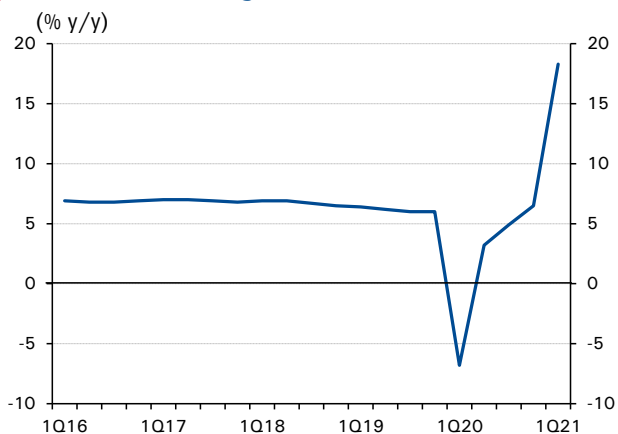


Economic growth surged in Q1 on strong base effects, but recovery may be slowing

- 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.

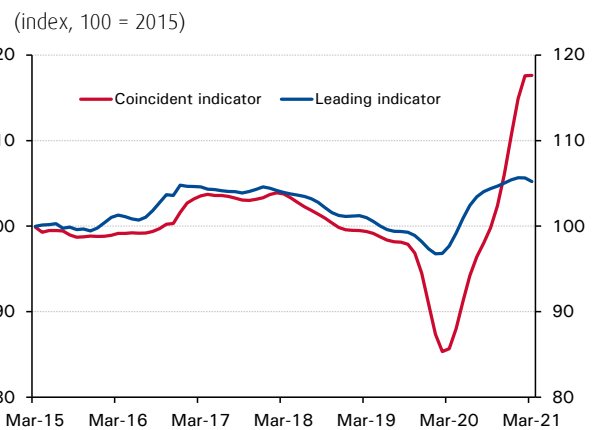
▶ **Chart 1: Real GDP growth**



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%.

Source: Refinitiv

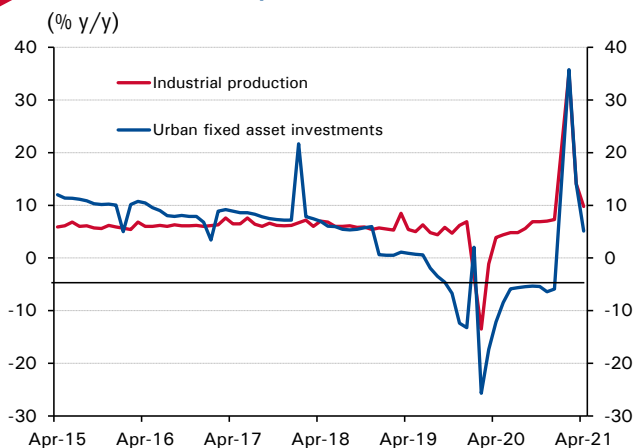
▶ **Chart 2: Macroeconomic climate**



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

Source: Refinitiv

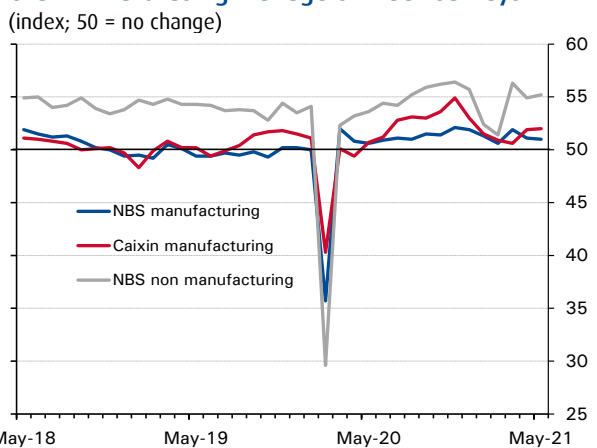
▶ **Chart 3: Industrial production and fixed investment**



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.

Source: Refinitiv

▶ **Chart 4: Purchasing Managers' Index surveys**



PMI survey activity indices have signaled steady if unspectacular growth in recent months, with the services sector outperforming manufacturing.

Source: Refinitiv

Chart 5: Consumer confidence

(index, 100 = no change)

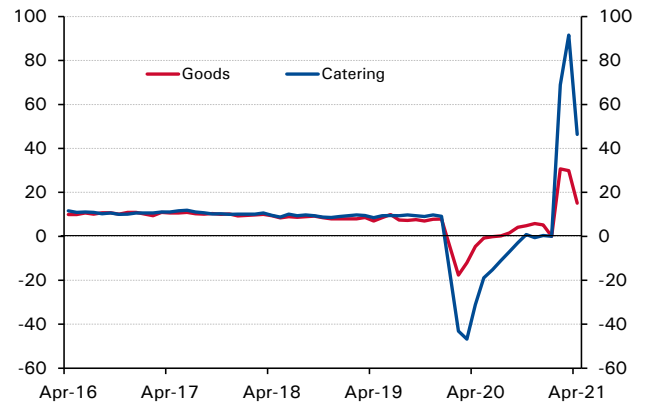


Consumer confidence hit its highest levels since the start of the pandemic last February as the economy reopened. However, confidence decreased in March and April as uncertainty lingers.

Source: Refinitiv

Chart 6: Retail sales

(% y/y)

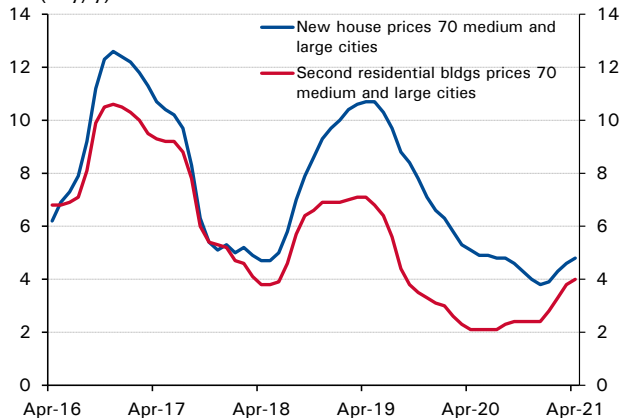


Retail sales recovered during 1Q21 helped by easing restrictions and low bases in 1Q20. Nevertheless, retail sales growth softened in April reflecting uncertain demand conditions.

Source: Refinitiv

Chart 7: House prices 70 medium & large cities

(% y/y)

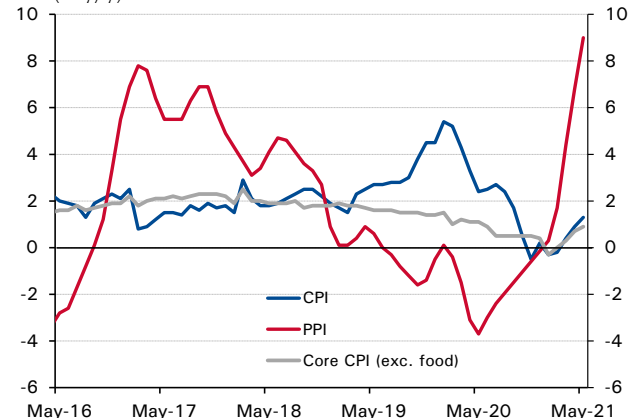


House price growth has picked up, helped by undersupply of homes and stronger buyer enthusiasm. Government-introduced curbs might soften the uptrend in the next months.

Source: Refinitiv

Chart 8: Inflation

(% y/y)

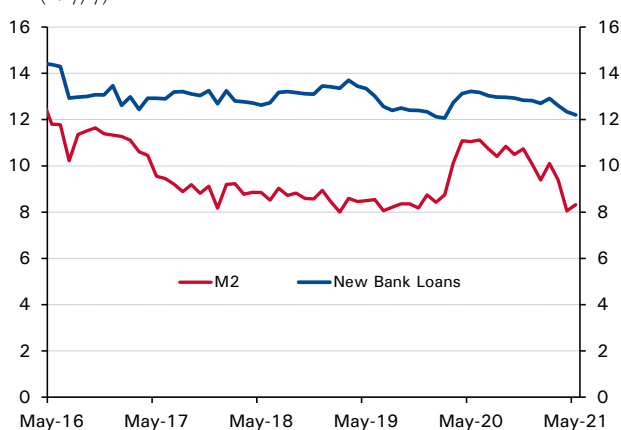


Chinese factory prices rose sharply (9%) in May, highlighting surging commodity prices. CPI grew modestly (1.3%), easing worries of producers passing costs onto consumers.

Source: Refinitiv

Chart 9: Broad money supply & credit

(% y/y)

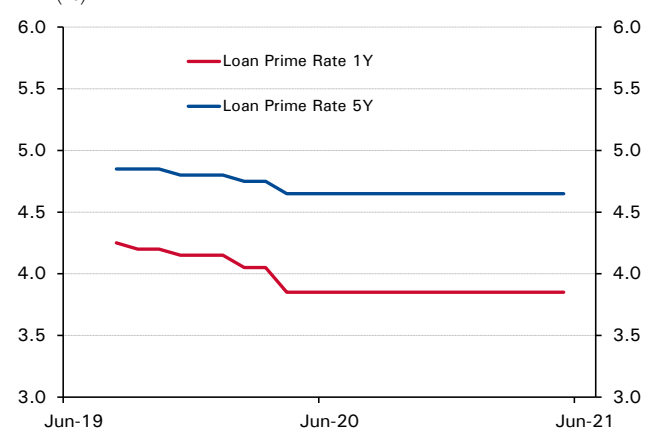


M2 growth slowed to a 21-month low (8.1%) in April as the PBoC cuts back pandemic stimulus policies. Growth in new loans decreased slightly as the PBoC focuses on reining in financial risks.

Source: Refinitiv

Chart 10: Nominal interest rates

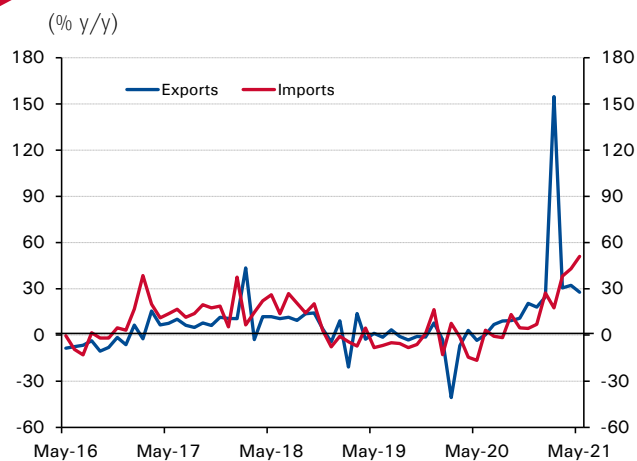
(%)



The central bank left its benchmark interest rates unchanged (1-year 3.85%, 5-year 4.65%) for corporate and household loans for the thirteenth straight month as the economy recovers.

Source: Refinitiv

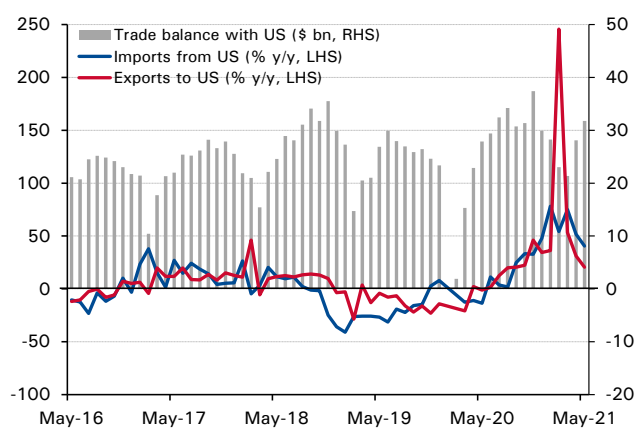
▶ **Chart 11: International trade**



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.

Source: Refinitiv

▶ **Chart 12: Trade with the US**



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 13: Stock Market**



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.

Source: Refinitiv

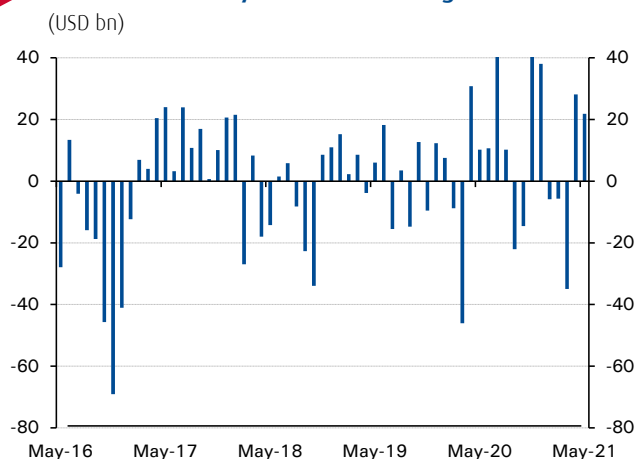
▶ **Chart 14: Exchange rate**



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

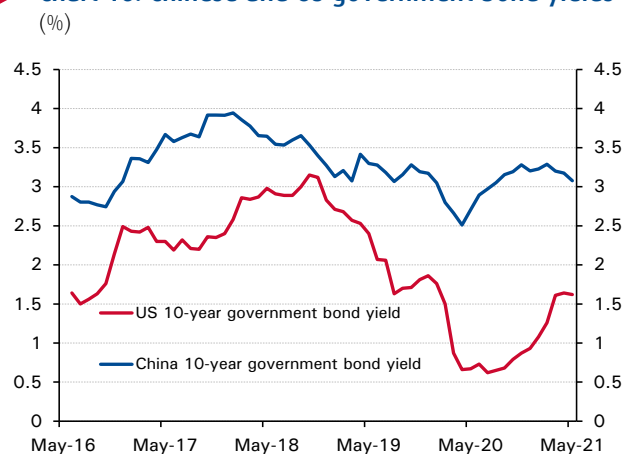
▶ **Chart 15: Monthly FX reserve change**



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.

Source: Refinitiv

▶ **Chart 16: Chinese and US government bond yields**



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

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