

ECONOMIC PULSE

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CHINA: A SLIGHT UPTURN IN ECONOMIC ACTIVITY AT THE END OF THE SUMMER

The rebound in economic activity seen at the start of the year after the zero COVID policy was abandoned quickly fizzled out, from as early as spring 2023. Our Pulse below reflects this weak economic performance. Exports have stalled due to weak global demand and tensions with the United States. The crisis in the real estate sector has continued and the number of payment defaults by property developers has increased. Domestic demand has also remained constrained by the major loss of confidence among consumers (who have been concerned about the crisis in the real estate sector and the deteriorating job prospects for young people), as well as among private investors (who have been put off by uncertainties over both the international environment and the regulatory framework for a number of economic sectors).

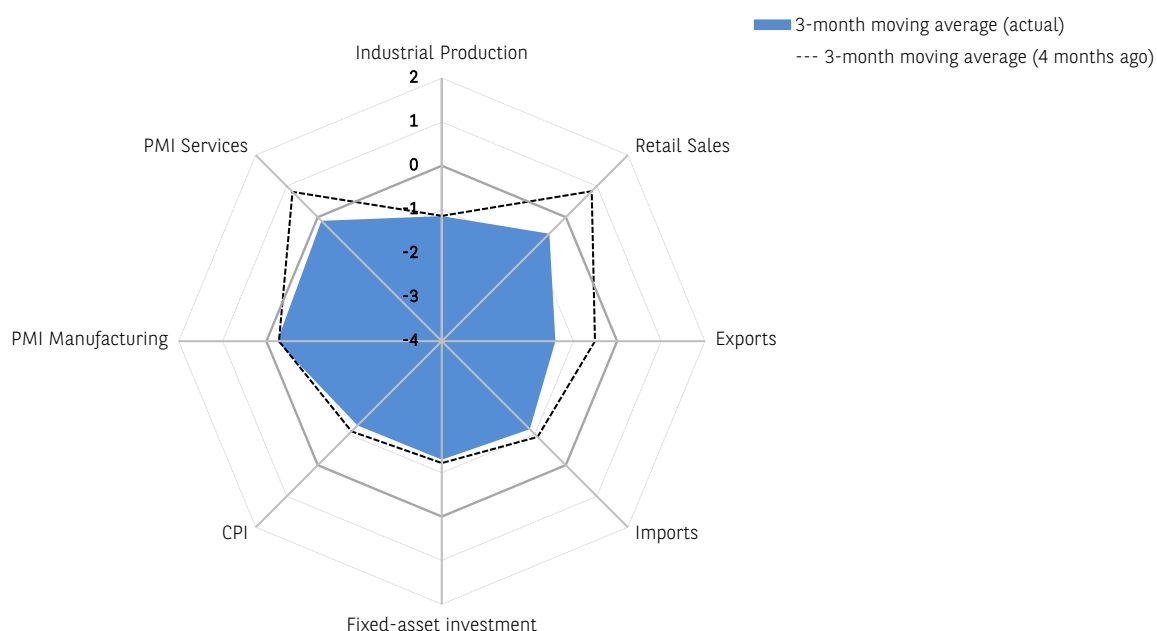
The authorities responded to the economic growth slowdown by gradually easing the policy mix over the summer. In particular, the Central Bank cut key policy rates and reserve requirement ratios, while the criteria for mortgage lending and house purchases have been eased. The central government extended some tax incentives to SMEs and households, and asked local governments to accelerate the issuance of local bonds in order to finance new public spending and investments.

The authorities have remained cautious, notably because their room for manoeuvre is constrained by the economy's excessive debt burden and local governments' fragile finances. However, stimulus measures are seemingly starting to bear fruit. In August, services growth strengthened slightly, rising to +6.8% year-on-year (compared to 5.7% in July), buoyed by recovering retail sales (+4.5% y/y in volume terms compared to 2.8% in July). Consumer price inflation turned back into positive territory (+0.3% y/y in August). Growth in industrial production also rebounded (+4.5% y/y in August compared to 3.7% in July).

By contrast, the real estate sector has showed no signs of recovering. Property sales volumes still plummeted (-24% y/y in August), as did housing starts (-23%). The decline in real estate investment has persisted, contributing to the slowdown in total investment growth (+3.2% y/y in value terms over the first eight months of 2023, compared to 3.8% during H1 2023). The Chinese economy will continue to be held back by major domestic and external constraints and should improve only slightly over the rest of the year.

Christine Peltier

ECONOMIC INDICATORS OF CHINA



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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