

ECONOMIC PULSE

CHINA: ECONOMIC RECOVERY IS BROADENING

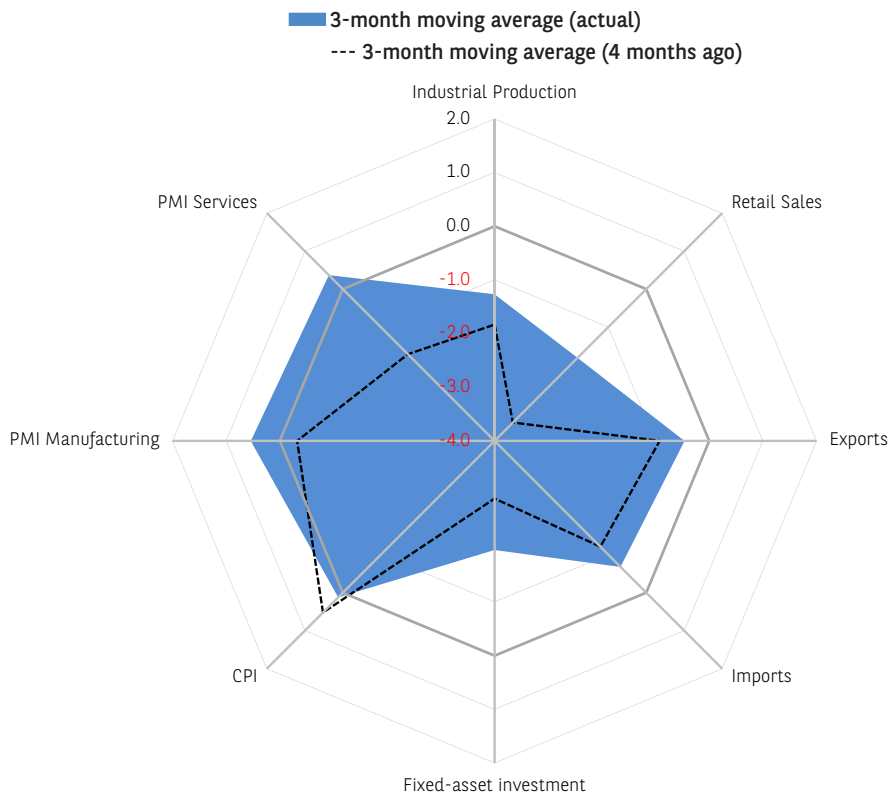
China's economic dynamics continued to improve in August 2020. As seen in our monthly Pulse, the expansion of the blue area compared to the dotted area shows a more widespread recovery in activity. Whereas the improvement since March was initially driven by the rebound in industrial production and investment in public infrastructure and real estate, it has now reached other parts of the economy. Activity indicators have picked up in industry and services. Regarding demand components, investment has continued to strengthen and exports saw a solid bounce back in July and August (up 8.4% y/y in value terms). Even the value of retail sales reported slightly positive growth in August (+0.5% year-on-year) for the first time in 2020. However, retail sales were still down in volume terms (-1.1%), and well below their 2019 level over the first eight months of the year (-8.6% y/y). Online retail sales have continued to make ground.

The return to normal levels of activity in a large number of industrial sectors therefore seems to be complete. However, the shock due to the Covid19 epidemic has severely damaged the financial situation of many corporates (especially micro enterprises and SMEs) and

households, and this could continue to weigh on private investment and consumption. Consumers remain very cautious, notably due to health risks and labor market trends. The unemployment rate calculated by the NBS on the basis of survey data rose abruptly from 5.3% in December 2019 to 6.2% in February 2020. It has fallen again since March (to 5.6% in August) but remains unusually high. Moreover, this rate is likely to under-estimate this year's deterioration in the labor market: first, it measures only urban unemployment and second, it does not take into account a large share of the migrant workers who lost their jobs during the lockdown period.

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 -4 and +2. 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.

