

# ECONOMIC PULSE

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## CHINA: RUNNING OUT OF STEAM

Economic indicators for the month of April 2023 suggest that China's economic recovery is rapidly running out of steam. Granted, health restrictions were lifted recently (December 2022) and there are still some major post-Covid catching-up effects that are bolstering household demand. However, growth in other demand components has weakened.

In April 2023, activity continued to pick up in the services sector (+13.5% year-on-year vs. +6.7% in Q1 2023). Retail sales volumes also increased 18% year-on-year (vs. +6% in Q1). Moreover, year-on-year growth figures benefit from a very favourable base effect since the country, and the Shanghai region in particular, were hard hit by very strict lockdown measures and a contraction in activity in spring 2022. Catching-up effects should continue in May, and the rebound in services is expected to strengthen thanks to bank holidays at the beginning of the month. During this holiday period, the volume of activity in China's tourism sector was 19% higher than for the same period in 2019.

However, Chinese households are still being cautious, and they contained their travel spending per capita during their recent holidays. They worry about the sluggish growth in their revenues (disposable income per capita rose 2.9% in real terms in 2022 and 3.8% y/y in Q1 2023, compared to average annual growth of 6.7% in the five years prior to the Covid-19 pandemic), high unemployment (the urban unemployment rate declined slightly to 5.2% in April, but the unemployment rate for the 16-24 age group continued to rise to 20.4%), and the deep crisis in the real estate sector. Fortunately, consumer price inflation remains low (+0.1% y/y in April after +1.3% in Q1).

In this environment, households seem to prefer to reduce their debt, despite measures implemented by the authorities to stimulate housing demand. In Q1 2023, housing mortgage loans slightly declined on a year-on-year basis, and total household debt outstanding increased by only 4% (vs. +5.5% in Q4 2022 and +12.7% in Q4 2021). Household debt amounted to 60.9% of GDP at the end of March 2023, down from 61.2% at year-end 2021.

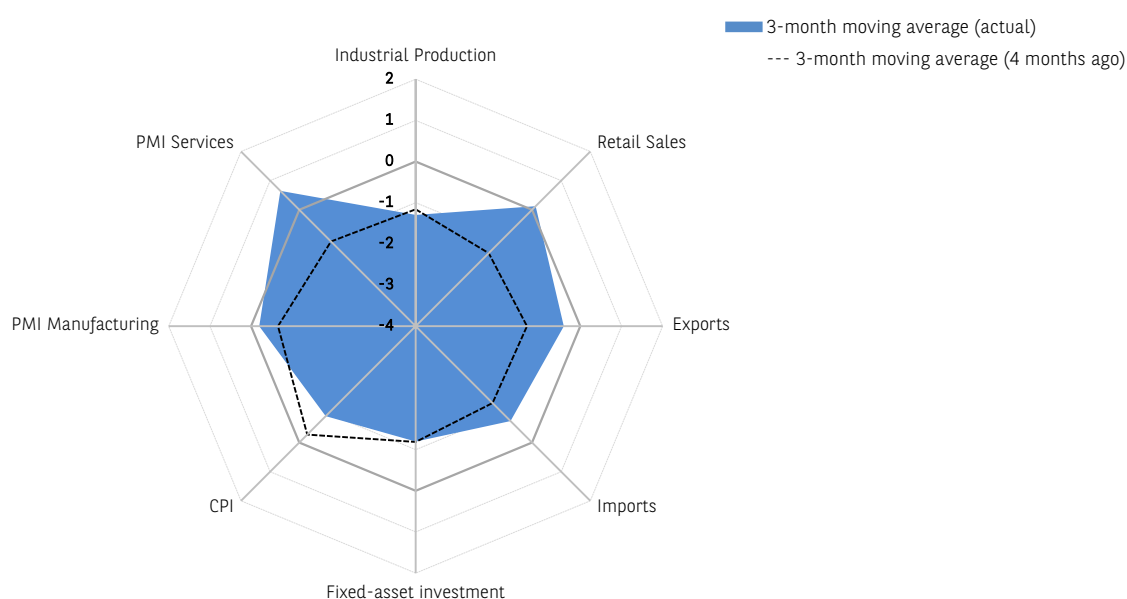
Signs of a slight improvement in the real estate and construction sectors, which were observed in the first quarter of 2023, proved to be short-lived. The decline in house sales hit -11.8% in April. Real estate investment contracted further (-6.2% y/y in value in the first 4 months of 2023).

Growth in the industrial sector was also largely disappointing in April, up 5.6% year-on-year, compared to +3% in Q1. This performance was all the more disappointing since industrial production contracted in April 2022. The decline in computer production continued to undermine industrial activity, at a time of fierce US-China tensions and a slowdown in world demand. Exports rebounded in March and April (+11% y/y after a 5-month decline), but short-term prospects are still uncertain.

Lastly, total investment growth remains sluggish (+4.7% y/y in value in the first 4 months of 2023, vs. +5.1% in 2022). This can be explained by the crisis in the real estate sector and the uncertainty straining global demand for manufactured goods. It also reflects the pessimism of private investors in the face of both geopolitical risks and regulatory risks in China. Private investment has virtually stagnated in recent months.

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.



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