

# Flash

China

## China: Third quarter GDP and activity indicators are in line with a soft landing

China's third quarter GDP growth was released today, showing a further moderation in growth to 9.1% y/y (BBVA: 9.2% y/y; consensus: 9.3%), slightly below consensus and down from 9.5% y/y in the second quarter. On a sequential basis, quarterly growth was still quite strong, at 2.3% q/q seasonally adjusted (9.5% annualized). Other monthly activity indicators released today also showed strength, with retail sales, industrial production, and fixed asset investment, all above consensus. The outturns are broadly consistent with our 9.2% annual growth projection for 2011, although uncertainties to the global outlook pose downside risks to our 8.9% growth projection for 2012. With inflation and growth moderating in line with expectations, we believe monetary policy will remain on hold for the next few months. We anticipate support for the economy from fiscal measures and a relaxation of credit policies to SMEs.

- **Q2 GDP growth eased to 9.1% y/y (BBVA: 9.2%; consensus: 9.3%) from 9.5% y/y in the second quarter, continuing to track our Real Activity Indicator closely (Chart 1).** According to the National Bureau of Statistics' (NBS), the economy grew by 9.5% q/q (SAAR), down from 10.0% q/q (SAAR) in Q2. The moderation in year-on-year growth in our view reflects the impact of previous tightening measures, a dampening effect from slowing property prices and rising debt burdens of SMEs, as well as a gradual slowdown in export growth. Nevertheless, the robust outturn should help to keep risks of a hard landing at bay. Although there is some modest downside risk, our previous annual growth projection of 9.2% appears on track, assuming a Q4 outturn of 8.7%y/y.
- **Robust growth momentum is also reflected on the readings of other activity indicators for September.** On the demand side September retail sales growth rose to 17.7% y/y (consensus: 17.0%), up from 17.0% y/y in August (Chart 2). Urban fixed asset investment (YTD) grew by 24.9% y/y (consensus: 24.8%) up from 22.9% y/y in August (Chart 3). On the supply side, industrial output increased to 13.8% y/y in September (consensus 13.3%) from 13.5% y/y in August. Taken together, the data show both strong production and domestic demand conditions for the month of September.
- **Money and credit data released last week show a further tightening of financing conditions.** New loans in September came in at RMB 470.0 billion (consensus: RMB 550.0 billion), down from RMB 548.5 billion in August, implying year-on-year credit growth of 15.9%. That said, new loans for first three quarters were RMB 5.7 trillion, in line with what we believe to be the authorities' (unannounced) full-year target of RMB 7.0-7.5 trillion. M2 growth in September further slipped to 13.0% y/y from 13.5% y/y in August, well below market consensus of 14.0%, possibly reflecting a shift in deposits toward higher yielding wealth management products.
- **On the external front, September trade data released last week registered weaker-than-expected export and import growth, in contrast to the otherwise robust set of indicators noted above.** The trade surplus shrank to USD 14.51 billion (consensus: USD 16.35 billion). Export growth in September was 17.1% y/y (consensus: 20.4%), down from 24.5% in August, mainly due to the weaker demand from EU, Japan, and the US. Import growth was 20.9% y/y in September (consensus: 23.9% y/y), sharply down from the previous month's strong reading of 30.2% y/y. The decline could have reflected lower commodity prices, with import volumes likely remaining strong. In addition, foreign exchange reserves for September were essentially flat at USD 3.2 trillion, mostly likely due to valuation effects from currency fluctuations.

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