CHINA: REACHING FURTHER LOWS

Economic indicators for August 2024 once again show that Chinese economic growth is lacking strength. The real GDP growth target of "around 5%" set by Beijing for 2024 can only be achieved with a stronger impetus generated by monetary easing and fiscal expansion.

Growth in industrial production slowed again in August, reaching 4.5% y/y (compared to 5.1% in July) and 5.8% y/y over the first eight months of 2024. It was mainly hampered by contraction in heavy industries such as steel and cement. By contrast, electronic goods production continued to post very solid gains, supported by the rapid rise in exports (total export value increased by 8.7% y/y in August). Buoyed by the authorities' aggressive industrial policy, growth prospects for the export-oriented manufacturing sector remain good in the very short term. The outlook could then become gloomier, due to protectionist measures against China introduced by an increasing number of developed and emerging countries.

In the services sector, which depends largely on domestic demand, activity also lost momentum (+4.6% y/y in August and +4.9% y/y over the first eight months of 2024). Household consumption and private investment remain depressed. The crisis in the property sector continues, and the support measures implemented last spring have failed to stimulate housing demand (floor space sold fell by 13% y/y in August). Most property developers are still facing major solvency or liquidity problems.

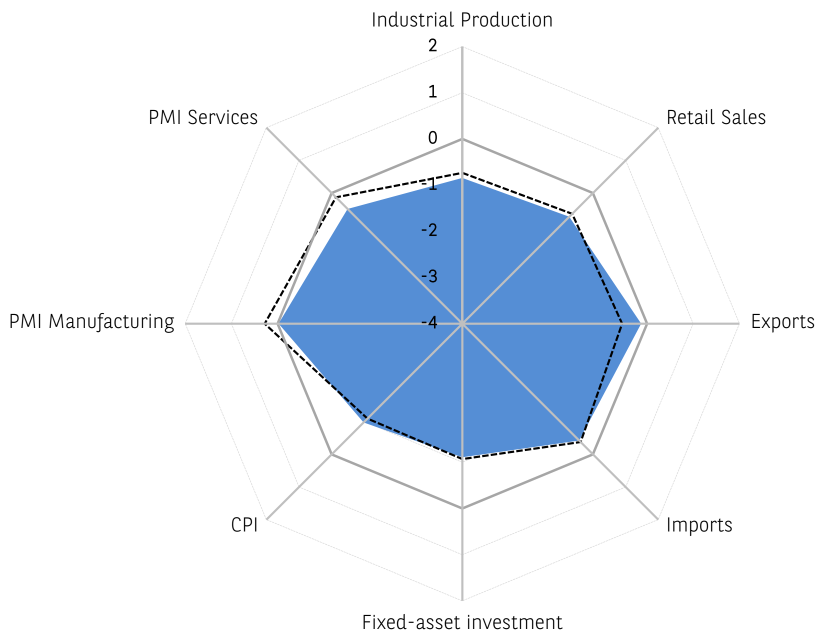
The deteriorating conditions on the labour market are adding to the property crisis, which is significantly impacting household morale and spending. Growth in retail sales slowed again in August to just +2.1% y/y in value.

Deflationary pressures persist, due to weak domestic demand and production overcapacities, falling property prices, slower wage growth and declining global commodity prices. In August, the consumer price index rose 0.6% y/y, but core inflation hit a low of 0.3%, and the production price index fell (-1.8% y/y) for the 23rd consecutive month.

Despite weak domestic demand, low inflation and a continued slowdown in domestic credit growth, the authorities are staying on course with their cautious monetary policy easing. On 20 September, they decided to leave their main policy rates unchanged (the last rate cuts were in July). Monetary easing in the US is expected to give the Chinese central bank more leeway by reducing pressure on external accounts and the yuan. However, the central bank has other constraints; in particular, it aims to limit the drop in long-term bond yields and preserve the profitability of commercial banks.

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.