China

In China, economic activity in H1 2022 again bears the imprint of the Covid-19 epidemic. Chinese GDP certainly accelerated in Q1 (+4.9% year-on-year, after +4.1% in Q4 2021), mainly in January and February, but signs of a slowdown appeared from March onwards, and intensified in Q2.

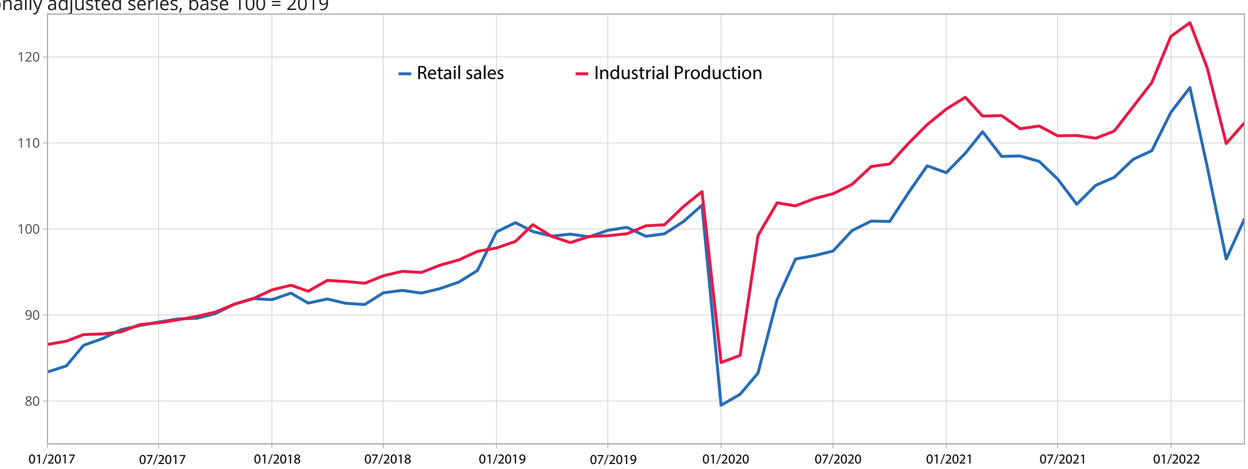
In response to a new wave of Covid-19, very strict lockdown measures were introduced in many Chinese cities, particularly in Shanghai in April and May. Thus the "zero-Covid" strategy brought about an almost complete standstill in the megalopolis, which is both one of the country's major industrial centres and the largest port in the world by tonnage. The strategy also caused tremendous disruption to motorway, rail and air traffic, and hence to the country's supply chains. As a result, industrial production, which had been vigorous in the previous months (▶Figure 1), fell back sharply in April (–2.9% over the year, after +5.0% in March), and was particularly affected by the collapse in automobile production (–42% year-on-year, after 0%). In May, the easing of some restrictions, especially for some companies in Shanghai, meant that a small rebound in industrial production was possible (+0.6% over the year). The same for Chinese exports of goods, which slipped back significantly in April (–8.4% year-on-year adjusted for changing prices1) then rebounded in May (+6.3%) as disruptions in supply chain operations improved.

The health restrictions also affected households, hampering their consumption considerably: in April, retail sales fell back by 11.1% year-on-year (after –3.5% in March) and were still down in May (–6.7%). In the real estate sector too, where activity had already slowed in recent months due to the decision of the authorities to strengthen prudential measures, the consequences of the lockdowns were felt, both in terms of real estate transactions and in housing starts (▶Figure 2). In an attempt to revive this important sector for Chinese growth, the authorities have adopted a more accommodative monetary policy since 2021, including a reduction in May of the 5-year real estate loan prime rate.

The supply chain costs generated by the lockdown measures have also contributed to raising food prices (+2.3% and +1.9% year-on-year in May and April respectively, after –1.5% in March), which in turn has resulted in a rise in inflation (+2.1% year-on-year in April and May after +1.5% in March). Core inflation remains low, however (+0.9% in May), and it even fell slightly in April (–0.2 points). Producer prices continued to move up (+6.4% year-on-year in May) but they have slowed sharply (–1.6 points between April and May) since October when their year-on-year increase reached +13.5%.

Despite the announcement of a gradual upswing in activity in Shanghai and the lifting of restrictions in June, Chinese activity is still likely to be very much affected by the health measures and will probably contract in Q2. Global value chain disruptions are expected to remain very severe during this quarter, and this in turn is likely to increase supply chain difficulties for western countries. Chinese activity could then experience a vigorous recovery in H2, assuming that the majority of health restrictions are lifted.

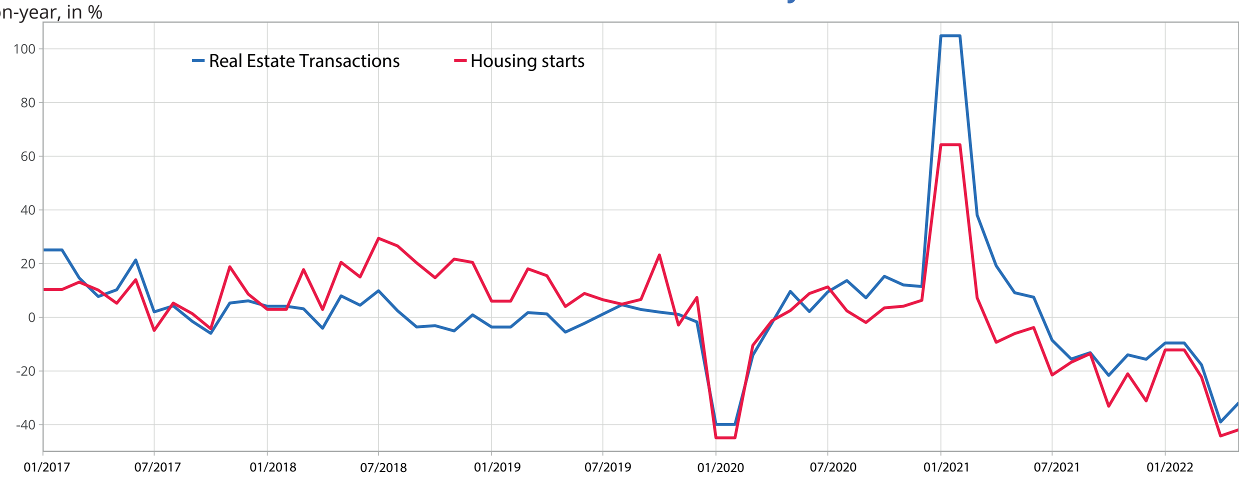
1. Health restrictions have caused a sharp decline in short-term economic indicators
seasonally adjusted series, base 100 = 2019



Source: NBSC, INSEE calculations

2. Difficulties in the real estate sector have been accentuated by the health restrictions

year-on-year, in %



Note: Last point: May 2022
Source: NBSC, INSEE calculations