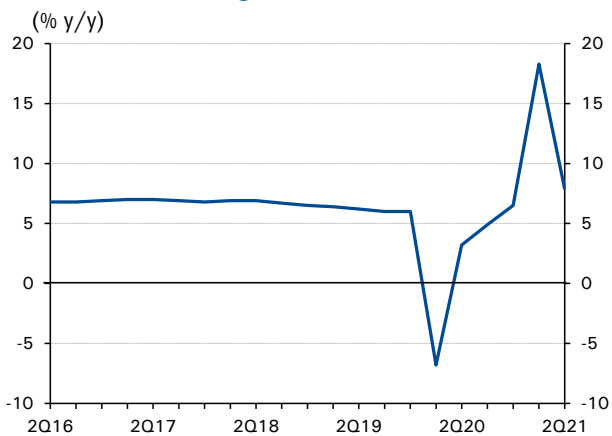


Growth eased in the second quarter as recovery uncertainty lingers

- 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.

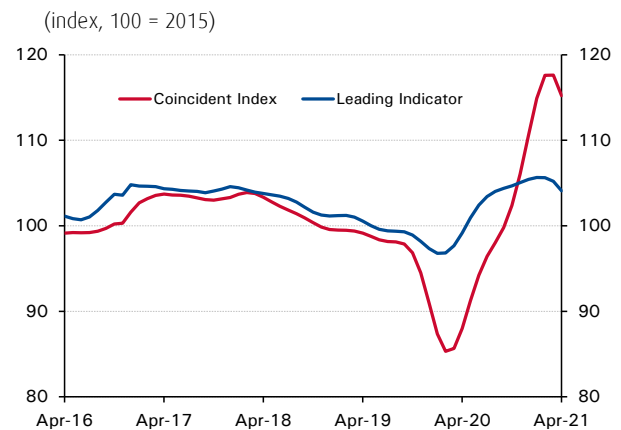
▶ **Chart 1: Real GDP growth**



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

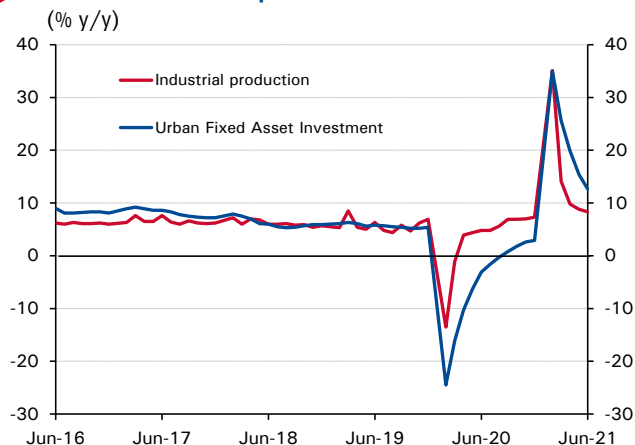
▶ **Chart 2: Macroeconomic climate**



Macroeconomic condition indices edged down in April as economic activity softened and base effects faded.

Source: Refinitiv

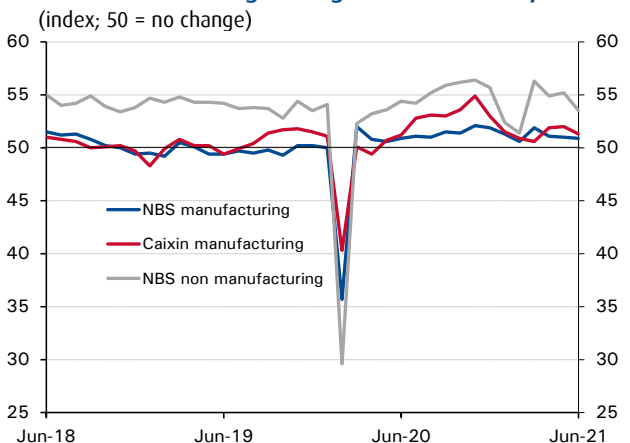
▶ **Chart 3: Industrial prod. and urban investment**



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

▶ **Chart 4: Purchasing Managers' Index surveys**

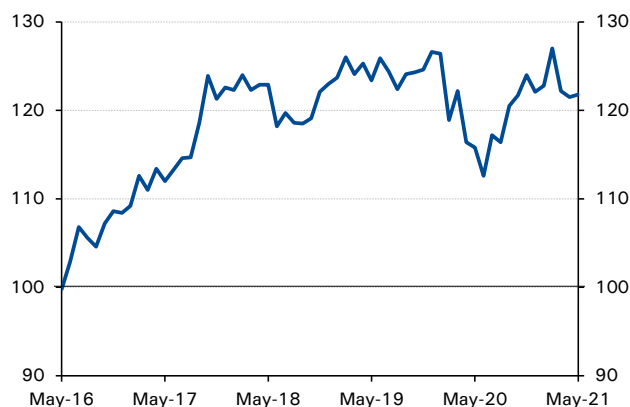


The three major activity indices fell in June amid higher input costs, supply chain disruptions, and recent Covid upticks.

Source: Refinitiv

Chart 5: Consumer confidence

(index, 100 = no change)

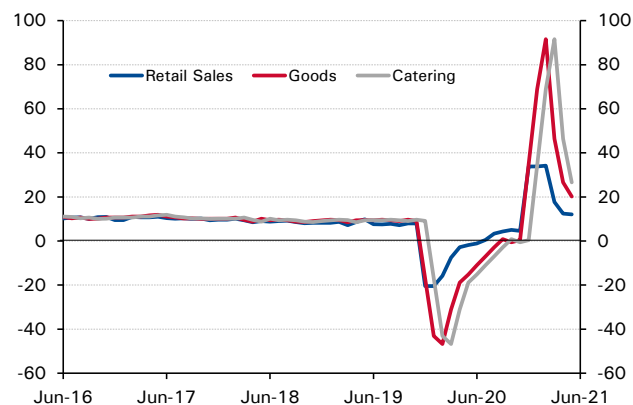


Consumer confidence edged up from 121.5 in April to 121.8 in May, but has fallen back below pre-Covid levels recently amid lingering virus uncertainty and fading recovery momentum.

Source: Refinitiv

Chart 6: Retail sales

(% y/y)

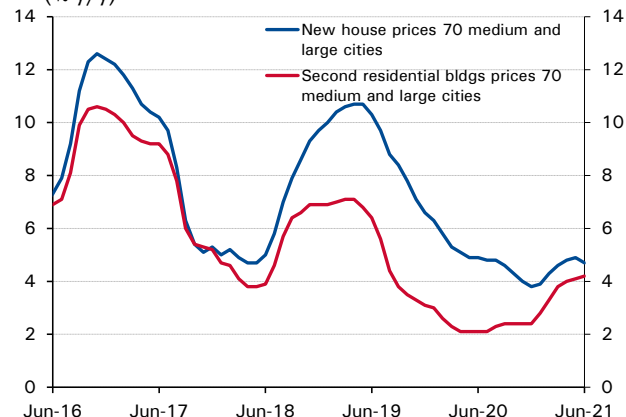


Overall, retail sales rose by 12.1% y/y in June compared to 12.4% in May. Sales in goods (11.2%) picked up, while catering (20.2%) slowed.

Source: Refinitiv

Chart 7: House prices 70 medium & large cities

(% y/y)

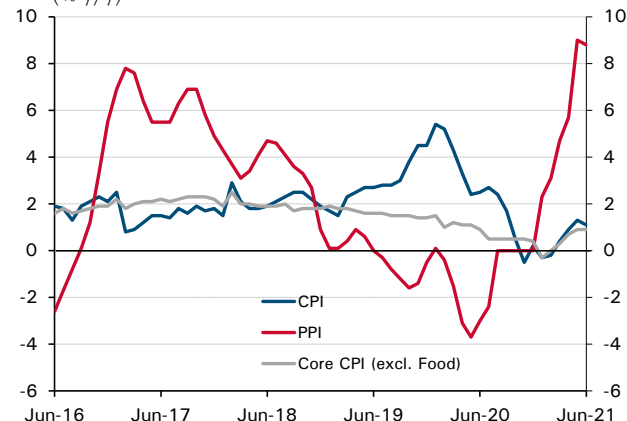


Growth in new house prices slowed as stricter lending measures sought to reign in a hot housing market. But second-hand home price growth rose on higher demand and undersupply of homes.

Source: Refinitiv

Chart 8: Inflation

(% y/y)

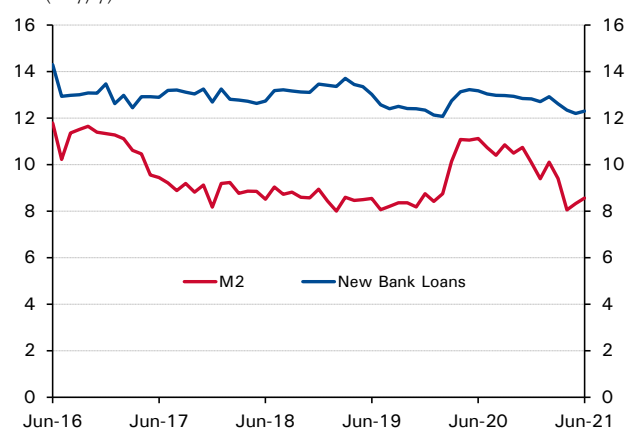


Producer price inflation remained high in June as firms face rising commodity prices. Consumer price inflation remained much lower, however, indicating limited pass-through inflation.

Source: Refinitiv

Chart 9: Broad money supply & credit lending

(% y/y)

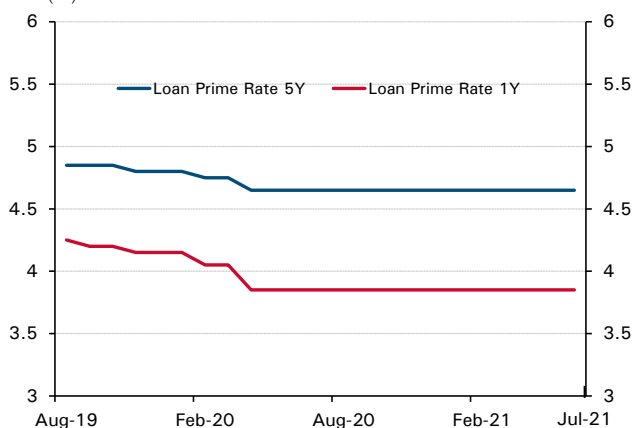


Both M2 and new bank loans grew more than market forecasts in June as the PBoC looks to boost the slowing recovery.

Source: Refinitiv

Chart 10: Nominal interest rates

(%)

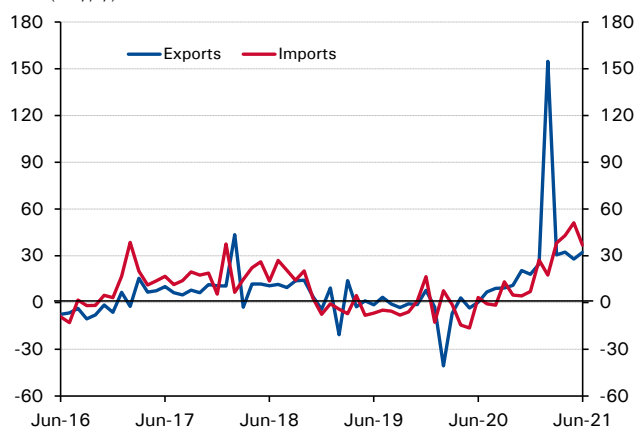


The PBoC left its benchmark interest rates unchanged despite growing expectations for a cut after the central bank lowered the reserve requirement ratio (RRR) in early July.

Source: Refinitiv

Chart 11: International trade

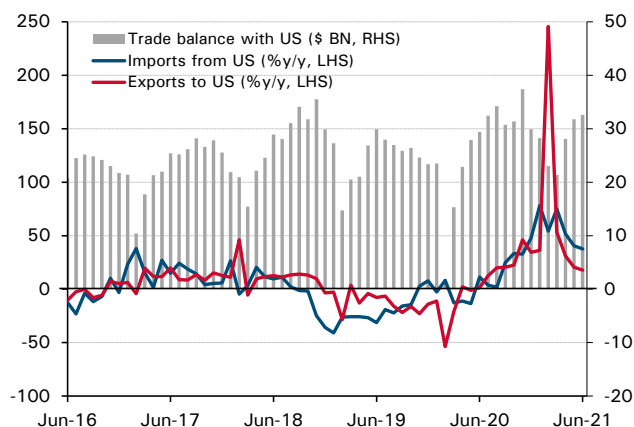
(% y/y)



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

Chart 12: Trade with the US



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

Chart 13: Stock Market

(CSI 300)

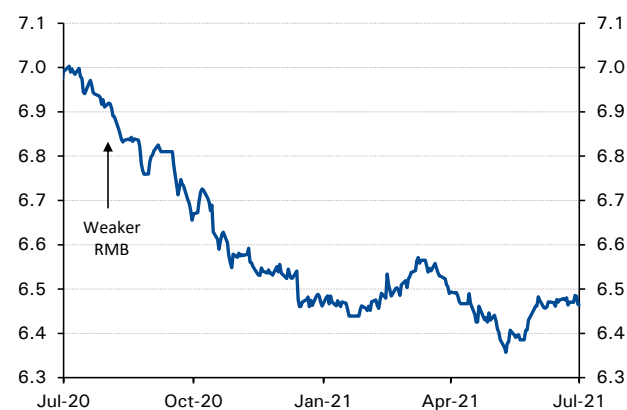


The Shanghai stock index remained mostly unchanged in July despite the reduction in the reserve requirement ratio.

Source: Refinitiv

Chart 14: Exchange rate

(RMB/USD)

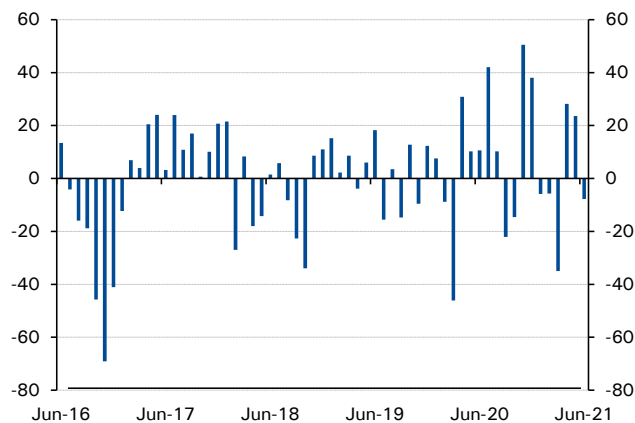


The yuan depreciated in July as the dollar traded near its highest level in three months.

Source: Refinitiv

Chart 15: Monthly FX reserve change

(USD bn)

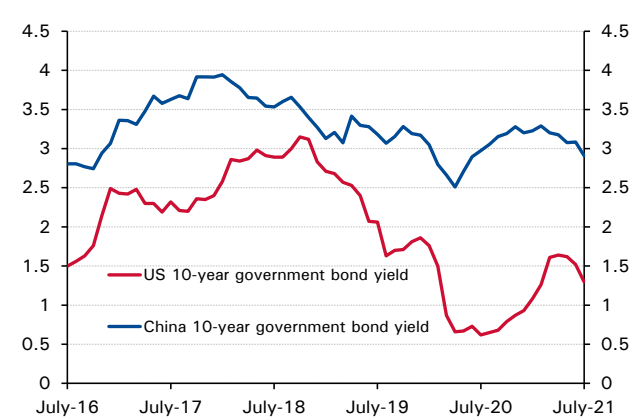


Chinese foreign reserves decreased in June following the dollar's recent appreciation and weakening of non-dollar currencies.

Source: Refinitiv

Chart 16: China and US government bond yields

(%, end month but latest is July 27)



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

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