

ECONOMIC PULSE

7

CHINA: PERFORMANCE REMAINS SOMEWHAT LACKLUSTRE

May's activity data once again highlights the fairly different dynamics of the various components of Chinese economic growth. Overall performance is still somewhat lacklustre and points to a slowdown in activity in Q2 2024 compared with the previous quarter.

Growth in industrial production slowed in May (+5.6% year-on-year compared with +6.7% in April). However, activity in export sectors such as high-tech and electric vehicles remained very strong. Merchandise exports rebounded by almost +8% y/y in current dollar terms in May, and investment in the manufacturing sector continued to grow steadily. The export outlook remains good in the very short term but could quickly become clouded by trade tensions and rising tariffs in the United States and the European Union.

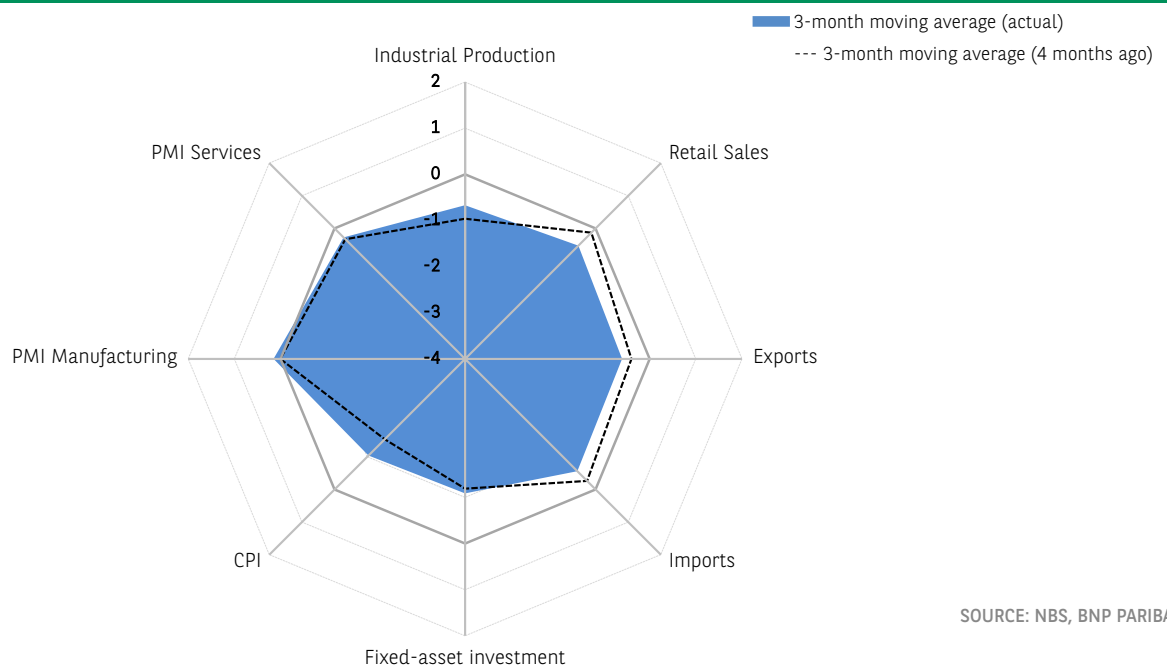
In the services sector, growth accelerated in May (+4.8% y/y compared with +3.5% in April). It benefited from a slight revival in retail sales (although their rise was still modest, at +3.7% y/y in value terms, compared with +2.3% in April), against a backdrop of low and stable inflation. The consumer price index rose by +0.3% y/y in April and May.

However, the property crisis shows no sign of improving and remains the main obstacle to growth in domestic demand. Housing sales volumes continued to fall in May (-19% y/y), as did property starts (-22%). The fall in house prices has worsened (-7.5% y/y on average in the 70 main cities, compared with -4.1% in December 2023). The package of new support measures announced by the authorities in May (further easing of mortgage lending conditions, programme for the purchase of unsold homes by local governments) has not yet been able to have a positive effect on activity in the property sector.

Likewise, despite monetary policy easing measures, growth in total outstanding credits to the economy has slowed since the start of 2024. Total aggregate financing (whose main components are bank loans and bond issues) rose by 8.4% y/y in May, compared with +9.8% in December 2023. The increase in outstanding bank loans in local currency fell from +10.9% y/y in December to +8.9% in May. The authorities could ease their monetary policy stance further in the very short term. However, their room for manoeuvre is still constrained by the excessive level of corporate and local government debt. It is also currently hampered by downward pressure on the yuan.

Christine Peltier

CHINA'S ECONOMIC INDICATORS



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.


BNP PARIBAS

The bank
for a changing
world