ECONOMIC PULSE

CHINA: NEW SUPPORT PLAN FOR THE REAL ESTATE SECTOR

China's economic growth continues to be typified by divergence between sectors and sluggish domestic private demand. As shown in our chart below, the manufacturing sector gained in strength between February and April 2024, compared to the previous three months, whilst the service sector saw no improvement.

Industrial production increased by 6.7% year-on-year in April 2024 and by 6.3% y/y over the first four months of the year. This growth rate is close to those seen in the pre-Covid period. Industrial activity was driven in particular by the production of goods for export in high-tech and green-tech sectors. For example, production of electronic chips jumped 37% year-on-year in the first four months of 2024, and that of electric vehicles by 32%. Goods export volumes reached record levels while Chinese companies cut selling prices to gain market share. As a result, exports in current USD terms saw only a modest increase over the first four months of 2024 (+2% year-on-year).

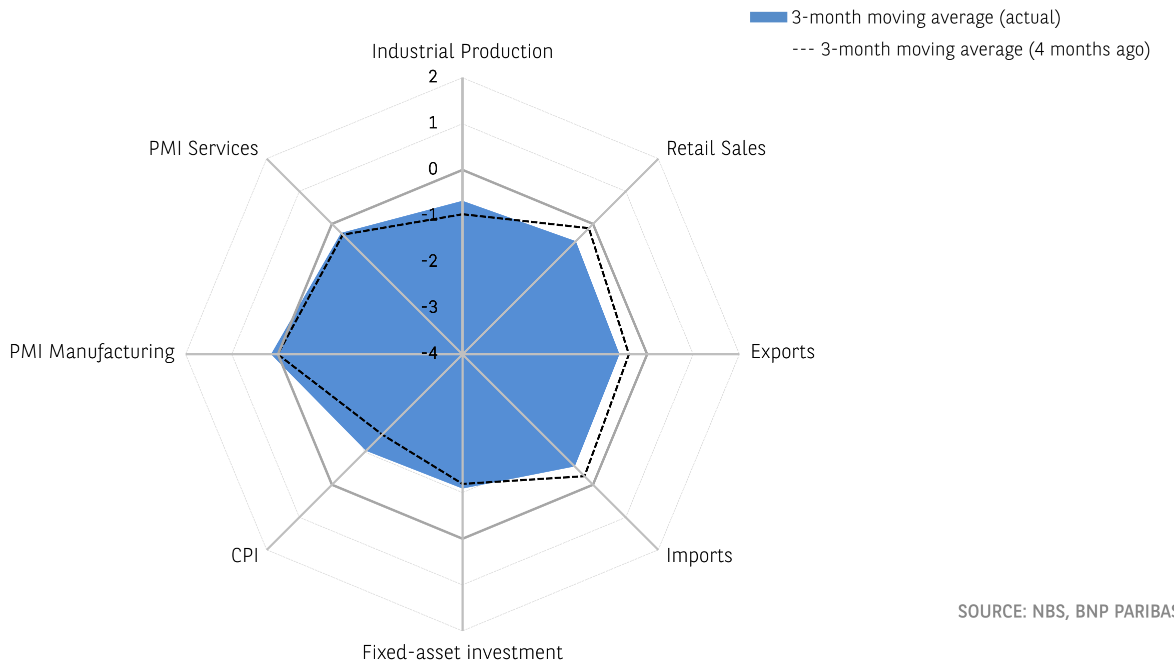
On the one hand, Beijing's industrial policy is bearing fruit. On the other, measures to boost consumer demand and support the real estate market have had little effect so far. Growth in services slowed to 3.5% y/y in April 2024 and was 5% y/y over the first four months of the year. This is a slower rate of service sector growth than in the pre-Covid period (it averaged 7.7% between 2016 and 2019).

The main brakes on growth in the tertiary sector and domestic demand remain in place: the profound crisis in the real estate sector, regulatory uncertainty and the lack of confidence amongst consumers and private investors. Nominal growth in retail sales weakened in April, hitting just 2.3% y/y, compared to 4.7% for Q1 2024 (albeit with still unfavourable base effects), whilst consumer price inflation accelerated slightly (from 0% y/y in Q1 2024 to 0.3% in April). The consumer confidence index published by the National Bureau of Statistics has rebounded only very slowly since the abandonment of the zero-Covid policy and remains well below its pre-Covid levels. The "employment" component of this index is even more depressed, pointing up the main areas of consumer concerns (namely labour market conditions as well as the property crisis). The unemployment rate reached 5% in April (from 5.1% at the end of 2023), but hiring levels remain soft.

Activity in the real estate sector has continued to contract sharply since the beginning of the year and house prices have continued to fall (-6.8% y/y in April on average across the country's 70 main cities). Although conditions for house purchases and access to credit have been eased significantly since last year, outstanding mortgage loans have continued to fall (-1.8% y/y in Q4 2023 and -2% in Q1 2024). As a result, the authorities have just announced a new package of measures to support the real estate sector. They plan further relaxation in mortgage lending conditions (with a lowering in the minimum down payment requirement and measures aimed at reducing interest rates). Most importantly, a programme for local governments to buy unsold homes is due to be launched. This programme may help to increase the stock of social housing, reduce the stock of unsold homes and support property developers, if it is sufficiently ambitious and well-financed.

Christine Peltier

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.