



Economic Observatory

11 December 2009

China November economic data: upside surprise in output, CPI inflation in line with our forecast

- China industrial output grew much faster than market expectations and has already restored to pre-crisis level. Fixed asset investment growth continued to slow down albeit still at high levels. Retail sales slowed down a bit but it is expected to gain traction as central economic policies put more stress on boosting consumption.
- Export growth year-on-year decline narrowed sharply and is expected to make a major contribution in Q4 GDP growth acceleration.
- CPI inflation turnaround to positive year-on-year growth largely reflected a jump in food prices, but the November figure remained in line with our forecast.

1. Industrial output growth faster than expected

The overall industrial production accelerated to 19.2% yoy, above market's expectations (Bloomberg: 16.5% yoy) and faster than 16.1% yoy last month (Chart 1.1). This is, however, consistent with the expansion reflected by the purchasing manager index (PMI: 55.2 above 50-level threshold) released earlier. The underlying trend in industrial production has been accelerating in the last few months, on the back of a lower statistical base and a faster growth of domestic demand. Industrial output growth momentum is expected to continue into 2010.

By industry, heavy industry surprised the market with a 22.2% yoy expansion in November, even faster than 18.1% yoy in October. Meanwhile, light industry rose by 12.6% yoy also accelerating from 11.3% yoy last month (Chart 1.2). Going forward, policymakers' focus on reducing investment-led growth together with a more robust recovery in external demand, they are likely to favour a faster growth of light industry output and some slowdown in heavy industry production.

2. Fixed asset investment (FAI) slowed down

During the month, expansion in both nominal and real urban fixed asset investment slowed down. Nominal FAI

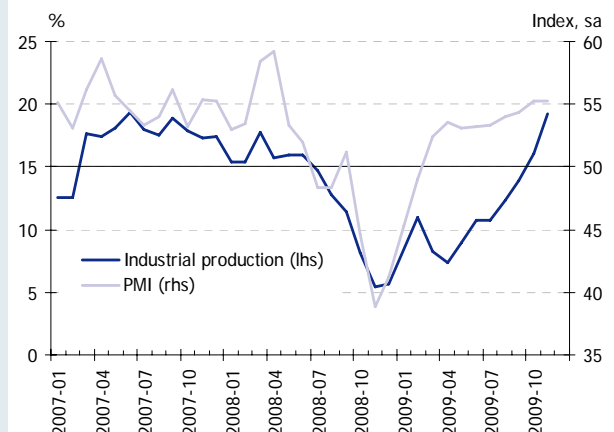
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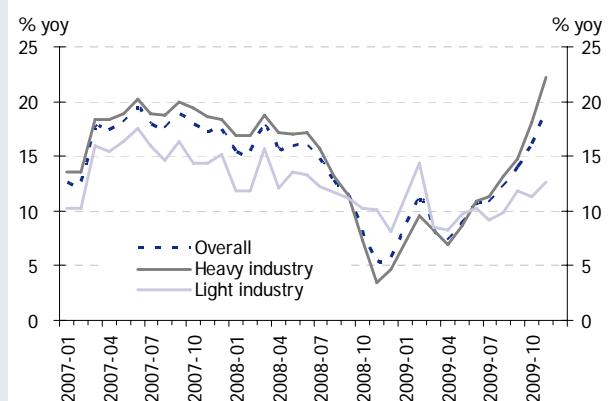
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Chart 1.1: Industrial production and NBS PMI



Source: National statistics and HSBC.

Chart 1.2: Industrial Production by sector



Source: CEIC.

registered 24.3% yoy in November vs 31.6% yoy in October and real FAI came in at 26.9% yoy vs 39.8% yoy (Chart 2). For the January to November period, nominal FAI growth slowed down a bit to 32.1% yoy, compared to 33.1% yoy in the first ten months in 2009.

Looking ahead, FAI growth will continue to slow down mildly, on the back of a high base of comparison and more control on the approval of new investment projects.

3. Retail sales slowed a bit

Nominal retail sales climbed by 15.8% yoy in November, marginally down from 16.2% yoy last month, while real retail sales growth slightly slowed to 15.1% yoy from 16.8% yoy. Among the larger items, sales of automobile grew 61.5% yoy growth benefiting from government's subsidies to auto purchases.

Further, the government has decided to extend the current tax cuts and subsidies for purchases of small vehicles and home appliances in order to support consumption spending.

4. External sector improved rapidly

Exports year-on-year contraction narrowed sharply, falling the least in 13 months, with only -1.2% yoy drop compared to its contraction of -13.8% yoy in October. Meanwhile, imports soared by 26.7% yoy compared to -6.4% yoy in October. This caused China's trade surplus to narrow down to US\$19.1 billion from US\$24.0 billion last month (Chart 4).

The upbeat trend of the external sector seems on a solid footing, even after Dubai's recent debt crisis cast some shadows on the strength of the global economic recovery. Chinese exports are likely to return to positive yoy growth starting from December. However, export growth is not likely to resume to its normal level seen from 2007 yet.

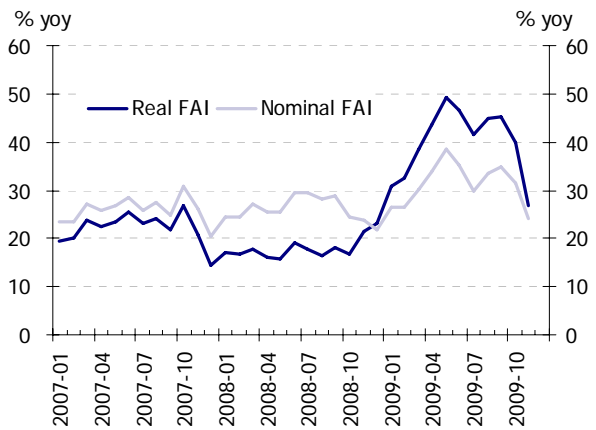
5. CPI inflation turned around as we expected

In line with our forecast, consumer price index rose by 0.6% yoy (BBVA: 0.64%) in November, faster than market's expectation (Bloomberg: 0.4% yoy) and reverting from -0.5% yoy fell of last month. This is the first increase after 10 consecutive months of deflation. The increase was partly driven by a jump in food prices caused by heavy snow in North China. Moreover, the fuel price hike also contributed to the CPI rise. Albeit the weight of fuel prices in the CPI basket is low at 1.2%, its spillover effect is likely to have a lagged upward effect on the overall CPI.

Food prices accelerated to 3.2% yoy compared to 1.6% yoy in October and contributed 1.1 percentage points to yoy headline CPI growth. As for non-food prices, the deflationary trend slowed down to -0.7% yoy from -1.6% yoy in October, and shaved off the headline figure by 0.5 percentage points (Chart 5.1).

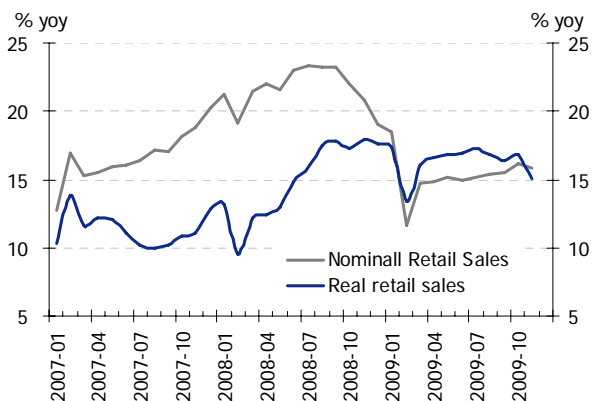
In line with the CPI trend, the contraction in production price

Chart 2: Fixed Asset Investment (FAI)



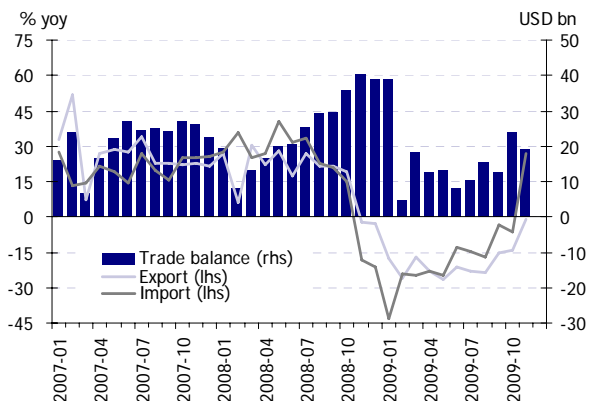
Source: CEIC.

Chart 3: Retail Sales



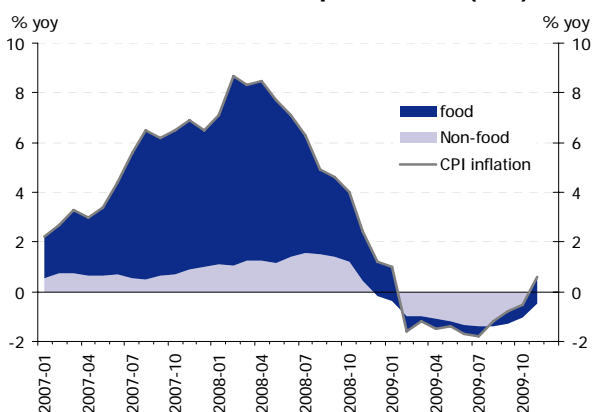
Source: CEIC.

Chart 4: External Trade



Source: CEIC.

Chart 5.1: Consumer price index (CPI)



Source: CEIC.

index (PPI) narrowed further to -2.1% yoy this month from -5.8% yoy in October. With the fast recovery in raw materials prices, it's quite likely that PPI will also revert to positive growth from December onwards (Chart 5.2).

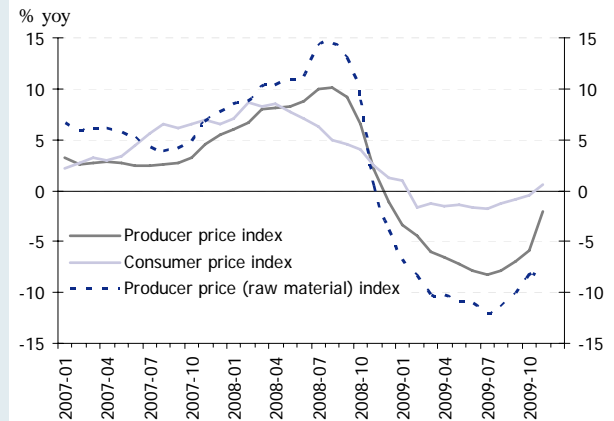
Going forward, CPI inflation is likely to remain subdued in the first half of 2010, but accelerate in the second half due to the lagged effect of ample domestic liquidity and a lower base of comparison over a year ago.

6. Loans and M2 growth stabilized

New bank loans issued totalled RMB 294.8 billion yuan in November, rebounding from this year-bottom of RMB 253.0 billion yuan in October. As of November, financial institutions extended loans grew by 33.8% yoy, slowing down a bit from 34.2% yoy in October. The monetary aggregate M2 growth remained steady at 29.7% yoy in November from a 29.4% yoy rise last month. Historically, loan issuance decelerates towards the end of the year, therefore, new lending in December is likely to remain subdued at around RMB 250-300 billion.

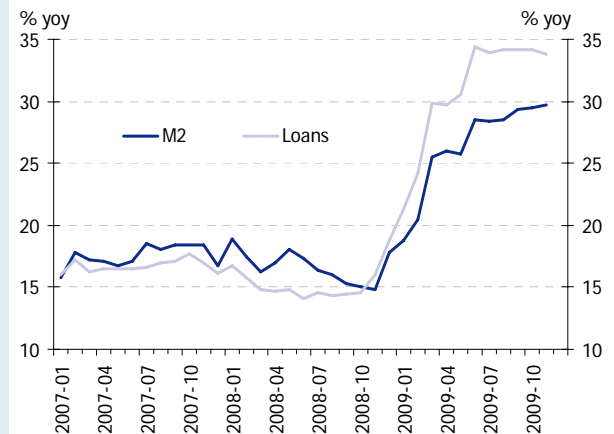
Early 2010, credit growth is likely to rebound at a gradual and mild pace. In full year 2010, the new bank lending should eventually normalize to Rmb7-8 trillion, lower than that of 2009 estimated around Rmb9-10 trillion.

Chart 5.2: Production price index (PPI)



Source: CEIC.

Chart 6: M2 and Loans



Source: CEIC.