Economy recovering but downside risks stemming from lacklustre demand persist

- GDP saw a ‘V’-shaped recovery in Q2 led by an ease in mobility restrictions and a raft of stimulus measures.
- Industrial production edges higher, but consumer spending and investment continue to lag behind.
- While gains in manufacturing activity remain limited, the services sector is seeing a faster paced recovery.
- Traffic appears to be making a comeback, but still remains below average 2019 levels.
- The yuan saw some decent gains against the US dollar on an improved domestic economic outlook.
- Core CPI continues to soften against a backdrop of subdued domestic demand.

GDP sees a ‘V’-shaped recovery in Q2 (+3.2% y/y) led by the gradual re-opening of the economy and a series of monetary and fiscal stimulus measures.

Gains in industrial activity remain limited by lacklustre global demand. The services sector, in contrast, is seeing a faster paced recovery led by increases in new business activity.

Industrial output continued to edge up in June, thanks to a continued resumption in production activity. But the ongoing weakness in domestic demand continued to weigh on retail sales.

Imports rose for the first time this year as demand for commodities picked up. Exports were propped up by higher demand for medical equipment and computers.
Imports from the US jumped in June, led by higher purchases of US agricultural goods as part of the trade deal. That said, China’s trade surplus with the US still widened to a multi-month high.

Source: Refinitiv

Traffic appears to be gradually recovering as virus-control measures ease, but still remains well below average 2019 levels.

Source: TomTom, note: Using Saturday data to remove working day effects

While current economic conditions continue to be challenging, the outlook on the economy appears to be approaching an inflection point.

Source: Refinitiv

Consumer confidence remains weighed down by job insecurities and fears of a second wave of virus infections.

Source: Refinitiv
The yuan strengthened by 1.3% m/m vs. the US dollar as of mid-July, thanks to an improved economic outlook and some USD weakness.

Source: Refinitiv

Core CPI continued to soften in June amid subdued domestic demand. Meanwhile, the PPI ticked up slightly for the first time since January.

Source: Refinitiv

M2 growth holds at a three-year high of 11.1% y/y, pointing to ample liquidity. Growth in lending activity also remained firm, supported by a gradual economic recovery.

Source: Refinitiv

The central bank’s FX reserves rose for a third straight month in June amid an increase in global asset prices and a softer US dollar.

Source: Refinitiv

The deceleration in house price increases appears to have plateaued in June amid improvements in property demand.

Source: Refinitiv