ECONOMIC PULSE

CHINA : MONETARY EASING UNDERWAY

Chinese economic growth slowed to 4% year-on-year in Q4 2021 from 4.9% in Q3. In the industrial sector, the situation improved slightly in Q4 after a summer that was badly disrupted by power cuts and supply-chain problems. Industrial growth accelerated from 3.1% y/y in September to 4.3% in December, driven by the still strong performance of exports (up 22.9% y/y in Q4). In the immediate future, however, manufacturing output and exports are likely to suffer from repercussions arising from the latest wave of the pandemic, i.e. lockdowns and disruption to factories and the transportation of goods.

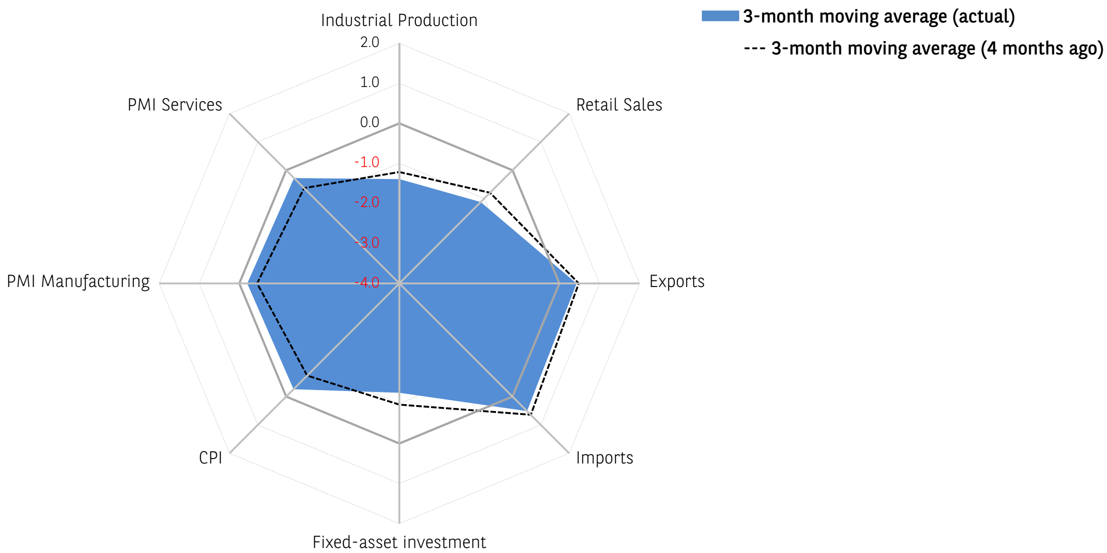
In the services sector, growth decelerated sharply from 5.9% in Q3 2021 to 3.3% in Q4. There were three main factors behind the slowdown: tougher regulations (particularly in the digital and tutoring sectors), successive waves of Covid-19 and the resulting travel restrictions, and the real estate crisis. Because of the severe tightening in their credit conditions, property developers have significantly reduced investment; construction activity and housing sales fell sharply in H2 2021.

Private consumption has remained depressed. In real terms, retail sales rose by less than 2% y/y in August-October and were almost flat y/y in November and December. Inflation is not putting a great deal of pressure on households: consumer price inflation remains low at 1.8% y/y in Q4 vs. 0.8% in Q3, and it even slowed to 1.5% in December. However, household spending remains constrained by factors that are likely to persist in the short term: the authorities' strict zero-Covid strategy, weaker demand for housing-related goods due to the decline in home sales, negative wealth effects resulting from the correction in real estate prices, and consumer concerns about Covid risks and about further deterioration in the labour market.

The authorities are adopting a more expansionary policy mix. On the fiscal policy front, spending on infrastructure projects appears to show some signs of improvement. In the real estate sector, the authorities have made adjustments to avoid a collapse in the market, without changing the macroprudential limits imposed on developers. In particular, mortgage lending conditions and developers' access to certain types of short-term financing have been eased in recent weeks. Most importantly, the central bank has gradually loosened monetary and credit conditions. It started with some targeted measures, including lending programmes for SMEs. It then reduced its reserve requirement ratios (from 12% to 11.5% for large banks) and cut its 1-year LPR (loan prime rate) on 20 December (from 3.85% to 3.8%). In the last week, the central bank has reduced its key medium-term lending facility (MLF) rate from 2.95% to 2.85% – the first cut since April 2020 – as well as announced a cut in the 5-year LPR from 4.65% to 4.6% and a further reduction in the 1-year LPR to 3.7%. Domestic credit growth, which had slowed in the first nine months of 2021, recovered only very slightly in Q4, but it is expected to strengthen in the short term.

Christine Peltier

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.