

China Flash

Rebound in Q3 GDP in line with expectations, with momentum in the near term likely to be sustained

Third quarter GDP growth picked up to 7.8% y/y (BBVA: 7.7%; consensus: 7.8%) from 7.5% in the previous quarter, led by domestic demand (Chart 1 of download version). In sequential terms growth picked up to 2.2% q/q sa from 1.9% in Q2, according to official data. However, activity indicators for September released today and earlier this week show a slight moderating trend, especially for exports, suggesting that growth may be flat in the coming quarters, consistent with our expectation of full-year growth of 7.7% and 7.6% in 2013 and 2014, respectively. We expect growth momentum to be sustained through the first half of 2014, but to trend down thereafter as recent mini-stimulus measures wear off. This outlook, however, is subject to downside as the authorities curtail rising financial fragilities associated with rapid credit growth, and as they implement reforms to rebalance growth over the medium term.

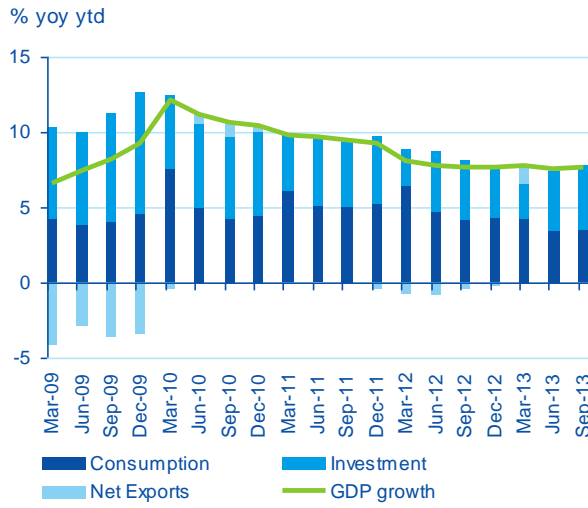
- **Q3 GDP growth was led by investment and consumption.** Based on figures provided during the NBS press conference today, we estimate that Q3 growth was led by investment (4.7 pts), followed by consumption (3.7 pts). Given strong import growth, the contribution of net exports was negative (-0.5 pts), but less so than in Q2 (-0.8 pts) as export growth improved. Strong investment was due to continued public infrastructure spending as well as a noticeable pickup in private manufacturing.
- **September activity indicators show slight moderating trend.** Coming off of the strong outturns in August, the September activity indicators eased somewhat but nevertheless remained robust. On the supply side, industrial production growth eased to 10.2% y/y (consensus: 10.2%) from 10.4% in August (Chart 2). On the demand side, urban fixed asset investment growth remained steady at 20.2% y/y (consensus: 20.3%) from 20.3% in August as a pickup in private investment offset a slowdown in public infrastructure spending (Chart 3). Retail sales growth was also broadly flat, at 13.3% y/y (consensus: 13.5%) from 13.4% in August (Chart 4). Most concerning to us was weaker-than-expected export growth for September (-0.3% y/y vs. consensus: 5.5%), released on October 12, due to a slowdown in demand from ASEAN economies (Chart 5). However, export trends over recent months have been generally encouraging on improving demand from the US and EU; also, the monthly data are volatile and subject to distortions from over invoicing during the same period last year.
- **Credit growth remains strong** (Chart 6), with new bank loans, as reported on October 14, rising by RMB 787 bn (consensus: 675 bn) and total social financing, the broadest measure of credit, rising by RMB 1.40 tn (consensus: 1.35 tn). While supportive of economic activity, the robust credit growth is an increasing concern given the build-up of debt and rapid rise in housing prices. This may constrain the authorities' willingness to ease monetary policy in the period ahead, and we do not currently expect changes in interest rates of the RRR in the coming year.

Stephen Schwartz
stephen.schwartz@bbva.com.hk
+852 2582 3218

Fielding Chen
fielding.chen@bbva.com.hk
+852-2582-3297

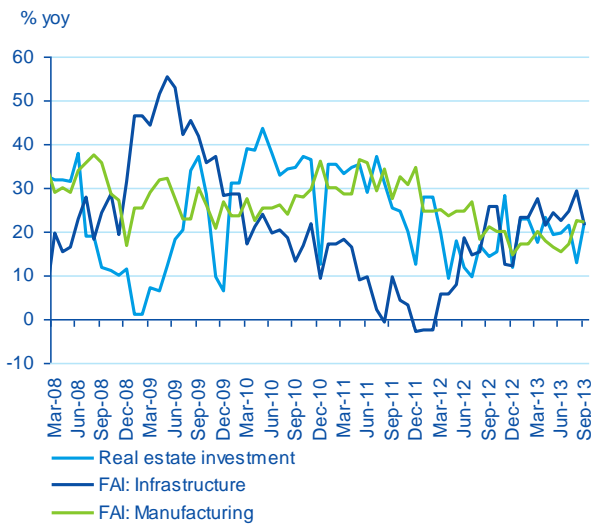
George Xu
george.xu@bbva.com.hk
+852-2582-3121

Chart 1
GDP growth has picked up after bottoming in Q2...



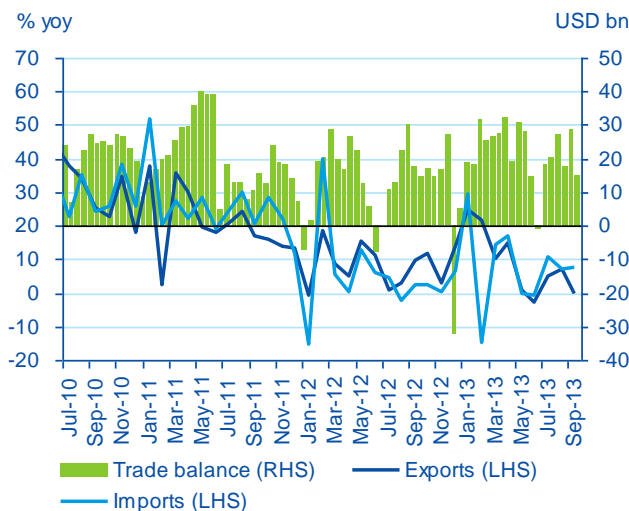
Source: CEIC and BBVA Research

Chart 3
Manufacturing investment has picked up



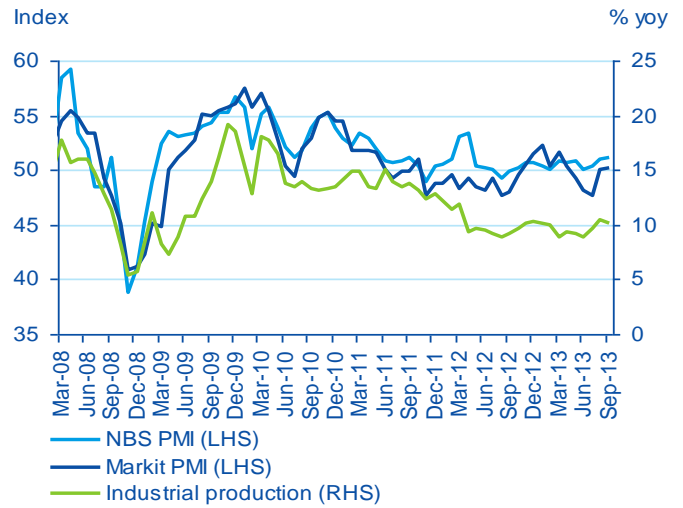
Source: CEIC and BBVA Research

Chart 5
Exports weakened in September, as imports remained strong on robust domestic demand



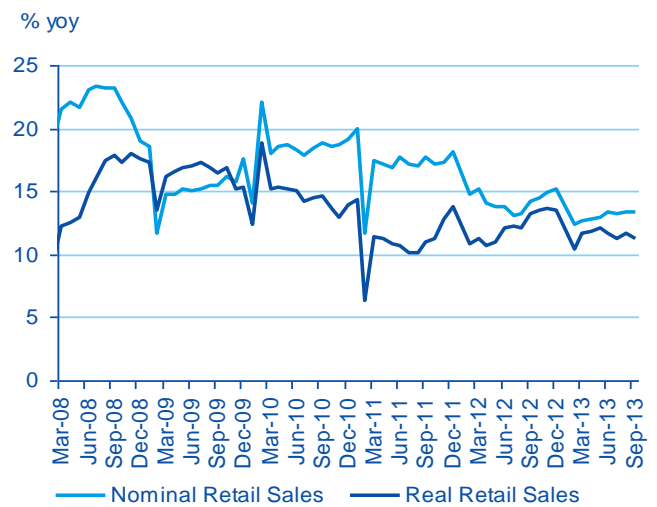
Source: CEIC and BBVA Research

Chart 2
Industrial production eased a little in September



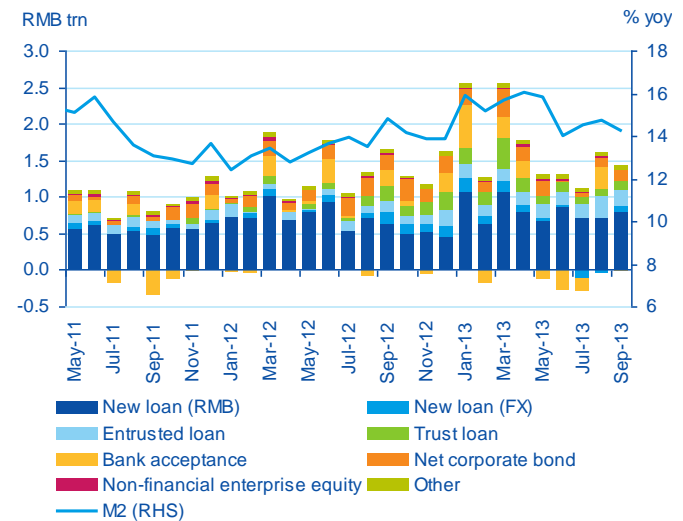
Source: Wind and BBVA Research

Chart 4
Retail sales growth is broadly flat



Source: Wind and BBVA Research

Chart 6
Credit growth remains on the high side



Source: CEIC and BBVA Research

Before you print this message please consider if it is really necessary.

This email and its attachments are subject to the confidentiality terms established in the corresponding regulations and are intended for the sole use of the person or persons indicated in the header. They are for internal use only and cannot be distributed, copied, conveyed or furnished to third parties without prior written consent from BBVA. If this message has been received erroneously, it is forbidden to read, use or copy any of the contents and you are asked to inform BBVA immediately by forwarding the email to the sender and eliminating it thereafter.