

China

For China, totally abandoning its “zero-Covid” policy since 7 December 2022 should represent a turning point for the country’s economic development. In 2022, economic activity remained strongly correlated to the restrictions imposed by the authorities, especially during the strict lockdowns in spring: GDP fell in Q2 (-2.4%) then rebounded in Q3 (+3.9%). In Q4, it was once again at a standstill (+0.0%) due to new health restrictions put in place at the start of the quarter then the resurgence of the epidemic in December, both of which hampered industrial production (-0.3% in Q4, ► [Figure 1](#)). Thus at the end of 2022, GDP was 2.9% above its level at the end of 2021, and over the whole of 2022, it improved by 3.0%.

The health restrictions and the high number of contaminations, in a context of deteriorating household confidence (confidence index at 86.9 in Q4 2022 against 120.0 a year earlier), affected private consumption: retail sales fell back 3.7% in Q4 (► [Figure 1](#)) while consumption contributed only 0.2 points to the year-on-year change in GDP in Q4.

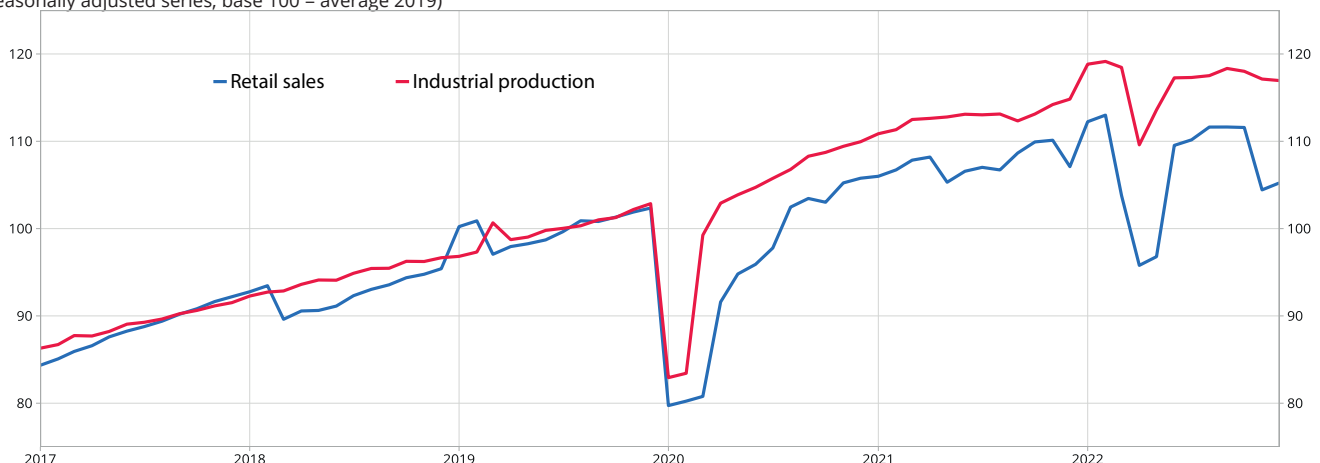
Conversely, investment drove most of the increase in activity over the year (contributing +3.9 points to year-on-year change in GDP in Q4) but with a strong contrast (► [Figure 2](#)) between the dynamism of public investment, supported by public measures in favour of the policy banks, and the continuous decline in private investment over the past year, especially real estate investment (-10% across the whole of 2022). At the end of the year, despite further announcements by the authorities to revive the real estate sector, the difficulties have continued, as can be seen from the decline in housing starts and real estate transactions in Q4.

The end of the “zero-Covid” policy could pave the way for a recovery in economic activity in H1 2023. Thus the PMI surveys show a rapid improvement in the economic situation from January, and even more so in February, especially in the non-manufacturing sector (► [Figure 3](#)). The reopening of the economy is expected to favour the recovery of household consumption from Q1 2023, especially consumption of services. The rise in the prices of travel services in January (+11.2% year-on-year) thus reflects the resumption of travel by the Chinese for the New Year holidays, as does the sharp increase in the number of flights, which increased almost four-fold between the beginning of December and the beginning of February. In this context, GDP is likely to increase by about 1% in Q1, before accelerating to +2% in Q2.

At the level of the global economy, the explosion in the number of contaminations in China at the turn of the year caused shortages, especially of drugs, and also gave rise to limited disruptions in value chains. However, the upswing in household consumption and the probable return of Chinese tourists abroad could benefit western economies, especially in the luxury goods sector. Chinese imports are therefore expected to be dynamic in H1 2023, but the acceleration in Chinese activity could also give rise to new inflationary tensions globally, especially in the energy markets. ●

► 1. At the end of 2022, retail sales fell sharply again

(seasonally adjusted series, base 100 = average 2019)



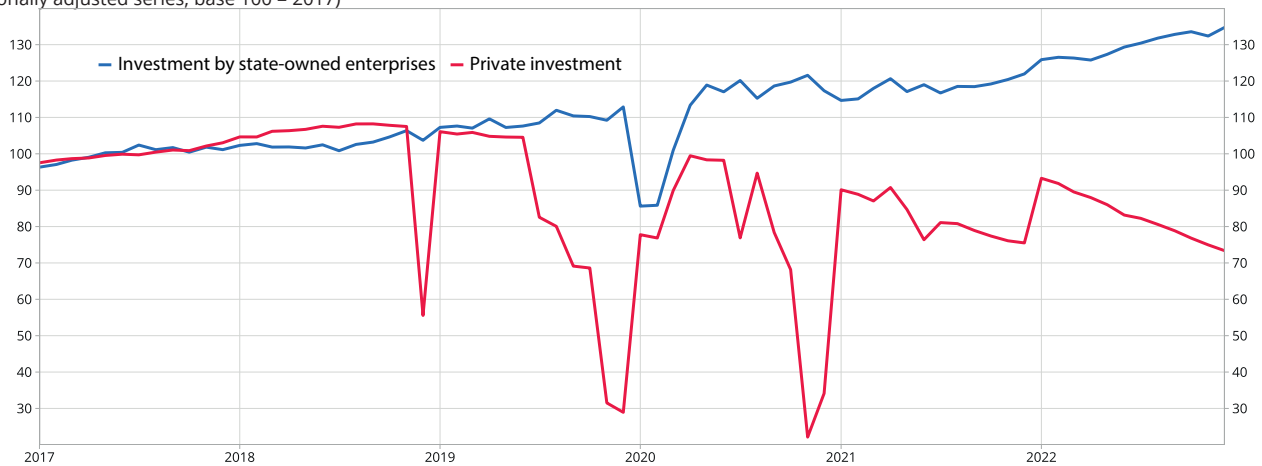
Last point: December 2022.

How to read it: in December 2022, industrial output was 17% above its 2019 average.

Source: NBSC, INSEE calculations.

International economic outlook

► 2. In 2022, private investment and investment by State companies experienced opposing dynamics (seasonally adjusted series, base 100 = 2017)



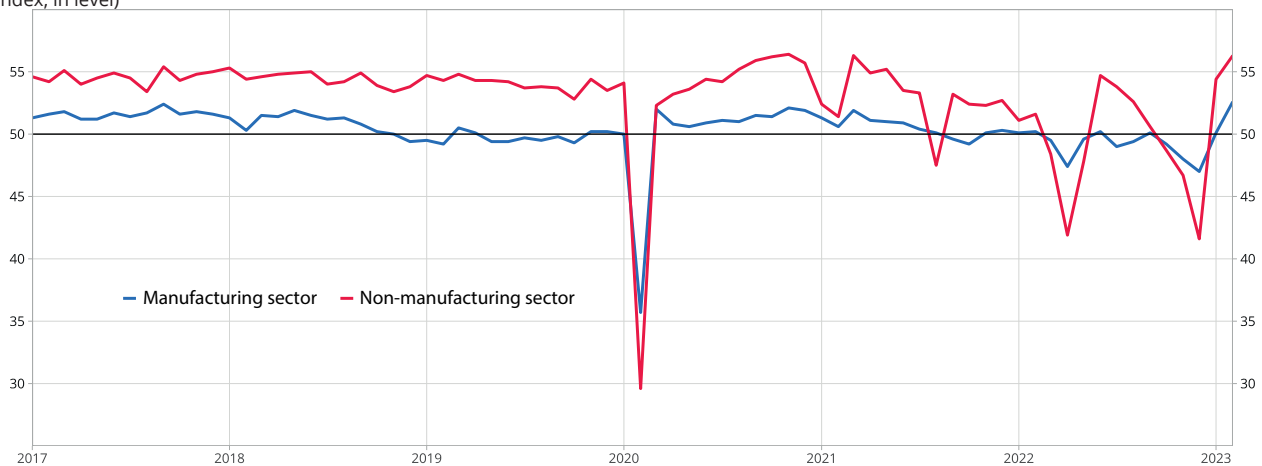
Last point: December 2022.

Note: for investment by State companies, the year to date series, available up to 2017, was extended using the year-on-year series that is still published. As for the private investment series, we can construct a series of monthly differences, which is then seasonally adjusted using the X13-ARIMA-SEATS method, taking the Chinese New Year into account.

How to read it: in December 2022, private investment was 73% of its 2017 average.

Source: NBSC, INSEE calculations.

► 3. The lifting of health restrictions is expected to lead to an upswing in activity at the beginning of 2023 (PMI index, in level)



Last point: February 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 February 2023, the PMI for the non-manufacturing sector was at 56.3, above the expansion threshold of 50.

Source: NBSC.