

ECONOMIC PULSE

6

CHINA : ANOTHER HARD BLOW TO PRIVATE CONSUMPTION

China's economic growth slowed sharply over the summer. Lockdown measures reintroduced in response to the resurgence of the Covid-19 pandemic and the threat of the new Delta variant dealt another blow to private consumption. Growth in retail sales volumes dropped to 6.4% year-on-year in July and then to 0.9% in August, from an average of 11.9% in Q2 2021.

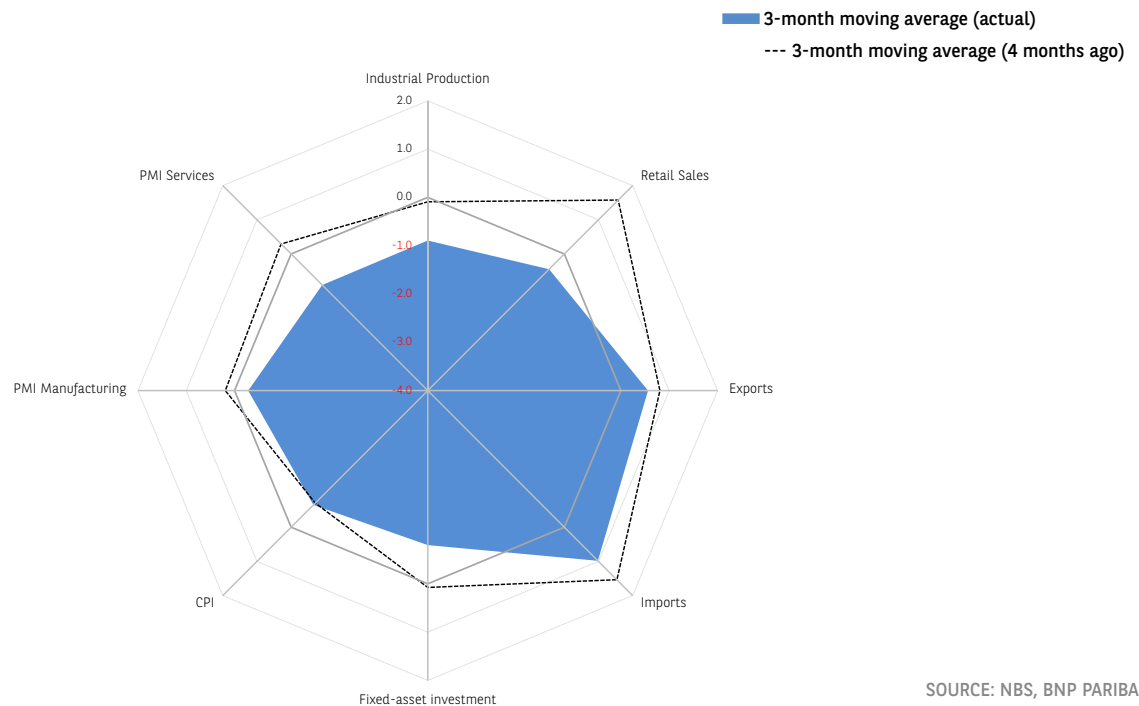
In the services sector, activity was hard hit by the new lockdown measures, but also by the effects of tighter macro-prudential rules in the real estate market and a regulatory clampdown on sectors such as the digital and video game industries. Other factors have also strained activity. In particular, the tightening in credit conditions and fiscal policy in H1 2021 contributed to the slowdown in real estate investment and, above all, in infrastructure investment.

The industrial sector has also been hit by supply chain disruptions. Yet, industrial production growth slowed only mildly, from 9% y/y in Q1 2021 to 6.4% in July and 5.3% in August. Industrial production remained buoyed by the persistently solid performance of merchandise exports (which continued to rise 25% y/y in value in August). Another positive factor is the dynamic growth in manufacturing investment, which rose 16% y/y in value in the first 8 months of 2021, compared to +19.2% in H1 2021. Strong profit growth and historically high production capacity utilisation rates (78.4% in Q2 2021) have indeed encouraged corporates to invest.

In the short term, household consumption and activity in the services sector should pick up thanks to the lifting of most lockdown restrictions and, to a lesser extent, to the advancement of the vaccination campaign (over 70% of the population has already received two shots). Consumer price inflation is still very low (+0.8% y/y in August), which is also expected to help household demand. Moreover, the authorities are expected to ease their policy mix to support domestic demand, mainly through measures to facilitate lending to targeted sectors and through an upturn in public investment. Meanwhile, regulatory tightening in sectors such as housing and internet should continue.

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QUARTERLY CHANGES



The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -4 and +2. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.



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