Crédit Agricole Group economic and sector analysis

Prospects

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The point of view

China: will the change in the authorities' rhetoric be enough to restore confidence?

There can no longer be any doubt: the Chinese authorities have changed their rhetoric. Although this change has yet to filter through into meaningful measures of any significance, it has already succeeded in making markets – which had given up hope of a stimulus plan they had been waiting for since the end of the Covid pandemic – sit up and take notice. Whereas Chinese public policy has traditionally targeted supply, notably through various forms of support for businesses (grants, tax credits, access to liquidity), and Xi Jinping used to regularly slam "welfare societies" where the welfare state and Keynesian mechanisms play a role, this shift in tone means there is now more emphasis on domestic consumption and demand.

Last week, the Chinese authorities announced a plan to "vigorously boost consumption" – something they had already made a priority during the parliamentary sessions in early March, when the ambitious 2025 growth target of 5% was confirmed.

Markets have enthusiastically welcomed this new plan, with Chinese stocks – chiefly in the tech sector – still buoyed by the "DeepSeek effect". With support for the private sector in evidence at the highest levels of government, notably with Jack Ma restored to favour and received by Xi Jinping in person, markets want to believe that China has put economic growth back at the top of its priority list.

Still a long way to go

If we take a closer look, however, **we can see that this change in rhetoric also reflects real and justified concerns on the part of the authorities**, which are well aware that the consumer confidence crisis is deep and lasting and that hardening external conditions – starting with higher US trade tariffs – risk jamming up China's most powerful growth engine.

However much the authorities might have asserted their desire since 2015 to rebalance the growth model away from investment and towards consumption, with the aim of also reducing the country's reliance on the outside world, this rhetoric has not really been reflected in public policy. In fact, investment as a percentage of GDP even rose after Covid. **This time around, the government appears keen to explore more specific ways to revive still sluggish consumer spending**.

Firstly, **the government has extended its consumer goods trade-in programme** (covering phones, TVs and small appliances), for which a budget of 300 billion yuan (around $40 billion) has been set aside. Secondly, **the minimum wage has been raised** following the increase in civil service wages in December and **social security coverage has been expanded to cover some insecure jobs**, including in particular delivery workers and migrant workers. Lastly, **the government has announced childcare subsidies** with the aim of also supporting a rapidly shrinking population: with the fertility rate averaging around 1.1 children per woman, China's population declined for the third year running in 2024.

But will this be enough to restore to Chinese households the desire and the confidence they need to spend? The Covid crisis seems to have hit consumers so hard that nothing could be less certain. In

January and February, retail sales were up 4% year on year – a thoroughly respectable performance, slightly ahead of consensus expectations. But that 4% came at a high fiscal and monetary cost – the cost of state subsidies to encourage households to buy consumer goods and, above all, an across-the-board fall in prices reflecting a return to deflation (with prices down 0.7% year on year in February). This is a steep price to pay to see consumption grow slower than overall economic growth, raising questions as to the effectiveness and sustainability of these measures. In 2024, 25% of Chinese companies reported losses. Without government support, and with margins squeezed and a price war raging, the correction in corporate earnings could be even more severe.

Chinese households are still worried: the real estate sector has shown no real sign of recovery and new home construction volumes even began to fall again in February. With the bulk of Chinese assets invested in real estate, a modest improvement in stock valuations is not going to be enough to convince people to invest their savings in markets where financial savings solutions are still comparatively undeveloped relative to the pool of potential investors.

Here again, **the government has come to the sector's rescue**. With private developers swept away by the crisis, public sector stakeholders have never played such a key role in transactions, as either buyers or project developers. Over 50% of private developers have gone bust since 2021, leaving local authorities and state-owned enterprises in the front line to take over projects, buy vacant or unfinished properties and oversee a drop in prices, which official statistics say remain stubbornly high.

The great unknown: America

On top of all this, **there are now worries over the American position on trade tariffs**. The US administration has already implemented two 10% hikes, in February and March. China has responded cautiously, targeting increases of between 10% and 15% on certain categories of goods (mainly agricultural products and energy). And, with the US president having already pointed his finger at the weak yuan, calling it "unfair" to the United States, Beijing is also taking care to ensure the stability of its currency by limiting its depreciation. This could perhaps leave the door open to potential negotiations, though Donald Trump appears to be in no hurry to negotiate: while he has expressed a desire to meet with his Chinese counterpart in the "not too distant future", a specific date has yet to be put forward. And, while China is not the country most affected by reciprocal tariff moves due to be outlined in early April, it could find itself the target of fresh tariffs: during the presidential election campaign, Trump promised 60% tariffs on all US imports of Chinese goods.

Chinese exports were down 3% year on year in February. This is not yet a major concern: Chinese exports to the US soared in the run-up to the end of 2024 in anticipation of higher tariffs. Seasonal effects to do with the exact timing of the Chinese New Year (which sometimes falls entirely in February and sometimes straddles January and February) may also be a factor.

The fact remains that Chinese exporters are bracing themselves for some tough months ahead, especially bearing in mind that the measures announced by the US could also trigger indirect effects by prompting other countries to erect tariff and/or non-tariff barriers to protect themselves against a wave of Chinese products. While China has said it wants to reduce overcapacity in some sectors, notably steel and aluminium, its room for manoeuvre is limited: it has its own domestic constraints to manage in terms of employment and social stability.

The change in rhetoric indicates that the Chinese authorities are taking seriously signs that their model is running out of steam as it reaches limits well known to emerging economies that have paid too little attention to balancing and distributing the benefits of growth to create a consumer middle class that can support demand without external help. It remains to be seen precisely what measures and resources will be put on the table to restart the engine of consumption, and how much capacity local governments – unquestionably in the front line in this area – will have to implement those measures at a time when they are already having to manage another legacy of this unbalanced growth model: the deleveraging and rationalisation of some 12,000 financial platforms used to finance infrastructure programmes. ■

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