China Flash

GDP growth defies gravity at 8.9% y/y Q4

While China's GDP growth continues to moderate, the just-released fourth quarter outturn beat expectations at 8.9% y/y (BBVA: 8.2%; consensus: 8.7%), bringing full year growth for 2011 to 9.2% y/y (Charts 1 and 2). The resilient outturn appears due to continued strength of domestic demand, fuelled in part by a shift to a more expansionary policy stance during the quarter. This was underscored by today's release of better-than-expected December data on retail sales (18.1% y/y vs. consensus: 17.1%); industrial production and fixed asset investment also performed well (Charts 3 and 4). Today's data should help ease concerns of a rapid deceleration in China's growth, which have been heightened in recent weeks by declines in PMI indicators and weak imports. Going forward, we expect a further gradual moderation of growth in the first half of 2012, underpinned by additional monetary and fiscal policy support to offset downside risks from the weakening external environment. We anticipate 150-200bps of cuts in the RRR in the coming months, followed by up to two interest rate cuts toward the middle of the year.

- **Q4 GDP growth eased to 8.9% y/y from 9.1% y/y in the third quarter (Chart 1).** On a sequential basis, official quarterly growth moderated to 2.0% seasonally adjusted (8.2% annualized rate) from 2.3% in Q3.
- **For the year as a whole, GDP growth moderated to 9.2% (BBVA: 9.1%**). A rising contribution of consumption and investment helped offset a negative contribution from next exports. Although there are downside risks, our growth projection of around 8.5% for 2012 appears broadly on track. We expect growth to moderate in the first half of the year, and to recover thereafter from the effects of more expansionary policies, and assuming an improvement in the external environment.
- **December activity indicators were robust.** On the demand side, December retail sales growth rose to 18.1% y/y (consensus: 17.1%; BBVA: 17.3%), from 17.3% y/y in November. Urban fixed asset investment growth (YTD) eased to 23.8% y/y (consensus: 24.1%) from 24.5% y/y in November. On the supply side, industrial output growth rose to 12.8% y/y (consensus: 12.2%; BBVA: 12.0%) from 12.4% y/y in November. Taken together, the data show strong production and domestic demand conditions for the month of December. We caution, however, that the December data may be sensitive to seasonal effects from the forthcoming Chinese New Year holiday, resulting in some possible forward shifts in production and consumption (the holiday this year will occur in January rather than February last year).

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Chart 1
GDP growth continues to moderate at a gradual pace

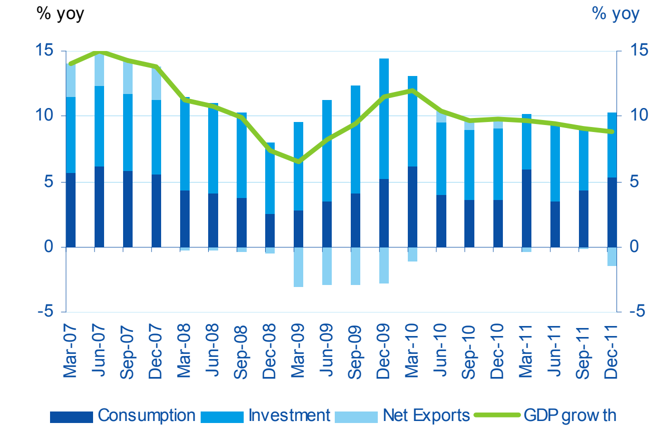


Chart 2
Full year growth underpinned by strong domestic demand

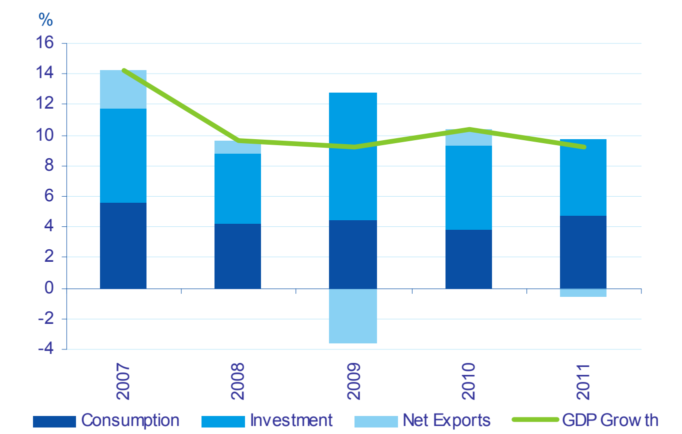


Chart 3
Rising retail sales reflect strong consumption

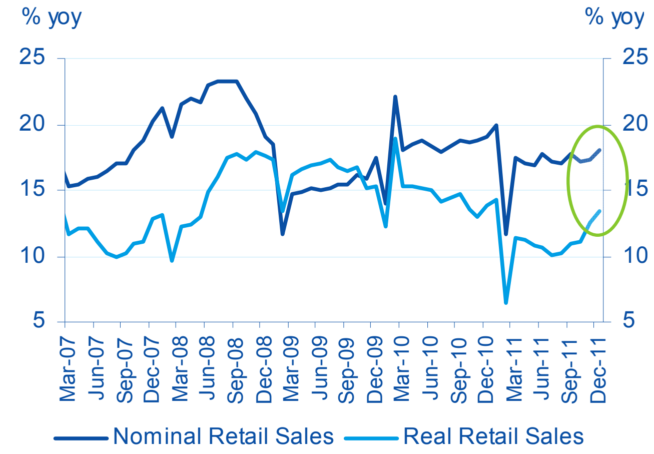
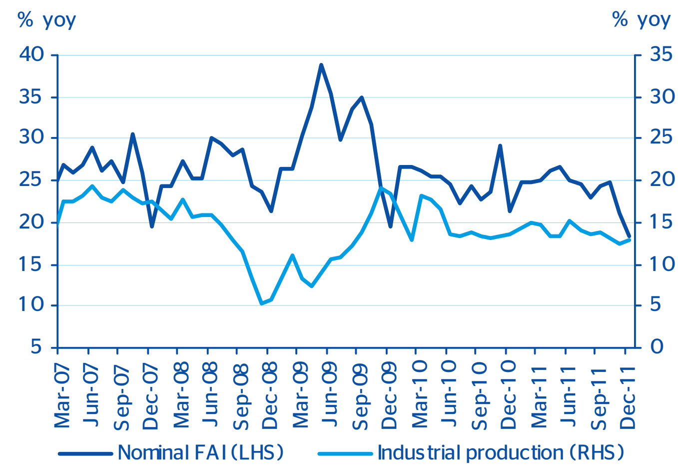


Chart 4
Industrial production is robust



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