

## ECONOMIC PULSE

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## CHINA: PRIVATE CONSUMPTION STILL LACKS TRACTION

Economic figures for November once again show the dynamic momentum of Chinese exports (+21.4% year-on-year in current dollars), which continues to drive production and investment in the manufacturing sector. Our barometer highlights a deteriorated industrial performance in September-November 2021 compared to the previous 3-month period. Yet the industrial situation has been picking up slowly since October, after major disruptions in September due to power outages and supply chain disruptions. Industrial production rose 3.8% y/y, compared to 3.5% in October.

In the services sector, in contrast, business continued to slow in November (+3.1% y/y compared to +3.8% in October), and private consumption weakened again in recent weeks. Retail sales volumes barely increased in November 2021 compared to the previous year (+0.5%), after three months of mediocre performances. Online sales growth also dipped. Household spending was restricted by repeated lockdown measures and the insistence on a "zero Covid" strategy. The downturn in housing sales (down another 14% y/y in November) also had direct repercussions on demand for durable consumer goods.

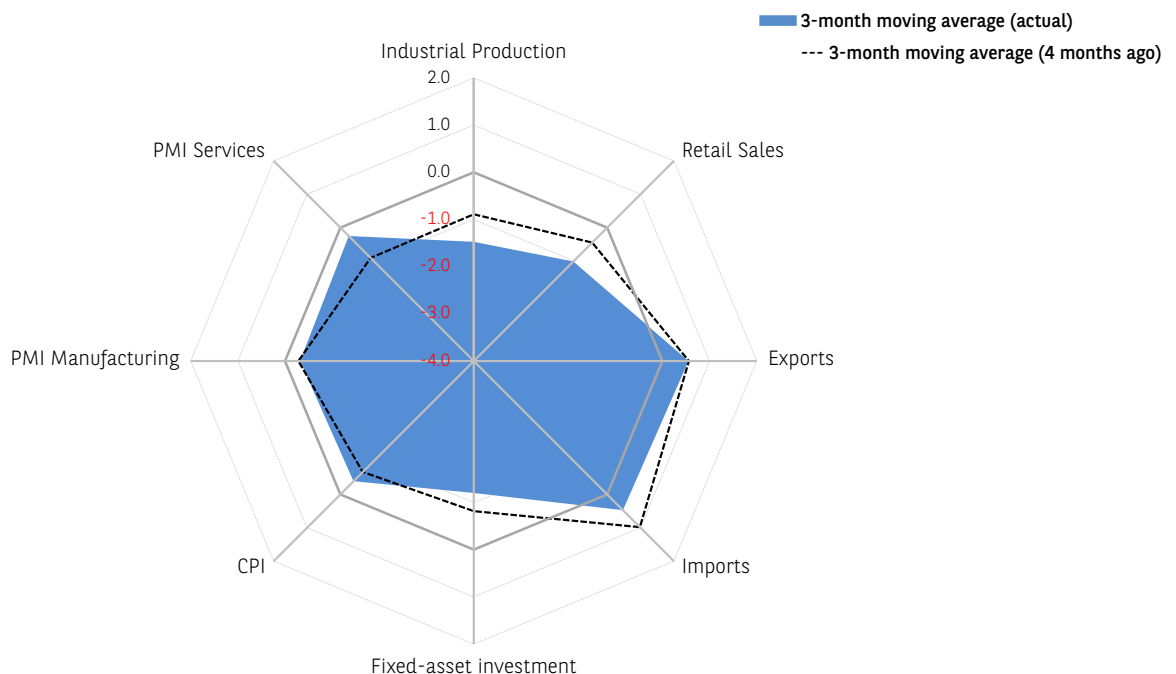
Moreover, the labour market and household revenues were both hampered by the housing crisis, the contraction in construction activity (projects underway declined 24.7% y/y in November) and the difficulties of certain service-sector companies (especially small and mid-sized enterprises). Based on survey results, the urban unemployment rate ticked up slightly in November (to an estimated 5%). Indicative of labour market tensions, the jobless rate for the 16-24 age group still exceeds pre-Covid levels (14.3% in November, compared to a 2019 average of 11.9%).

Lastly, consumer price inflation rose to 2.5% y/y in November, from 1.5% in October and 0.8% in Q3 2021, which may have discouraged household spending as well. Inflation is mainly driven by the rebound in food prices and the knock-on effects following the very big increase in producer prices. Yet the effects are very mild, especially since producer price inflation has begun to slow (+12.9% y/y in November compared to 13.5% in October and 9.7% in Q3 2021).

In the press release following the annual Central Economic Work Conference in mid-December, the authorities suggested that monetary and fiscal support for domestic demand will have to be stepped up in the very short term, mainly via a mild upturn in public investment and targeted measures to facilitate lending. Yet local governments, already restrained by heavy debt burdens and the contraction in real-estate revenues, have less and less room of manoeuvre to increase investment in infrastructure projects. Against expectations, infrastructure investment remained weak in November.

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.



BNP PARIBAS

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