

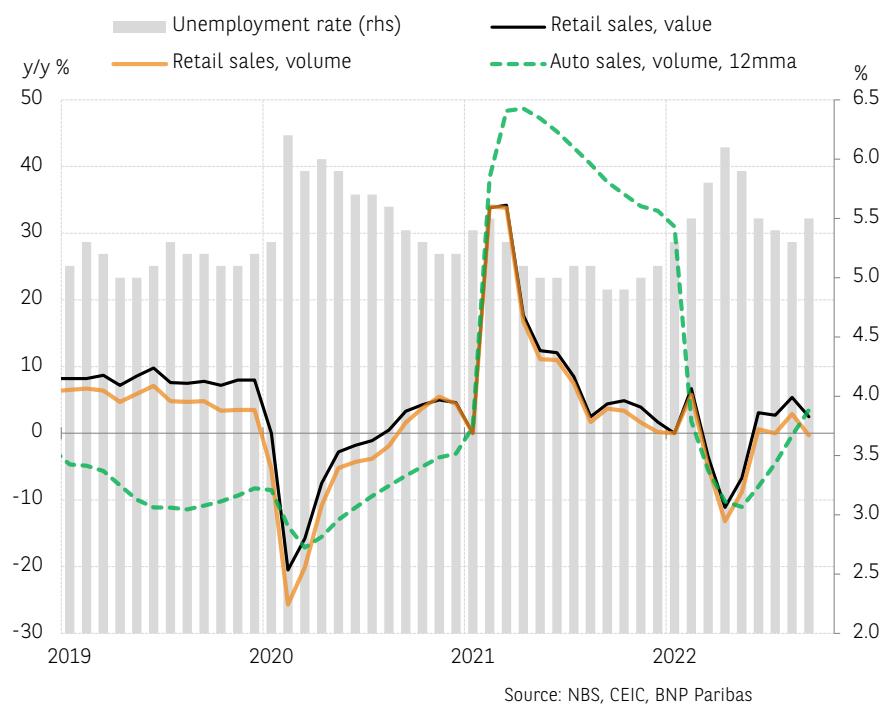
CHART OF THE WEEK



26 October 2022

CHINA: CONSUMER SPENDING STILL DEPRESSED

Christine Peltier



Chinese economic activity recovered in Q3 2022 (+3.9% quarter-on-quarter and +3.9% year-on-year) following the contraction seen during the lockdown period in Q2 (-2.7% q/q and +0.4% y/y). The recovery was mainly driven by the industrial sector and helped by the support measures taken by the authorities. In particular, higher public investment stimulated construction activity in infrastructure and tax incentives encouraged car sales. On the other hand, the easing of domestic credit conditions and the support measures for property developers had a very limited impact, and the contraction in the property sector continued.

The weakness in private consumption and in activity in the services sector is a cause for concern. Retail sales volumes recovered by less than 1% year-on-year in Q3 after falling by 7% year-on-year in Q2. The constraints weighing on private consumption remain significant. Firstly, maintaining a very strict zero-Covid policy is leading to repeated episodes of mobility restrictions across the country. Secondly, the collapse in property transactions discourages the purchase of consumer durables. Moreover, growth in household disposable income has slowed (only +3.2% year-on-year in real terms over the first 9 months of 2022), hampered by the weak conditions in the labour market. As a consequence of the slowdown in the services sector, the urban unemployment rate rose again slightly in September and reached 5.5% at the end of Q3 2022 (compared to 5.1% at the end of 2021 and 5.2% at the end of 2019). The unemployment rate for young people aged 16-24 fell in September but was still very high, at 17.9% (compared to 14.3% at the end of 2021 and 12.2% at the end of 2019). Finally, consumer confidence collapsed last spring and has since remained at historically low levels.

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