

# ECONOMIC PULSE

## CHINA: THE REBOUND IN ECONOMIC GROWTH HAS PEAKED

Real GDP growth reached 18.3% year-on-year in Q1 2021 and 0.6% in quarter-on-quarter seasonally-adjusted terms (according to China's NBS). The latest activity indicators as well as our economic Pulse are strongly biased by major base effects between the first months of 2020 (when lockdown measures brought business to a standstill) and the first months of 2021. The year-on-year growth rates for industrial production, services output, investment and retail sales were all abnormally high in Q1 2021.

After adjusting for these base effects, the recovery in activity is still dynamic in the first months of the year. Yet the rebound in real GDP growth following the Covid-19 shock has now peaked, notably in the industrial sector. In contrast, activity in the services sector should strengthen further in the short term.

PMI indexes declined slightly in January-February. Growth in private consumption of goods and services has lost steam, curbed by new travel restrictions introduced in response to the surge in new cases in certain regions around Beijing and in the northeast part of the country. Households have also been weakened by the still deteriorated job market. Nonetheless, PMIs remain in expansion territory and PMIs in

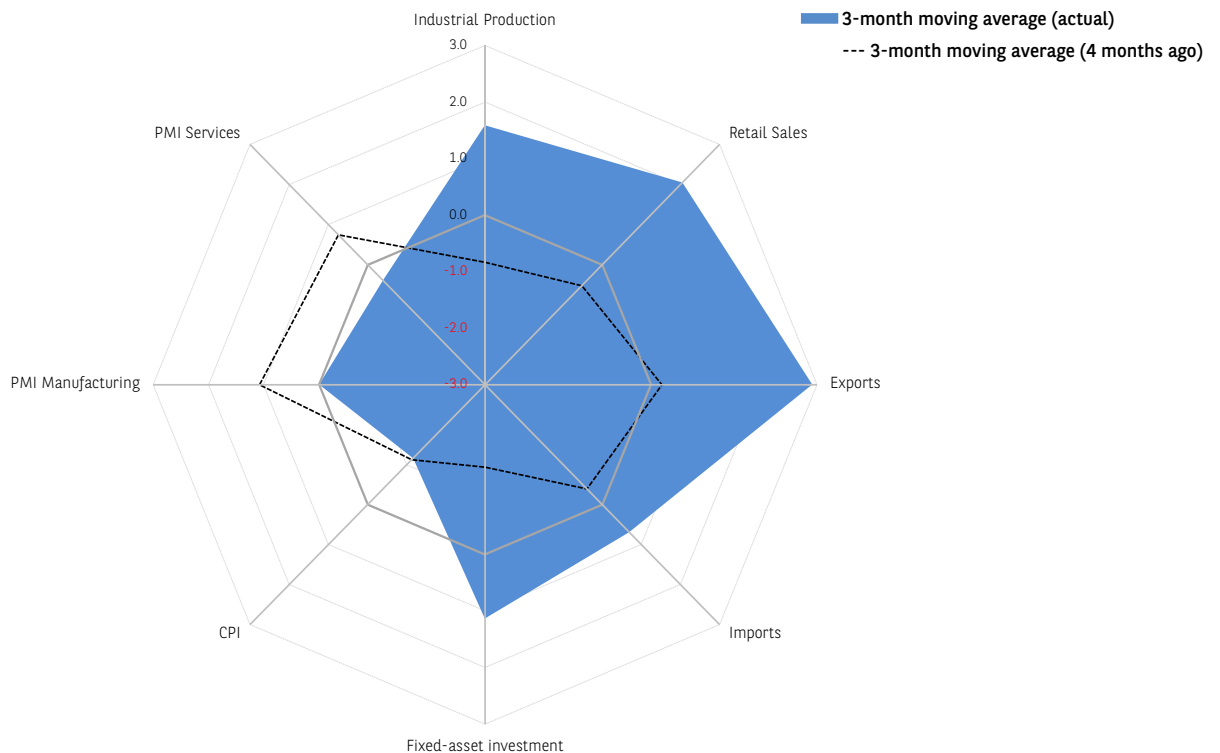
the services sector rose again as of March (to 54.3 from 51.5 in February, according to Markit). In the manufacturing sector, Markit's PMI dipped very slightly again in March (to 50.6) while the PMI published by the National Bureau of Statistics (which uses a narrower scope) rebounded.

As a matter of fact, growth in private consumption and services picked up again according to March activity indicators. Restriction measures were lifted and, most importantly, households' disposable income recovered strongly in Q1 2021. The catching-up movement in private consumption and services, which rebounded much later than investment and industrial production following the Covid-19 shock, should accelerate in the months ahead.

Exports are still performing strongly and prospects continue to look good in the very short term. This should encourage manufacturing investment. In contrast, public infrastructure projects have begun to slow as fiscal policy has started to be normalized. Real estate investment, which was still buoyant in January-February, has only just begun to slow as a result of the tightening in credit policy.

**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 -3 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.

