

China: Concerns

Chinese economic growth accelerated in Q4 2024 (+1.6% q/q and +5.4% y/y), driven by strong export performance and a recovery in private consumption. These supporting factors should persist in early 2025, but economic growth will then resume its downward trend. Domestic demand is likely to remain fragile and the rise in US tariffs will be a significant negative shock to exports.

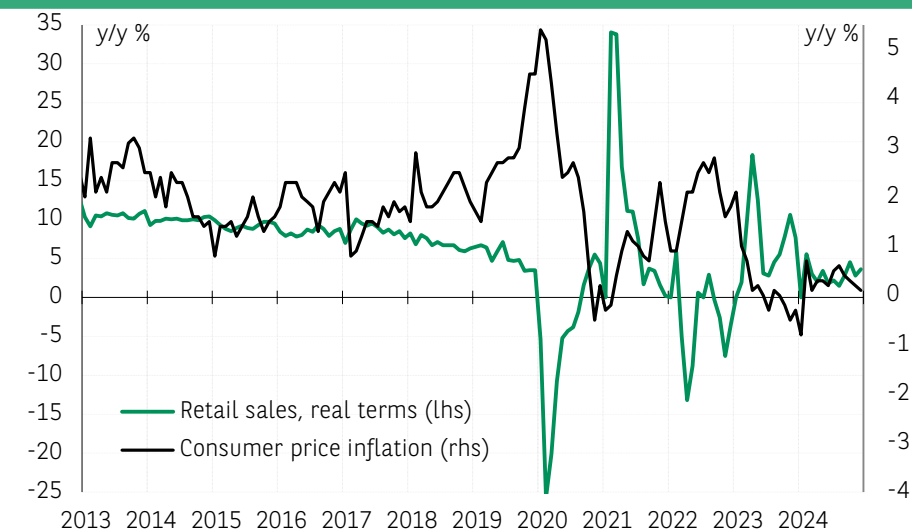
The protectionist shock expected in 2025 explains the recent deterioration in PMI indices in the manufacturing sector. The NBS Manufacturing PMI returned to a contraction zone (49.1) after three months at slightly above 50, and the PMI published by Caixin fell to 50.1 from 50.5 in December. The fall in the NBS Non-manufacturing PMI (50.2 in January vs. 52.2 in December) is more surprising given the recent improvement in household demand and the continuation of accommodative fiscal and monetary policies.

Inflation low (CPI: +0.1% y/y in December and +0.2% in 2024) **and deflationary pressures will persist in the short term**, fuelled in particular by excess industrial production capacities and falling housing prices. Against this backdrop, the central bank is maintaining an accommodative policy: the 7-day reverse repo rate should continue to fall very gradually (this went from 1.8% at the end of 2023 to 1.5% at the end of 2024 and is expected to reach 1.1% by the end of 2025). **The central bank remains cautious**, constrained by the deterioration in bank profitability, the fall in long-term bond rates and the depreciation of the yuan. Pressures on the yuan have eased since 20 January, but they could intensify once again in response to tariff hikes by the Trump administration (the first 10% tariff increase was effective on 4 February).

Household demand strengthened slightly in Q4 2024. Growth in retail sales accelerated (to +3.6% y/y in volume, compared to +2.2% in Q3), thanks to the consumer goods trade-in program subsidised by the government, and housing sales rebounded very slightly. However, this recovery does not signal the end of the property crisis: construction activity continued to contract and the average house price continued to decline (-8.1% y/y at the end of 2024). In addition, labour market conditions are still relatively worse than in the pre-Covid years. The average unemployment rate has returned to its 2019 level (5.1% at the end of 2024), but youth unemployment is still higher (15.7%), and household incomes are growing at a slower pace.

Christine Peltier (article completed on 6 February 2025)

China's retail sales and consumer price inflation



Source: NBS, BNP Paribas.

GDP growth

Actual				Carry-over	Forecast			Annual forecasts (y/y)		
Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	2024 (observed)	2025	2026
1.5	0.9	1.3	1.6	0.3	1.3	0.9	1.2	5.0	4.5	4.3

Source: Refinitiv, BNP Paribas

