

Chartbook

NBK Economic Research Department | 25 August 2022

China

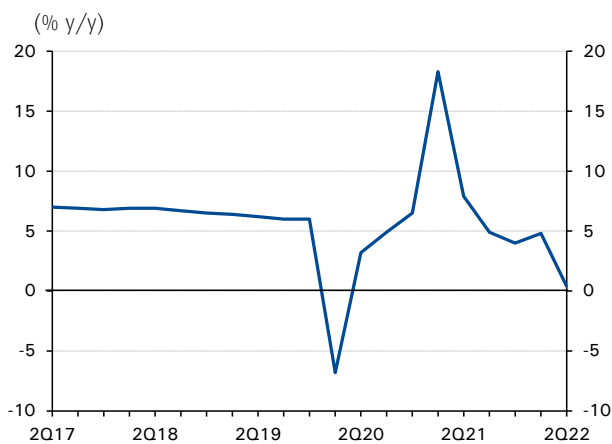
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Economic activity weakens amid repeated Covid lockdowns and property sector woes

- Economic activity slumped in 2Q22 (+0.4% y/y) amid ongoing Covid restrictions and property sector weakness.
- Low growth in retail sales, industrial production, and fixed investment point to a sluggish economic recovery.
- The official manufacturing PMI contracted rather unexpectedly in July amid low business confidence.
- Average house prices fell in July amid a contraction in the property market.
- Consumer price inflation continued to pick up in July despite easing producer price inflation.
- The PBoC slashed its loan prime rates in an attempt to stimulate economic activity.
- Equities are flat so far in August on lingering economic uncertainty.

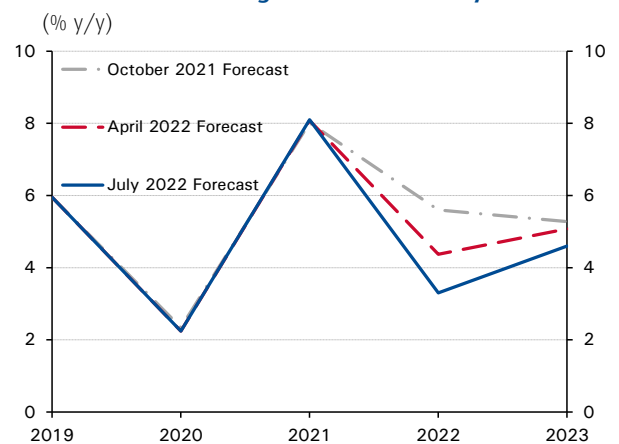
▶ Chart 1: Real GDP growth



Economic activity slumped in 2Q22 (to 0.4% y/y from 4.8% in 1Q22) amid property sector weakness and Covid restrictions.

Source: Haver Analytics

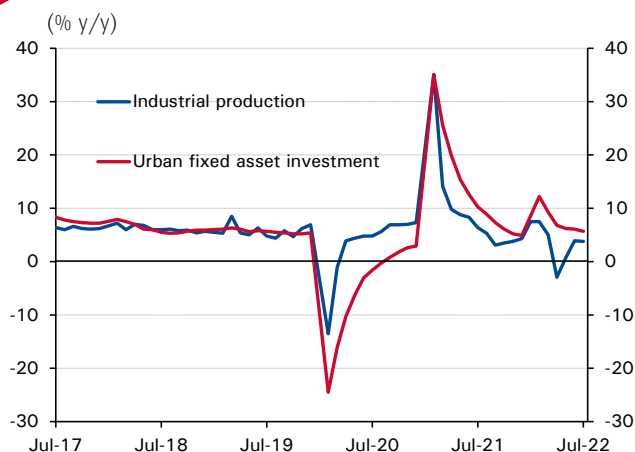
▶ Chart 2: China GDP growth forecasts by the IMF



The IMF revised down its China growth forecast for 2022 by 1.1% pts to 3.3%, on virus-driven lockdowns.

Source: Haver Analytics

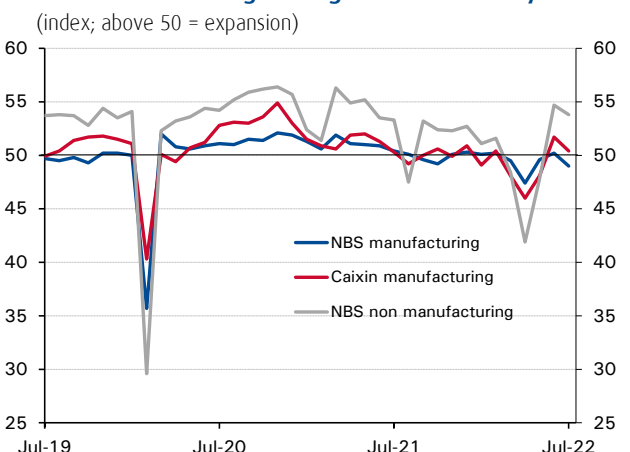
▶ Chart 3: Industrial output and urban investment



Industrial production (3.8% y/y) and fixed investment (5.7% y/y) did grow in July, albeit at lower-than-expected rates.

Source: Haver Analytics

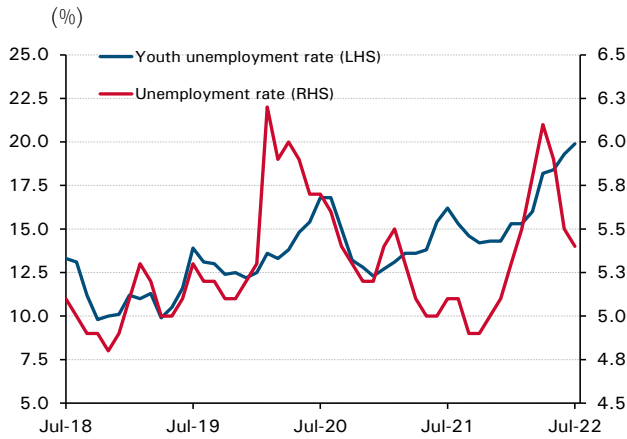
▶ Chart 4: Purchasing Managers' Index surveys



Official manufacturing PMI contracted in July on weak sentiment. Services, however, continue to expand as lockdowns were lifted.

Source: Haver Analytics

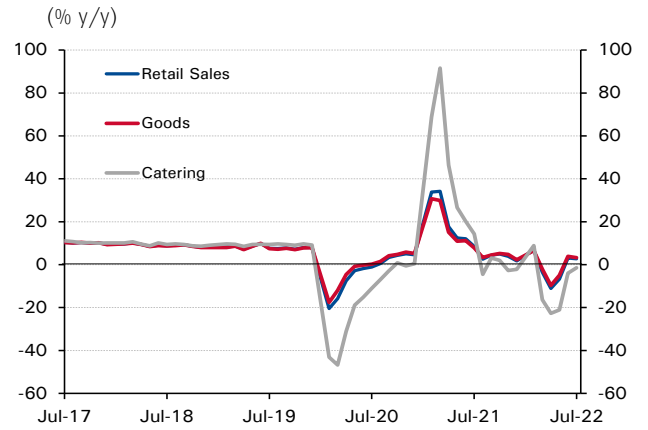
▶ **Chart 5: Unemployment rate**



Unemployment eased again in July (5.4%) on urban job creation. Youth unemployment, which has been on an upward trend, hit a record 20% in July, though seasonal effects were a factor as well.

Source: Haver Analytics, official sources

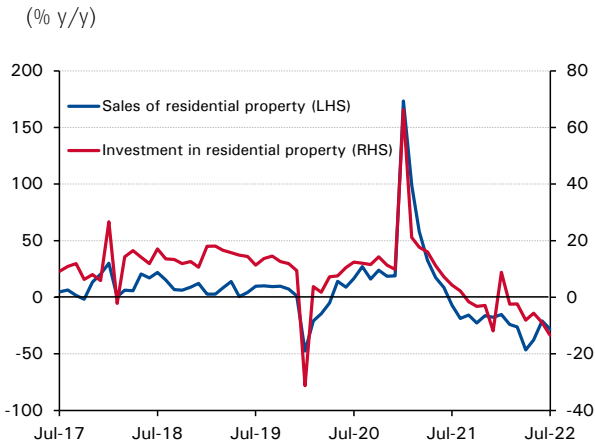
▶ **Chart 6: Retail sales**



Retail sales growth eased to 2.7% y/y in July amid challenging conditions and weak sentiment.

Source: Haver Analytics

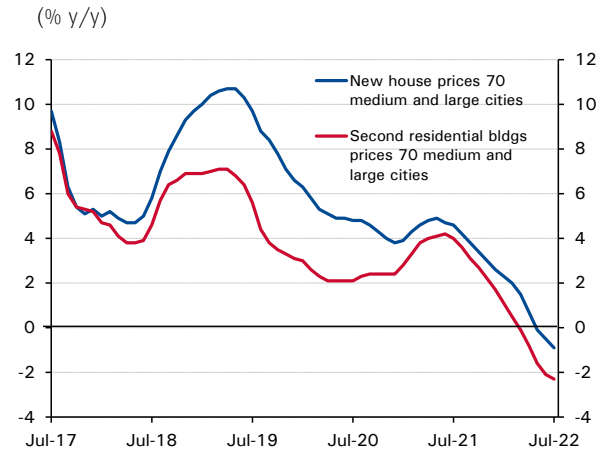
▶ **Chart 7: Sales & investments in residential property**



Sales and investments in the residential property sector continued to tumble in July amid an ongoing real estate crisis...

Source: Haver Analytics

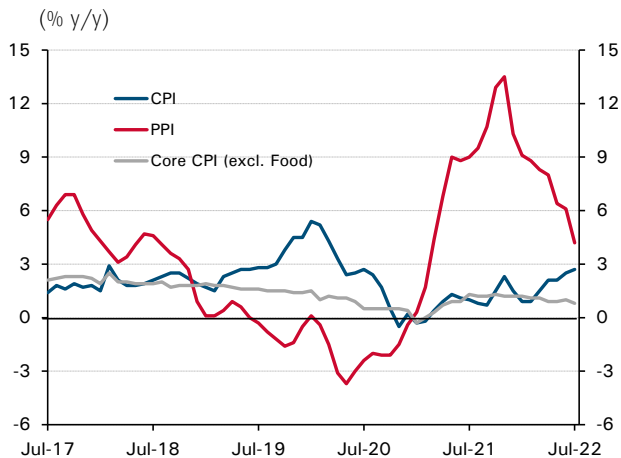
▶ **Chart 8: House prices in 70 medium & large cities**



...and widespread mortgage boycotts, which adversely affected residential property prices.

Source: Haver Analytics

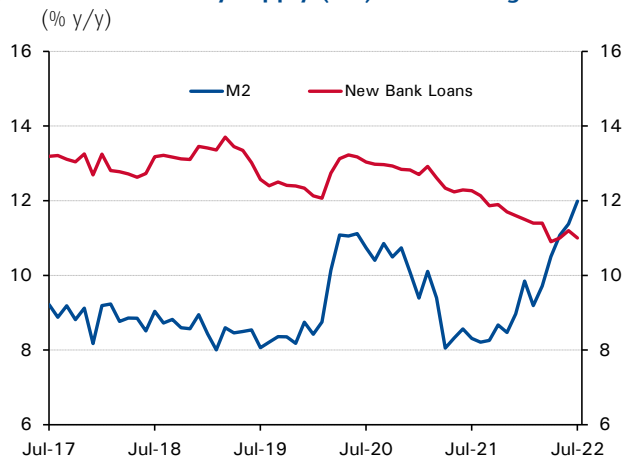
▶ **Chart 9: Consumer and producer price inflation**



Producer price inflation eased to 4.2% y/y on lower raw material costs. CPI inflation jumped to 2.7% y/y on higher food prices.

Source: Haver Analytics

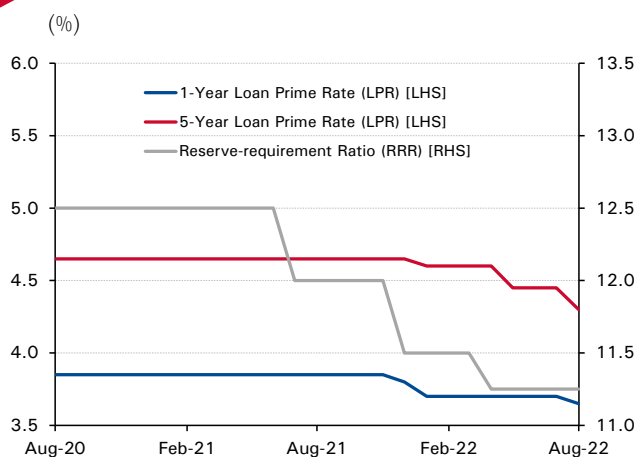
▶ **Chart 10: Money supply (M2) and credit growth**



M2 growth edged up to a multi-year high of 12% y/y in July, yet credit growth continued to soften amid weak sentiment.

Source: Haver Analytics

Chart 11: Interest rates



The PBoC unexpectedly cut both 1 and 5-year LPRs by 5 and 15 bps, respectively, in August after July's weak economic data.

Source: Haver Analytics

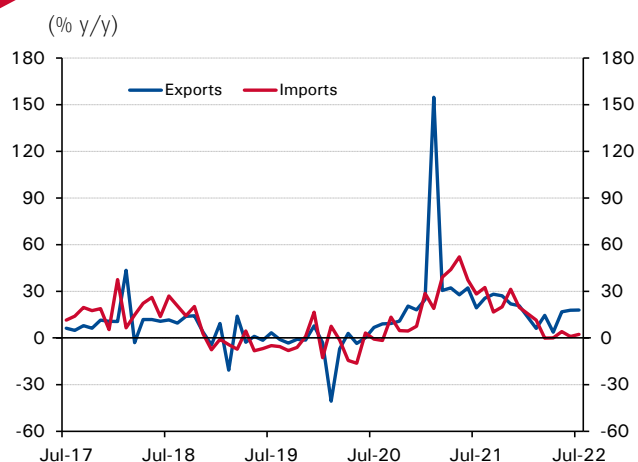
Chart 12: Exchange rate



The yuan continued to depreciate as rate cuts, weak economic activity and a hawkish Fed weighed heavily on the currency.

Source: Haver Analytics

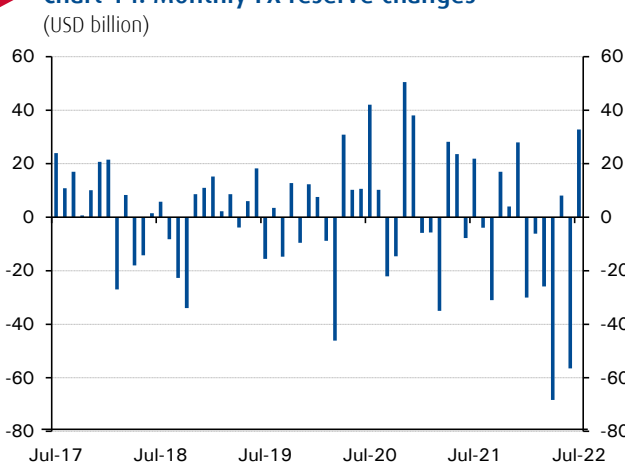
Chart 13: International trade



Exports increased by 18% y/y in July as Covid curbs were lifted. Import growth remained muted at 2.3% y/y.

Source: Haver Analytics

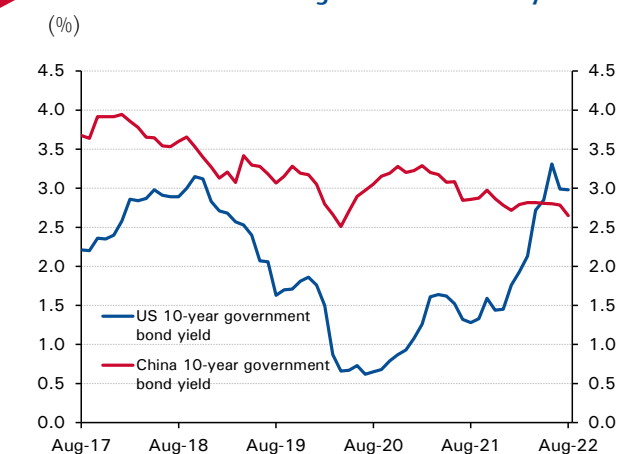
Chart 14: Monthly FX reserve changes



Foreign currency reserves rose by \$32.8bn in July on stronger exports.

Source: Haver Analytics

Chart 15: China and US government bond yields



Yields on China's 10-year bonds fell amid rate cuts while US 10-year yields jumped on hawkish US Fed policy.

Source: Refinitiv

Chart 16: Stock market



The CSI 300 was flat so far in August (-15% ytd) amid lingering economic uncertainty.

Source: Haver Analytics

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