Economic growth slows amid energy shortage and property market struggles

- GDP growth slowed in 3Q21 on energy shortages and a property market slowdown.
- Manufacturing activity softened as energy rationing restricted production; but service activity recovered.
- Retail sales rose in September, outperforming expectations as restaurant and catering activity increased.
- Producer price inflation continued to accelerate as firms face higher energy, raw material costs.
- The central bank kept its policy rates unchanged in September and is unlikely to cut given current conditions.
- The yuan appreciated against the US dollar in October, despite dollar firmness as Fed tapering nears.

**Chart 1: Real GDP growth**

Growth (4.9% y/y) slowed to its lowest rate in a year in 3Q21 as energy shortages and a property slowdown impeded recovery.

Source: Refinitiv

**Chart 2: Macroeconomic climate**

Macroeconomic climate indicators continued to edge down in July as economic activity softened.

Source: Refinitiv

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

Fixed asset investment (7.3%) and industrial production (3.1%) have slowed on energy shortages, higher input costs, and supply chain disruptions.

Source: Refinitiv

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

Energy rationing weighed on manufacturing activity amidst the ongoing energy crunch. The service sector, however, expanded, outperforming expectations.

Source: Refinitiv
Confidence edged lower in August on virus outbreaks, travel restrictions, and strict Covid-19 measures.

Retail sales growth (4.4%) recovered in September as spending on restaurants and catering services picked up.

New and old house price growth declined as government efforts to curb housing speculation slow the property market.

Producer price inflation increased for the 9th straight month, beating market expectations amid surging raw material costs.

Growth in M2 and new bank loans remained largely unchanged from the previous month.

The PBoC left its benchmark interest rates unchanged in October. The bank is unlikely to change monetary policy if growth remains between 5% and 6%, according to the governor.
Exports outperformed market forecasts, rising by 28.1% y/y in September while import growth slowed to 17.6% on cooling construction activity and environmental curbs.

The Shanghai stock index recovered slightly in early October as Chinese stocks followed US stocks higher after debt ceiling pressures eased and amid solid corporate earnings.

Official foreign reserves decreased to $3.201 trn in September as the dollar index gained 1.7%.

Trade surplus with the US widened to $42 bn in September as exports surged by 30.6% y/y while import growth slowed to 16.6% from a year earlier.

The yuan appreciated against the dollar in October, despite greenback firmness as Fed tapering approaches.

Chinese government bond yields edged up, tracking their US counterparts as treasury yields rose amid taper expectations.