

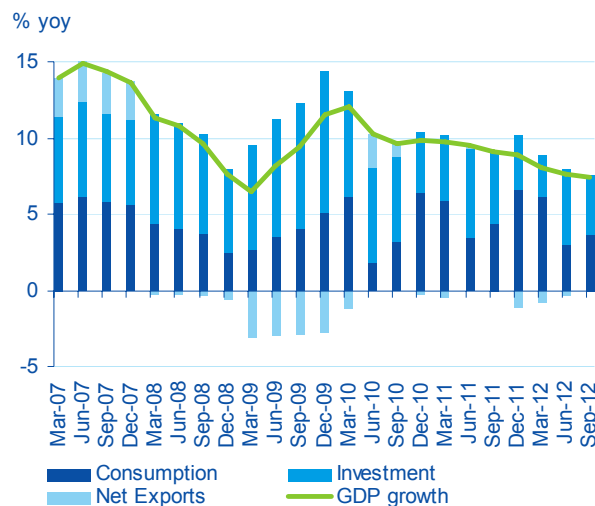
China Flash

Q3 GDP growth slows as expected, while positive September activity indicators suggest momentum has bottomed out

Q3 GDP growth continued to slow, to 7.4% y/y from 7.6% y/y in Q2, exactly in line with our and market expectations (Chart 1). Meanwhile, monthly activity indicators for September (Charts 2-4) and officially reported quarterly GDP growth (which picked up to 2.2% in Q3 from 2.0% in Q2, seasonally adjusted), also released today, were better than expected, raising confidence that the slowdown in growth momentum has probably bottomed out. On the demand side, it appears that growth in Q3 was supported by domestic consumption and net exports. While it is too early to say whether this trend will be sustained, all the more so given uncertain external conditions, the stabilization in growth trends may partly reflect the positive effects of policy easing put in place earlier this year. Given room for further stimulus (inflation remains low at just 1.9% y/y in September) and risks to the growth outlook, we expect further easing in the months ahead, including another interest rate cut and two more RRR cuts, especially after the leadership selection process is completed in November. On this basis, we expect full-year GDP growth in 2012 and 2013 of 7.6% and 7.9%, respectively, slightly below our previous projections (7.8% and 8.3%, respectively).

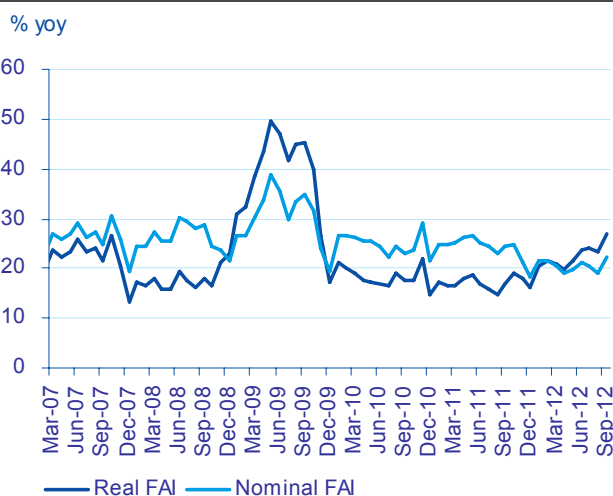
- **Q3 GDP growth eased to 7.4% y/y from 7.6% y/y in the previous quarter** (consensus: 7.4%; BBVA: 7.4%). On a sequential basis, officially reported quarterly growth increased to 2.2% seasonally adjusted (9.1% annualized) from 2.0% in Q2 (8.2% annualized). Our own calculation of seasonally adjusted quarterly GDP confirms the rising trend, albeit at lower level, to 1.8% in Q3 from 1.7% in Q2. Based on official comments on the contribution to growth, we estimate that domestic consumption contributed 3.7ppts, capital formation 3.9ppts, and net exports 0.0ppts (compared to 3.0ppts, 5.0ppts, and -0.4ppts in Q2, respectively). This suggests that domestic consumption and net exports offset some weakening in overall investment for the quarter.
- **Activity indicators in September exceeded expectations.** On the demand side, retail sales growth came out at 14.2% y/y (consensus: 13.2%; BBVA: 13.3%), up from 13.2% in August, and urban fixed asset investment growth picked up to 20.5% (ytd) (consensus: 20.2%; BBVA: 20.3%) from 20.2%. On a monthly basis, we estimate that fixed asset investment growth in September increased to 22.2% y/y, from 19.1% y/y in August. On the supply side, industrial output grew by 9.2% y/y in September (consensus: 9.0%; BBVA: 8.7%) from 8.9% in August. The data follow recent additional signs of a pickup, including an upturn in PMI, loan growth, and exports (see our recent [China Flash](#) for details).
- **Residential property prices continue to rise, but at a moderating pace.** The NBS also released monthly property price data today for the usual set of 70 cities (Charts 5 and 6). The number of cities reporting new home sales price increases fell to 31 from 36 the previous month. We estimate that national property prices increased by 0.05% m/m in September (-1.5% y/y), slightly down from 0.07% in August (-1.8% y/y). Sales growth volumes also remained positive, albeit down from the previous month. The data confirm the ongoing pickup in the property market since June, even as tightening measures remain in place.

Chart 1
GDP growth in Q3 falls to a three-year low



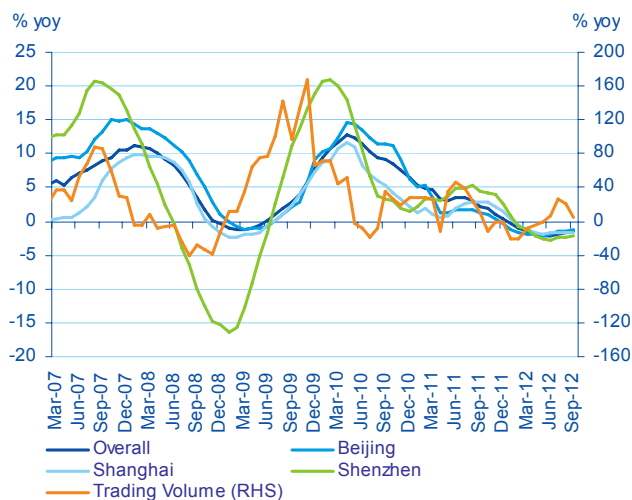
Source: CEIC and BBVA Research

Chart 3
... and fixed asset investment is picking up



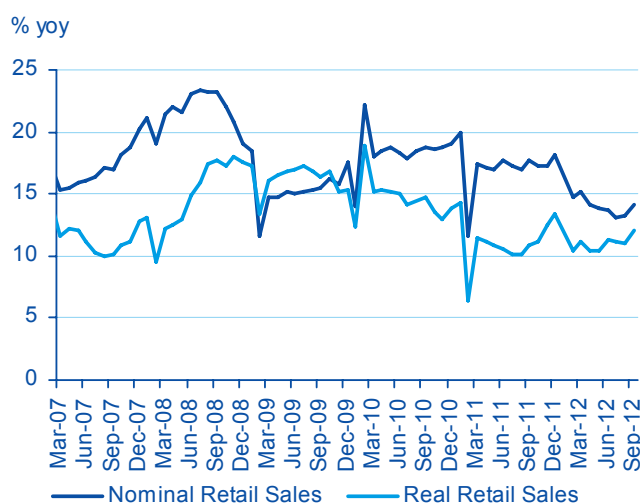
Source: CEIC and BBVA Research

Chart 5
Sales volumes and prices have begun to pick up



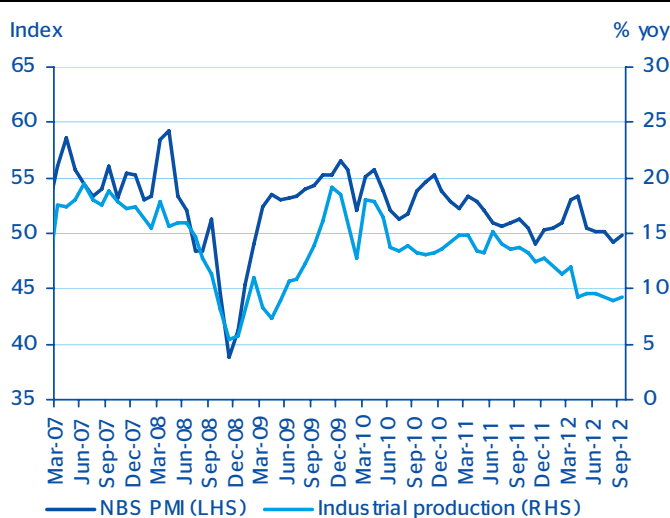
Source: CEIC and BBVA Research

Chart 2
Retail sales growth strengthened in September...



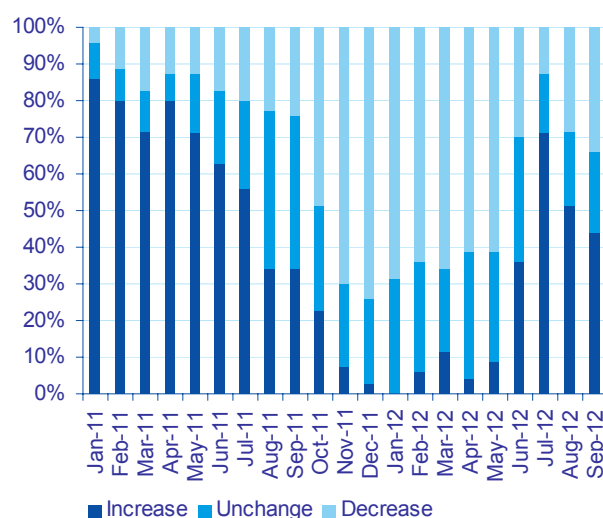
Source: CEIC and BBVA Research

Chart 4
Industrial production and PMI are stabilizing



Source: CEIC and BBVA Research

Chart 6
Housing prices increased for half of the cities surveyed



Source: CEIC and BBVA Research