

# ECONOMIC PULSE

## CHINA: SLIGHT LOSS IN GROWTH MOMENTUM

According to the latest indicators, China's economic recovery remained strong over the first two months of 2021, although there was a slight slowdown in the domestic demand growth momentum.

In our monthly Pulse, the expansion of the blue area compared to the dotted area shows an improvement in the indicator for the period December 2020 to February 2021 compared to the previous three months. Yet the Pulse is strongly biased by major base effects between January-February 2020 (when activity was cut short by lockdown measures) and January-February 2021. As a result, year-on-year growth rates for industrial production, fixed-asset investment and retail sales are all unusually high (33% to 35% in the first two months of 2021).

The decline in the PMIs over the past three months is more telling. PMIs remain in expansion territory, with the manufacturing PMI at 50.9 and the services PMI at 51.5 in February, according to Markit. Their decline nonetheless signals a slight deceleration in domestic demand growth. The new . The new restrictions introduced in February hampered private consumption. Moreover, households continue to feel the consequences of last year's income loss and the still deteriorated job market.

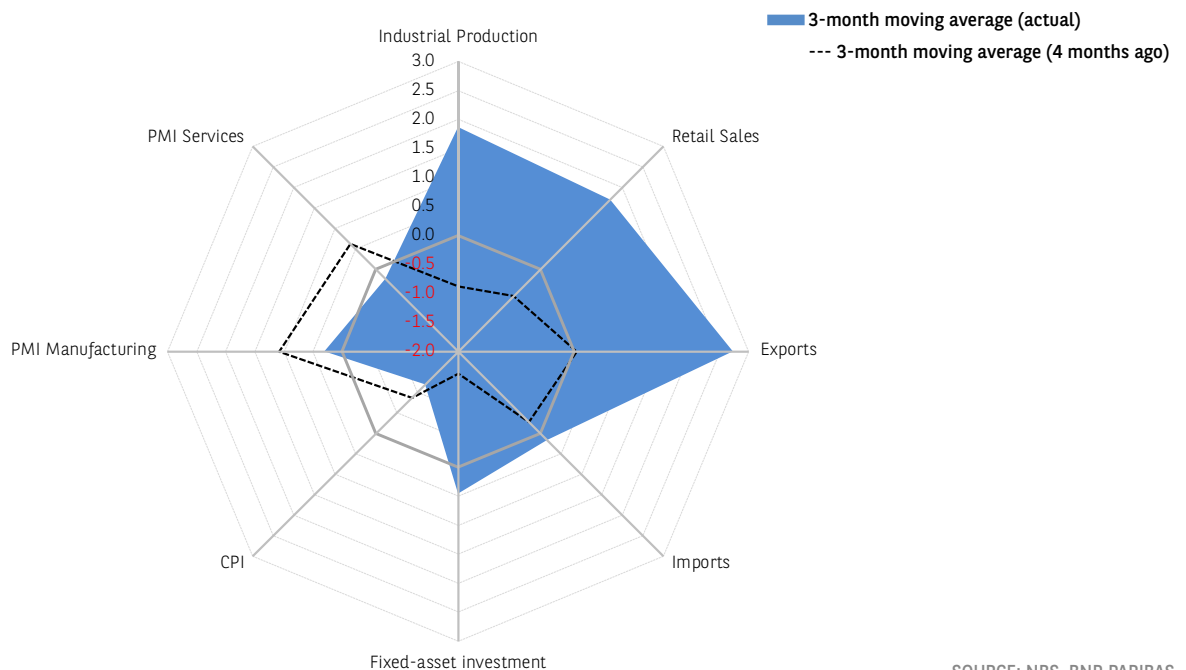
Manufacturing firms also seemed to be cautious in the first weeks of 2021. Meanwhile, infrastructure investment slowed. Only investment in the real estate sector remained buoyant.

Exports surged by 60% year-on-year in the first two months of 2021. They continued to be driven by sales of technological goods and medical devices, but also by sales of consumer goods and auto parts. This strong export performance continued to boost industrial production and should stimulate manufacturing investment in the short term.

The authorities have just released their main macroeconomic targets for 2021. They are targeting real GDP growth of "more than 6%", which should not be difficult to reach as it is far below forecasts, and CPI inflation of 3%. The government deficit is targeted at 3.2% of GDP in 2021, down from 3.6% in 2020, which signals a mild easing of fiscal support measures. Moreover, the tightening of the credit policy initiated in recent months will be continued. The authorities are aiming to stabilise the domestic debt-to-GDP ratio in 2021, after the big increase reported in 2020 (debt neared 285% of GDP).

**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 -2 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.

