

ECONOMIC PULSE

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CHINA'S STIMULUS: YET TO PROVE A WINNING BET

In Q3 2024, Chinese economic growth accelerated to +0.9% quarter-on-quarter (q/q), after its poor performance in the previous quarter (+0.5% q/q). It stood at +4.6% year-on-year (y/y), which is slightly lower than in Q2, and reached +4.8% y/y over the first three quarters of 2024. In order to hit the official growth target of "around 5%" set for 2024, activity will have to rebound strongly during the final quarter of the year. This means that the fiscal stimulus measures announced by the authorities since the last week of September need to be rolled out quickly. These announcements have provided less details than expected on the stimulus measures and were less significant than expected by the markets. However, they signalled a clear change in the economic policy stance and underlined the authorities' new determination to boost private-sector demand. The authorities still have a lot of work to do, as, even though activity picked up somewhat in September, domestic demand remains hampered by still strong constraints.

In the services sector, growth improved slightly and stood at +4.9% y/y over Q3 2024 as a whole. After slowing in August, it picked up in September, driven by improved retail sales. These sales have been promoted in particular by the government-subsidised "durable consumer goods trade-in" programme. This programme, which has been in place for several months, has seemingly been revived recently. Sales of household appliances leapt by more than 20% y/y in September. Nevertheless, growth in retail sales volumes only stood at +2.2% y/y in Q3 2024 (+2.8% in September), compared to above 7% on average in the three years preceding the Covid crisis.

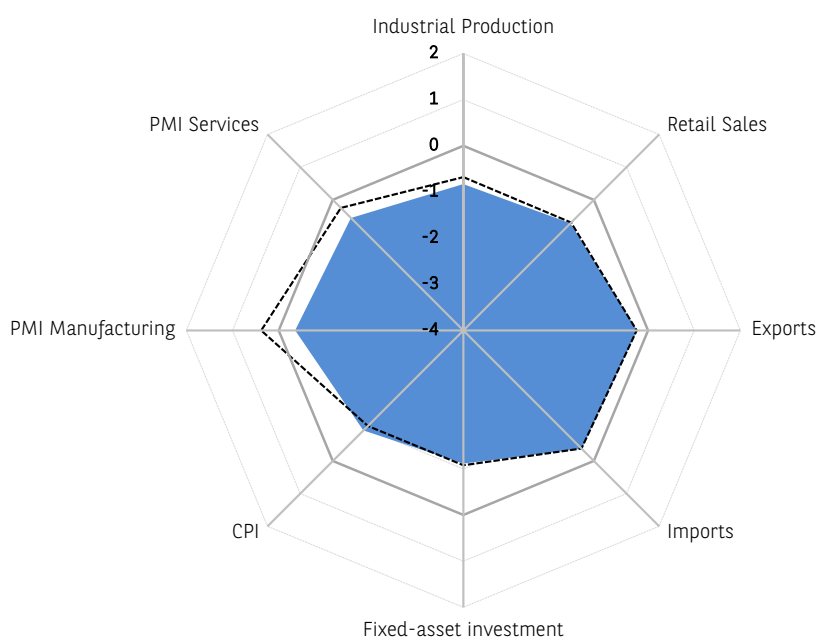
Private consumption has continued to be severely hampered by the real estate crisis, the negative wealth effects of falling house prices (still -9% y/y in September for second-hand houses) and their impact on household confidence and their propensity to save. In addition, households have also faced slower income growth amid degraded labour market conditions. Over the first three quarters of 2024, disposable income per capita increased by 4.9% y/y in real terms nationally and by 4.2% in urban areas, which is below the average increase of +6.5% per year recorded in 2017-2019. The persisting deflationary pressures during Q3 2024 are also a sign of weak domestic demand. In September, production prices continued to drop (-2.8% y/y), consumer price inflation slowed to +0.4% y/y compared to +0.6% in August, and core inflation declined to +0.1%.

A positive shock on household income and confidence is essential for strengthening economic activity in the short term. For the time being, the authorities are seemingly not considering any further significant direct measures to support household income and consumption. However, since 24 September, they have made a number of announcements on monetary easing, support for the equity markets, support for the property sector and scaling up fiscal stimulus measures. Together, all of these support plans may help the property market to start to stabilise and activity in the services sector to accelerate in the coming months.

Growth in the industrial sector also accelerated in September (to +5.4% y/y), but over Q3 2024 as a whole, it slowed. Industrial growth is not expected to accelerate much in Q4 2024: it may be given a small boost by a potential rebound in domestic demand, but it will also be adversely affected by weakening growth in goods exports due to rising global trade tensions and protectionist trade barriers. As a matter of fact, China's export growth slowed in September, both in volume and in value (+2.4% y/y in current dollar terms, compared to +8% on average over the previous four months).

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CHINA'S ECONOMIC INDICATORS



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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