

# ECONOMIC PULSE

## CHINA: DIVERGENCES BETWEEN SECTORS

China's economic growth accelerated slightly in Q1 2024. It hit 1.6% quarter-on-quarter (from 1.2% in Q4 2023) and 5.3% year-on-year (from 5.2% in the previous quarter). To support activity in 2024, the authorities have opted to strengthen their industrial policy whilst maintaining a prudent demand policy. The manufacturing export sector has posted the strongest performance in the past few months.

In Q1 2024, manufacturing investment continued to recover, industrial production capacity continued to expand, and growth in industrial production accelerated slightly (6.1% year-on-year from 6% in Q4 2023). Meanwhile, industrial overcapacity increased, and capacity utilization rates fell (from 75.3% in 2023 to 73.8% in Q1 2024 on average across the manufacturing sector).

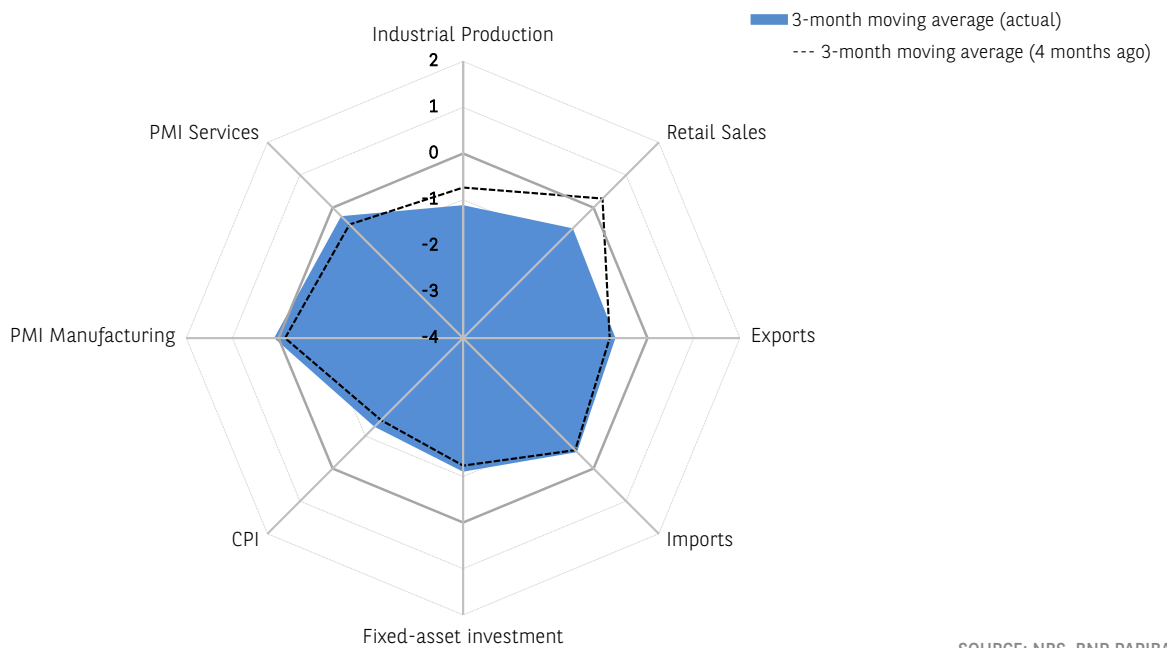
Against this background, manufacturing exporters, which receive substantial government subsidies, were able to cut their selling prices in order to increase their export volumes and strengthen their market share, particularly in green technology sectors. Total goods exports increased again in Q1 2024 (+1.5% y/y in current dollars), boosted by gains in market share and an improvement in global demand. While export value weakened in March after two months of rebound, export volumes continued to grow strongly.

Meanwhile, domestic demand and activity in the services sector continued to suffer from the crisis in the real estate sector, regulatory uncertainty and the lack of confidence amongst consumers and private investors. In Q1 2024, real estate investment, house sales, ongoing construction projects and new construction projects continued to contract sharply. Retail sales lacked momentum and growth in the services sector slowed (5.5% y/y in Q1 2024 from 8.5% in Q4 2023), which can only partially be explained by the unfavourable base effects resulting from the Q1 2023 rebound.

Consumer price inflation was zero on average in Q1 2024 (vs. -0.3% y/y in Q4 2023). Core inflation remained low in Q1 2024 (at +0.7%), but was nevertheless very slightly higher than in the previous quarter (+0.6%). Given that weak domestic demand and the imbalance between supply and demand look set to persist, inflation is unlikely to accelerate over the short term.

Christine Peltier

### CHINA: QUARTERLY CHANGES



SOURCE: NBS, BNP PARIBAS

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.