

ECONOMIC PULSE

7

CHINA: A MIXED PICTURE

The latest activity data for the Chinese economy reminds us once again of the fragility of the post-Covid recovery dynamic. Domestic demand is picking up, in particular thanks to the normalisation of private consumption, but significant headwinds remain. Meanwhile, the performance of the export sector seems to have improved slightly.

In November 2023, growth in the services sector accelerated further (+9.3% y/y vs. +7.7% in October), notably supported by retail sales (+10.6% y/y in volume vs. +7.8% in October). The faster growth remains partly due to base effects (activity in services and retail sales contracted in November 2022). Household consumption has also benefited from improved labour market conditions and a slight rise in confidence. However, several elements show the lack of strength of private-sector demand. First, consumer prices continued to fall in November 2023 (inflation stood at -0.2% y/y on average over the last three months).

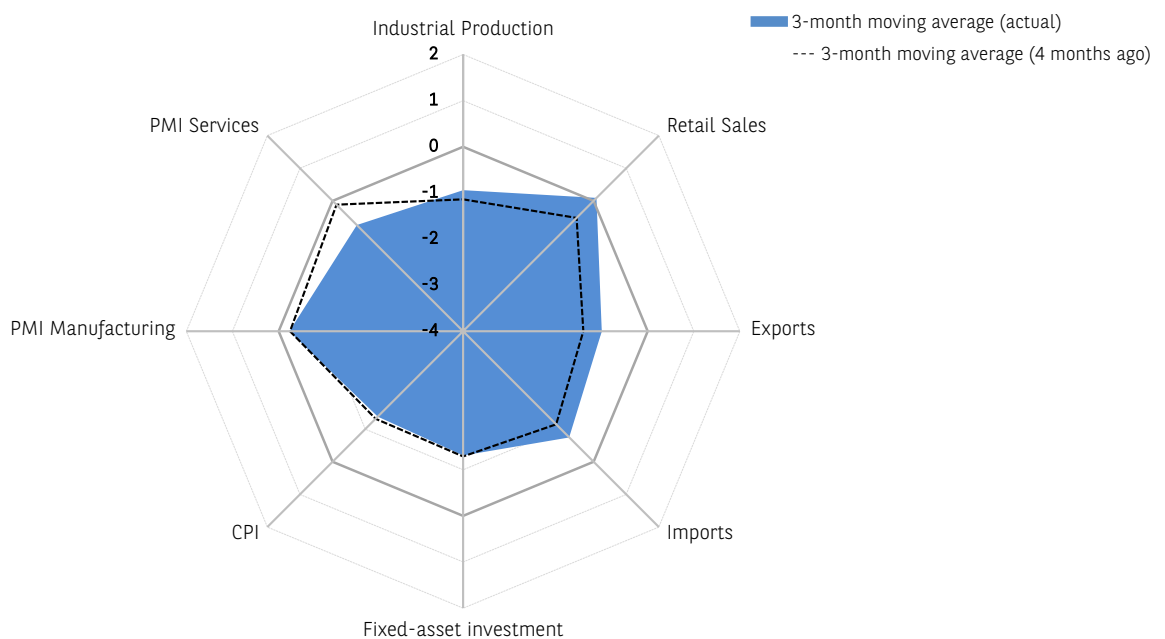
Moreover, the property sector shows no signs of recovery, which continues to weigh on activity in other sectors and on confidence among households and creditors. Property sales volumes contracted by 21% y/y in November, after a drop of 17% y/y over the first ten months of 2023. Apparent progress in new construction projects started in November 2023 (+5% y/y) follows 31 consecutive months of decline and is mainly due to base effects (given the collapse of new construction projects over the last two months of 2022). Investment in the property sector continues to fall. Developers continue to face enormous financial difficulties and excessively high unsold housing stocks.

Activity in the manufacturing sector continued to recover in November 2023. Industrial production increased by 6.6% y/y vs. 4.6% in October, with an acceleration observed in a large number of sectors, in particular in the automotive sector. Goods exports stabilised in November (+0.5% y/y in current USD) after six months of decline. This is better performance than expected despite a weak international environment. The manufacturing export sector is indeed showing a solid capacity to develop its range of products (from low value-added consumer goods to green technology products) and diversify its markets in an attempt to offset the drop in exports to the United States and the European Union.

Christine Peltier

Completed on December 18 2023

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.



BNP PARIBAS

**The bank
for a changing
world**