Growth prospects remain uncertain as economy stabilizes

- GDP growth eased on higher raw material costs and slower industrial activity.
- Growth in manufacturing and services softened, weighed down by higher input costs and logistics bottlenecks.
- Retail sales eased on Covid-related lockdowns and extreme weather conditions.
- Producer price inflation remained elevated at 9% while headline consumer inflation remained muted at 1%.
- The central bank cut its reserve requirement ratio in early July following a worsening in economic indicators.
- The yuan remained stable although a possible lockdown due to Delta variant could affect the tourism sector.

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**Chart 1: Real GDP growth**

The economy grew by 7.9% in 2Q21, down from record growth set in 1Q21 (18.3% y/y) as higher raw material costs and slower industrial activity weighed on the recovery.

Source: Refinitiv

**Chart 2: Macroeconomic climate**

Macroeconomic indicators edged down in May as economic activity continued to soften.

Source: Refinitiv

**Chart 3: Industrial prod. and urban investment**

Industrial production and fixed asset investment came in below market expectations on supply chain disruptions, extreme weather events, and spread of Delta variant in multiple cities.

Source: Refinitiv

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

The three major activity indices continued their decline in July amid a Covid outbreak and extreme weather conditions.

Source: Refinitiv
Consumer confidence edged up slightly to 122.8 in June on strong vaccine roll-out as government administers over 1.8 billion doses.

Retail sales eased in July to 8.5% (y/y) as consumption moderated during the latest Delta variant outbreak and related lockdowns.

New and old house prices slowed as government-introduced mortgage rate hikes and credit tightening offset strong property demand and cooled the housing market.

Producer price inflation remained elevated in July, exceeding market expectations while consumer inflation rates were largely steady at 1%.

M2 growth slowed to 8.3% (y/y) while new bank loans remained unchanged at 12.3% (y/y), both below market forecasts.

The PBoC left its benchmark interest rates unchanged. However, the bank cut its reserve requirement ratio in early July to release more liquidity and boost growth amid slowdown.
Both export and import growth came below market expectations amid global spread of the Delta variant and higher input costs.

Source: Refinitiv

The Shanghai stock index fell in August as government regulatory bodies crackdown on tech and education companies.

Source: Refinitiv

Foreign official reserves increased in July, exceeding market expectations and reaching levels last seen in January 2016 ($3.236T).

Source: Refinitiv

Trade with the US slowed as both export and import growth fell in July. The trade surplus widened slightly as imports growth decreased more than exports.

Source: Refinitiv

Both bond yields continued their downward momentum weighed down by Covid concerns.

Source: Refinitiv