were imposed in the spring (in Shanghai in particular), and which were gradually lifted from the end of May. Real GDP grew by 3.9% quarter-on-quarter (q/q) in Q3 after a contraction of -2.7% q/q in Q2. Over the first nine months of the year, economic growth stood at 3% year-on-year (y/y).

However, the recovery in Q3 was very unbalanced. It was driven by industrial production, which increased by +4.8% on average y/y, compared with +0.6% in Q2. Until July, industry benefited from the good performance of export growth, which then slowed sharply (from +17.8% y/y in current dollar terms in July to 5.6% in September). Industry also benefited from the effects of the support measures introduced by the authorities. Firstly, tax incentives have boosted car sales and production since June. Secondly, increased public investment in infrastructure projects supported construction activity and also led to a rebound in production of materials such as steel and cement in September.

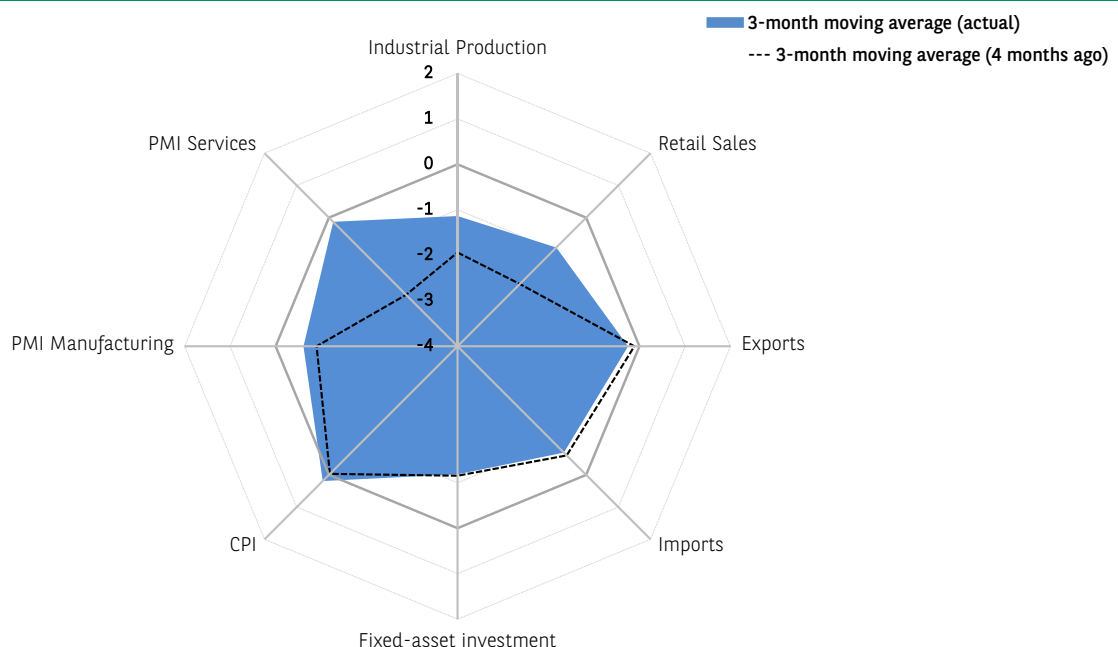
Other indicators sound alarm bells. The crisis in the real estate sector has continued, private consumption has remained depressed and services activity has been persistently weak. Services production increased only by +1.2% y/y in Q3 after a contraction of -3.3% in Q2. The very strict zero-Covid policy, falling real estate transactions, deteriorating labour market conditions and the significant loss of household confidence have weighed heavily on private consumption. Consumer price inflation, on the other hand, is still very moderate. It has only slightly accelerated since March (2.7% y/y in Q3, up from 2.2% in Q2), driven by the rise in food prices (5.2% y/y in Q3 up from 2.2% in Q2).

Growth in domestic investment stood at +5.9% y/y in nominal terms over the first nine months of the year, vs. +6.1% in H1 2022. It was largely supported by investment in infrastructure, which strengthened in Q3. Growth in manufacturing investment stabilised at around 10% y/y in Q3 after its slowdown in Q2. Finally, the contraction in real estate investment worsened (-6.6% over the first nine months of 2022 vs. -4.2% in H1).

Despite measures to ease credit conditions, notably aimed at stimulating demand for housing, property sales volumes fell in September for the 15th consecutive month (-22.5% y/y in Q3), and the average housing price in the 70 largest cities fell by 3% y/y in Q3 (after -1.5% in Q2). Floor space under construction and construction starts also continued to fall (-45% y/y in Q3).

Christine Peltier

CHINA: QUARTERLY CHANGES



SOURCE: NBS, BNP PARIBAS

China: 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.

