ECONOMIC PULSE

CHINA: REASSURING SIGNS OF IMPROVEMENT

Activity indicators for October showed encouraging signs of accelerating growth. The support policy measures implemented by the authorities are finally beginning to bear fruit. However, the improvement is not widespread, as deflationary pressures persisted and credit growth continued to weaken.

In the services sector, growth accelerated to +6.3% y/y in October, compared with +5.1% in September and +4.7% on average over the previous four months. This renewed vigour was driven in particular by retail sales, which were encouraged by periods of sales and the continuation of government-subsidised durable consumer goods “trade-in programmes”. The property market also showed some signs of improvement: the contraction in sales volumes fell to -1.6% y/y, compared with -12% in Q3. However, construction activity (starts and completions) continued to fall sharply in October.

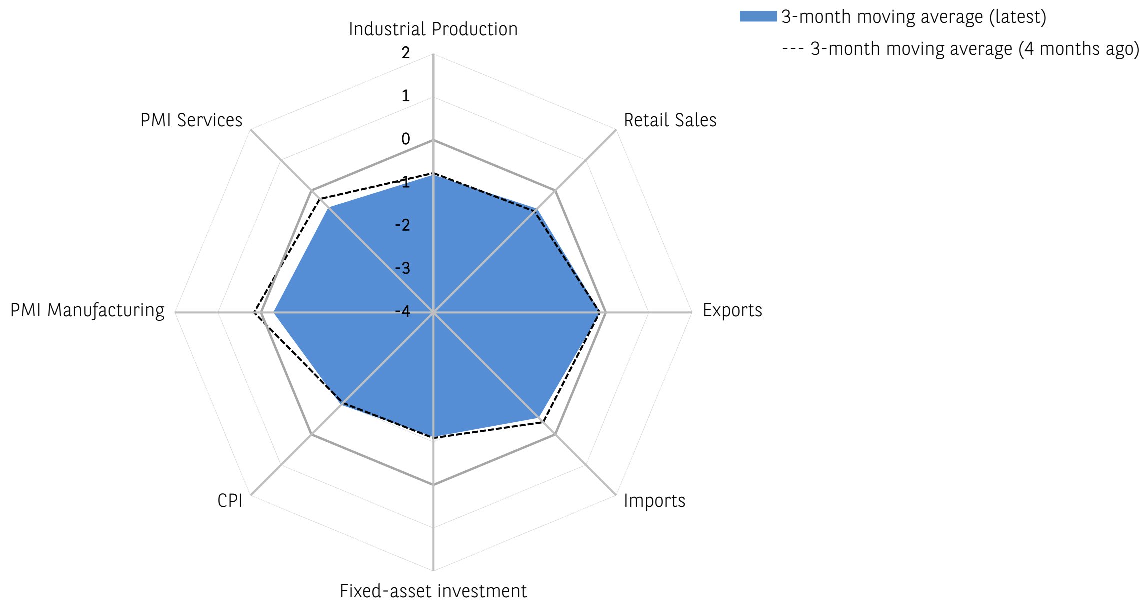
In the industrial sector, growth stood at +5.3% y/y in October, virtually unchanged from September (+5.4%), after four months of slowdown. It was notably driven by the solid performance of goods exports, which rebounded in October in both volume and value terms (+12.7% y/y in current USD, after +4.6% y/y on average over the first nine months of 2024).

Between now and the end of the year, the more favourable growth momentum in services and industry is expected to continue. The manufacturing sector should benefit from an upturn in export orders, in anticipation of the US tariff hikes promised by Donald Trump. Domestic demand should continue to strengthen, albeit moderately. A number of factors are indeed still holding it back: private sector confidence remains weak, the necessary adjustments in the property sector are not yet complete, conditions on the labour market continue to deteriorate and are constraining income growth, and deflationary pressures persist and are weighing on corporate profits. In fact, producer prices fell in October (-2.9% y/y) for the 25th month in a row, consumer price inflation eased (+0.3% y/y after +0.5% in Q3) and core inflation remained low (+0.2% y/y).

Finally, growth in outstanding domestic credit continued to slow in October: total social financing rose by +7.8% y/y in nominal terms, after +8.1% in Q3. On the one hand, growth in bank loans to households picked up slightly, after nine months of slowdown – this was the result of the relaxation of the prudential rules governing housing loans and contributed to the smaller contraction in house sales. On the other hand, growth in corporate lending and bond issuance continued to slow, as a result of the weakness in both credit demand and supply. Banks are proving to be skittish after several years of deteriorating asset quality and interest margins. The central government’s plan to recapitalise the main national state-owned banks could help them to strengthen their loan supply.

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.