

ECONOMIC PULSE

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CHINA: THE MODEST ECONOMIC RECOVERY CONTINUES

In Q3 2023, Chinese economic growth rebounded to +1.3% quarter-on-quarter, after a very poor +0.5% in the previous quarter. It stood at +4.9% year-on-year (y/y) compared to +6.3% in Q2 2023, but this slowdown is due to unfavourable base effects in Q3. Chinese economic growth reached 5.2% year-on-year over the first three quarters of 2023.

The indicators for September and Q3 2023 show a slight but continuous improvement in economic activity since the middle of the summer. In August and September 2023, economic activity in the services sector strengthened slightly (+6.9% y/y compared with +5.7% in July), supported by retail sales (+5.5% y/y in volume in August compared with +2.8% in July). Growth in industry remained at +4.5% year-on-year in August and September, compared to +3.7% in July. The manufacturing sector continues to suffer from declining exports (-10.8% y/y in current dollars in Q3 2023).

Although cautious, the new fiscal and monetary policy easing measures implemented in recent months have helped economic activity recover. This recovery is expected to continue in Q4. However, it remains modest and fragile.

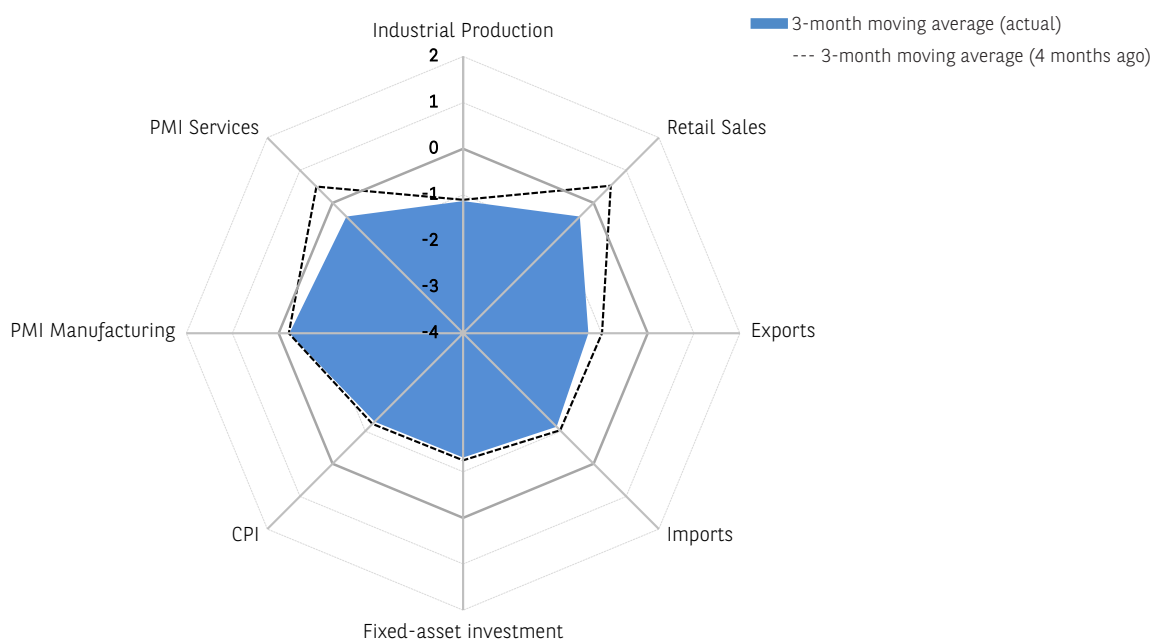
In particular, the property sector remains in crisis, which continues to significantly impact household confidence, economic activity in other sectors, and local government finances. Developers continue to face severe financial difficulties, the number of payment defaults is rising and debt restructuring remains very slow. Real estate investment continues to contract. In Q3 2023, the volume of housing sales fell by 23% y/y (vs. -20% in Q2 2023) and construction starts fell by 22% in Q3 (vs. 29% in Q2). Meanwhile, the number of completed property projects continues to recover thanks to support measures from the authorities.

Consumer sentiment remains weak. According to indicators published by the National Bureau of Statistics of China (NBS), the consumer confidence index remains very low. After dropping sharply to 86.8 in April-May 2022 during the lockdowns in Shanghai, it only temporarily recovered to over 90 in Q1 2023 following the end of the zero-Covid policy. It then fell again and stood at 86.5 in August.

However, labour market conditions are improving; the unemployment rate in urban areas fell to 5.0% in September 2023 compared to 5.2% in June (the unemployment rate of young people aged 16 to 24 is no longer being published). Consumers also benefit from almost zero consumer price inflation (+0.1% y/y in August and 0% in September), which is contained by the decline in food prices (-3.2% y/y in September) and fuel prices (-1.1% y/y in September). Core inflation recovered slightly to +0.8% y/y in Q3 2023, compared to 0.57% in Q2.

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.


BNP PARIBAS

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