

# Chartbook

25 July 2024

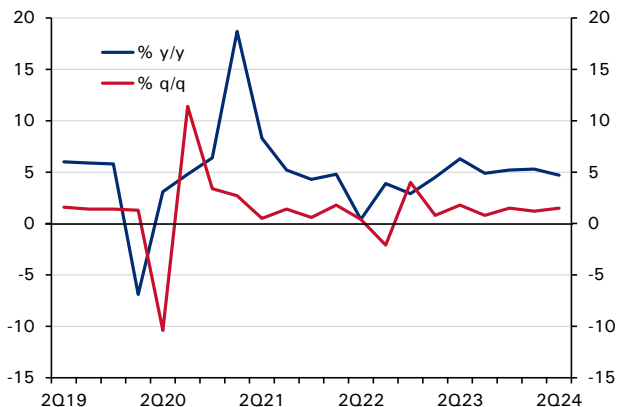


## China: GDP growth softens in Q2, fueling calls for further stimulus

The Chinese economy grew 4.7% y/y in Q2, missing expectations and below the relatively strong 5.3% growth in Q1. With the prolonged real estate crisis, weak domestic demand, a falling yuan, and growing trade tensions with the West, Q2 growth was the lowest since Q1 2023. The monthly data for June painted a weakening picture: growth in retail sales slowed to just 2% y/y, the increase in industrial output decelerated, and import growth turned negative. Moreover, the PMI remained on a downtrend while inflation was the weakest in three months. Given current trends, the government's target of 5.0% growth in 2024 is looking ambitious in the absence of additional worthwhile fiscal/monetary stimulus. Given recent soft macroeconomic data, the People's Bank of China (PBoC) recently cut interest rates by 10 to 20 bps for several of its policy tools, a move that is, on its own, likely not enough to have a major impact.

Meanwhile, a detailed statement was released following the Third Plenum of the Communist Party's 20<sup>th</sup> Central Committee, which mostly rehashed, unsurprisingly, President Xi's policies of pushing the "high-quality development" agenda. The overall sentiment following the meeting was relatively underwhelming as investors/observers were hoping for a slightly stronger push in terms of meaningful reforms that could potentially revive waning private sector and foreign investor confidence. Despite weakening growth, the government has resisted calls for further significant fiscal stimulus. However, the challenging global macroeconomic/political backdrop that is partly related to the increased uncertainty around the US elections may further weigh on the Chinese economic outlook, invigorating calls for bolder policy measures.

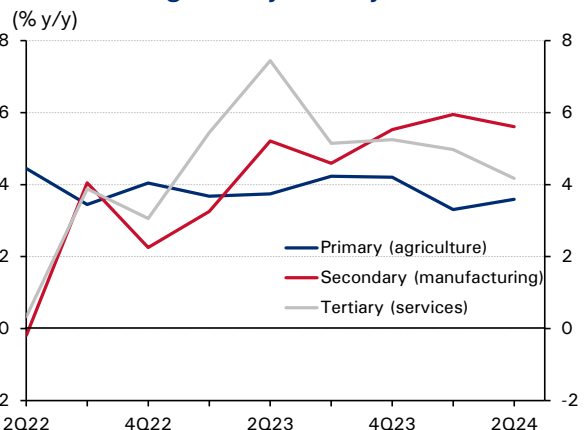
**Chart 1: Real GDP growth**



Growth in Q2 2024 (+4.7% y/y) missed expectations as housing woes continued to weigh on the economy. On a q/q basis, the economy grew 0.7% in Q2 after +1.5% in 1Q.

Source: Haver Analytics

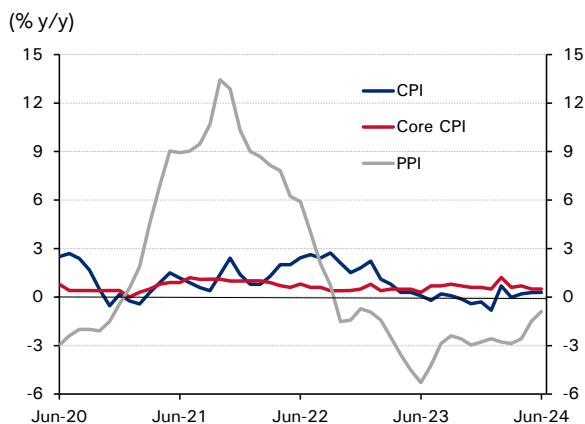
**Chart 2: GDP growth by industry**



For the third straight quarter, growth was led by the manufacturing sector (+5.6% y/y in Q2), followed by the services sector (+4.2%).

Source: Haver Analytics.

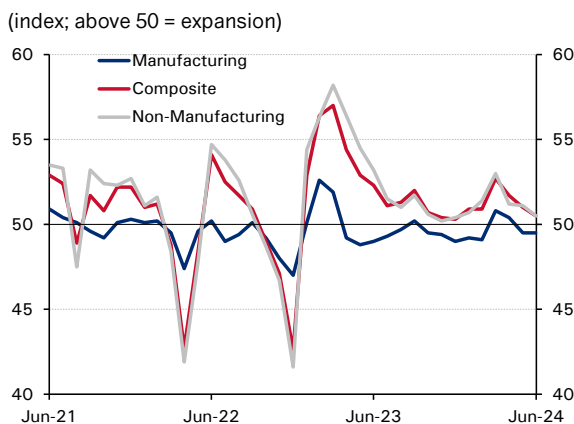
**Chart 3: Consumer and producer price inflation**



CPI inflation stood at 0.2% y/y in June, the slowest rise in three months. PPI deflation eased to 0.8% y/y from -1.4% in May, helped by base effects last year.

Source: Haver Analytics

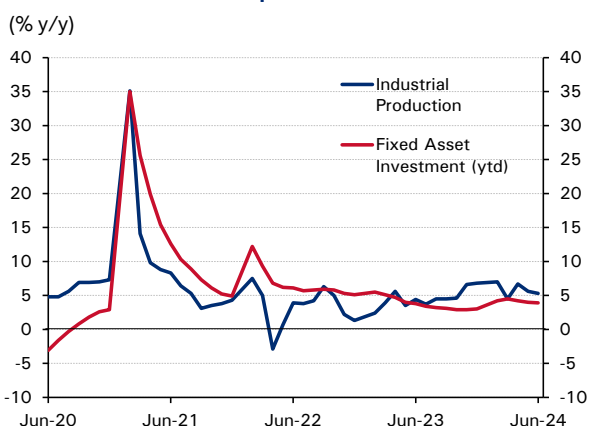
**Chart 4: Purchasing Managers' Index surveys**



PMI readings remained on a downtrend in June, with the composite index reaching its lowest level since December 2023 at 50.5.

Source: Haver Analytics

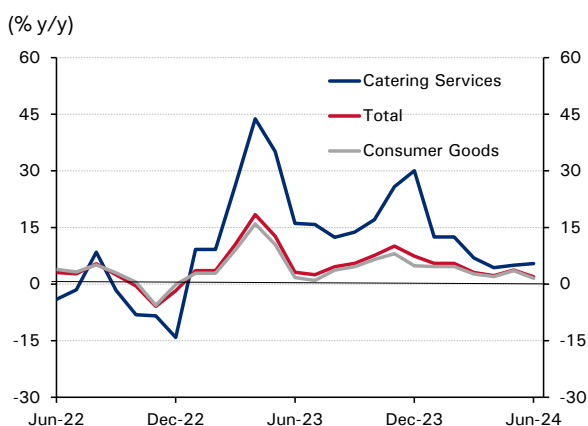
**Chart 5: Industrial output and fixed investment**



Industrial output growth softened to 5.3% y/y in June, highlighting the weakening economic activity while fixed asset investment remained dragged by the property sector.

Source: Haver Analytics

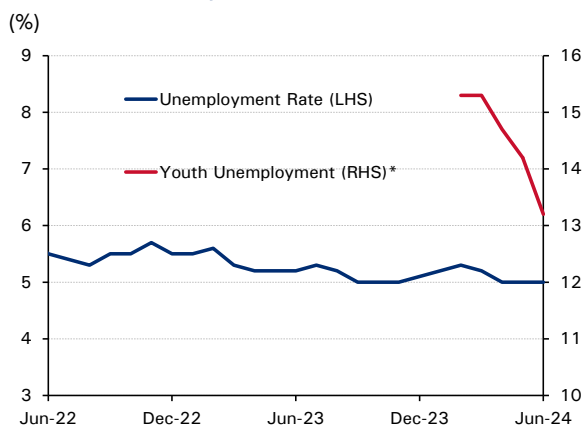
**Chart 6: Retail sales**



Retail sales fell short of expectations in June, up just 2% y/y compared to May's holiday-driven 3.7% annual gain.

Source: Haver Analytics

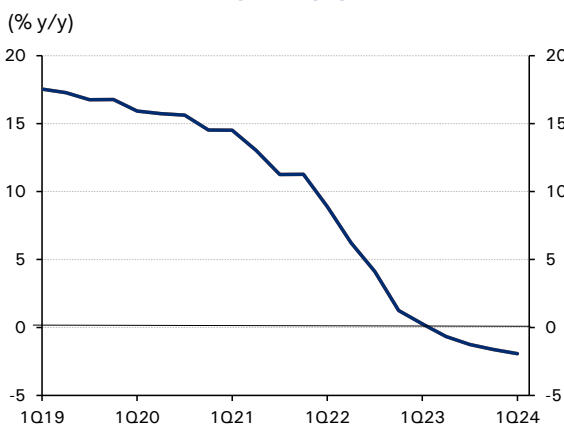
**Chart 7: Unemployment rate**



The unemployment rate was unchanged in June from the 5% recorded in the prior two months. Youth joblessness dropped for the third consecutive month to stand at 13.2%.

Source: Haver Analytics. \*After methodology change; excludes students

**Chart 8: Outstanding mortgages**

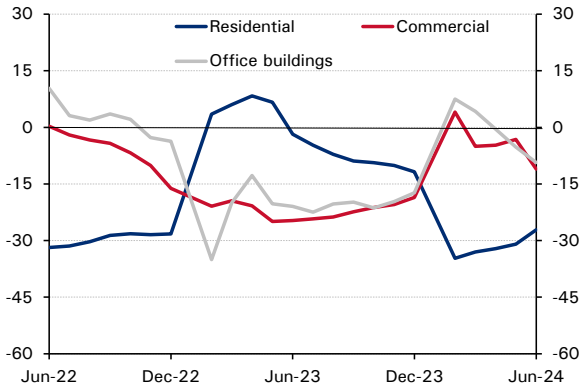


The decline in mortgage credit accelerated to 1.9% y/y through March 2024, as the protracted real estate downturn continued to weigh on demand.

Source: Haver Analytics

**Chart 9: Real estate sales by value**

(% y/y, Cumulative ytd)

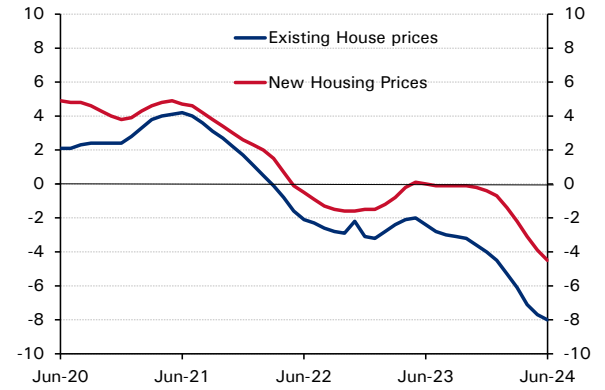


Residential real estate sales continued to drag overall property offtake, though its rate of decline softened slightly to -27% y/y in the first six months of 2024.

Source: Haver Analytics

**Chart 10: House prices in 70 medium & large cities**

(% y/y)

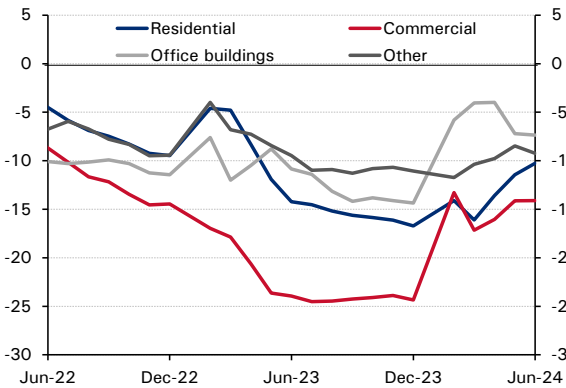


New house prices slid 4.5% y/y in June, the lowest in nine years, increasing pressure on policy makers for more stimulus.

Source: Workspace

**Chart 11: Real estate investment**

(% y/y, Cumulative ytd)

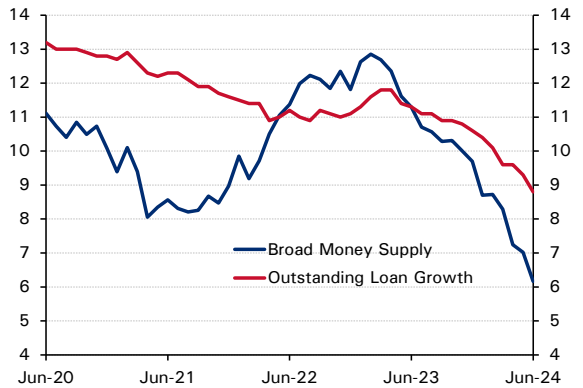


Due to continuous sector deleveraging, real estate investment growth remained negative y/y through June and for each of the four different components.

Source: Haver Analytics

**Chart 12: Money supply (M2) and credit growth**

(% y/y)

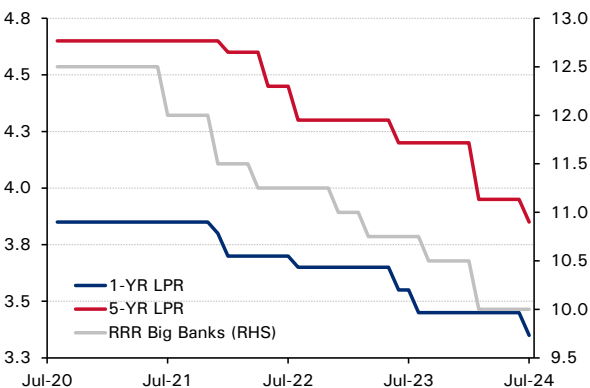


Credit growth fell to 8.8% y/y in June, its lowest on record while money supply growth slowed to 6.2% y/y, nearly half the growth seen at the same time last year.

Source: Haver Analytics

**Chart 13: Interest rates**

(%)

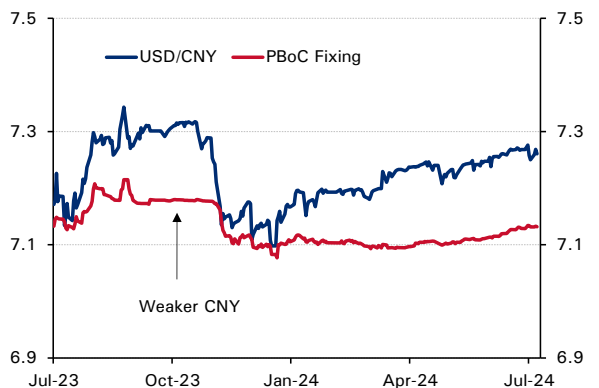


The PBoC unexpectedly cut key interest rates in July, the 1-year LPR was lowered to 3.35% from 3.45%, while the 5-year LPR was reduced to 3.85% from 3.95%.

Source: Haver Analytics

**Chart 14: Dollar-yuan exchange rate**

(USD/CNY)

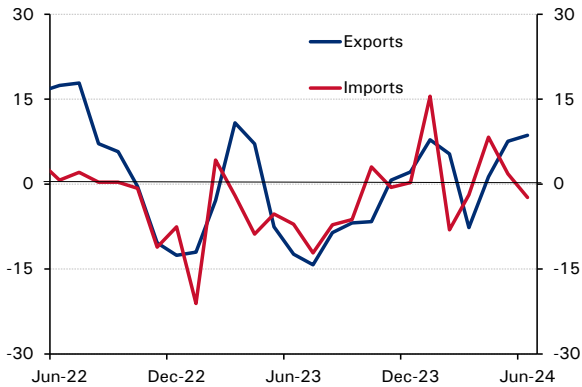


The yuan weakened around 2% ytd against the USD, at least partly driven by the countries' interest rate differential and possibly also due to weakening economic activity in China.

Source: Haver Analytics

**Chart 15: International trade**

(% y/y)

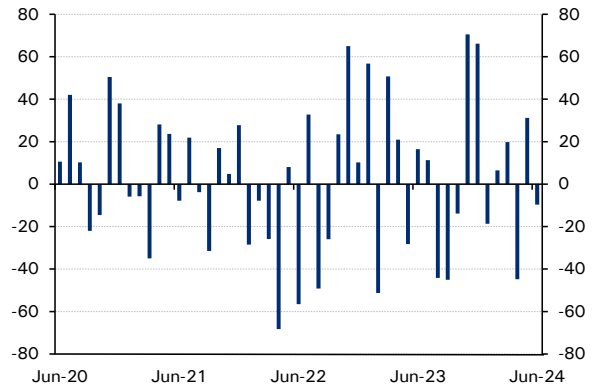


Exports rose 8.6% y/y in June (+7.6% in May), beating expectations while imports fell by 2.3%, after a modest 1.8% rise in May, reflecting weak domestic demand.

Source: Haver Analytics

**Chart 16: Monthly FX reserve changes**

(USD billions)

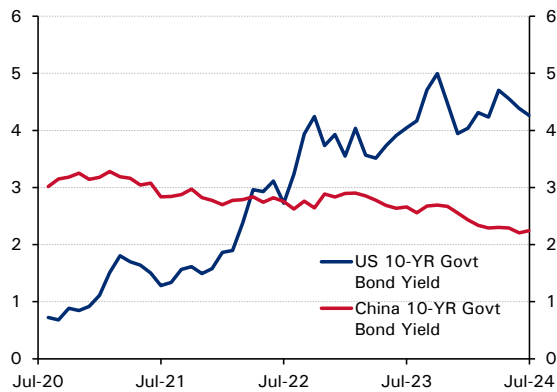


China's foreign currency reserves dropped by \$9.7 billion in June to stand at \$3.222 trillion, as the USD strengthened against other currencies.

Source: Haver Analytics

**Chart 17: China and US government bond yields**

(%)

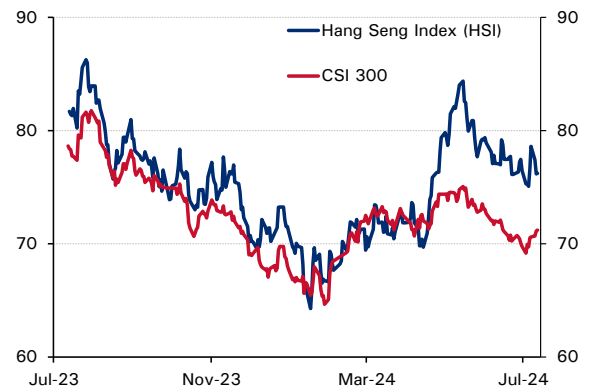


US and Chinese 10-year bond spreads remained wide, in part reflecting the yet-to-change monetary policy divergence and with the relatively weak economic trends in China exerting pressure on Chinese yields.

Source: Haver Analytics

**Chart 18: Stock markets**

(Rebased; 3 January 2022 = 100)



Equity markets have sold off in the past few days, pulling their month-to-date performance to negative territory (as of 24 July) with political developments in the US adding to the volatility.

Source: Haver Analytics

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