



British Embassy  
Beijing

## China Economic Focus – February 2013

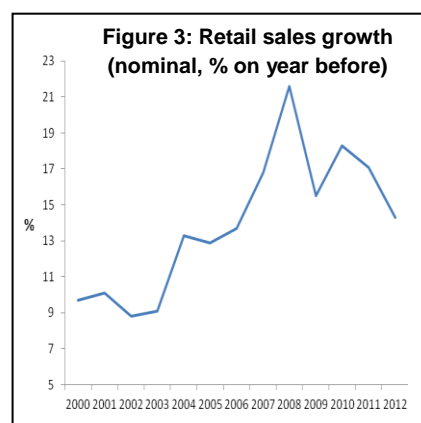
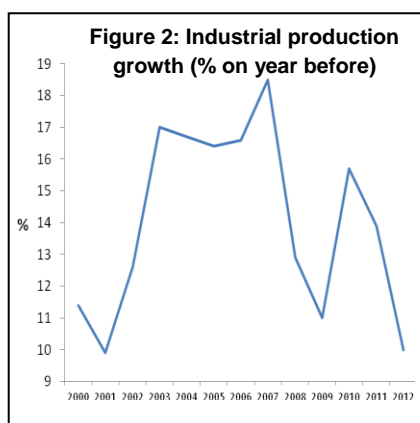
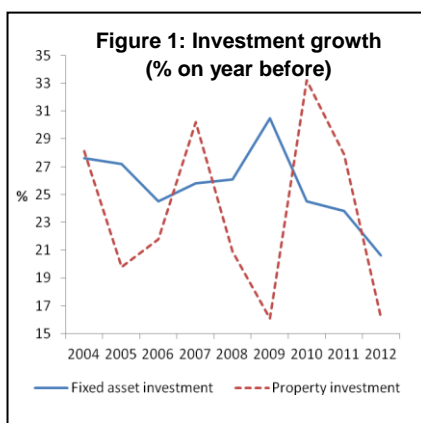
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### Overview

- Monthly data for key indicators like industrial production, investment and retail sales were not published in February due to distortions caused by Chinese New Year. For the same reason, it is difficult to read too much into those indicators for which data has been published, like exports, trade and credit.
- Annual data for 2012 were released on 22 February. It shows that in many ways, the Chinese economy remains unbalanced, with high credit growth supporting high levels of investment. On the other hand, a number of indicators point towards the gradual rebalancing of the Chinese growth model:
  - a. consumption's contribution to headline growth (51.8 percent) outpaced investment's (50.4 percent). Net trade contracted 2.2 percent from growth;
  - b. the manufacturing sector's share of the economy shrank by 1.3 percentage points to 45.3 percent, while services sector's share rose by 1.2 percentage points to 44.6 percent.
  - c. real rural income growth (10.7 percent) outpaced real urban income growth (9.6 percent). Moreover, both urban and rural incomes outpaced the 7.8 percent headline GDP growth, implying households are receiving a greater share of national wealth.
- The last month saw a number of interesting economic policy developments:
  - a. towards the end of January, the People's Bank of China (central bank) announced the creation of the 'SAFE co-financing office', a new policy to support the diversification of China's foreign exchange reserves. This reflects growing dissatisfaction about how the reserves are being managed and a renewed commitment to the 'going-out' strategy.
  - b. on 5 February, a long-awaited report on income distribution was released, introducing a large number of controversial areas of reform, including increasing the level of dividends that SOEs are obliged to pay out. The timetable for action is unclear and the authorities acknowledge that implementation will be key. But the report illustrates a new focus on the quality rather than the quantity of future Chinese growth, and a commitment to address vested interests.
  - c. on 20 February, the State Council responded to a recent pick-up in the housing market by announcing further measures to control property prices, including the expansion at an unspecified time of a controversial property tax.
- Further information about many of these topics can be found at:  
<http://www.ukti.gov.uk/export/countries/asiapacific/fareast/china/fcouupdates.html>

**Annual data for 2012 supports the view that Chinese growth is slowly rebalancing**

1. On 22 February, the authorities published the ‘2012 Annual Report’, a summary of economic and social data for 2012 as a whole. The economy grew by 7.8 percent in 2012, compare with 9.2 percent in 2011. In many ways, the Chinese economy remains unbalanced, with high credit growth supporting high levels of investment. On the other hand, a number of indicators point towards the gradual rebalancing of the Chinese growth model:
  - a. Rebalancing from consumption to investment: consumption’s contribution to headline growth (51.8 percent) outpaced investment’s (50.4 percent). Net trade contracted 2.2 percent from growth;
  - b. Rebalancing from manufacturing to services: the manufacturing sector’s share of the economy shrank by 1.3 percentage points to 45.3 percent, while services sector’s share rose by 1.2 percentage points to 44.6 percent.
  - c. Rebalancing between cities and countryside: real rural income growth (10.7 percent) outpaced real urban income growth (9.6 percent). Moreover, both urban and rural income growth continues to outpace the 7.8 percent headline GDP growth, implying households are receiving a greater share of national wealth.
  
2. The authorities do not publish monthly data in February for industrial production, investment or retail sales, due to distortions around Chinese New Year. The year-on-year figures for these metrics are presented in **Figures 1-3**.



**Growth of between 7.5-8.5 percent is forecast for 2013**

3. The authorities will formally announce the 2013 growth and inflation targets at the March meetings of the National People’s Congress (NPC). They are likely to stick with 7.5 percent for growth and to lower the inflation target to 3.5 percent. The growth target is designed to set a floor on expectations about what level of growth would be acceptable to the central authorities.
  
4. The target has always been exceeded, and that is likely to happen this year too (see **Figure 4**, on the next page, for external growth forecasts for 2013). **Figure 5** shows the regional growth targets that have been announced over the past month – aside from Shanghai they are all higher than the national target.

**Figure 4: External growth forecasts for 2013**

Institute	2013
World Bank	8.4 percent
IMF	8.2 percent
HSBC	8.6 percent
Standard Chartered Bank	7.8 percent
Deutsche Bank	H1 - 8 percent H2 - 8.5 percent
UBS	8 percent
Bank of China	8 percent
CICC	8.1 percent
State Council DRC	8-8.2 percent

**Figure 5: Provincial Government growth forecasts for 2013**

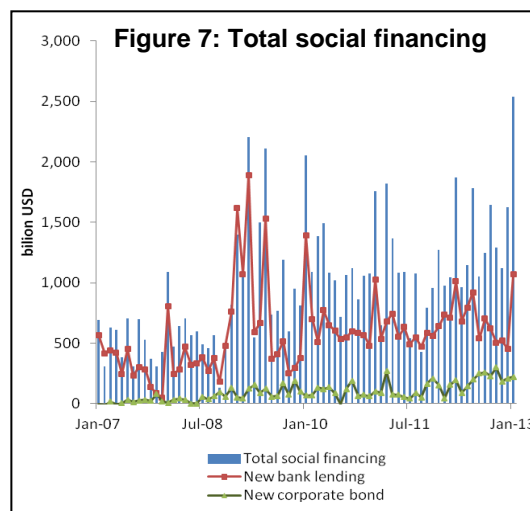
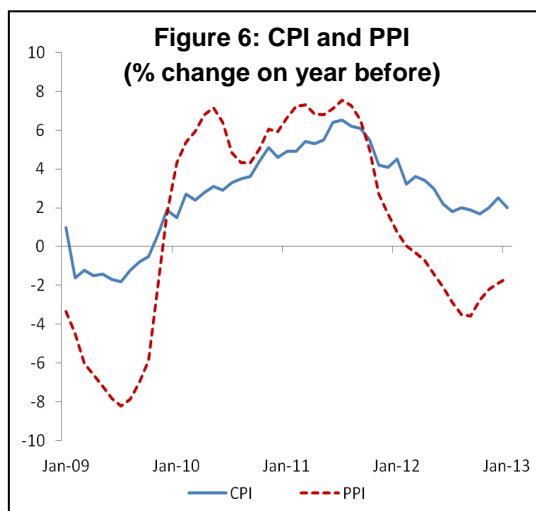
	GDP	CPI	Fixed asset investment	Retail sales
Beijing	8.0%	4.0%	9%	11%
Shanghai	7.5%	3.5%	-	-
Chongqing	12.0%	3.5%	18%	15%
Guangzhou	8%	3.5%	13%	12%
North China	10.2%	3.6%	16.4%	14.2%
Central China	10.0%	3.7%	13.3%	6.8%
East China	9.2%	3.5%	17.5%	14.0%
South China	9.7%	4.2%	18.3%	13.7%
Northwest China	11.9%	3.8%	25.0%	15.8%
Northeast China	10.8%	3.5%	23.3%	15.0%

**Manufacturing indicators stable in January**

- The official purchasing managers’ index (PMI) was 50.4 percent in January, down marginally from 50.6 in December. The separate HSBC PMI, seen as a better measure of business condition for small enterprises, rose to 51.9 in January from 51.5 in December.

**Inflation distorted by Chinese New Year**

- The consumer prices index (CPI) slowed to 2 percent in January (on a year earlier), compared with 2.5 percent in December. Food prices continued to be the main contributor to inflation, though it should be noted that January’s CPI growth was distorted due to the different timing of Chinese New Year – February in 2013 compared with January in 2012. Most analysts agree that inflation will have picked up again in February, but CPI in January and February combined should remain manageable.
- The producer price index (PPI) contraction narrowed to -1.6 percent in January (on a year earlier), compared with -1.9 percent in December. This was the 5<sup>th</sup> consecutive month of contraction. **See Figure 6.**

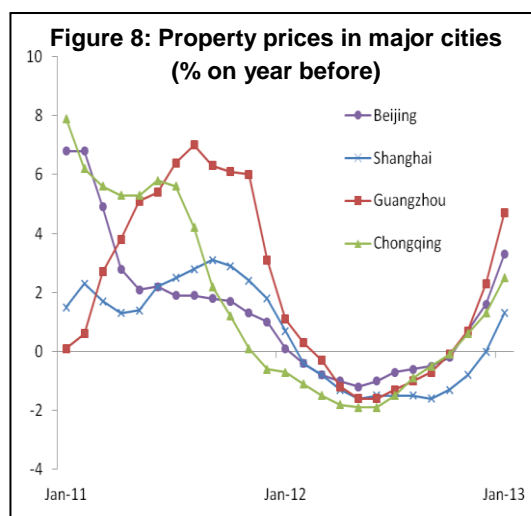


**Credit surges ahead of Chinese New Year: potentially worrying but too early to draw conclusions**

8. New bank lending surged to RMB 1.07 trillion (£107 billion) in January, more than doubling December's RMB 454.3 billion (£45.43 billion) and RMB 738.1 billion (£73.8 billion) in January 2012. However, this was in line with expectations – bank lending is usually high at the beginning of a year, as banks compete for loan quotas.
9. The surge of total social financing (TSF), a measure of all forms of new credit, was a surprise. TSF totalled RMB 2.54 trillion (£254 billion) in January, much higher than December's RMB 1.6 trillion (£160 billion) and RMB 980 billion (£98 billion) in January 2012. The impact of Chinese New Year means that it is too early to draw firm conclusions but it would certainly be a concern if such high levels of credit growth were sustained in coming months. **See Figure 7**, on the previous page.
10. Money supply (M2) grew by 15.9 percent, compared with 13.8 percent in December. The PBoC has not yet announced its M2 target for 2013, while most analysts estimate it will be around 13 percent (this is also expected to be announced during the NPC in March).

**Property tightening policy re-iterated**

11. Official figures show that 53 of 70 cities surveyed saw property prices increase (in month-on-month terms) in January, 1 fewer than December and November. Property prices in major cities have started increasing. **See Figure 8**.
12. The recent pickup of property prices has urged the authorities to reiterate their resolution to curb property speculation and support real demand. On 20 February, the State Council announced further measures to control property market, including: property tax pilot expansion, setting up annual home prices targets, increasing land supply for new homes and accelerating social housing construction.



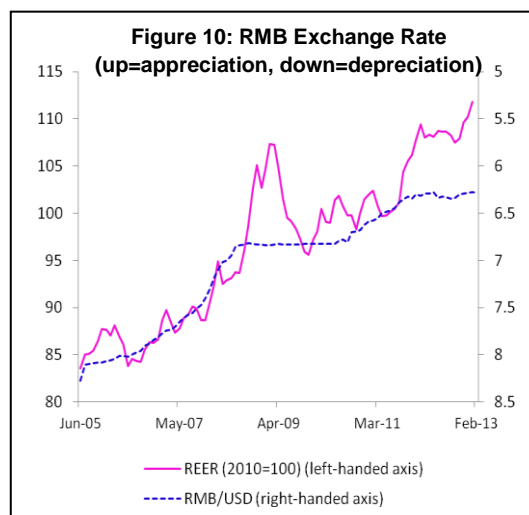
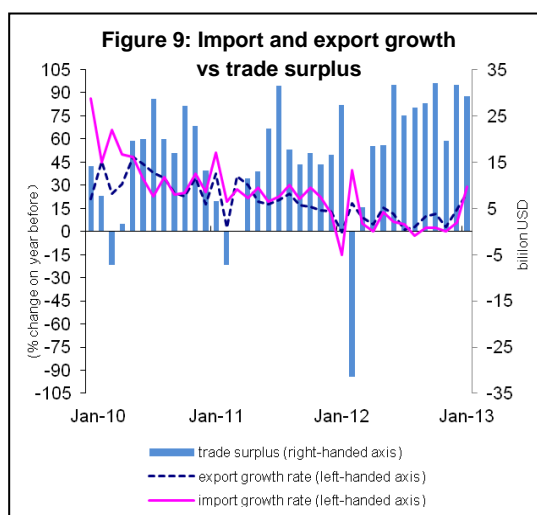
**Income distribution review finally published**

13. On 5 February, the State Council issued a long-awaited policy document to reform China's income distribution system. The measures include: narrowing income gaps, increasing provision of welfare services, broadening the tax base, supporting rural incomes, increasing the redistribution of profits from China's SOEs and further financial liberalisation. However, the document has not given detailed timetable. And the authorities acknowledge that implementation will be key.
14. Official statistics suggest that China's working-age population (15 – 59) reduced for the first time in 2012. China's working-age population reduced by 3.5 million from 2011. And its share of the total population decreased 0.6 percentage points to 69.2 percent in the past year. The

proportion of population above 60 increased 0.59 percentage points to 14.3 percent.

**Strong trade figures due to Chinese New Year effect**

15. January’s trade figures were very strong, most likely reflecting distortions around Chinese New Year. Exports rose by 25 percent (on a year earlier), compared with 14.1 percent in December. Adjusted for working days due to Chinese New Year (22 working days in this January vs 17 days in last January), exports growth actually slowed to 12.4 percent.
16. January’s imports rose by 28.8 percent (on a year earlier), up from 6 percent in December. With working days adjustment, imports growth moderated to 3.4 percent. Imports of coal, steel and iron ore saw a quick increase (in volume terms); while imports of copper and complete cars declined.
17. The balance of exports and imports registered a trade surplus of \$29.15 billion in January, beating the market expectations of \$24.7 billion but lower than December’s \$31.6 billion. **See Figure 9.**

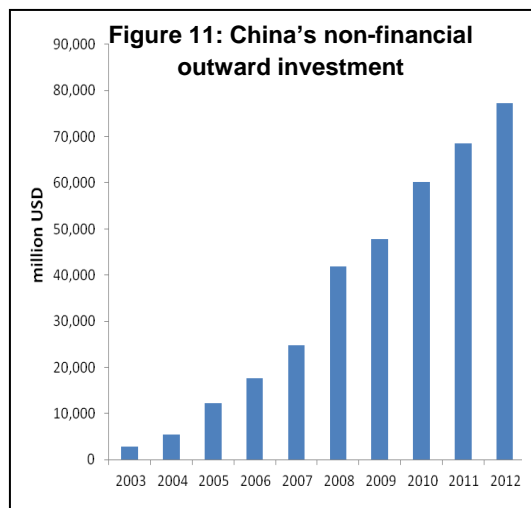


**Further developments in diversifying the foreign exchange reserves and RMB internationalisation**

18. The RMB exchange rate (against dollar) remained roughly flat in the past month. The currency has appreciated by 8.6 percent since it was de-pegged in June 2010. The RMB’s real effective exchange rate appreciated by 1.5 percent in the past month. The RMB has appreciated by 9.8 percent since June 2010. **See Figure 10.**
19. RMB deposit in Hong Kong, an offshore market for the Chinese currency, totalled RMB 603 billion (£60.3 billion) in December (latest data), up 5.6 percent from November. RMB cross-border trade settlement totalled RMB 264.1 billion (£26.4 billion) in December, up from RMB 243 billion (£24.3 billion) in November.

20. Towards the end of January, the People’s Bank of China (central bank) announced the creation of the ‘SAFE co-financing office’, a new policy to support the diversification of China’s vast foreign exchange reserves. This reflects growing dissatisfaction about how the reserves are being managed and a renewed commitment to supporting outward investment by Chinese companies – **see Figure 11**.

21. On 8 February, PBoC announced to authorise the Industrial and Commercial Bank of China (ICBC) as the clearing bank for offshore RMB business in Singapore. This follows the establishment of clearing banks in Hong Kong in 2003 and Taipei in 2012.



We encourage readers to get in contact for further information on any points covered in this note, or to suggest ways of improving the note for next month. Our details are:

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