

ECONOMIC PULSE

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CHINA: MODERATION

According to the latest PMI numbers and economic data, growth in the Chinese economy has remained solid in the early part of Q2 2021, boosted in particular by exports. Activity in the domestic market lost a bit of steam in April, but is expected to bounce back again in the short term.

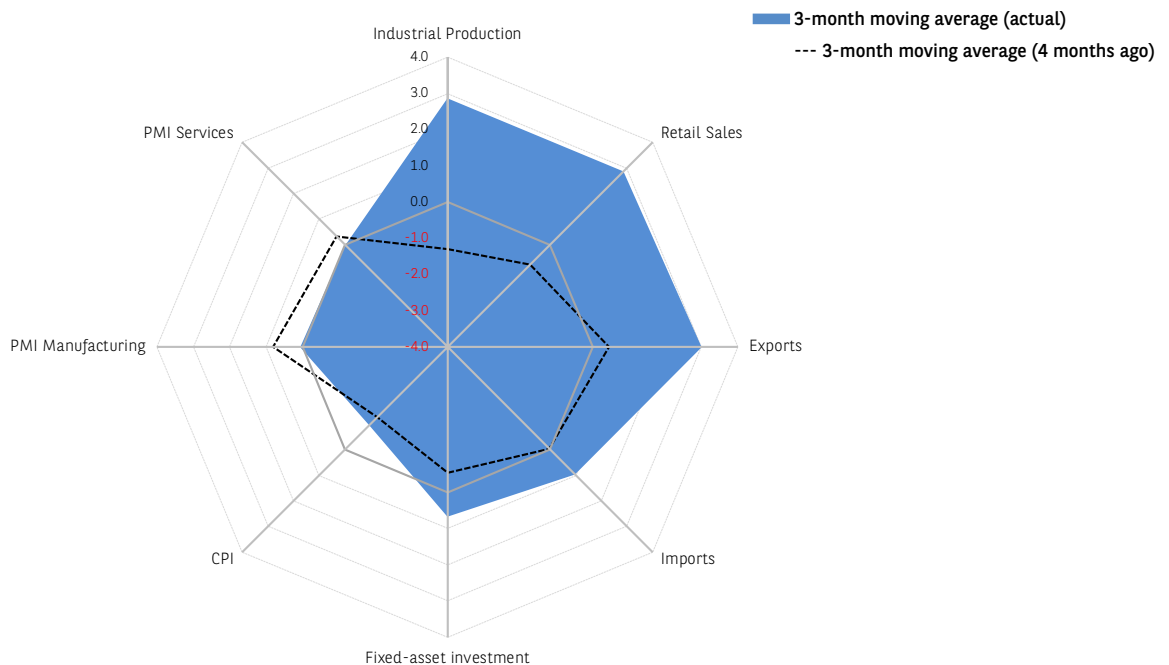
PMIs have fallen slightly since the beginning of 2021, relative to the final quarter of 2020, but remain in expansionary territory, both in the manufacturing sector (which had a Markit PMI score of 51.9 in April) and services (56.3). Our Pulse appears to suggest that the economic recovery gathered pace in February-April 2021 relative to the preceding three months (expansion of the blue region relative to the dotted region), for both industrial production and demand components. However, the read-out from the Pulse remains somewhat skewed: economic growth rates since the beginning of the year, measured on a year-on-year basis, continue to look abnormally high due to the still substantial base effects between the early months of 2020 (a period of lockdown) and the early months of 2021. Corrected for these effects, it looks as though activity in the domestic market did lose a bit of vigour in April.

As expected, industrial production growth, which has rallied strongly since Q2 2020, is gradually returning to normal: it went from 35.1% y/y in the first two months of 2021 to 9.8% in April (compared to 5.7% in 2019). In contrast, growth in the services sector and private consumption was much slower to recover last year, and then slowed in January and February 2021 (notably due to new restrictions on movement introduced in response to a rise in Covid-19 cases), before bouncing back again in March. This recovery had been expected to continue. However, growth in services and retail sales slowed slightly in April. This was a surprising outcome given the loosening of restrictions on movement since March and the solid increase in disposable household income.

This performance highlights the fragility of the recovery in consumer demand since last year. This said, private consumption and activity levels in services are expected to rally in the very short term. Labour market conditions continue to improve (the urban unemployment rate fell to 5.1% in April, matching its level in Q4 2019) and health risks are declining (although they still remain high) thanks to rapid control of new outbreaks of Covid-19 cases and the acceleration of the vaccination campaign.

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 +4. 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.



BNP PARIBAS

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