Economic growth surged in Q1 on strong base effects, but recovery may be slowing

- GDP grew by a record 18.3% in 1Q21, though is seen softening as base effects fade and uncertainties linger.
- Retail sales and industrial output growth eased amid softer domestic demand and rising raw material prices.
- Consumer price inflation has risen but remains low at 1.3%, with firms so far mostly absorbing higher input costs.
- The PBoC kept its loan prime rates unchanged though continues to take measures to rein in credit growth.
- The stock market has fallen from February all-time highs amid signs of the slowing economic recovery.
- The yuan has eased back slightly following the Fed’s adoption of a more hawkish tone.

GDP grew by a record 18.3% y/y in 1Q21 helped by fiscal stimulus and base effects. However, the government set its 2021 growth projection at a more modest 6%.

Macroeconomic conditions showed significant recovery in early 2021 due to low bases in 2020. However, there are some indications that growth may have peaked.

Industrial output (9.8%) and urban fixed asset investments (5.1%) both grew slower in April reflecting global supply chain bottlenecks and shaky local demand.

PMI survey activity indices have signaled steady if unspectacular growth in recent months, with the services sector outperforming manufacturing.
Consumer confidence hit its highest levels since the start of the pandemic last February as the economy reopened. However, confidence decreased in March and April as uncertainty lingers. Retail sales recoved during 1Q21 helped by easing restrictions and low bases in 1Q20. Nevertheless, retail sales growth softened in April reflecting uncertain demand conditions.

House price growth has picked up, helped by undersupply of homes and stronger buyer enthusiasm. Government-introduced curbs might soften the uptrend in the next months.

Chinese factory prices rose sharply (9%) in May, highlighting surging commodity prices. CPI grew modestly (1.3%), easing worries of producers passing costs onto consumers.

M2 growth slowed to a 21-month low (8.1%) in April as the PBoC cuts back pandemic stimulus policies. Growth in new loans decreased slightly as the PBoC focuses on reining in financial risks.
Chart 11: International trade

Export growth hit an all-time high in February (154%) compared to negative growth in February 2020, but has moderated as base effects faded. Imports rose in May as commodity prices surged.

Both exports to and imports from the U.S. slowed after a surge in February caused by significant base effects. The trade surplus with the US widened after an initial drop in 2021.

Source: Refinitiv

Chart 12: Trade with the US

The Shanghai index hit all-time highs last February amid easing virus worries. However, political tensions with the West, weaker local demand, and policy tightening have since led to a pullback.

The yuan strengthened to a 3-year high against the dollar (9.8% y/y) in June 2020. But the recent more hawkish stance adopted by the Fed has seen the dollar recover some ground.

Source: Refinitiv

Chart 13: Stock Market

The PBoC increased its FX reserves as the dollar fell against a basket of major currencies. The central bank could also be looking to counter the recent appreciation in the yuan.

The difference between Chinese and US government bond yields reached its highest value, 2.5%, in 5 years last September, as the Fed slashed interest rates while the PBoC moderated its cuts.

Source: Refinitiv