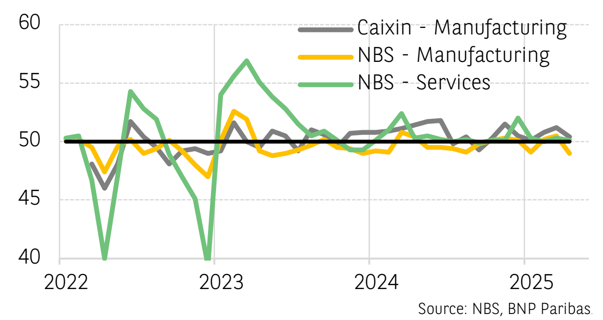
China: The Effects of Tariffs are already Visible

Business climate: PMIs



Source: NBS, BNP Paribas

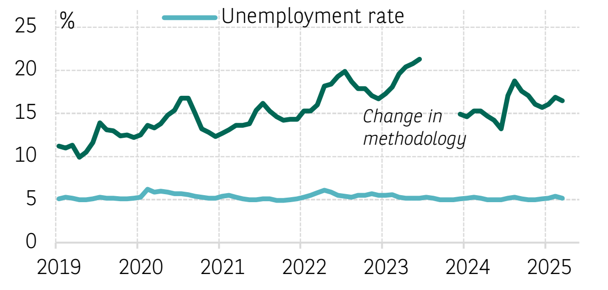
Widespread deterioration. The official PMI for the manufacturing sector fell to 49 in April (from 50.5 in March) and the Caixin PMI fell to 50.4 (from 51.2 in March). The decline is widespread across all sub-components and heralds a significant slowdown in activity after the rebound in March. These are the immediate consequences of the new 145% tariffs imposed by the US on Chinese imports.

Households: retail sales

Source: NBS, BNP Paribas

Private consumption supported by government subsidies. In March, retail sales posted their strongest increase since late 2023 (+5.9% year-on-year in value, after +4% in January-February), boosted by government-subsidized consumer goods trade-in programs. These programs will be maintained in the coming months. They should be supplemented by other policy measures to support domestic demand, as the authorities are determined to offset the effects of weaker exports.

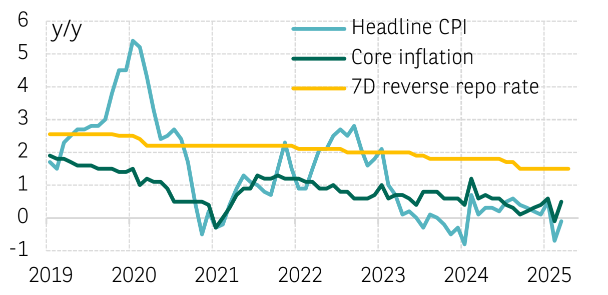
Labour market: unemployment rate



Source: NBS, BNP Paribas

Temporary respite on the labor market. The unemployment rate fell slightly in March after rising in January-February, settling at 5.2% (compared with 5.1% at the end of 2024). However, the difficulties faced by exporting companies could worsen labor market conditions as early as the spring.

Inflation and monetary policy



Source: NBS, BNP Paribas

Deflation and monetary policy easing. In Q1 2025, the CPI index fell slightly (-0.1% y/y) and producer prices continued to decline. Core inflation reached +0.3% y/y. In 2025, persistent production overcapacities will continue to fuel deflationary pressures. The central bank is expected to lower its policy rates gradually.

Real GDP growth q/q : actual, carry-over, forecasts

Actual				Carry-over	Actual	Forecast		Annual forecasts (y/y)		
Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	2024 (observed)	2025	2026
1.3	1.0	1.4	1.6	0.3	1.2	0.9	1.2	5.0	4.5	4.3

Source: Refinitiv, BNP Paribas

Significant downside risks to economic growth. Real GDP growth stood at +1.2% quarter-on-quarter in Q1 2025, down slightly from Q4 2024. It was stable at +5.4% year-on-year. This better-than-expected performance was due to the rebound in activity in March in the industrial sector (+7.7% year-on-year in March compared with +5.9% in January-February) and services (+6.3% year-on-year compared with +5.6% in January-February). The tariff shock imposed by the United States on China and the rest of the world will cause a significant slowdown in manufacturing activity starting in April (our growth forecast for Q2, which stands at +0.9% q/q, is likely to be revised downward). The negative effects on economic growth in 2025 will be partially offset by the easing of China's monetary and fiscal policies.

Christine Peltier (completed on April 30, 2025)