

China

After the lifting of the health restrictions at the end of 2022, the Chinese economy regained momentum and has the potential to catch up in 2023, although this would seem to be tempered by some concerns about demand and some signs of a slowdown in output. In Q1 2023, GDP accelerated sharply (+2.2%, after +0.6% in Q4 2022), practically returning to the new trend that had started to emerge in 2021 (► [Figure 1 left](#)). Nevertheless, economic activity remains well below (-4.4%) the level it would have reached had it continued to grow at the same pace as in the years before the pandemic.

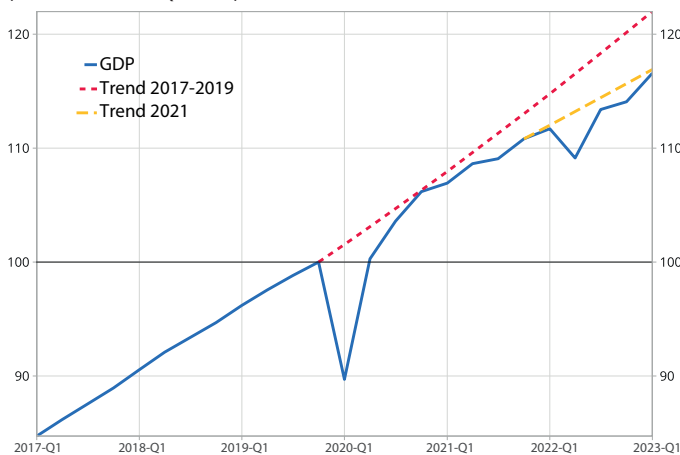
This resumption of economic activity has been driven by the buoyancy of services (► [Figure 1 right](#)) and by the rebound in consumption following the end of the health restrictions, as can be seen from the growth in retail sales as of December (+7.1% month on month, ► [Figure 2](#)). However, the situation of households is mixed due to persistent fears relating to developments with the epidemic, the continuing real estate crisis and a particularly high youth unemployment rate (19.6% in March). Thus, in spite of a rise in the last few months, the household confidence indicator remains very poor (► [Figure 2](#)) whilst retail sales are no longer growing, remaining at a level close to that of the end of 2021. Likewise, although real estate transactions and housing starts, indicators of the state of the real estate sector, have bounced back considerably due to the lifting of restrictions, they continue to be affected by the persistent crisis in the sector and are still at a level even lower than at the beginning of 2022.

The weakness of domestic demand and households' reluctance to spend could lead to deflationary pressures in an international environment seeing a strong inflationary trend: the consumer price index slowed again in April (+0.1% year on year, after +0.7% in March and +2.1% in January, ► [Figure 3](#)), well below the official target ("around 3%"), while production prices fell year-on-year for the seventh consecutive month (-3.6% in April). Until now, imported inflation was limited due to a basket of goods that can differ from those of western countries, strong competition between companies mitigating the passing on of price rises to consumers and the re-orientation of a part of China's energy imports to benefit from low prices offered by a Russia subject to Western sanctions. The inflation differential with China's commercial partners has led to a fall in the real effective exchange rate of 9% year on year, favourable to foreign trade. At the end of 2022, imports of goods were 7.5% below their level at the end of 2021 whilst the figures for exports of goods were even more degraded at the end of 2022 (-12.3% year on year). Exports are thought to have bounced back substantially at the beginning of 2023, but are expected to lose momentum over the year due to sluggish international demand.

In Q2 and over the rest of 2023, the slowdown in output, especially manufacturing output (► [Figure 1 right](#)), and low consumer confidence are expected to temper the positive effects of the continuing normalisation of consumption and travel conditions. GDP is expected to slow from Q2 onwards (+0.6% per quarter); in total, it should grow 5.0% in 2023, driven in part by catch-up effects following the low growth of 2022. ●

► 1. After the turmoil of 2022, GDP growth is regaining momentum, driven by the non-manufacturing sector

(GDP base 100 in Q4 2019)

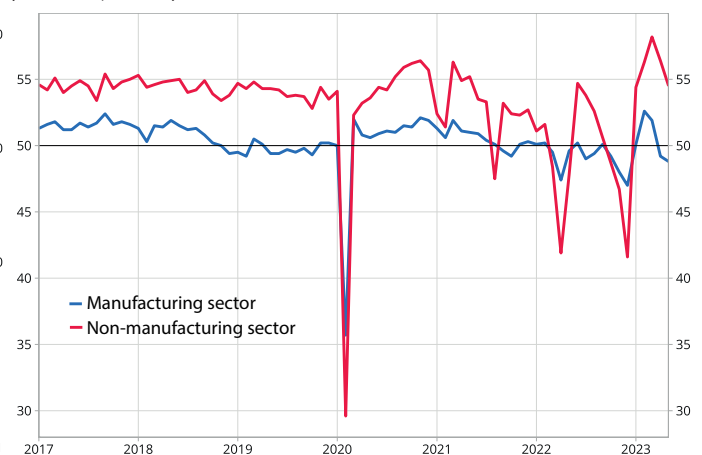


Last point: Q1 2023.

Note: the trend curve for 2017-2019 has been constructed by extending the GDP series at a constant quarterly rate from Q1 2020, equal to average quarterly GDP growth over the period 2017-2019.

Source: NBSC, INSEE calculations.

(PMI index, in level)



Last point: May 2023.

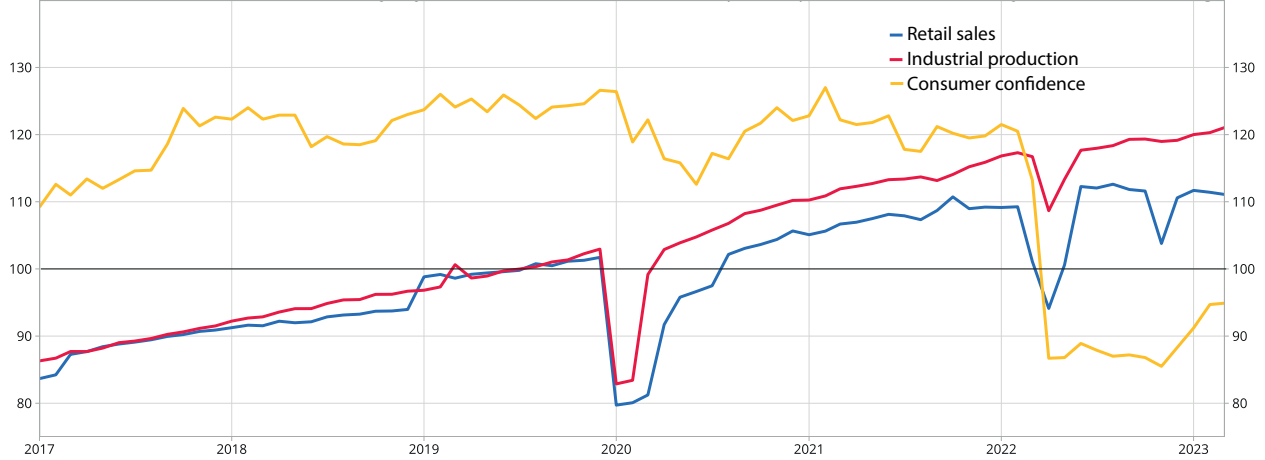
Note: a PMI of 50 reflects an unchanged economic situation compared to the previous period. An index higher than 50 indicates an economic expansion compared to the last month, and an index below 50 indicates a contraction. How to read it: in May 2023, the PMI index for the non-manufacturing sector was 54.5, above the expansion threshold of 50.

Source: NBSC.

International economic outlook

► 2. Retail sales bounced back after the lifting of health restrictions, but in a context of low confidence, have not returned to their pre-crisis buoyancy

(consumer confidence in terms of level, seasonally adjusted retail sales and industrial output compared to base reference year 100 = 2019 average)



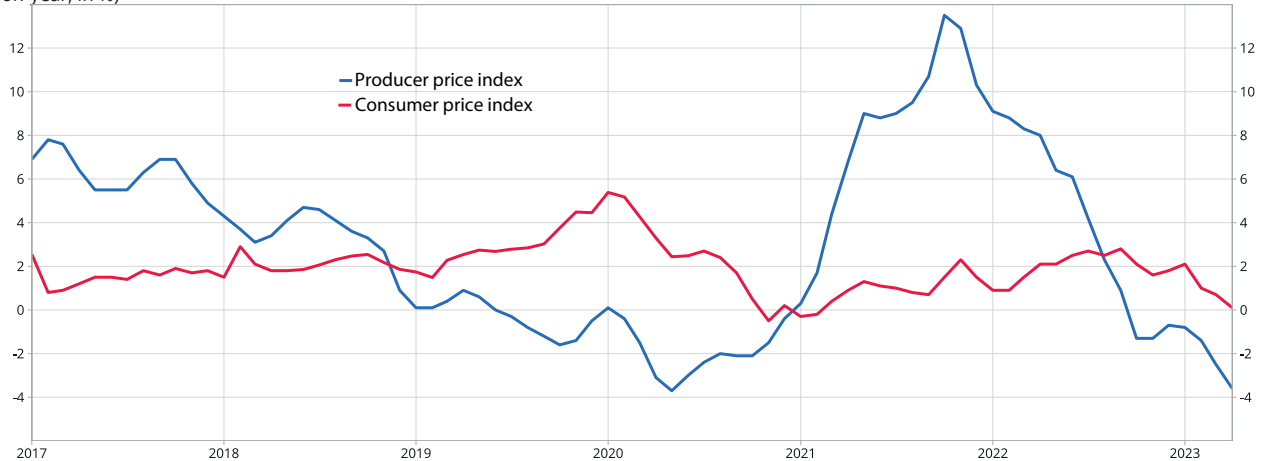
Last point: March 2023.

How to read it: in March 2023, industrial output was 21% above its 2019 average level.

Source: NBSC, INSEE calculations.

► 3. Deflationary pressures could appear in China

(year-on-year, in %)



Last point: April 2023.

How to read it: in April 2023 the consumer price index went up by 0.1% year on year..

Source: NBSC, INSEE calculations.