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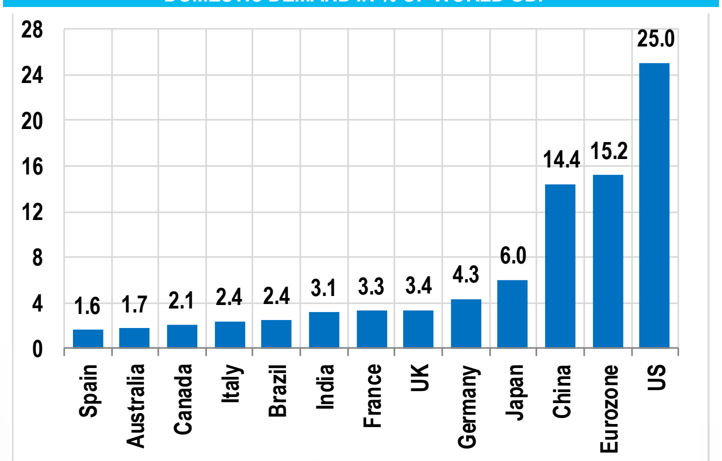
China: towards a stabilisation of growth? Not yet.

■ The plethora of data released this week didn't remove concern about the Chinese growth slowdown ■ Lunar holiday bias and the recent fiscal stimulus measures imply it is too early to draw firm conclusions ■ The matter is important for the global economy given China's weight. It is also important for key exporters to China such as Germany ■ Against this background, reaching a trade agreement with the US becomes key

In recent months, China has stepped up its efforts to support growth. Monetary policy has been loosened cautiously since Q2 2018, via measures to encourage bank lending to SMEs and inject liquidity (reserve requirement ratios cuts, open-market operations). The authorities are seeking to strengthen private domestic demand, to increase local governments' financing in order to support infrastructure projects and facilitate the refinancing of corporate debt at a time of rising risks of default. The government is also increasing its reliance on tax measures. Household and corporate tax cuts came into effect in January 2019. Other fiscal measures are due to be announced.

DOMESTIC DEMAND IN % OF WORLD GDP*



*Calculation in dollar and in nominal terms. Source: Thomson Reuters, BNP Paribas

Against this background, the eagerly awaited data releases this week provided a mixed picture of how the Chinese economy is doing at the moment. On the positive side, retail sales rose 8.2% over the January-February period compared to one year ago and infrastructure investment increased more rapidly (4.3% versus last year). The growth of property investment also accelerated (to 11.6%, a five-year high). On the other hand, growth of private sector fixed-asset investment slowed to 7.5% and industrial output increased 5.3% year-on-year in January-February, which was below expectations. The unemployment rate increased to 5.3% in January (4.9% in December). All in all, a mixed set of data which, to some degree, may be related to the usual volatility introduced by the Chinese New Year. This implies that we need to wait a bit longer to have a clearer picture and confirmation that recent monetary and, in particular, fiscal stimulus has been effective in stabilising growth.

The matter is important for the global economy. The chart shows that domestic demand in China represents more than 14% of world GDP, so subdued demand growth would have important global repercussions. Since 2010, Chinese GDP has accounted for almost one third of growth in world GDP. It's also important for countries that ship a substantial part of their exports to China: Australia (33.7%), Brazil (24.8%), Vietnam (17.0%), Indonesia (15.6%), the US (7.8%) or Germany (7.1%). This also means that coming to an agreement in the trade negotiations with the US has an importance which goes way beyond the two parties involved in the negotiation. Unfortunately, the recent news flow suggests that reaching a deal is more difficult than expected.

[1] Source : IMF, Direction of Trade Statistics, October 2018

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