

# ECONOMIC PULSE

## CHINA : THE REAL ESTATE CRISIS SPILLS OVER TO THE ECONOMY

Our monthly Pulse highlights the cyclical deterioration of the Chinese economy in August-October 2021 compared to the previous 3-month period. While the situation in the industrial sector improved in October after a sharp slowdown in September, the correction in the real estate sector has continued.

Industrial production growth picked up slightly in October (+3.5% y/y in real terms, compared to 3.1% in September and 5.3% in August). In fact, the measures introduced by the authorities rapidly eased energy constraints last month. Coal and electrical power production was stepped up as a result and manufacturing output growth accelerated again. Very solid export performance continued to support manufacturing activity. Export growth in volume has moderated since August, but export prices have rebounded, thus stabilising export growth in value (which has averaged +26% y/y since May).

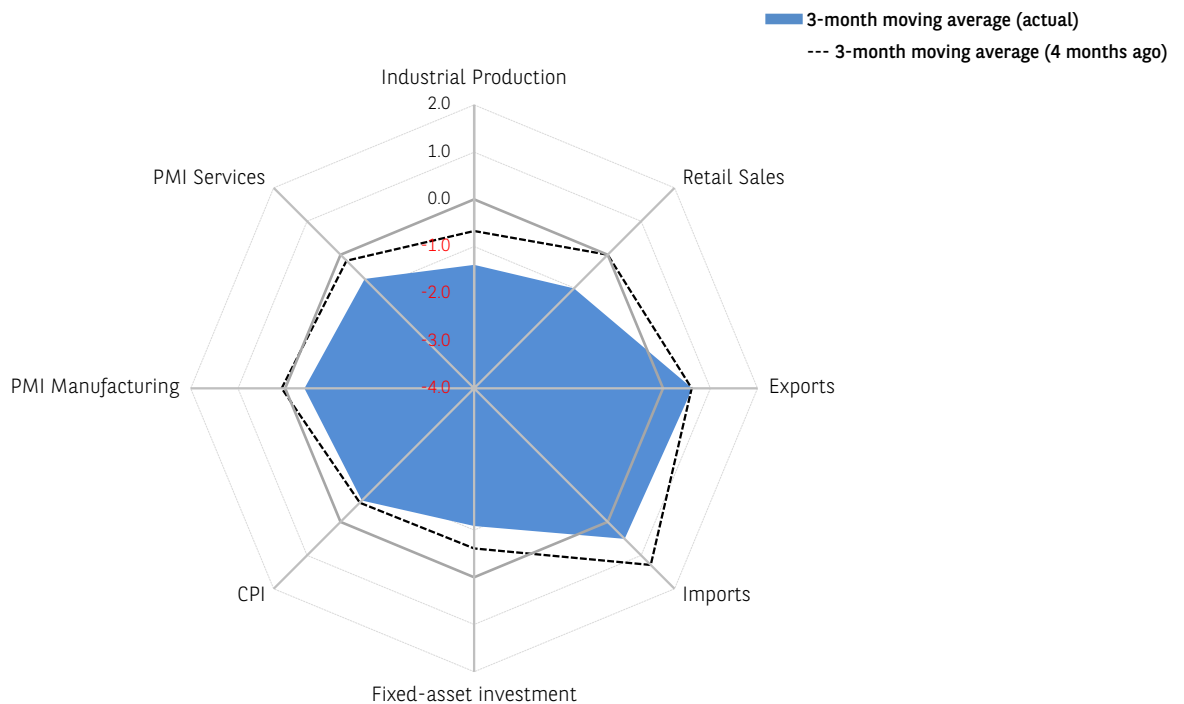
Manufacturing investment continues to be the driving force behind domestic investment. In contrast, infrastructure investment has only shown timid signs of turning around, restrained by local governments' insufficient financing (including debt and land sales). Local governments have increased their bond issues in recent weeks, and public investment should therefore gather steam in the very short term.

Real estate investment contracted in October. House sales, construction projects and construction starts all plunged by more than 20% y/y in October, the fourth consecutive month of decline. Average house prices have begun to ease. This correction is expected to continue in the short term, and the cash flow problems of the most heavily-indebted promoters are bound to persist. While making a few adjustments to limit the impact of the crisis on the rest of the economy and on households, Beijing is expected to continue to focus on rebalancing the real estate market and reducing financial risks. As a result, credit conditions in the property sector are likely to remain restrictive.

The real estate crisis contributed to another slowdown in activity in the services sector in October (+3.8% y/y, down from 5.2% in September and 4.8% in August). Services were also handicapped by the regulatory tightening in recent months. Lastly, household consumption has remained sluggish. Retail sales rose by 4.9% y/y in October, vs.4.4% in September, but this growth was due solely to accelerating inflation – which is still very mild at 1.5% y/y in October vs. 0.8% in Q3 2021. Meanwhile, retail sales growth in volume slowed again, to 1.9% y/y in October from 2.9% in September (and 0.9% in August after lockdown measures were reintroduced). In the short term, the spill-over effects of the slowdown in property transactions and the new increase in Covid-19 cases are likely to continue to constrain private consumption.

**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.

