China surprisingly cuts key rates as economic data disappoint

BEIJING — China's economy unexpectedly slowed in July, data showed on Monday, with factory and retail activity squeezed by Beijing's zero-COVID-19 policy and a property crisis, while the central bank surprised markets with key lending rates cuts to revive demand.

Industrial output grew 3.8% in July from a year earlier, after expanding 3.9% in June, data from the National Bureau of Statistics (NBS) showed. That compared with a 4.6% increase expected by analysts in a Reuters poll.

Retail sales, which only turned positive in June, rose 2.7% from a year ago, greatly missing analysts' forecast for 5.0% growth and below the 3.1% growth seen in June.

The world's second-biggest economy narrowly escaped a contraction in the June quarter, hobbled by the lockdown of the commercial hub of Shanghai, a deepening downturn in the property market and persistently soft consumer spending.

However, risks to growth abound as many Chinese cities, including manufacturing hubs and popular tourist spots, imposed lockdown measures in July after fresh outbreaks of the more transmissible Omicron variant were found.

The property sector, which has been further rocked by a mortgage boycott that weighed on buyers' sentiment, deteriorated in July. Property investment tumbled 12.3% in July, the fastest rate this year, while the drop in new sales deepened to 28.9%.

Chinese policymakers are trying to balance shoring up a fragile recovery and eradicating emerging COVID clusters with the economy expected to miss its official growth target this year — set at around 5.5% — for the first time since 2015.

The employment situation remained fragile. The nationwide survey-based jobless rate eased slightly to 5.4% in July from 5.5% in June, although youth unemployment stayed stubbornly high, reaching a record 19.9% in July. — ***Reuters***

Japan's economy stages modest bounce in Q2 from COVID-19 jolt

TOKYO — Japan's economy rebounded at a slower-than-expected pace in the second quarter (Q2) from a COVID-19-induced slump, data showed on Monday, highlighting uncertainty on whether consumption will grow enough to bolster a much-delayed, fragile recovery.

While rising consumption propped up April-June growth, the outlook has been clouded by a resurgence in infections, slowing global growth, supply constraints and rising raw material prices that are boosting households' living costs.

"Consumption and capital expenditure will continue to drive growth in July-September. But momentum may not be that strong as rising inflation is cooling household spending," said Atsushi Takeda, chief economist at Itochu Economic Research Institute.

"While domestic demand may continue to expand, falling exports could put a brake on Japan's recovery," he said.

The world's third-largest economy expanded an annualized 2.2% in April-June, government data showed, marking the third straight quarter of increase but falling short of median market forecasts for a 2.5% gain. It followed a revised 0.1% rise in gross domestic product (GDP) in January-March, when surging COVID cases hurt spending.

The growth was driven largely by a 1.1% gain in private consumption, the data showed, as businesses re-opened after the lifting of pandemic-related curbs on economic activity.

The rise in consumption, however, was smaller than market forecasts for a 1.3% increase. Wage earners' remuneration during April-June, adjusted by inflation, fell 0.9% from the previous quarter, a deeper drop than a 0.1% fall in January-March in a sign rising living costs were hurting household income.

Capital expenditure, another key driver of April-June growth, increased 1.4% from the previous quarter, exceeding a median market forecast for a 0.9% expansion, the data showed.

Domestic demand added 0.5% point to GDP growth, while external demand neither added to, nor shaved off from growth.

Japan has lagged other major economies in fully recovering from the pandemic's hit due to weak consumption, blamed in part on curbs on activity that lasted until March.

That has turned the Bank of Japan (BoJ) into an outlier in the global monetary tightening phase sweeping across many economies amid surging inflation.

Policymakers hope pent-up demand will underpin consumption until wages rise enough to make up for increasing living costs. But there is uncertainty on whether companies will hike salaries amid heightening risks of slowing global demand, analysts say.

The BoJ has stressed its resolve to maintain ultra-loose monetary policy even as inflation exceeded its 2% target for three straight months in June, to ensure the economy makes a sustained recovery driven by solid consumption and wage growth. — ***Reuters***