CHINA VIEW Expect modest slowdown in the 2H

- **Status of China’s Economic Recovery** - The pace of vaccination accelerated dramatically in China since late May. Around 40 percent of the population is expected to be fully vaccinated by the end of June. Inflationary pressures remain in the picture. PPI inflation climbed to a record high in May but is anticipated to level off in the second half of 2021(2H). Credit growth continues to decline but increasing government bond sales should buoy credit growth in the 2H.

- **Investment Trends** - Real estate investment growth declined marginally in May, while manufacturing investment growth up-ticked. Real estate investment is expected to continue softening. Increasing Government bond sales might see more financial support flow into infrastructure investment in the 2H.

- **Consumption Trends** - Retail sales growth remains significantly lower than the pre-COVID growth level for the same period in 2019. Subdued employment growth is a key drag on consumption recovery.

- **Trade Trends** - China’s export growth slowed in May, probably mainly driven by supply-side disturbances, such as the COVID-outbreak in Guangdong province, semiconductor chip shortages, and massive shipping delays. Global economic recovery should be robust through at least early 2022. But even as external demand strengthens, China should see its share of exports diminish as other countries resume full production. A moderation in export growth is thus expected in the 2H.
Implications for Business

Exports and real estate investment growth have been driving China’s recovery in 2021. As these two drivers moderate, so too will China’s macroeconomy. Both drivers slowed in May. This makes the outlook for a slower 2H more certain. This said, a ramp up in government bond issuance is possible in the 2H. This could usher in more infrastructure spending to buoy growth. This is a spot to watch.

Aside from the aggregate growth, it is worth noting China is making some progress against its industrial plan targets. China “high-tech” industrial investment growth for the first five months of the year is significantly higher than the all-industry average.

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