# China

After the Chinese economy reopened towards the end of 2022, the rebound was less vigorous than expected and the traditional drivers of growth (real estate, investment) appeared to be struggling. After slowing in spring 2023, economic activity in China managed to accelerate in Q3 (+1.3% after +0.5%, ▶Figure 1). The real estate sector shows little sign of bouncing back: in October 2023, housing starts were more than 60% below their 2019 average. Meanwhile, real estate transactions were almost 35% below their pre-pandemic level (▶Figure 2). This real estate crisis has destabilised provinces that had become vulnerable as a result of their debt burden and their heavy exposure to this sector. Faced with these difficulties, the Chinese government has taken measures to bolster the economy. In particular, it eased the policy restricting access to the purchase of real estate and the People's Bank of China cut interest rates and injected liquidity into the financial system. These measures helped to boost momentum in Q3.

Regarding prices, China is the exception as its deflationary pressures persist (▶Figure 3) and consumer prices declined 0.5% year-on-year in November. This weak inflation is due in part to the difficulty for consumption to bounce back after the health crisis, but also to the absence of an energy price shock like that experienced in Europe. In the shorter term, it is caused by the sharp drop in food prices (-4.2% year-on-year in November), especially the price of pork. The reason for this decline is the substantial increase in the price index for pork in H2 2022 –pork prices increased sharply in H2 2022 while the market had been struggling with swine fever for several years. As demand drops off, production prices in the industry are also turning downwards (-3.0% year-on-year in November).

Households' confidence has been shaken and this is also likely to hamper imports, which are expected to decelerate from Q3 onwards after rebounding in Q2. Exports could continue the slowdown that started in spring, with tensions continuing over China's trade relationship with the United States and the sluggish state of world demand. Thus the Chinese economy could slow at the end of 2023 and the beginning of 2024. Any upturn in momentum in Q3 2023 would therefore be short-lived. China's GDP is expected to improve with an annual average of 5.4% in 2023, and the mid-year growth hangover for 2024 would then be +3.0%. ●

▶1. Chinese growth remains below its pre-health crisis trend
(GDP, base 100 in Q4 2019)

Forecasts beyond the dotted line
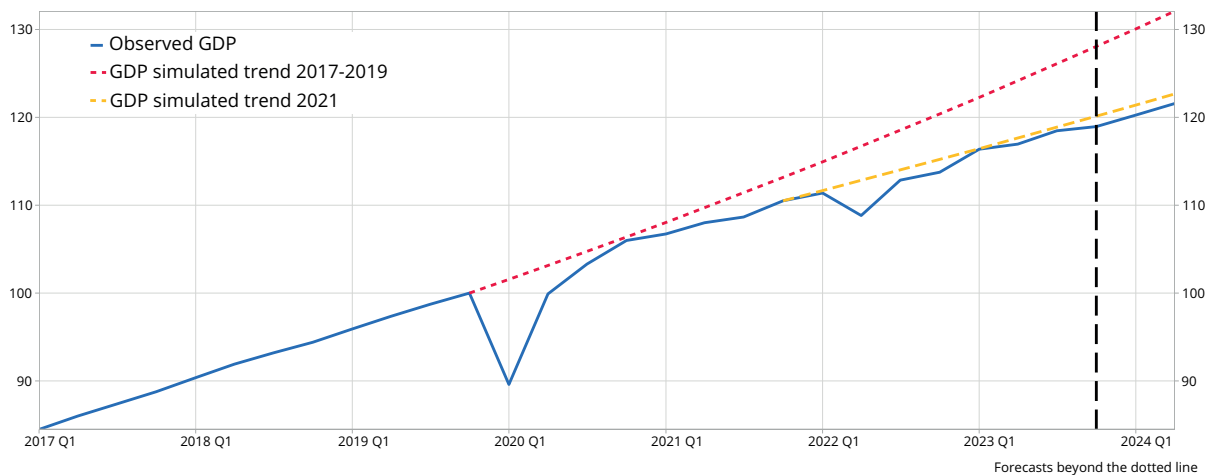
Last point: Q2 2024 (forecast from Q4 2023).
Note: the trend curve for 2017-2019 has been constructed by extending the GDP series at a constant quarterly rate from Q1 2020, equal to average quarterly GDP growth over the period 2017-2019.
Source: NBSC, INSEE calculations.

International economic outlook

►2.The real estate crisis continues
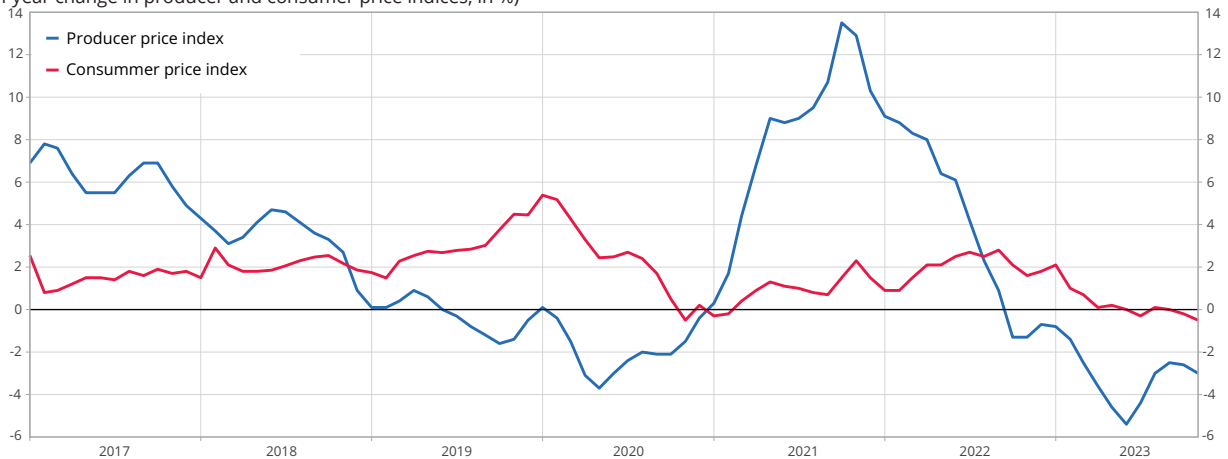(seasonally adjusted series, property transactions and housing starts in base 100 = 2019 average)
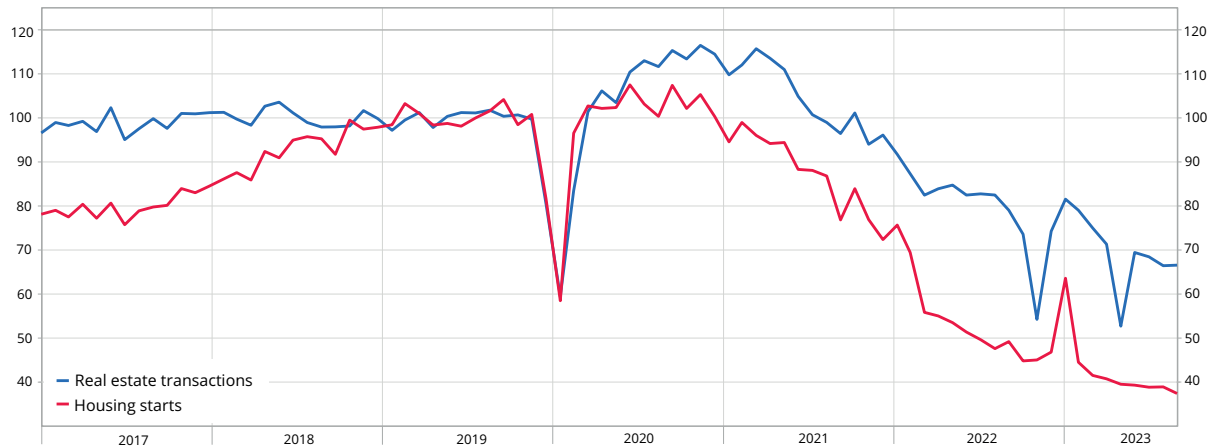
Last point: October 2023.
How to read it: in October 2023, real estate transactions were almost 35% below their 2019 average.
Source: NBSC, INSEE calculations.

►3. Deflationary pressures persist
(year-on-year change in producer and consumer price indices, in %)

Last point: November 2023.
How to read it: in November 2023, production prices in industry fell by 3.0% year-on-year.
Source: NBSC, INSEE calculations.