# ECONOMIC PULSE

CHINA: REAL GDP IS BACK TO ITS PRE-CRISIS LEVEL

China's economic dynamics continued to improve in June. As seen in our monthly Pulse, the expansion of the blue area compared to the dotted area shows a steady recovery in economic activity in Q2 2020. In fact, real GDP rebounded by 11.5% quarter-on-quarter (-3.2% year-on-year), which was strong enough to completely regain the ground that was lost in Q1 (when real GDP contracted by 10% quarter-on-quarter).

The economic growth recovery since March has been driven by a V-shaped rebound in industrial production and investment in public infrastructure and real estate. Industrial production swung back into positive growth as of April and rose by 4.8% in volume in June. However, some sectors, notably in the export industry, are still a long way from returning to normal. The shock due to the Covid19 epidemic has severely damaged the financial situation of a large number of firms (especially micro enterprises and SMEs) and households – and this heavily weighs on private investment and consumption. Moreover, the risk of new outbreaks of the epidemic is also hampering consumer behaviour. In June, volumes of retail sales continued to fall

in year-on-year terms (-2.9%). Regarding external trade, data show that exports of goods declined much less over the period March-June (- 1.6% year-on-year on average in USD), after the major disruption in February (-40%), but export prospects remain bleak in the short term.

Inflation in consumer prices (CPI index) slowed to 2.7% year-on-year in Q2 2020 from 5% in Q1 due to weak demand and lower commodity prices. Yet, food price inflation remains elevated (+12.2% year-on-year in Q2), driven by still fast-increasing pork prices. Deflation in producer prices worsened in Q2 (-3.3% year-on-year), thus aggravating the deterioration in profits of industrial enterprises.

Christine Peltier

QUARTERLY CHANGES

■ 3-month moving average (actual)
--- 3-month moving average (4 months ago)
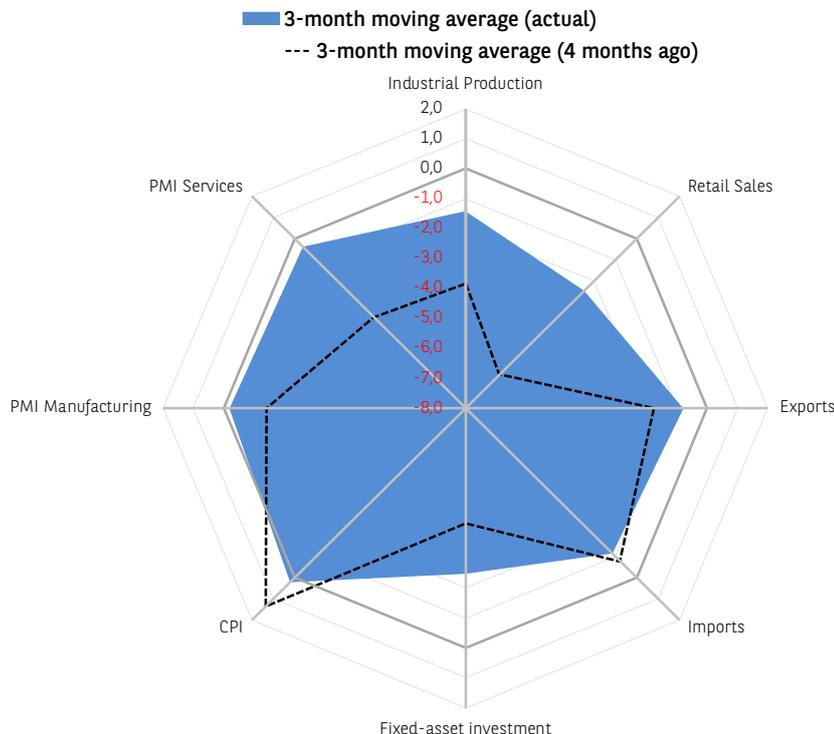
SOURCE: THOMSON REUTERS, BNP PARIBAS

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 -8 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.

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