

ECONOMIC PULSE

CHINA: ECONOMIC GROWTH RATES RETURNING TO NORMAL

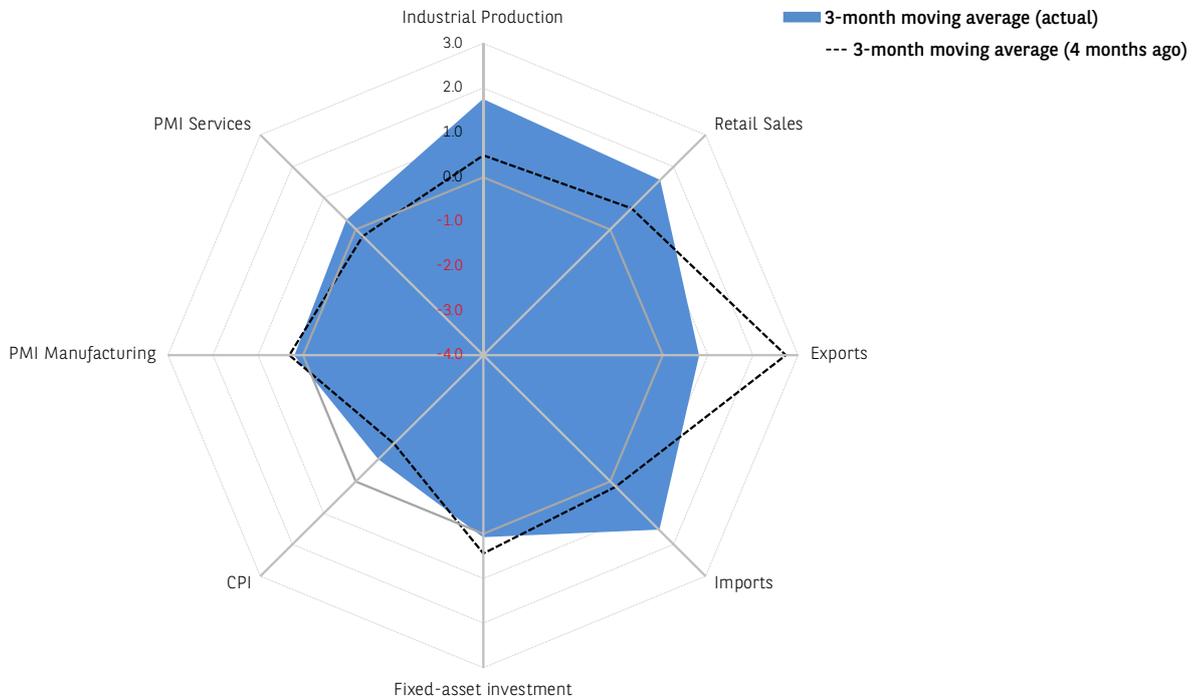
After a very strong post-Covid rebound, industrial production growth rates continue to normalize (+8.8% year-on-year in May). Export growth has also turned lower but is still very strong (+27.6% y/y in value terms). Meanwhile, recovery in the services sector and private consumption continues but remains much more fragile. Volumes of retail sales grew by 10.1% y/y in May, which was weaker than expected, in part due to a slight decline in automobile sales. Households, in particular low-income households, still prove to be very cautious despite the acceleration of the vaccination campaign and the improvement in job market conditions.

Consumer price inflation (CPI) has accelerated over the past 3 months (+1.3% y/y in May) after slowing throughout 2020 and in early 2021. Even so, CPI inflation is expected to remain moderate this year. The sharp increase in industrial commodity prices and the producer price index (+9% y/y in May) is the main factor driving inflationary pressures. Yet there is only a limited correlation between producer price inflation and consumer price inflation. Food price inflation (+0.3% y/y in May) is expected to remain mild over the next few months after soaring in H2 2019 and H1 2020. Moreover, core inflation has not risen much (+0.9%) and is expected to hold below pre-crisis levels in 2021 (it averaged 1.6% in 2019), held down by the fragile recovery in private demand and activity in the services sector.

Given the slightly less robust economic recovery, moderate pressures on consumer prices and appreciation of the RMB over the past year (by nearly 7% in nominal effective terms and 10% against the USD), the authorities are expected to continue tightening monetary policy very cautiously in the short term. As in recent months, key policy rates are expected to remain stable and domestic liquidity should hold at sufficient levels to avoid weakening corporates (which are heavily-indebted) and financial institutions (which are facing rising credit risks). In contrast, credit conditions should continue to be tightened mainly via regulatory and prudential measures, in order to contain domestic debt growth and combat financial-instability risks. Growth in total social financing already decelerated from 13.7% y/y in October 2020 to 11% in May 2021.

Christine Peltier

CHINA: 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 -4 and +3. 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.

