CHINA: EXPORTS STRONG, PRIVATE CONSUMPTION STILL SLUGGISH

After a rebound to +1.5% q/q in Q1 2024, Chinese economic growth slowed to +0.7% q/q. It stood at +5% year-on-year in the first half of the year. The economic growth target of "around 5%" set by Beijing for 2024 remains achievable.

The economic indicators for June and Q2 2024 show diverging trajectories for the various growth components. On the one hand, manufacturing activity remained dynamic, buoyed by goods exports (+8.6% y/y in value in June, and +5.9% on average in Q2 2024). On the other hand, tertiary sector activity and domestic demand lacked vigour. Since the beginning of the year, growth in services has slowed (from +5.5% y/y on average in Q1 to +4.3% in Q2) and remained below industrial production growth. The latter slowed slightly, from +6.1% y/y on average in Q1 to +5.9% in Q2.

The property sector crisis continues to sap Chinese household morale and weigh on domestic demand. Investment in the property sector continued to fall in H1 2024 (-10% y/y in value), and the decline in housing prices worsened (-7.9% y/y on average in June for second-hand homes in the 70 main cities, compared to -4.1% y/y in December 2023). Housing sales volumes continued to contract in Q2 2024 (-14.7% y/y). This drop is less marked than in Q1 2024, but the possible (slight) effects of the stimulus measures implemented since May have yet to be confirmed.

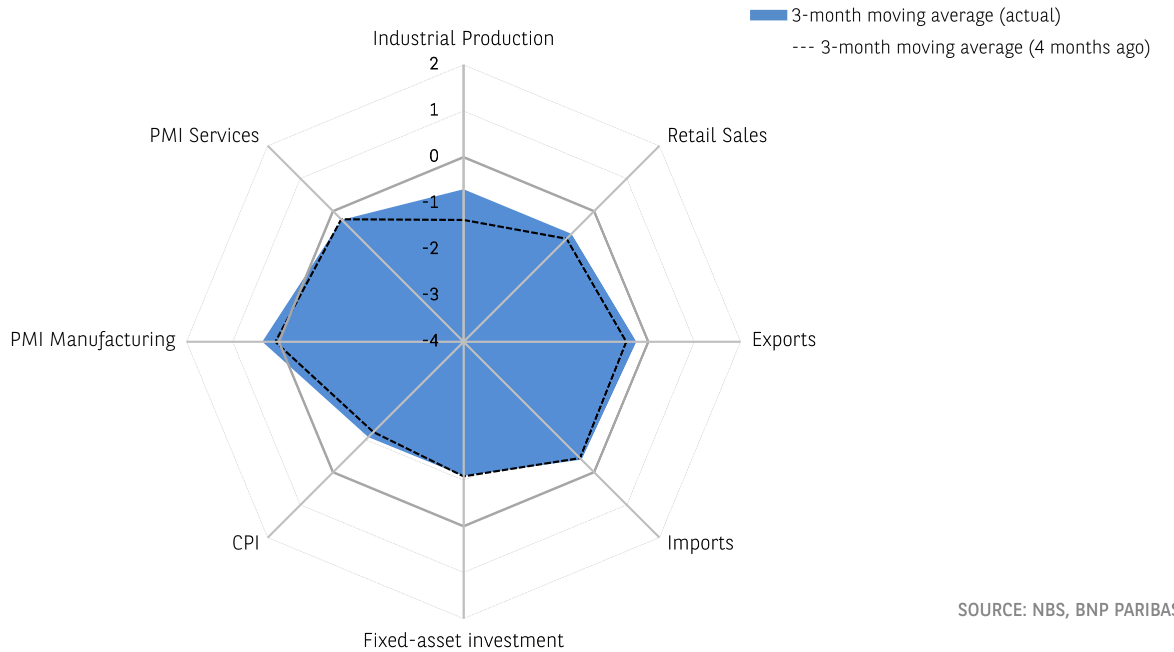
Retail sales have remained depressed and their growth even slowed surprisingly in June 2024 (reaching +1.8% y/y in volume in June and +2.4% on average in Q2 2024). As a result of weak domestic demand and the imbalance between supply and demand, inflation is still very low. In June, the consumer price index rose by only +0.2% y/y, and the production price index fell (-0.8% y/y) for the 21st consecutive month.

Growth in Chinese households' disposable income per capita has slowed in recent months: it reached +5.3% y/y in real terms in H2 2024, compared to +6.2% in Q1 2024 and +6.1% over 2023 as a whole. This is mainly due to the slowdown in the nominal increase in wages and salaries. In fact, even though the unemployment rate in urban areas stabilised at 5% in Q2 2024 (i.e. its average level in 2018-2019), the labour market has not returned to its pre-Covid momentum, and remains heavily penalised by weak growth in the service sectors.

Despite sluggish household demand and significant differences between sectors, the authorities reaffirmed, at the end of the third plenary session of the Central Committee of the Chinese Communist Party, their objective of strengthening the industrial policy. This aims to support economic activity and ensure China's technological sovereignty and "national security". Yet, new policy measures aimed at supporting domestic demand are also expected in the short term, in response to the disappointing economic growth performance in Q2 2024. The central bank has just cut its policy rates.

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.