

ECONOMIC PULSE

CHINA: FURTHER DOWNTURN IN ECONOMIC ACTIVITY

The latest activity data point to a widespread slowdown in the Chinese economy in October 2022. Industrial growth slowed to 5% year-on-year (y/y) from 6.3% in September, bringing an end to the acceleration seen during Q3 2022. The effects of tax incentives for purchasing cars have worn off, leading to a slowdown in car production. Most notably, the manufacturing sector adjusted its production (the electronics sector, in particular) in response to the rapid slowdown in exports (which declined by 0.6% y/y in October vs. +10.1% in Q3 and +13.8% during H1).

In the services sector, difficulties have persisted: activity stagnated in October (+0.1% y/y), after barely recovering during Q3 (+1.2%) from its downturn during Q2 (-3.3%). The new mobility restrictions imposed during the second half of October once again slowed down retail sales (-0.5% y/y in value terms vs. +3.5% during Q3). The still strict Zero Covid policy (despite the changes just announced), the persisting crisis in the real estate sector and the deteriorating labour market conditions (unemployment increased again in the country's 31 main cities, hitting 6% in October) continue to weigh heavily on consumer confidence and consumer spending.

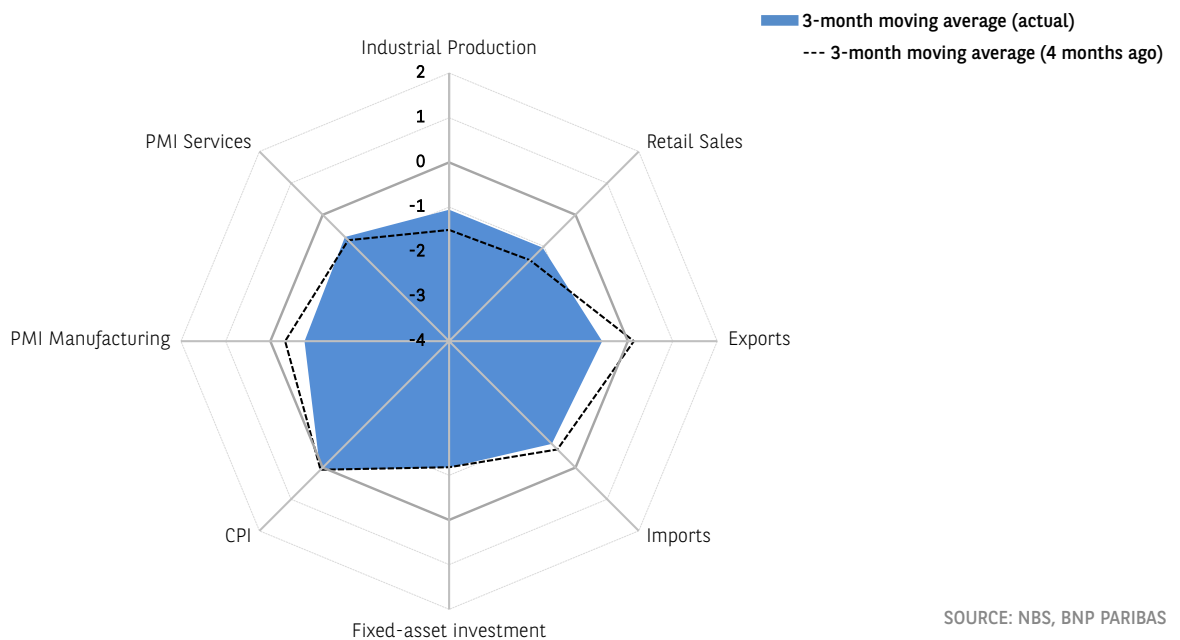
The slowdown in consumer price inflation (2.1% y/y in October, compared with 2.7% during Q3) and the low core inflation (0.6% in October, compared with 0.7% during Q3) are also signs of China's sluggish domestic demand.

Activity in the property sector continued to fall rapidly in October (sales volumes: -23.2% y/y, projects under construction: -32.6%, and new starts: -35.1%), and house prices dipped slightly further (-3.7% y/y). Real estate investment decreased further in October, falling by 7.3% y/y in value terms during the first ten months of 2022.

The authorities are increasing monetary and fiscal support measures. The most visible effect of policy support is the still solid increase in public investment in infrastructure projects. By contrast, monetary easing is failing to boost growth in total credit to the economy. In the property sector, measures aimed at stimulating demand for housing have had little impact so far, while bank loans to developers are showing signs of acceleration (+4.2% y/y during Q3, vs. +1.5% during Q2). However, many property developers are still financially strangled, and the number of defaults on bank loans and bond markets could increase further in the short term.

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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.