

ECONOMIC PULSE

CHINA: THE REBOUND IN ECONOMIC ACTIVITY IS CLEAR, BUT WILL IT CONTINUE?

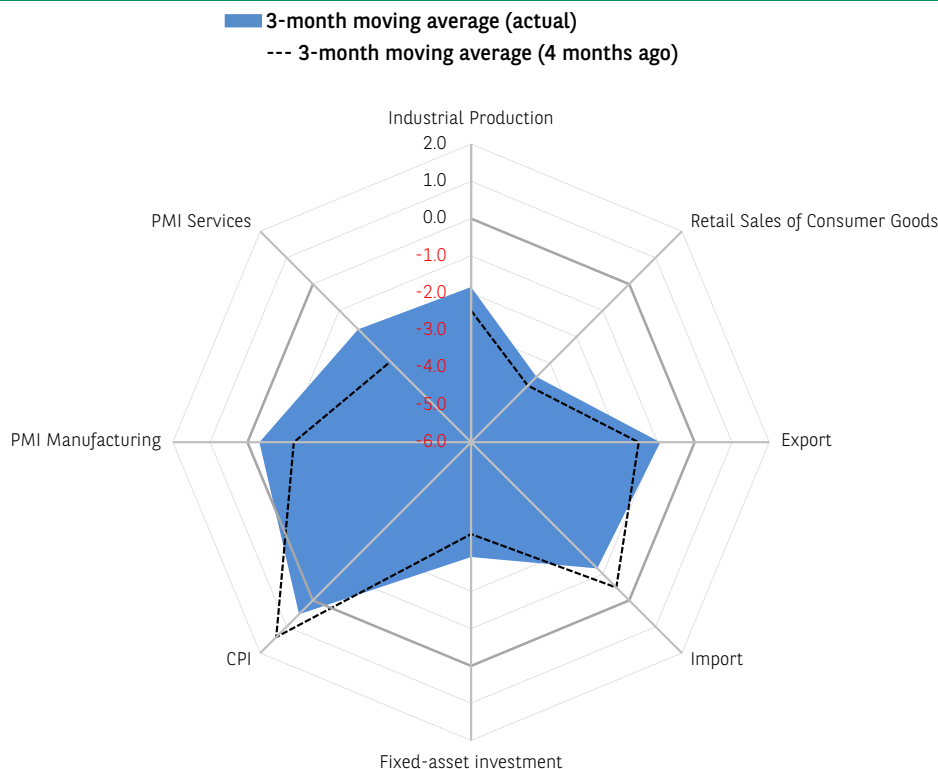
Our barometer shows an improvement in China’s economic momentum during the period between March and May 2020, compared to the preceding three months. This came as no surprise as economic activity collapsed in February, the first month of the lockdown, before beginning a very gradual recovery in March.

All the economic indicators for May confirmed that the recovery has continued. Industrial production growth accelerated to 4.4% in real terms (year-on-year) from 3.9% in April. The year-on-year contractions in retail sales volumes and investment have continued to ease. The rebound in domestic investment has been driven mainly by the infrastructure and real estate sectors, which have been supported by government stimulus measures. Investment in the manufacturing sector has recovered much more slowly. External trade data show a moderate decline in exports of goods (-3% year-on-year in USD) and a large fall in imports (-16%), which is due in part to trends in world commodity prices.

Given the severity of the shock suffered in the first quarter of 2020, it will take several months before the economy returns to normal levels of activity. The deterioration of the labour market and the loss of revenue for both corporates and households are likely to continue to hold back domestic demand. Moreover, prospects for exports are hampered by uncertainty over the recovery in developed economies and a return of tension between China and the US. Lastly, the new outbreaks of Covid-19 in certain parts of Beijing have, for the past few days, fuelled fears of a new wave of the epidemic. Consumer concerns and new lockdown measures could therefore have serious consequences for economic activity in the very short term.

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 -6 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.

