Growth eased in the second quarter as recovery uncertainty lingers

- GDP growth eased to 7.9% in 2Q21 on higher raw material costs and slower industrial activity.
- Growth in manufacturing and services slowed, weighed down by higher input costs and supply chain disruptions.
- Retail sales grew, albeit at a slower rate, while consumer confidence edged up but is below pre-Covid levels.
- Growth in the price of new houses slowed as government introduced tougher mortgage borrowing measures.
- Producer price inflation remained high, though little is so far being passed onto consumers.
- The central bank left interest rates unchanged but lowered the reserve ratio to help boost liquidity.

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

Source: Refinitiv

Industrial output grew by 8.3% in June, its lowest rate in 6 months. Urban fixed asset investment growth – lifted by base effects in Q1 – eased but remained above market expectations.

Source: Refinitiv

The three major activity indices fell in June amid higher input costs, supply chain disruptions, and recent Covid upticks.

Source: Refinitiv
Consumer confidence edged up from 121.5 in April to 121.8 in May, but has fallen back below pre-Covid levels recently amid lingering virus uncertainty and fading recovery momentum. Overall, retail sales rose by 12.1% y/y in June compared to 12.4% in May. Sales in goods (11.2%) picked up, while catering (20.2%) slowed.

Growth in new house prices slowed as stricter lending measures sought to rein in a hot housing market. But second-hand home price growth rose on higher demand and undersupply of homes. Producer price inflation remained high in June as firms face rising commodity prices. Consumer price inflation remained much lower, however, indicating limited pass-through inflation.

Both M2 and new bank loans grew more than market forecasts in June as the PBoC looks to boost the slowing recovery.

The PBoC left its benchmark interest rates unchanged despite growing expectations for a cut after the central bank lowered the reserve requirement ratio (RRR) in early July.
Exports grew by 32% in June on solid foreign demand. However, import growth, while lower on year-on-year basis, came in higher than market expectations amid rising commodity prices.

Source: Refinitiv

The Shanghai stock index remained mostly unchanged in July despite the reduction in the reserve requirement ratio.

Source: Refinitiv

Chinese foreign reserves decreased in June following the dollar’s recent appreciation and weakening of non-dollar currencies.

Source: Refinitiv

Trade with the US slowed as both export and import y/y growth eased in June. But the trade surplus widened slightly as exports rose more than imports m/m.

Source: Refinitiv

Chinese bond yields edged down in July as the PBoC floated RRR cuts and amid a larger drop in US yields driven by growth worries/safe haven buying.

Source: Refinitiv