

ECONOMIC PULSE

CHINA: CONTINUED MOMENTUM

The latest economic indicators show that the recovery in Chinese growth continued to strengthen in October. As seen in our monthly Pulse, the expansion of the blue area compared to the dotted area shows a more widespread recovery in activity in August-October than in the three previous months.

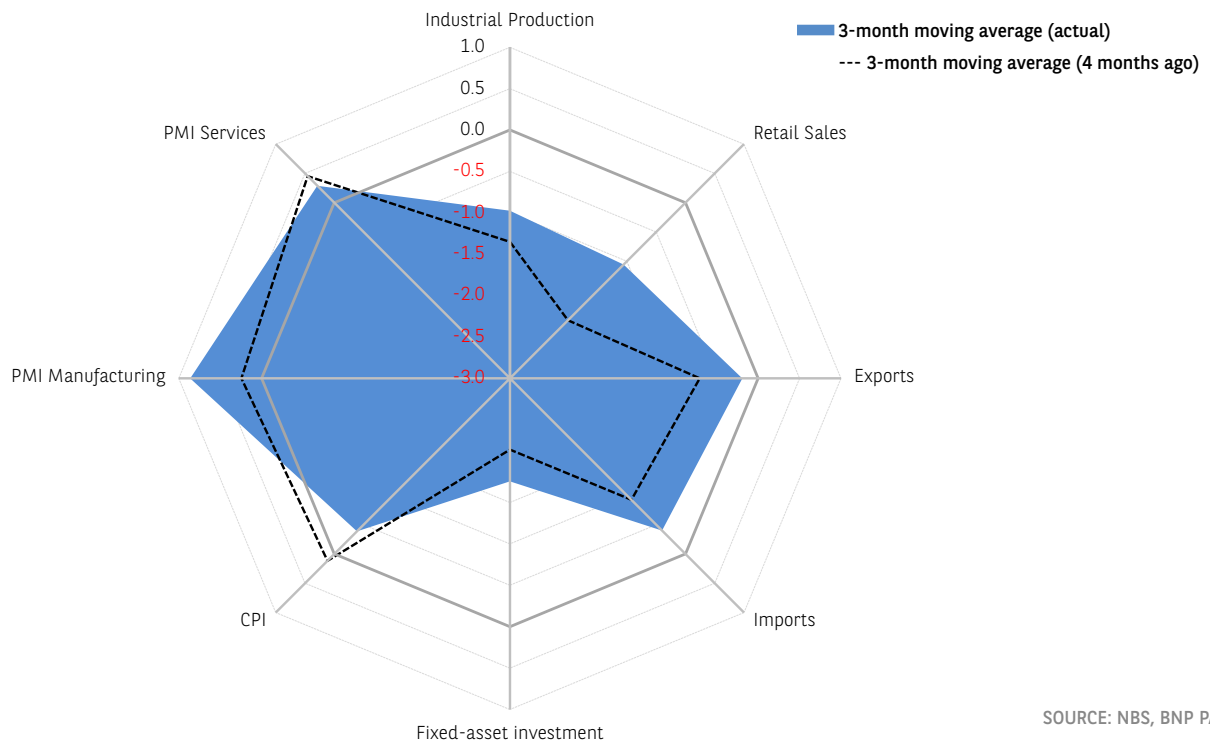
On the supply side, industrial production growth remained at 6.9% year-on-year (y/y) in September and October, and was 2% higher than its 2019 level over the first ten months of the year. In the services sector, the growth rebound has been slower following the lockdown period in Q1 2020, but activity has significantly strengthened since September and it grew faster than industrial production in October (+7.4%). This has gone with the strengthening in household consumption, which has been supported by the improvement in the labour market (the urban unemployment rate continued to decline in October, reaching 5.3%) and lower inflation. In fact, consumer price inflation fell to a low 0.5% y/y in October, mostly as a result of the rapid slowdown in food prices following their spike in Q4 2019 and the first months of 2020. The rebound in retail sales volumes has been noticeable since the end of the summer

(+4.6% y/y in October) and growth in e-commerce has continued to gain momentum. In the short term, however, household demand is likely to remain constrained by the impact of income losses registered in the first months of 2020 and by the increase in precarious jobs that has gone along with the recent recovery in employment.

Domestic investment growth also strengthened in October, still driven by investment in infrastructure projects and the property sector. While China's fiscal policy and public spending are expected to continue to support activity going forward, the authorities seem to have started a prudent and targeted tightening of monetary policy. For instance, they have recently introduced prudential rules aimed at better controlling leverage ratios of property developers; this could contribute to a weakening in property investment in the coming months. Lastly, growth in manufacturing investment has remained rather weak but yet has recently shown signs of rebound, notably encouraged by the solid performance of exports in the last three months (merchandise goods have increased by 10.3% y/y in USD terms on average).

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 -3 and +1. 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.

