

Chartbook

NBK Economic Research Department | 26 May 2022

China

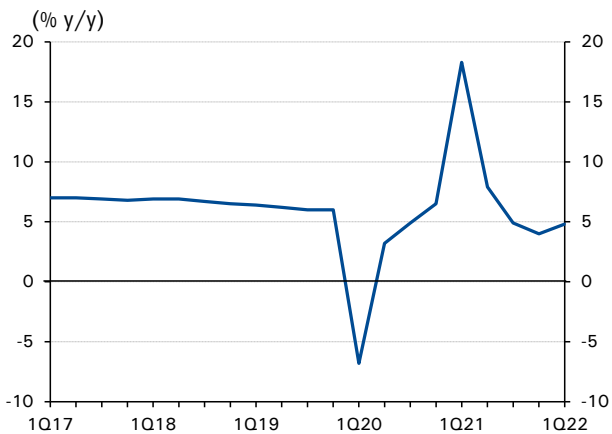
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Covid-19 lockdowns hit economic activity; yuan weakens on rate cuts, capital outflows

- Growth surprised on the upside in 1Q22 (+4.8% y/y) though Covid-19 restrictions have since hit economic activity.
- Growth in retail sales declined in April after strict lockdowns negatively affected consumption.
- Both manufacturing and service activity declined in April amid weaker demand.
- Producer inflation continued to ease in April, but consumer prices gained again, rising by 2.1% y/y.
- The PBoC in May cut the 5-yr LPR for the second time in 2022 to support the beleaguered housing market.
- Continued rate cuts, capital outflows, and a stronger dollar saw the yuan depreciate heavily in May.

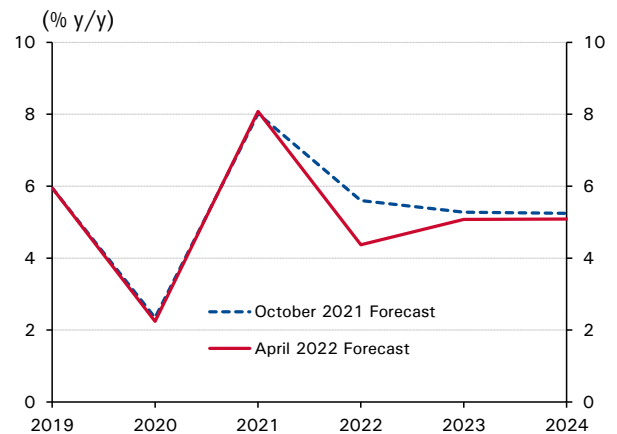
▶ Chart 1: Real GDP growth



While growth outperformed in 1Q22, protracted Covid lockdowns have hit most economic metrics in 2Q22.

Source: Refinitiv

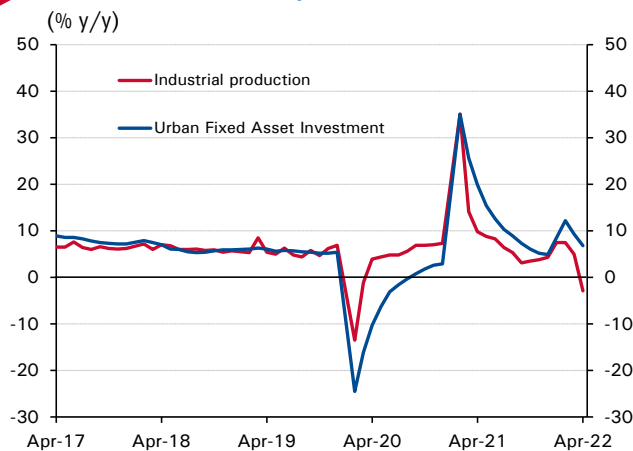
▶ Chart 2: IMF GDP Forecasts



The IMF and others have downgraded China's 2022 GDP growth forecasts, and the authorities' target of 5.5% is looking unlikely.

Source: International Monetary Fund (IMF).

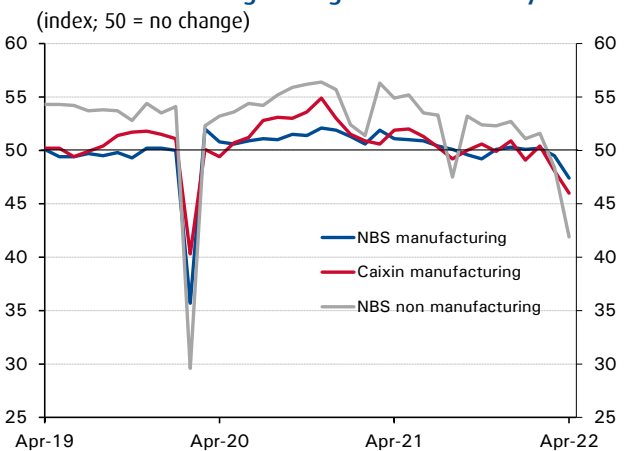
▶ Chart 3: Industrial output and urban investment



Industrial production contracted in April (-2.9% y/y) on heavy lockdowns while fixed investment growth eased to 6.8% y/y.

Source: Refinitiv

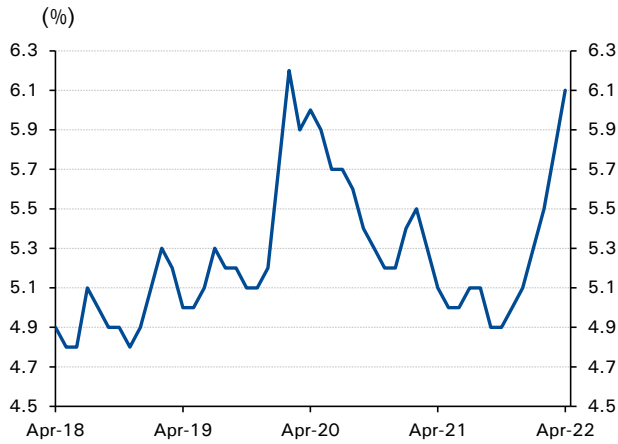
▶ Chart 4: Purchasing Managers' Index surveys



The manufacturing and service sectors continued to contract on weaker demand amid an unfavorable business climate.

Source: Refinitiv

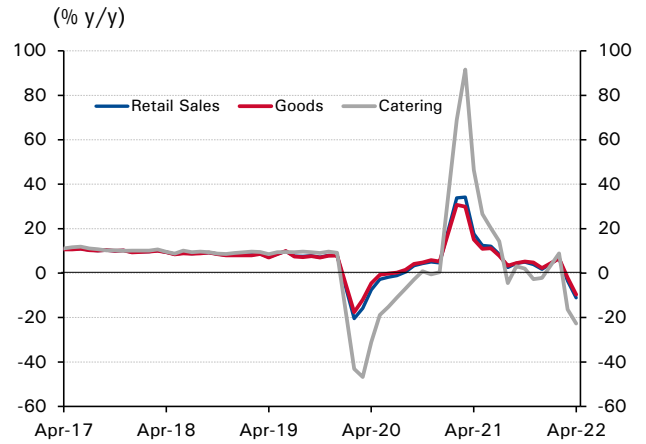
▶ **Chart 5: Unemployment rate**



The unemployment rate jumped to its highest level (6.1%) since February 2020 in April as sluggish activity prompted layoffs.

Source: Refinitiv

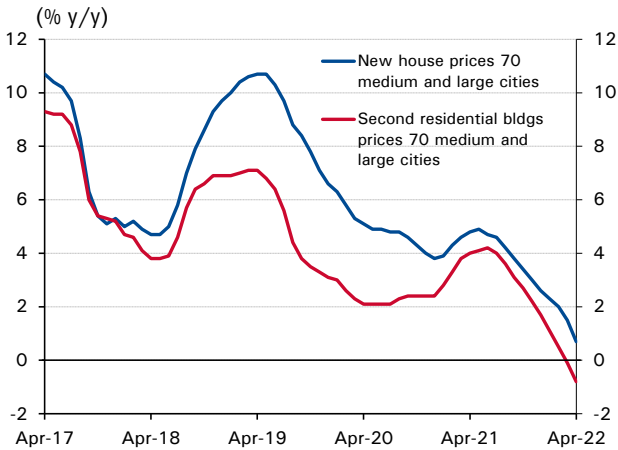
▶ **Chart 6: Retail sales**



Retail sales recorded the biggest contraction in April (-11.1% y/y) since the start of the pandemic on weaker consumption.

Source: Refinitiv

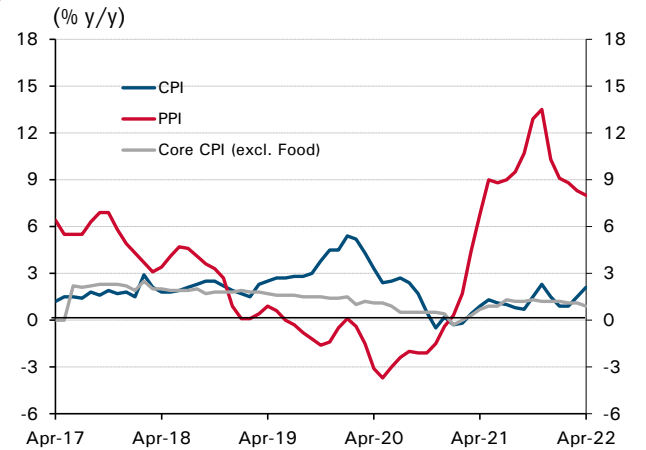
▶ **Chart 7: House prices in 70 medium & large cities**



Growth in new house prices softened in April, while old house prices contracted amid weak activity in the housing sector.

Source: Refinitiv

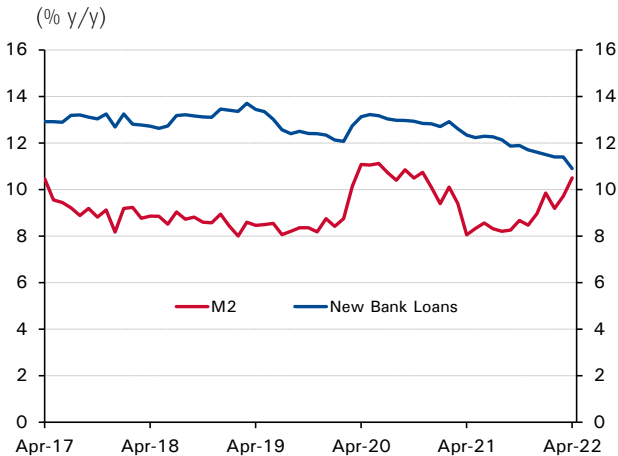
▶ **Chart 8: Consumer and producer price inflation**



Producer price inflation continued to ease in April (+8% y/y) from its peak in Nov 2021, while consumer prices increased 2.1% y/y.

Source: Refinitiv

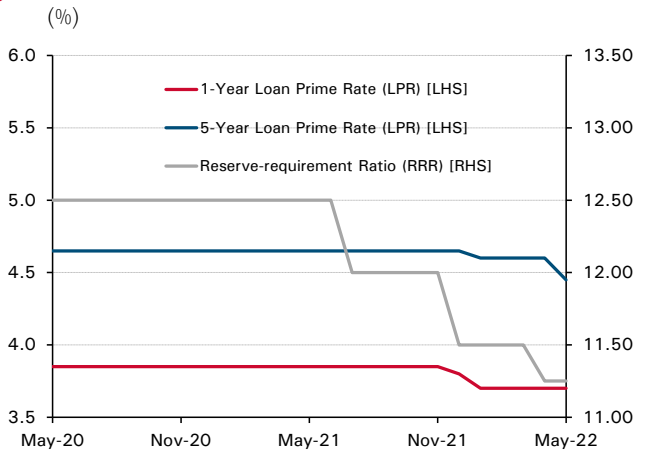
▶ **Chart 9: Broad money supply (M2) & credit growth**



M2 grew by 10.5% y/y in April as the PBoC rolled out stimulus. Yet, new loans slowed to 10.9% y/y on weaker credit demand.

Source: Refinitiv

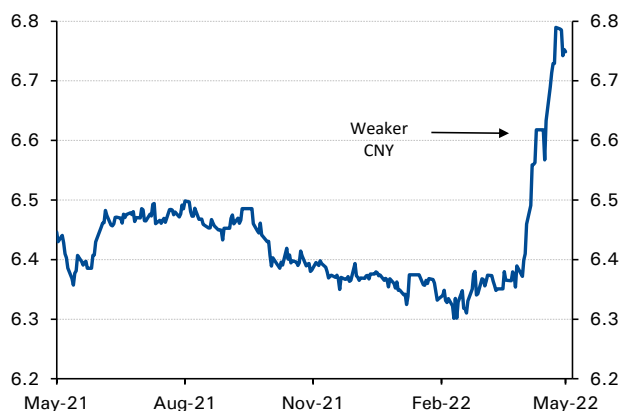
▶ **Chart 10: Interest rates**



The PBoC this month cut the main rate for mortgage pricing, the 5-year LPR, by 15 bps to help stimulate housing activity.

Source: Refinitiv

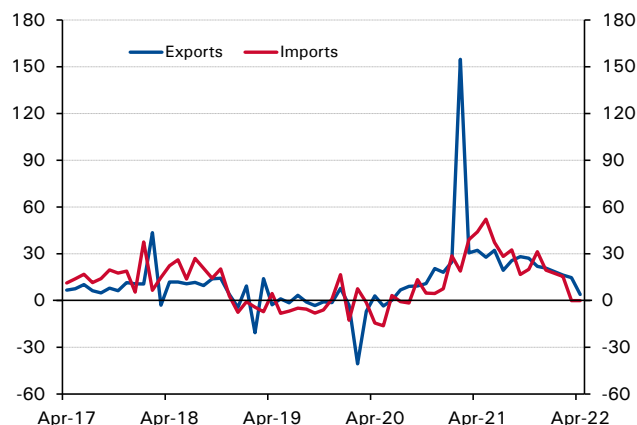
Chart 11: Exchange rate
(CNY/USD)



Multiple rate cuts by the PBoC have, along with US Fed rate rises, resulted in the yuan depreciating to levels last seen in Nov 2020.

Source: Refinitiv

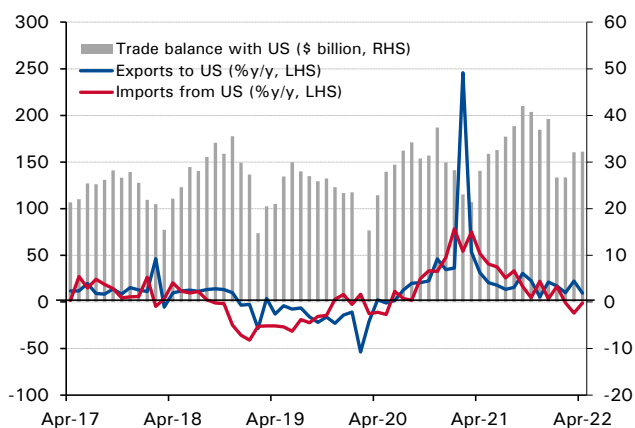
Chart 12: International trade
(% y/y)



Covid-19-linked disruptions to domestic output and freight activity softened export growth to 3% y/y in April; imports unchanged.

Source: Refinitiv

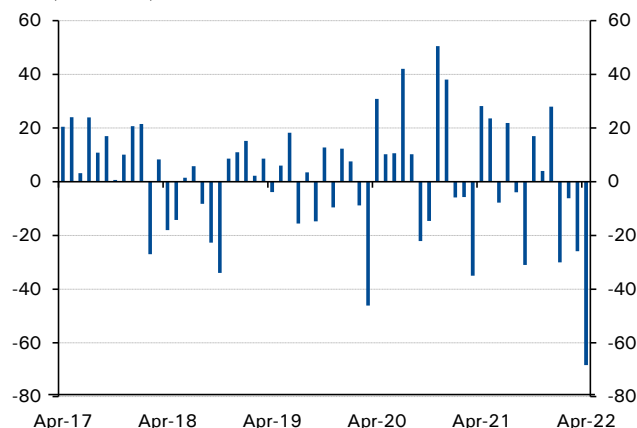
Chart 13: Trade with the US



The trade balance with the US increased slightly in April to \$32bn on higher exports (+9.4% y/y) and lower imports (-1.2% y/y).

Source: Refinitiv

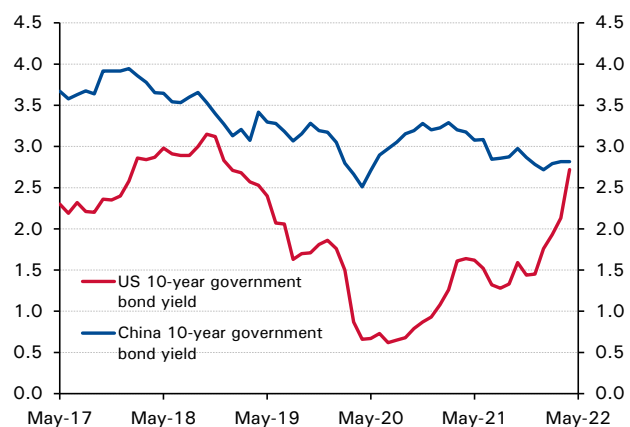
Chart 14: Monthly FX reserve changes
(USD billion)



Foreign currency reserves fell by \$68bn in April on dollar strength and capital outflows amid worries of a slowing economy.

Source: Refinitiv

Chart 15: China and US government bond yields
(%)



Yields on China's 10-yr notes fell slightly after May's rate cut, in contrast with US bond yields, which rose on Fed tightening.

Source: Refinitiv

Chart 16: Stock market
(Shanghai Stock Index, CSI 300)



The CSI 300 has been mostly steady in May (+1.5% mtd; -17.5% ytd), supported by government promises of economic support.

Source: Refinitiv

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