China

In Q3 2021, activity in China declined for the first time since Q1 2020 (–0.8% as a quarterly variation, seasonally and working-day adjusted, and after +1.0% in Q2). It is still increasing year-on-year, however, (+4.9% compared to Q3 2020) and well above its pre-crisis level (+7.8% compared to Q4 2019).

The current loss of impetus in growth in China can be explained by a combination of several factors. First, the Chinese health strategy requires the introduction of temporary lockdowns of towns and factories, thus penalising economic activity, such as the closure of a terminal in Ningbo-Zhoushan, one of the world's main ports, for two weeks in August.

The Chinese economy has also been affected by an energy crisis, resulting both from the application of new targets for greenhouse gas emissions, and from difficulties with coal supplies and the price cap on sales of electricity, forcing some producers to reduce their supply. The recent electricity price hike, permitted by the authorities, could result in an upswing in industrial production (+0.5% increase in October, ► **Figure 1**), but could have repercussions for producer prices, which are already very high (+12.9% year-on-year in November, in a context of rising commodity prices).

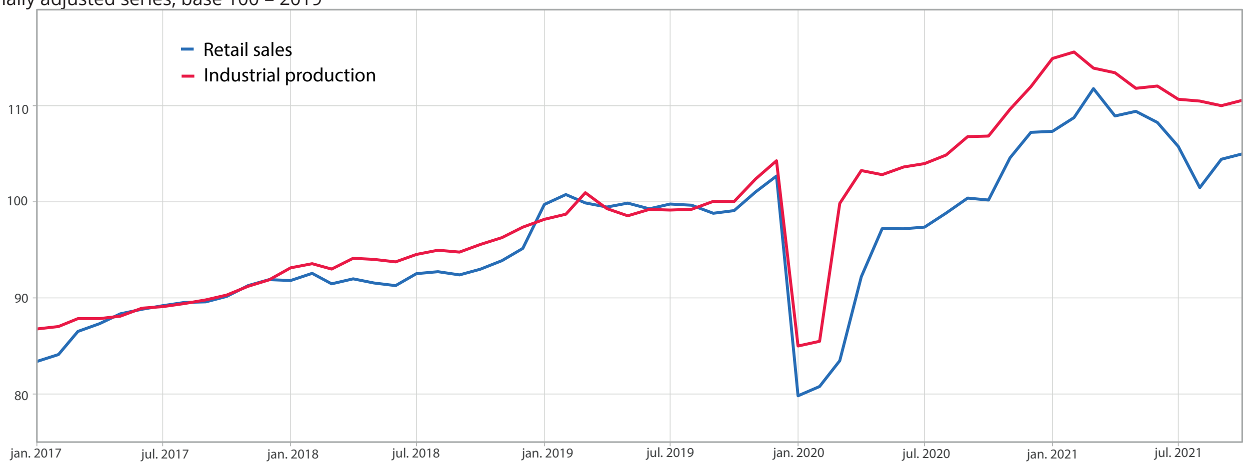
In addition, the real estate sector, a driver of Chinese growth in recent years and contributing directly and indirectly about a quarter of national GDP, has experienced a significant slowdown since the end of the summer. A tightening of regulations, embodied by the introduction of new prudential measures, aims to cut developers' debts. As well as Evergrande, several other real estate developers have defaulted on bond repayments, and can no longer fund their growth by new debts. Investment in the real estate sector has therefore declined (–3.5% in September year-on-year, then –5.4% in October), and sales of new buildings have been severely affected (–13% year-on-year in September, then –22% in October).

On the demand side, the domestic market is struggling to drive Chinese growth, for instance in retail sales (► **Figure 1**) and imports (–3.2% in Q3, reprocessed within the meaning of the national accounts and seasonally adjusted for the effects of the Chinese New Year). This sluggishness in domestic demand, combined with intense competition between companies, notably causes a divergence between the dynamics of producer prices and the much weaker dynamics of consumer prices (CPI at +2.3% year-on-year in November, ► **Figure 2**).

The persistence of these factors causing a slowdown at the end of the year is likely to continue to hamper Chinese growth in Q4, before gradually receding in 2022 to allow for a more dynamic recovery.

► 1. The decline in retail sales and industrial production came to a halt in October

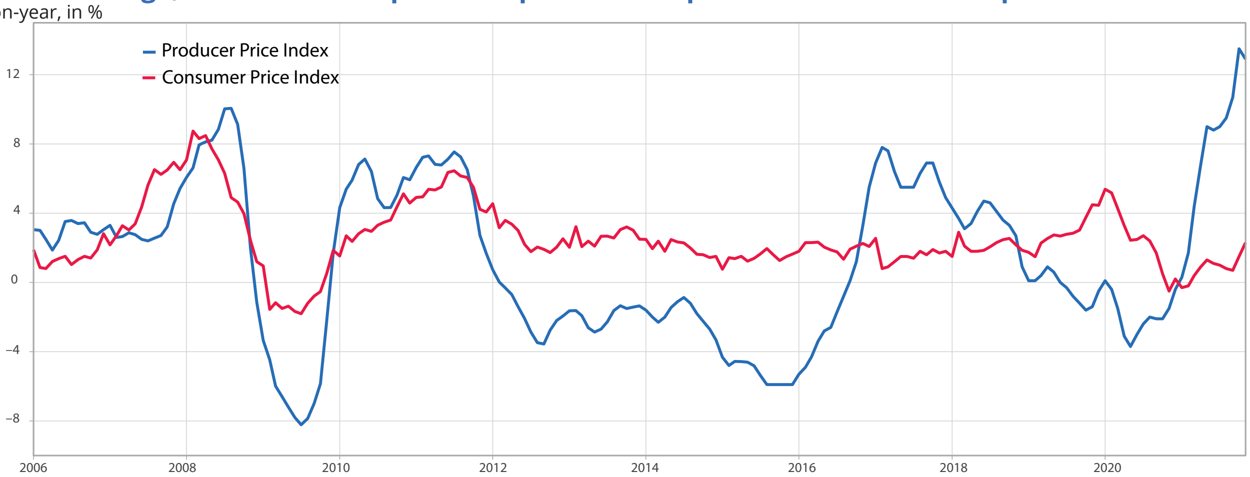
seasonally adjusted series, base 100 = 2019



Source: NBSC, INSEE calculations

► 2. At this stage, the increase in producer prices is not passed on to consumer prices

year-on-year, in %



Source: NBSC