China

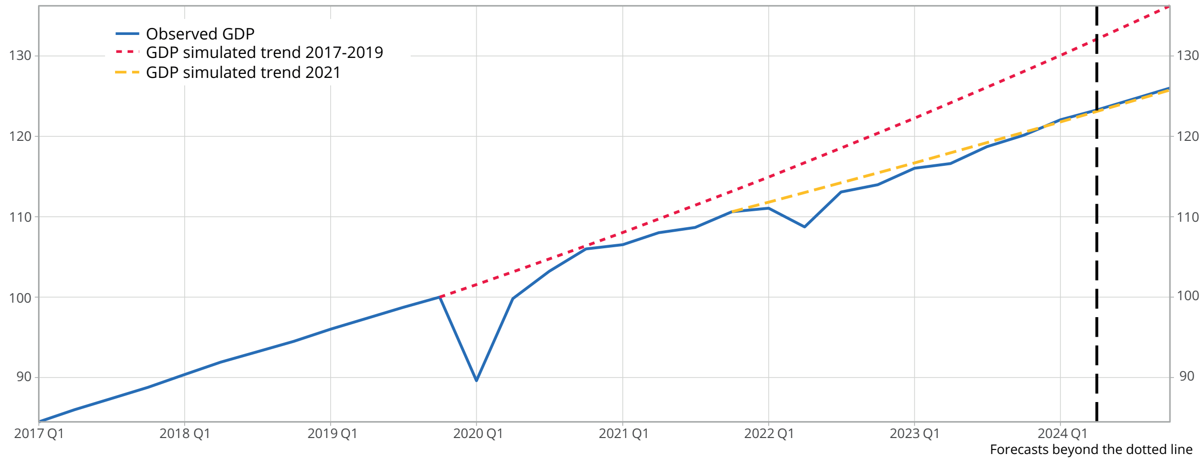
The Chinese economy was surprisingly buoyant at the start of 2024: according to the Chinese National Bureau of Statistics, GDP grew by 1.6% in Q1 2024 compared to the previous quarter (after +1.2% in Q4 2023, ►**Figure 1**). This performance would appear to be based mainly on foreign trade: imports continued to decline, hampered by lacklustre domestic demand, whereas exports again increased strongly. This was especially applicable to vehicle sales, driven exclusively by foreign demand: over the first four months of the year, domestic sales increased less rapidly than total production compared with the same months in 2023 (6% and 8% respectively), whereas exports increased by 33% over the same period (►**Figure 2**). However, this sector is subject to trade tensions: the European Commission is continuing its investigation into subsidies by the Chinese authorities while China has appealed to the World Trade Organization over US subsidies on electric vehicles.

Domestic demand is expected to remain sluggish until the end of the year. Real estate construction continues to deteriorate: in April 2024, real estate transactions and housing starts stood at 40% and 62% below their pre-pandemic level respectively, and fell back by 15% and 13% respectively year-on-year. Excluding real estate, investment is improving but is still held back by low pressure on production capacities: in Q1 2024, the production capacity utilisation rate dropped to 73.6%, its lowest level since mid-2016 (excluding Q1 2020 ►**Figure 3**). This situation is fuelling the decline in producer prices in industry (1.4% year-on-year in May) and in the economy as a whole: GDP by value is increasing significantly less quickly than GDP by volume, according to NBSC statistics (+4.2% by value against +5.0% by volume year-on-year in Q1).

For households, the confidence index has remained stable at a low level since the beginning of 2022. Retail sales slowed substantially at the beginning of the year and increased by 3.7% year-on-year in May 2024.

In the forecast, GDP is expected to slow after a particularly dynamic start to the year, and to return to the average growth rate recorded in 2021, i.e. +1.0% in Q2 2024 then +1.1% per quarter in H2: annual growth of +5.2% has been forecast for 2024, close to the target of +5.0% set by the authorities. Concerning foreign trade, exports are likely to remain at a standstill with imports rebounding vigorously in Q2 2024, as a backlash against the changes observed at the beginning of the year. In H2, China is expected to continue to gain market shares, especially in the electric vehicle sector, with imports increasing a little more slowly. Over 2024 as a whole, foreign trade should therefore contribute positively to activity. ●

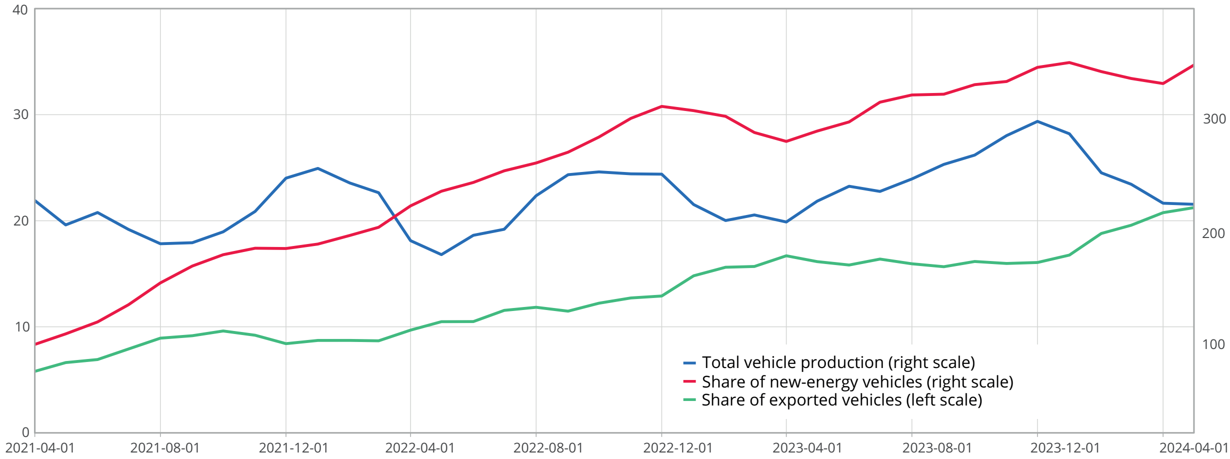
►1. Dynamism in Q1 2024 is in line with the 2021 growth trend
(GDP in base 100 at Q4 2019)



Last point: Q4 2024 (forecasts from Q2 2024).
Note: the trend curve for 2017-2019 (or 2021) has been plotted by extending the GDP series at a constant quarterly rate from Q1 2020 (or Q1 2022), equal to average quarterly GDP growth over the period 2017-2019 (or 2021).
How to read it: in Q1 2024 GDP increased by 22% compared to its Q4 2019 level. According to the trend observed between 2017 and 2019, it would have increased by 30%.
Source: NBSC, INSEE calculations.

►2. A growing share of exports in Chinese automobile production

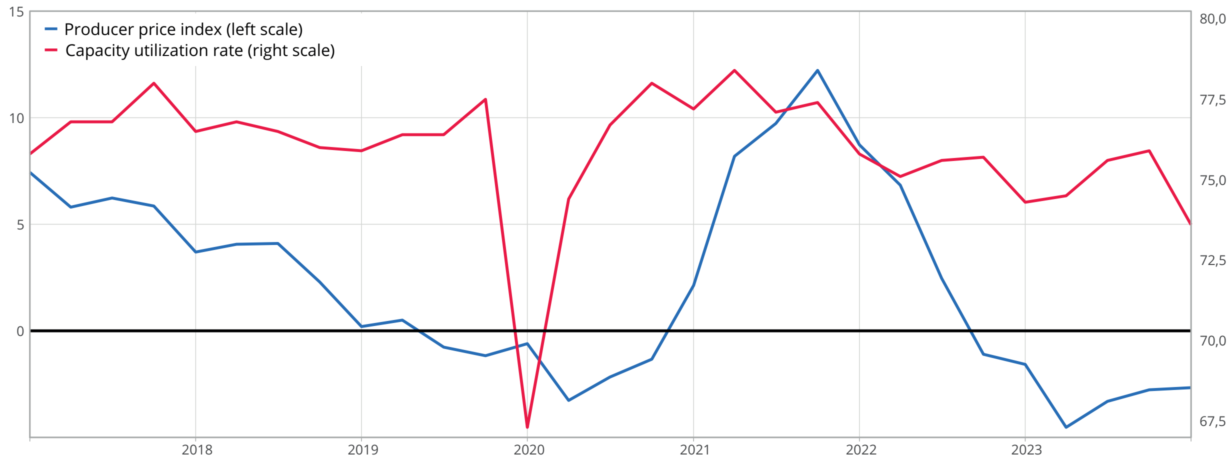
(vehicle production = volumes of vehicles, not SA, 10,000 units, four-month moving averages, share = in %, four-month moving averages)



Last point: May 2022.
How to read it: average vehicle production in China from February to May 2024 was 2,240,000 units, of which 35% were new-energy-powered vehicles. Vehicle exports represented 21% of production over the same period.
Source: NBSC, INSEE calculations.

►3. Constantly declining use of industrial capacities, generating deflationary pressures

(year-on-year change for producer prices, level for capacity utilisation rate)



Last point: Q1 2024.
How to read it: the capacity utilisation rate in industry stood at 73.6% in Q1 2024.
Source: NBSC. INSEE calculations.