China

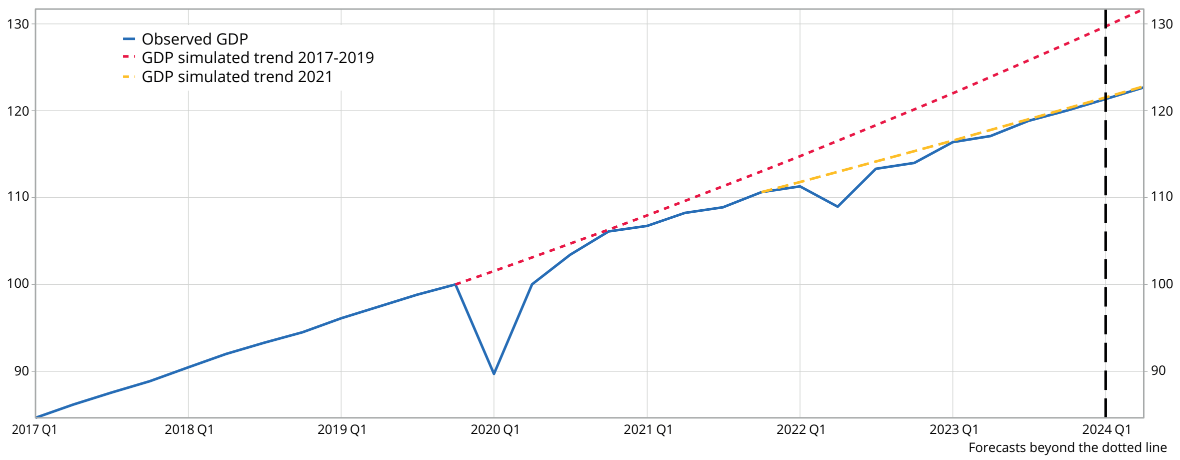
Since health restrictions were lifted towards the end of 2022, growth in activity in China has remained below its pre-pandemic trend (►Figure 1, ►Focus slowdown in the Chinese economy). According to the Chinese National Bureau of Statistics, Chinese GDP would seem to have grown by 1.0% in Q4 2023 compared to the previous quarter (after +1.5% in Q3), indicating that Chinese growth was +5.2% on average across the whole of 2023, its lowest level since 1990, excluding the Covid period. While some industrial sectors linked to energy transition have been very dynamic, especially the production of electric and hybrid vehicles (+30% in 2023) or photovoltaic cells (+54%), the real estate sector continues to decline: in December 2023, real estate transactions and housing starts were 55% and 60% respectively below their pre-pandemic level. In this context, the financial situation of real estate developers is in decline: one of the largest in the country, Evergrande, was ordered into liquidation at the end of January 2024 by a Hong Kong court. In reaction to this, the Chinese authorities have activated support levers: the cities of Beijing and Shanghai announced new measures to ease property purchases and the People's Bank of China has once again eased its monetary policy. The financial risk seems to be contained for the time being, as the debt was financed mainly by domestic savings and the banking system is supported by the authorities, with the exception of shadow banking (or non-bank financial intermediaries), which is particularly exposed to the real estate sector.

Regarding household consumption, the confidence index dropped sharply at the beginning of 2022, and has not picked up. In December 2023 it was still a long way below its long-term average. In this sluggish context, there are deflationary pressures: in contrast to the major advanced economies, consumer prices are in decline (-0.8% year-on-year in January 2024, ►Figure 2). Food prices continued to fall back (-5.9% year-on-year in January), especially pork prices. Producer prices in industry are also in decline (-2.5% year-on-year in January).

The sluggishness of domestic demand is expected to hamper imports, which seem to have declined in Q4 2023 and are likely to improve only moderately in H1 2024. On the export side, Chinese companies have gained market share since the health crisis (whereas it had been generally stable since 2011), taking advantage of a weaker yuan, weaker producer prices and a favourable positioning in some market segments (e.g. electric vehicles). This trend looks set to continue for the end of 2023 and into H1 2024 (►Figure 3). GDP is expected to retain its average pace from 2021, i.e. +1.1% per quarter in Q1 and Q2 2024, thus confirming the break from the pre-pandemic trajectory. The mid-year growth hangover for 2024 would then be +3.6%.

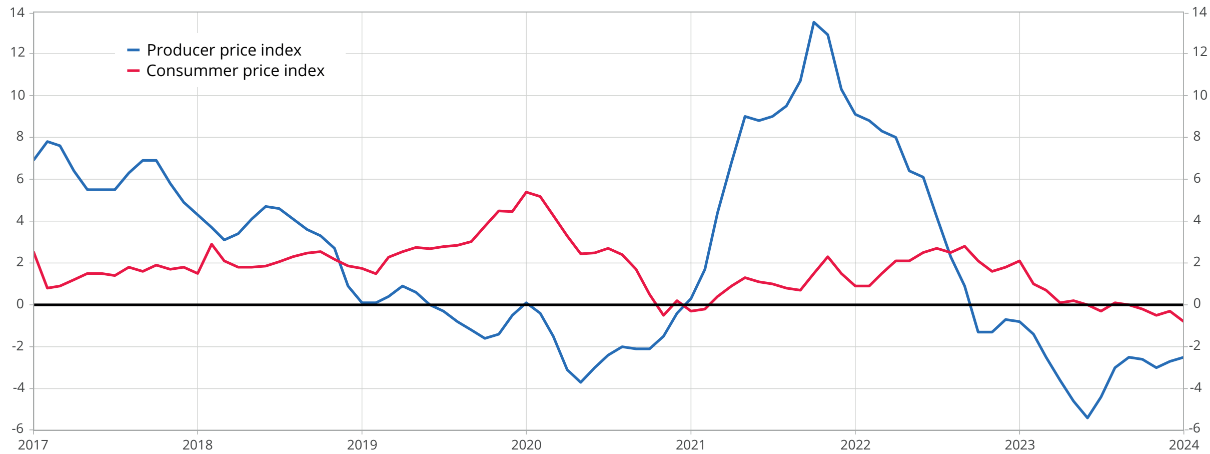
►1. Chinese growth remains below its pre-health crisis trend

(GDP, base 100 in Q4 2019)



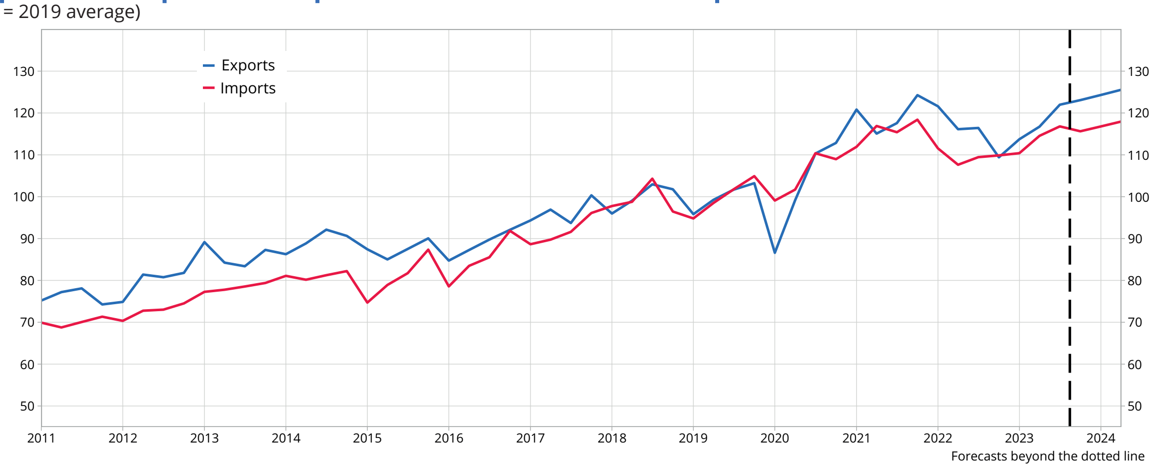
Last point: Q2 2024 (forecast from Q1 2024).
Note: the trend curve for 2017-2019 has been constructed by extending the GDP series at a constant quarterly rate from Q1 2020, equal to average quarterly GDP growth over the period 2017-2019.
How to read it: in Q4 2023, GDP increased by 20% compared to its Q4 2019 level. According to the trend observed between 2017 and 2019, it would have increased by 28%.
Source: NBSC, INSEE calculations.

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



Last point: January 2024.
How to read it: in January 2024, production prices in industry fell by 2.5% year-on-year.
Source: NBSC, INSEE calculations.

►3. Exports and imports are expected to increase at the same pace in H1 2024 in China
(base 100 = 2019 average)



Last point: Q2 2024 (forecast from Q4 2023).
Note: exports and imports of goods in volume.
Source: OCDE, NBSC, INSEE calculations.