20 January 2014

Flash Comment

China: Growth losing momentum but slowdown is expected to be moderate

- China's GDP growth in Q4 13 eased slightly to 7.7% y/y (Consensus:7.6% y/y, DBM: 7.6% y/y) from 7.8% y/y in Q3 13. Seasonally adjusted GDP in Q4 13 expanded 1.8% q/q (Consensus: 2.0% q/q, DBM: 1.8% q/q) after increasing 2.2% q/q in Q3 13. For 2013 as a whole GDP growth was 7.7%, similar to China's GDP growth in 2012.
- Industrial production in December eased to 9.7% y/y (Consensus: 9.8% y/y, DBM, 9.7% y/y) from 10.0% y/y in November. Seasonally adjusted growth in industrial production in December eased to 0.7% m/m from 0.8% m/m in November according to our calculations. Overall the weaker growth in industrial production appears to be consistent with the softer manufacturing PMIs in recent months.
- Fixed asset investment in December increased 19.6% YTD y/y (Consensus: 19.8% YTD y/y, DMB 19.8% YTD Y/Y) after increasing 19.9% YTD y/y in November. Investment demand was weaker than expected, which also appears to be the main driver behind the current slowdown. Retail sales in December eased marginally to 13.6% y/y from 13.7% y/y but appear resilient. In real terms retail sales accelerated due to the marked drop in inflation in December to 2.5% y/y from 3.0% y/y. Passenger car sales were also strong in December suggesting that private consumption remains healthy.
- The data suggest that China has entered a new phase of growth deceleration mainly driven by the de-facto monetary tightening by People's Bank of China since mid-2013 and the government's attempt to control local government debt. Slower real money supply growth has for some time suggested that China would soon face slower growth. Real money supply growth has stabilised in recent months suggesting that the slowdown China faces will be relatively modest.
- We also expect the deceleration in growth to be relatively modest. First, the outlook for exports in 2014 remains positive. Recent data suggest that China's exports are improving driven primarily by higher exports to the US, Europe and Japan, but exports to emerging markets appear to have stabilised as well (see chart below). Second, private consumption so far appears to be relatively resilient in China. Third, China's manufacturing PMIs suggest that inventories remain quite lean. Finally, the recent decline in inflation leaves room to ease fiscal and monetary policy if needed. The Chinese government has not yet announced its target for GDP growth in 2014 but press reports suggest it will be 7.5% as in 2013. If this proves true there will be little tolerance for slower growth from the Chinese government before it will adjust policy.
- We expect growth to soften further in H1 14 but we do not expect the slowdown to be dramatic. The manufacturing PMIs are expected to drop only slightly below 50. Because of a favourable base impact from last year (growth slowed in H1 13) we expect year-on-year growth rates in GDP to remain broadly at the current levels in the coming quarter (see chart below). For 2014 as a whole we expect GDP growth to be 7.8%, in other words not very different from 2012 and 2013. That said, the data will look less favourable in the coming months and hence fear of a hard landing could be back on the agenda.

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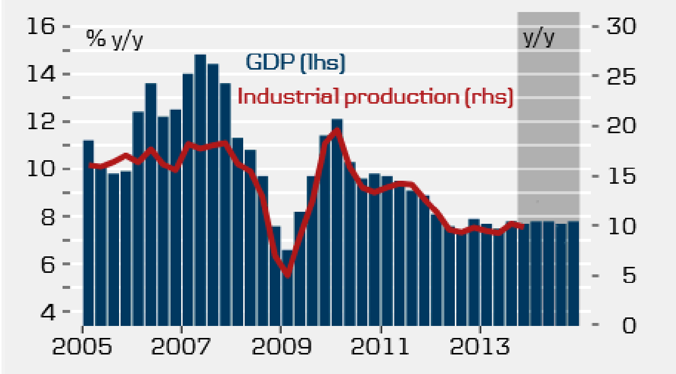
Chart 1. GDP growth eased in Q4

Source: Macrobond, Danske Bank Markets

Chart 2. We expect 2014 to be close to a repeat of 2013



Source: Macrobond, Danske Bank Markets

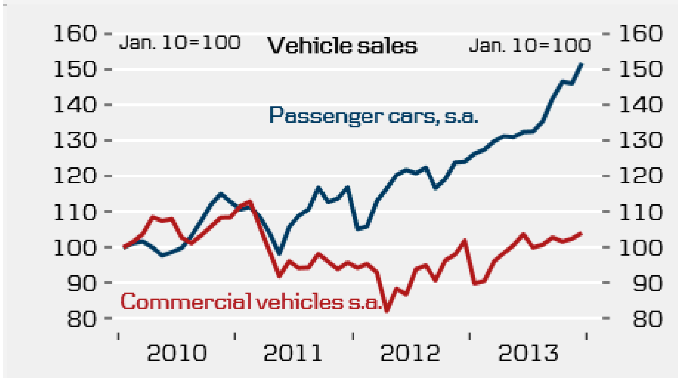
Chart 3. Money supply growth has for some time suggested slower growth ahead

Source: Macrobond, Danske Bank Markets

Chart 4. Manufacturing PMIs also appear to have peaked

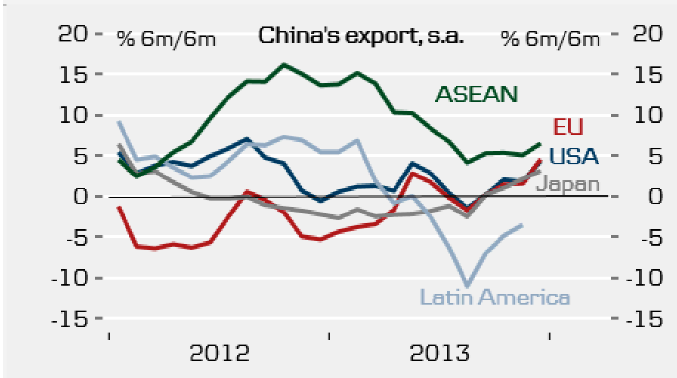
Source: Macrobond, Danske Bank Markets

Chart 5. Strong passenger car sales suggest resilient consumer



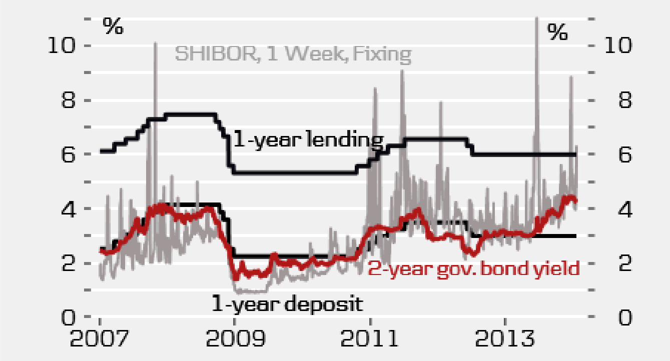
Source: Macrobond, Danske Bank Markets

Chart 6. Exports to Europe and US improving



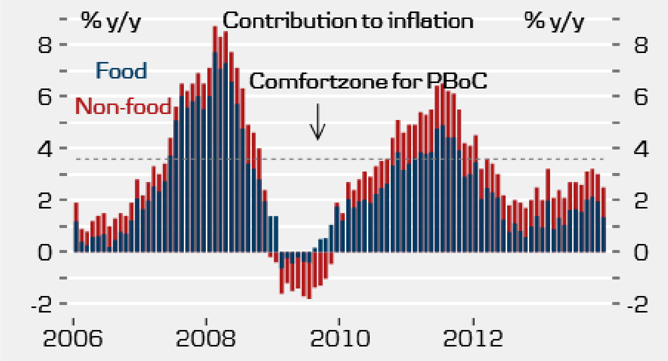
Source: Macrobond, Danske Bank Markets

Chart 7. De-facto monetary tightening main reason for slowdown



Source: Macrobond, Danske Bank Markets

Chart 8. Lower inflation gives room to ease if needed



Source: Macrobond, Danske Bank Markets

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This research report has been prepared by Danske Bank Markets, a division of Danske Bank A/S ('Danske Bank'). The author of the research report is Flemming Jegbjærg Nielsen, Senior Analyst.

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