Growth outlook eases as economic indicators soften, property market concerns rise

- GDP growth in 2Q21 moderated on higher raw material costs and slower industrial activity.
- Growth in manufacturing slowed while services contracted as delta outbreaks and related measures take effect.
- Retail sales eased sharply on Covid-related restrictions and weaker demand.
- Producer price inflation registered its highest rate in 13 years while consumer inflation decreased to 0.8%.
- The central bank kept its policy rates unchanged in August, but has hinted at a possible reserve ratio cut.
- The yuan appreciated slightly in September despite a late month dip on a more hawkish Fed policy statement.

Chart 1: Real GDP growth

GDP grew by 7.9% y/y in 2Q21, down from record growth in Q1 (18.3%) as base effects fade and higher raw material costs along with slower industrial activity weighed on recovery.

Source: Refinitiv

Chart 2: Macroeconomic climate

Macroeconomic indicators - lifted by base effects in Q1 - edged down in June as consumption and production moderated.

Source: Refinitiv

Chart 3: Industrial prod. and urban investment

Fixed asset investment and industrial production have slowed on Delta outbreaks, travel restrictions, and supply chain disruptions.

Source: Refinitiv

Chart 4: Purchasing Managers’ Index surveys

Tighter Covid-19 measures and higher raw material prices pushed all three PMI indices lower and services contracted for the first time since February 2020.

Source: Refinitiv
Confidence edged lower in August on virus outbreaks, travel restrictions, and stricter Covid-19 measures.

Retail sales growth plummeted in August to 2.5% (y/y) as consumption moderated during the latest Delta variant outbreak in the southeastern provinces and restrictions were implemented.

New and old house price growth declined as government efforts to curb housing speculation slow the heated property market.

Producer price inflation came in above market expectations, hitting a 13-year high in August amid rising commodity prices.

Growth in M2 and new bank loans slowed slightly to 8.2% y/y and 12.1%, respectively – both missing market forecasts.

The PBoC left its benchmark interest rates unchanged in September. However, the bank has signaled its intention to cut the reserve requirement ratio to support the weaking recovery.
Exports surged by 25.6% y/y in August, above market expectations, giving a welcome boost to the economy. Imports increased by 33.1% y/y on higher commodity prices.

Source: Refinitiv

The Shanghai stock index fell in mid-September as debt-ridden property developer Evergrande faces default risks.

Source: Refinitiv

Official foreign reserves decreased in August but came in slightly higher than market expectations (and now stand at $3.232 trn).

Source: Refinitiv

Trade with the US grew as both exports and imports between the two countries rose from a year earlier. The trade surplus widened for the 6th consecutive month to $37.7 billion.

Source: Refinitiv

US treasury yields edged up slightly after higher inflation reports while Chinese government bonds remained relatively unchaged.

Source: Refinitiv