Uncertain growth prospects prompt further policy intervention

- GDP growth eased to 4% in 4Q21 on a slowdown in the property market and Covid lockdowns.
- Manufacturing and service activities softened in December on strict virus containment measures.
- Retail sales growth slowed in December, weighed down heavily by a drop in catering sales.
- Consumer and producer price inflation eased in December amid government intervention.
- The central bank cut key rates again in January to support the economy.
- The yuan depreciated slightly against the US dollar in January on rate cuts and a hawkish US Fed.

**Chart 1: Real GDP growth**

Economic growth slowed to 4% in 4Q21 as property slowdowns and slowing consumption pressured the economy.

Source: Refinitiv

**Chart 2: Macroeconomic climate**

The leading indicator declined at a slower rate in November, possibly reflecting easing pressures and an optimistic outlook.

Source: Refinitiv

**Chart 3: Industrial output and urban investment**

December’s fixed asset investment growth continued to slow (4.9% y/y), while industrial production picked up (4.3% y/y).

Source: Refinitiv

**Chart 4: Purchasing Managers’ Index surveys**

January’s PMI readings showed a slowdown in manufacturing and service activities, potentially signaling the need for support.

Source: Refinitiv
The unemployment rate rose to 5.1% in December amid a slowdown in economic conditions.

Retail sales growth slowed to 1.7% y/y in December, led mainly by the drop in catering services (-2.2% y/y).

Growth in house prices (new and old) continued to slow amid government curbs and depressed activity.

Consumer and producer price inflation came in lower than expected in December amid government intervention.

M2 growth increased in December (+9% y/y) on supportive central bank policies; new bank loans growth continued to slow.

The central bank cut the 1-year LPR again (10 bps) to 3.7% in Jan and the 5-year LPR (5 bps) to 4.6% to support the economy.
The yuan’s recent appreciation against the dollar came to a halt amid a hawkish shift in the Fed’s stance to counter rising inflation. In December, import growth slowed (19.5% y/y) as Omicron weighed on demand. Export growth remained largely unchanged.

Foreign currency reserves decreased by $30bn in January as the Fed’s hawkish shift led to a slight depreciation in the yuan.

Yields on US 10-year bonds increased in January after the Fed’s hawkish stance while China’s bond yields dropped after rate cuts. The CSI 300 has dropped 11% so far in 2022 on downbeat sentiments linked to slowing economic growth.