

ECONOMIC PULSE

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CHINA: ON HOLD

Economic indicators for the first two months of 2024 showed a slight improvement in activity, driven primarily by the export manufacturing sector. Growth in industrial production reached +7% y/y in real terms in January-February 2024 compared to +6% in Q4 2023, and manufacturing investment also strengthened slightly. It increased by +9.4% y/y in nominal terms over the first two months, after +6.5% over 2023 as a whole.

Activity in the manufacturing sector is largely supported by goods exports, which have regained strength since the autumn. In January-February 2024, exports even rebounded by +7.1% y/y in current USD terms. Growth in goods imports also picked up (+3.5% y/y). The increase in exports affected all trade partners and benefited a wide range of products, ranging from low value-added consumer goods to green technology products.

Meanwhile, sectors that depend on the domestic market remain sluggish. Activity in the services sector grew by +5.8% y/y in January-February 2024 compared to +8.5% in Q4 2023. Household consumption did not really improve, with retail sales up by only around 6% in real terms over the first two months of the year (after +8.7% y/y in Q4 2023). Reflecting weak domestic demand and the imbalance between supply and demand, consumer price inflation was slightly negative in Q4 2023 (-0.3% y/y) and almost zero on average in January-February 2024.

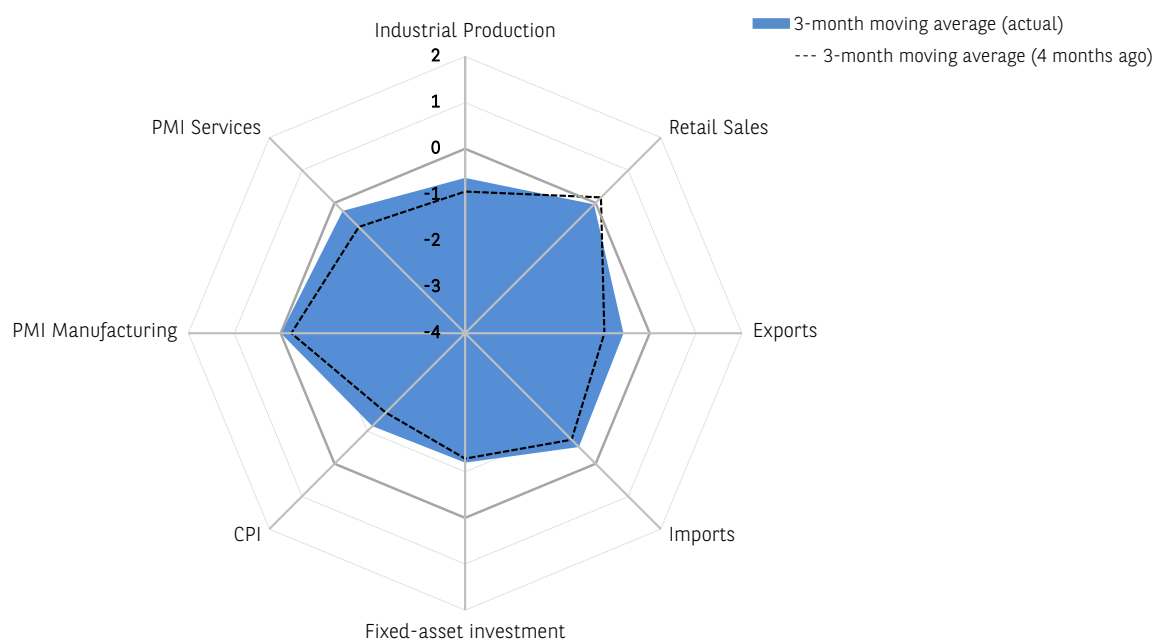
The same factors explain why consumers have been cautious for several months now: a severe crisis in the property sector, negative wealth effects linked to the fall in house prices (-10% on average since mid-2021 in China's 70 largest cities) and the fall in stock prices since 2021, and concerns about employment and income prospects. The unemployment rate in urban areas rose again slightly at the beginning of the year, from 5.1% in December to 5.3% in February. It was driven in particular by the rise in unemployment among 16-24-year-olds (from 14.9% in December to 15.3% in February, according to the new series published for the last three months).

In the property sector, the decline in investment continued in January-February (-9% y/y). Similarly, volumes of property transactions, construction start-ups and sites under construction have all continued to contract sharply since the beginning of the year.

The monetary and budgetary support measures implemented by the authorities since summer 2023 have therefore had relatively limited effects on activity. However, the fiscal stimulus has recently increased, helping to accelerate public spending and investment in infrastructure projects. These trends are expected to continue in the very short term.

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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