CHINA: LACKLUSTRE PERFORMANCE

In Q2 2023, Chinese economic growth fell to +0.8% quarter-on-quarter, down from +2.2% in the previous quarter. It stood at +6.3% year-on-year (up from +4.5% in Q1 2023), but this figure is inflated by favourable base effects resulting from the very strict lockdowns imposed in the Shanghai region in spring 2022.

In March, the authorities had set a 2023 growth target of "around 5%": this objective seemed easily achievable, thanks, in particular, to the boost provided by the post-Covid catch-up effects in the services sector. However, the rebound in activity since the zero-Covid policy was abandoned has fizzled out very quickly, while the export manufacturing sector has been suffering from the effects of weakening global demand. Further monetary and fiscal support measures now seem needed in order to achieve the real GDP growth target for this year. These measures will also be vital for reassuring consumers and investors.

The economic indicators for June and the second quarter of 2023 illustrate widespread sluggish economic activity. Chinese households are cautious and limit their spending. They are worried because of the lasting crisis in the real estate sector and the uncertainties surrounding employment opportunities.

As a matter of fact, the labour market has not returned to how it was pre-pandemic. While the unemployment rate in urban areas fell to 5.2% in Q2 2023 and is approaching its pre-Covid levels, unemployment among young people aged 16-24 has increased since the beginning of the year. It reached a record high of 21.3% in June (compared to 12% in 2019). This trend is notably due to the mismatch of, on the one hand, rising numbers of young graduates entering the labour market and, on the other hand, falling employment in the services sector. In 2022, job losses were mainly concentrated in services affected by heath restrictions, the real estate sector and high-end services (tech, education, etc.). These high-end sectors, which recruit the most qualified workers, have been hit hard by the regulatory tightening implemented since 2021.

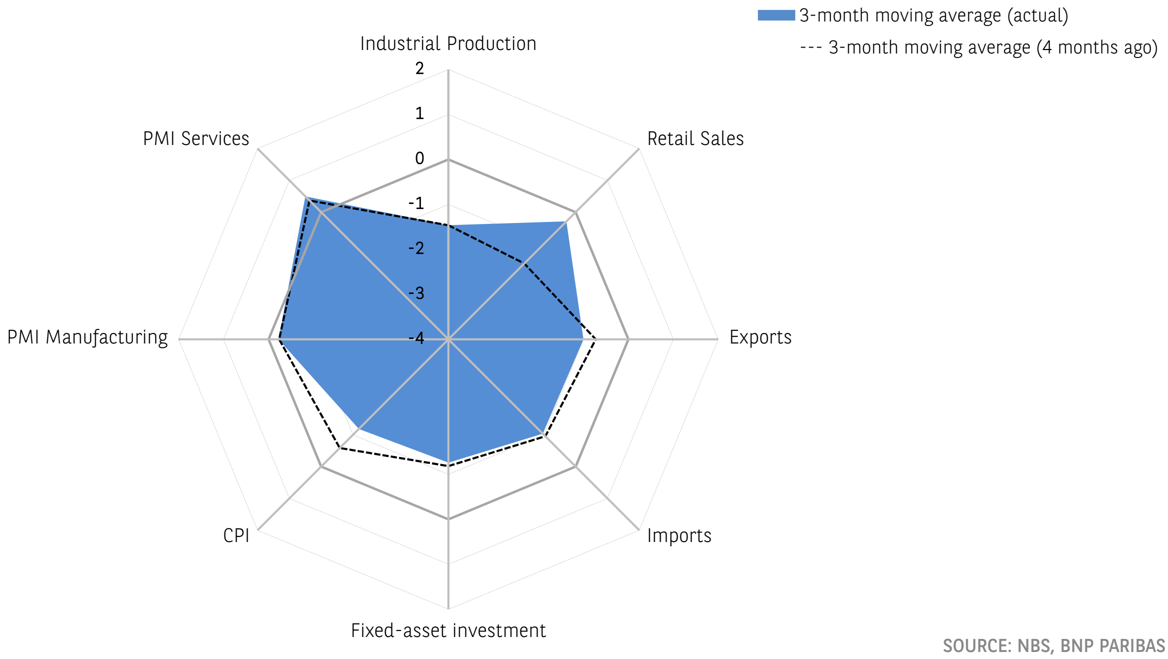
At least households were able to benefit from the slowdown in inflation. Consumer price inflation fell from +1.8% y/y in December 2022 to 0% in June 2023, due to the drop in fuel prices and rents, the slower increase in food prices and weak core inflation (0.4% y/y in June) – which, itself, reflects weak domestic demand. Retail sales volumes increased by around 8% y/y in H1 2023, after dropping slightly in 2022, but their growth has slowed down since May.

The real estate sector plunged further into crisis during Q2 2023. The number of completed construction projects recovered (+26% y/y) thanks to the support measures provided by the authorities, but housing sales continued to fall (-20% y/y in Q2 2023) and the number of construction project start-ups continued to collapse (-29%). The decline in real estate investment persisted, contributing to the slowdown in total investment growth (+3.8% y/y in value terms in H1 2023).

Finally, the manufacturing sector is bearing the brunt of the slowdown in global demand and tensions with the United States. In H1 2023, exports of goods fell (down 3.3% y/y in current USD terms over the half-year as a whole, and down 13.9% in June), and industrial growth stood at just +3.8% y/y.

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.