

# ECONOMIC PULSE

7

## CHINA: STILL SHOWING SOME WEAKNESS

In Q4 2023, Chinese economic growth accelerated slightly to 5.2% year-on-year (y/y), compared to 4.9% in Q3. However, it lost momentum in quarter-on-quarter terms, standing at +1% q/q in Q4 vs. +1.5% in Q3.

Our barometer seems to indicate a widespread improvement in activity in the last quarter of 2023 compared to the previous quarter, but this is still largely due to the post-Covid normalisation of domestic demand and significant base effects. Actually, the Chinese economy continues to face a large number of vulnerabilities, which are likely to persist in the short term.

The main causes for concern relate to domestic demand. In particular, the crisis in the property sector intensified further in late 2023. Property investment has continued to shrink. In December 2023, volumes of property sales plummeted 23% y/y, following a fall of 20% y/y over the previous three months, and the apparent recovery in housing starts seen in November (after falling for 31 consecutive months) stalled. Only the number of completed projects has continued to improve (+12% y/y in Q4 2023). Property prices have continued to fall, including in major cities. In December, the average drop in housing prices in China's 70 largest cities stood at 4.1% y/y and 0.8% month/month, which is the biggest fall since the property market correction began in 2021.

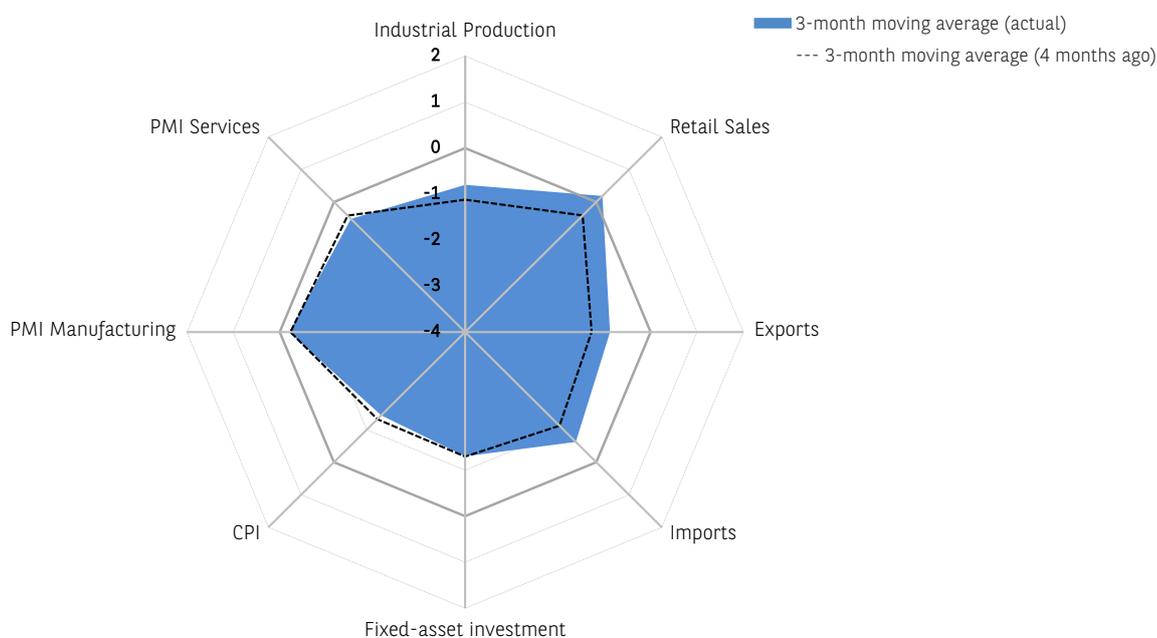
Weak demand and low confidence levels in the Chinese private sector have persisted. On the household side, there was disappointing growth in retail sales volumes in December (standing at +7.7% y/y, compared to +10.6% the previous month). Growth in the services sector also slowed down (+8.5% y/y), bringing an end to four consecutive months of gradual acceleration.

In Q4 2023, deflationary pressures resulted from weak domestic demand, the fall in food prices, the correction in commodity prices and the decline in housing prices. Consumer prices fell by 0.3% y/y in December, driven by the drop in food prices (-3.7% y/y in December) and fuel prices (-1.4%). Core inflation stabilised at +0.6% y/y in Q4 2023, compared to +0.7% over the previous six months, which is low compared to the pre-Covid years (core inflation was 1.6% on average in 2019).

The performance of the manufacturing export sector has strengthened, in contrast with the performances of domestically-oriented sectors. Growth in industrial production further accelerated slightly in December (+6.8% y/y) and stood at +6% y/y in Q4 2023, compared to +4.2% in Q3. Goods exports stabilised in November and increased 2.3% y/y in current dollars in December, following six months of decline. Finally, investment in the manufacturing sector recovered slightly in Q4 2023. It grew by +6.5% in 2023 as a whole, vs. +9.1% in 2022.

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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