Softening economic activity prompts policy intervention

- GDP growth slowed in 3Q21 on energy shortages and a property market slowdown.
- Manufacturing activity expanded in November as commodity prices stabilized and energy restrictions eased.
- Retail sales slowed in November, with sporadic Covid outbreaks weighing on consumption.
- Producer price inflation eased from 26-year highs as government efforts to control prices took effect.
- The central bank cut key rates in December to support the economy.
- The yuan appreciated against the US dollar in December despite rate cuts.

Growth slowed to 4.9% y/y in 3Q21, its weakest in a year, dragged down by energy shortages and a property slowdown.

Source: Refinitiv

In Nov, industrial production ticked up again (3.8% y/y) but fixed asset investment growth continued to slow (5.2% y/y).

Source: Refinitiv

Macroeconomic climate indicators continued to soften in September, reflecting the slowdown in economic activity in 3Q21.

Source: Refinitiv

PMI readings in December, though subdued, showed a general improvement in activity in both manufacturing and services.

Source: Refinitiv
The unemployment rate rose slightly to 5% in November from 4.9% in October amid more uncertain economic conditions.

Source: Refinitiv

Retail sales growth, at 3.9% y/y in Nov, missed expectations as widespread Covid outbreaks weighed on consumption.

Source: Refinitiv

Growth in house prices (new and old) continued to trend downwards amid property market uncertainty.

Source: Refinitiv

Consumer price inflation, though up to 2.3% in Nov, has lagged producer price inflation (12.9% y/y) due to government price control efforts.

Source: Refinitiv

M2 and credit growth, though robust at 8.5% y/y and 11.7% y/y in November, respectively, have been slowing since 2019 due to monetary easing policies during the Covid pandemic.

Source: Refinitiv

In December the PBOC cut by 50 bps the 1-yr loan prime rate (3.8%) and the RRR (11.5%) to support economic growth.

Source: Refinitiv
The yuan rose 2.3% against the dollar in 2021, helped in part by export strength and yield-chasing inflows to government bonds.

Source: Refinitiv

Export growth slowed in Nov (22% y/y) due to weaker demand, a stronger Yuan and higher costs, but imports grew by 32% y/y.

Source: Refinitiv

The trade surplus decreased to $36.9bn as imports surged (22% y/y) and exports slowed (5.3% y/y), partly on currency strength.

Source: Refinitiv

Yuan strength was the primary impetus for the $4.4bn increase in official foreign reserves in November to $3.22trn.

Source: Refinitiv

Chinese government bond yields fell slightly after the PBOC’s rate cut, while US yields were up on the Fed’s hawkish shift.

Source: Refinitiv

The CSI gained 1.6% in December (~5.2% in 2021) after the government’s economy-supporting interest rate move.

Source: Refinitiv