



British Embassy
Beijing

China Economic Focus – January 2013

Overview

- China's 2012 Q4 economic data were published on 18 January, with GDP registering 7.9 percent year-on-year expansion, slightly higher than expectations and above the 7.4 percent expansion registered in 2012 Q3. This is the first acceleration in Chinese year-on-year growth for nearly two years and brings full year growth to 7.8 percent.
- Stronger growth is largely attributable to the weak figures 12 months ago, rather than an acceleration of activity in recent months. Quarter-on-quarter growth declined to 2 percent, down from 2.2 percent in 2012 Q3. December's data for all the major variables like investment, industrial production and retail sales were consistent with the figures we have seen for the past 6 months.
- The latest data present a mixed picture in terms of China's internal rebalancing. Import data for December was encouraging, growth in the services sector continues to (slowly) accelerate and retail sales remain strong. That said, although incomes continue to rise more rapidly than overall GDP growth, over the last quarter the rate of increase slowed.
- Lending data this month illustrated how the Chinese financial system is evolving. Bank lending as a proportion of total social financing has fallen from more than 90 percent in 2005 to less than 40 percent in December 2012. The remainder is made up of growing volumes of corporate bonds, entrusted loans and other financial products.
- Concerns about an investment bubble have started to re-emerge, particularly regarding the property sector, given recent price rises. Data this month suggest that this is under control, as both fixed asset investment and property investment registered small month-on-month falls and remain far below last year's growth levels.
- Most analysts agree that the economy is undergoing a mild cyclical upturn that will continue for at least the first half of this year. Inflation is also forecast to remain low during this period, providing scope for monetary easing, should that be necessary. Most growth forecasts for 2013 are in the region of 8 percent.
- The March National People's Congress provides an opportunity for the new leadership to set out their priorities for economic reform. This may include presenting the 'overall plan, road map and timetable' for reform that was signalled in the statement following December's Central Economic Work Conference.

China's economy is currently stable

1. The 2012 Q4 data suggest that China's economy is stable. Year-on-year growth was 7.9 percent in Q4 (on a year earlier), compared with 7.4 percent in Q3 (see **Figure 1**). On quarter-on-quarter basis (seasonally adjusted), growth was 2 percent in Q4, marginally below 2.1 percent in Q3. Mainstream forecasts for economic growth in 2013 are around or above 8 percent (see **Figure 2**).

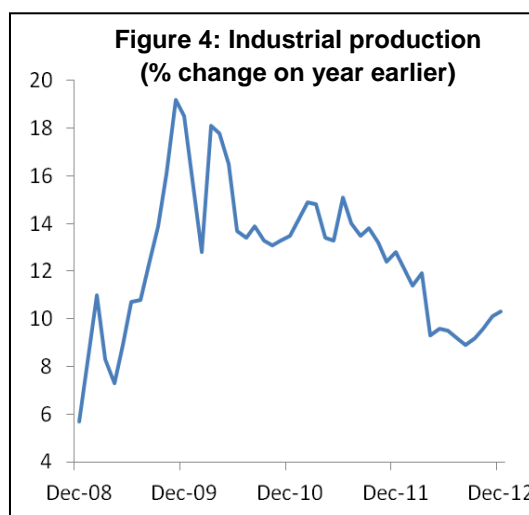
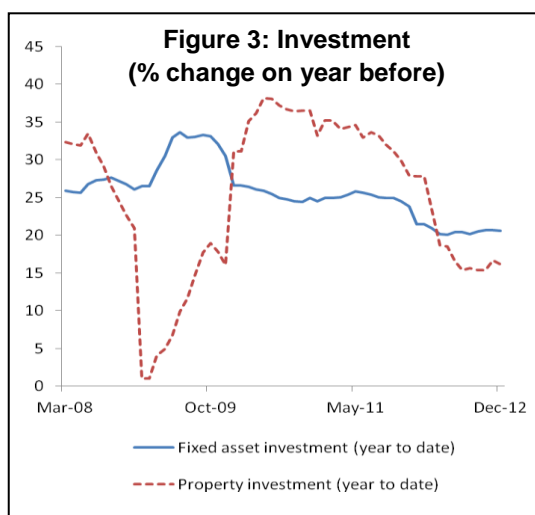


Institute	2013
World Bank	8.4 percent
IMF	8.2 percent
HSBC	8.6 percent
Standard Chartered Bank	7.8 percent
Bank of China	8 percent
State Council DRC	8-8.2 percent

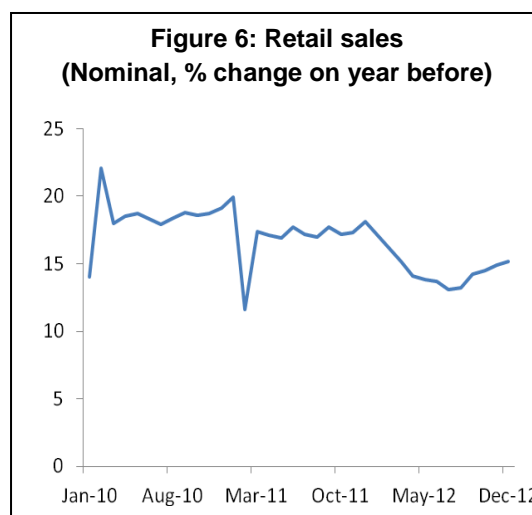
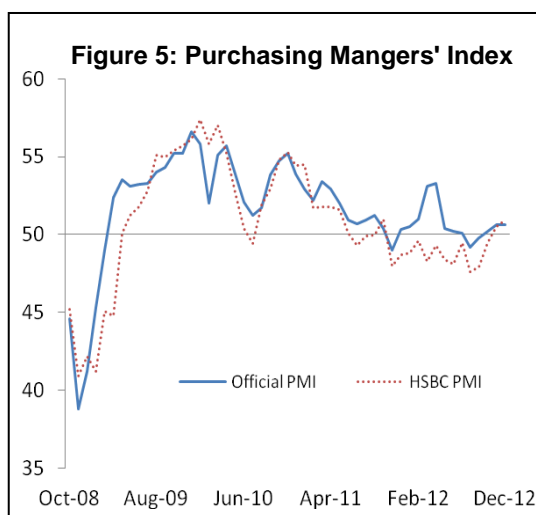
2. During the annual Central Economic Work Conference for 2013, held in mid December, the authorities emphasised continuity with previous policies, in particular a 'proactive' fiscal policy and a 'stable' monetary policy. However, a new focus on 'sustainable and healthy' development, and no reference to the previous need for 'relatively fast' growth, supports the view that China's new leadership is committed to delivering incremental, steady but ultimately far-reaching economic reform in the coming years.

Key economic indicators stable

3. Headline fixed asset investment (FAI) growth remained broadly unchanged in the past few months (see **Figure 3**). Property investment, which accounts for 20 percent of FAI, grew by 16.2 percent in December (year to date), compared with 16.7 percent in November. Infrastructure investment grew at a more robust rate of 19.6 percent in December.



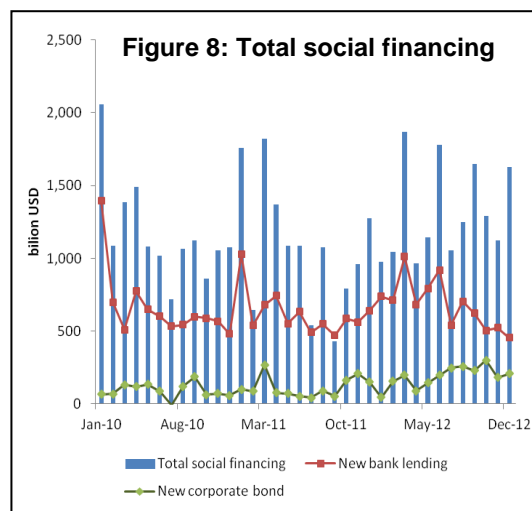
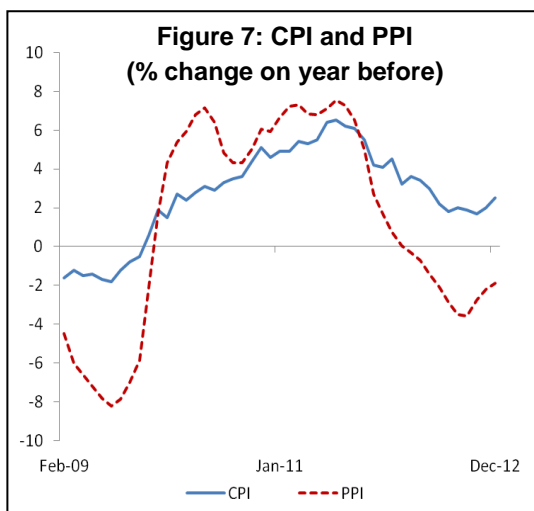
4. Growth of industrial production (IP) increased slightly to 10.3 percent in December (on a year earlier), registering a 9-month high (see **Figure 4**). Growth of electricity, steel, crude oil and car production saw a slight deceleration. Growth of cement production fell to a 7-month low.
5. The official purchasing managers' index (PMI) stayed unchanged at 50.6 percent. The separate HSBC PMI, seen as a better measure of business conditions for small enterprises, hit a 14-month high of 50.9 percent in December (see **Figure 5**). Consistent with IP and PMI figures, corporate profitability growth rose to 22.8 percent in November (the latest figure), compared with 20.5 percent in October.



6. Retail sales grew by 15.2 percent in December (on a year earlier), hitting a 9-month high (see **Figure 6**). Sales of daily necessities, sports and entertainment equipment, furniture and construction and decoration materials all rose quickly.

Inflation slightly higher due to inclement weather

7. The consumer prices index (CPI) increased by 2.5 percent in December (on a year earlier), picking up from 2 percent in November and 1.7 percent in October (see **Figure 7**, on next page). Food prices, especially vegetable prices, were the main contributor due to the unusually cold weather. The consensus forecast is for average inflation to reach 3.1 percent in 2013, and the authorities' target for inflation is likely to be 3.5 percent.
8. The producer price index (PPI), a measure of upstream inflation pressures, continued to fall for the 4th consecutive month – PPI fell by 1.9 percent in December (on a year earlier), compared with 2.2 percent in November.
9. New banking lending totalled RMB 454.3 billion (£45.43 billion) in December, lower than market expectations and November's RMB 523 billion (£52.3 billion). However, total social financing (TSF), a measure of all forms of new credit, continued to grow rapidly, reaching RMB 1.6 trillion (£160 billion) in December, compared with RMB 1.14 trillion (£114 billion) in November (see **Figure 8**, on next page).

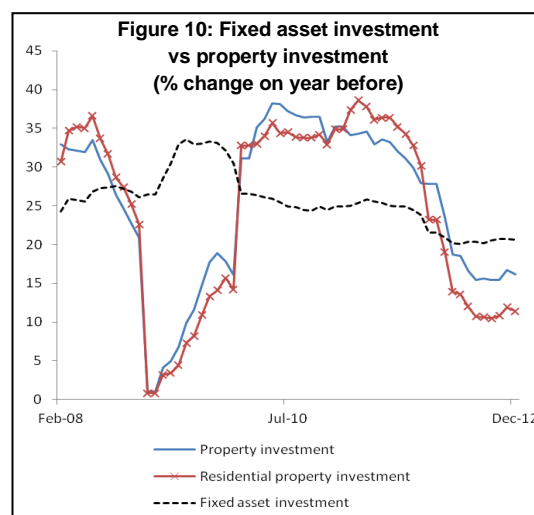
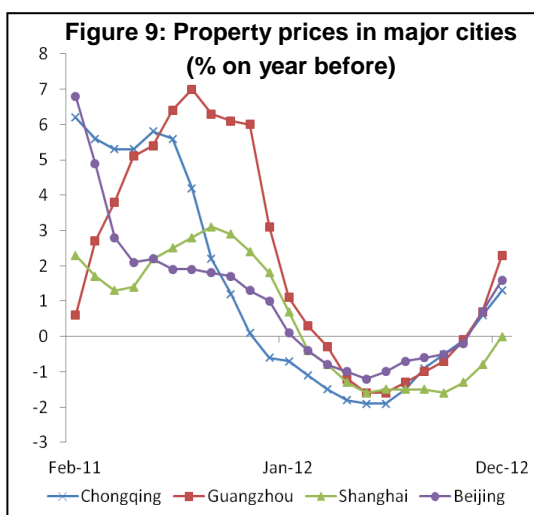


10. New bank lending in 2012 reached RMB 8.2 trillion (£820 billion) in 2012, higher than 2011’s RMB 7.5 trillion (£750 billion). TSF totalled RMB 15.8 trillion (£1.58 trillion) in 2012, compared with RMB 12.9 trillion (£1.29 trillion) in 2011. The share of bank loans declined from 58 percent in 2011 to 52 percent in 2012 (the share was over 90 percent in early 2000).

11. Money supply (M2) grew by 13.8 percent in December, 0.1 percentage points lower than that in November. This was in line with the PBoC’s annual target of 14 percent.

Property prices continue to bounce back

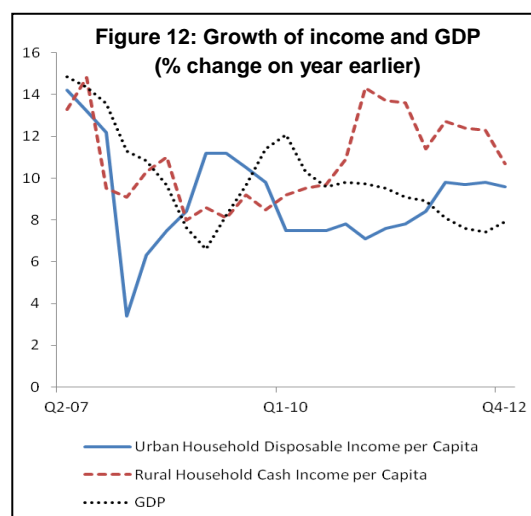
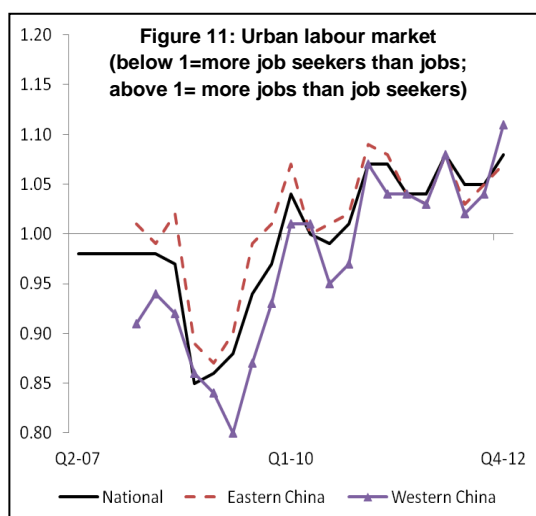
12. Official figures show that 54 of 70 cities surveyed saw property prices increase (in month-on-month terms) in November (the latest figure), compared with 35 in October. Property in major cities have either stopped decline or started increasing slightly. **See Figure 9.**



13. The residential property sector, accounting for over two-thirds of overall property investment, grew by 16.2 percent in 2012 as a whole, slightly below 16.7 percent in the first 11 months and much slower than 2011’s 28.1 percent (see Figure 10).

Labour market remains robust

14. The quarterly job/job-seeker ratio was 1.08 in Q4, slightly higher than 1.05 in Q3 and Q2. Labour demand in Western China is a bit stronger than that in Eastern China (see Figure 11).



15. Both urban and rural income growth declined modestly in Q4 compared with Q3. But they continued to outpace headline GDP growth (see Figure 12).

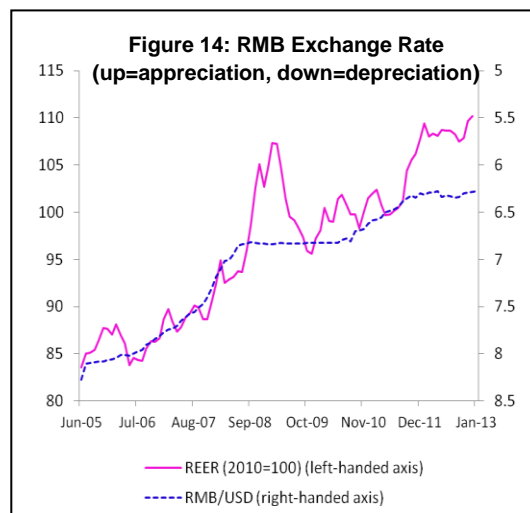
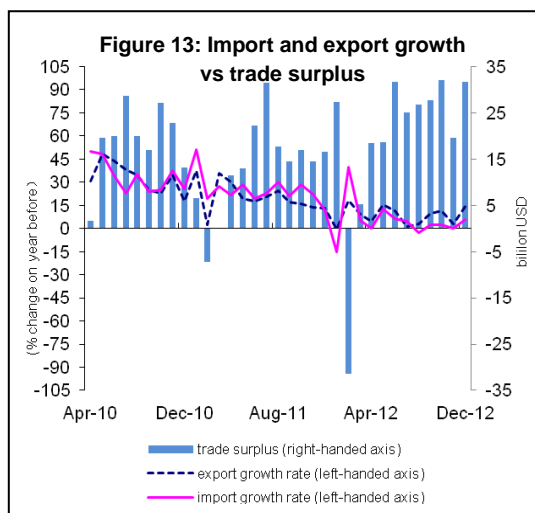
Good trade figures for December

16. China's trade expanded by 6.2 percent in 2012 as a whole (on a year earlier), below the official target of 10 percent growth. Exports grew by 7.9 percent over the year (compared with 20.3 percent growth in 2011), and imports grew by 4.3 percent (compared with 25 percent growth in 2011). The annual figures mask significant regional variation: last year China's trade with the EU declined by 3.7 percent but trade with the US rose by 8.5 percent and with Russia by 11.2 percent. This year the US overtook the EU to be China's largest trading partner.

17. Monthly trade figures for December were surprisingly strong. Exports rose by 14.1 percent in December, up from 2.9 percent in November. Exports to advanced economies, which have fallen for most of 2012, expanded, with exports to the EU rising by 21 percent month-on-month (this reflects particularly poor figures for November). Exports to emerging economies continued to grow strongly, as they have done for most of the past 12 months.

18. December's imports rose by 6 percent, compared with zero growth in November. The underlying data for imports was encouraging for the UK: the majority of growth came from imports for domestic use (rather than for processing and re-export) and from non-commodities.

19. China's trade surplus for December was, in seasonally-adjusted terms, the largest since the start of 2009. Over the past year, the 12-month total trade surplus with the US has continued to expand (reaching around \$220 billion), while the equivalent surplus with the EU has fallen to around \$120 billion. See Figure 13, on next page.



20. Foreign direct investment (FDI) totalled \$ 111.72 billion in 2012, contracting by 3.7 percent on a year before (compared with a growth of 9.7 percent in 2011 and 17.4 percent in 2010). This is the first drop since 2009 but this reflects lower overall amount of global FDI. China's share of global FDI continued to rise and in the first half of 2012 China overtook the US as the world's largest recipient of FDI.

21. China's outward FDI rose rapidly in 2012. According to Ministry of Commerce's (MofCom) latest figures, non-financial outward FDI totalled \$77.22 billion, increasing 28.6 percent, in 2012.

RMB:\$ exchange rate remains essentially flat throughout 2012. REER appreciates 2.22 percent

22. The benchmark RMB:\$ exchange rate stayed basically flat over 2012 - **see Figure 14**. The RMB's real effective exchange rate appreciated by 2.22 percent throughout 2012, slower than the 6.2 percent appreciation in 2011.

23. RMB deposit in Hong Kong, an offshore market for the Chinese currency, totalled RMB 571 billion (£57.1 billion) in November (latest data), up 2.9 percent from October. RMB cross-border trade settlement totalled RMB 243 billion (£24.3 billion) in November, up from RMB 195.4 billion (£19.5 billion) in October.

24. During Asia Financial Forum in Hong Kong, Guo Shuqing, Chairman of CSRC (securities regulator) said the quota for foreign investments in the mainland's financial markets could increase by "nine or ten times". Meanwhile, the authorities want to encourage more legal outflows. The PBoC say this month they will expand private overseas investment by Chinese companies and that they were looking into setting up the Qualified Domestic Individual Investor (QDII2) scheme to support overseas investment by Chinese individuals.

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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