



British Embassy
Beijing

China Economic Focus – March 2013

Overview

- Monthly data for February is distorted by Chinese New Year, which has a major impact on all economic indicators. Subject to this, the data published this month show that the economy was broadly stable in February. A potential source of concern is the rapid expansion of credit at the start of the year but it's too early to come to any firm judgements.
- The main development this month has been the National People's Congress (NPC), which concluded on 17 March. In terms of the economic agenda, the key bits worth highlighting are:
 - **Wen Jiabao's final work report**, which began with a recap of China's impressive economic achievements over the past 5 years: nominal GDP up by 95 percent; per capita incomes up by an annual average of nearly 10 percent; 18 million units of social housing completed; 9,000km of high-speed rail opened...;
 - **The NDRC 2013 economic plan**, which focused on China's economic challenges, especially the need to increase efficiency ('the problem of various kinds of wastefulness is staggering'). The report provided few new proposals, but did stress that China 'must implement a more active opening-up strategy' and stated that the authorities would issue a new plan for economic reform, which is expected to be published in October;
 - **The Ministry of Finance's budget**, which illustrated how rapidly central government spending on social services is rising (e.g. the central health budget is forecast to rise by nearly 30 percent this year, on the back of a 17 percent increase in 2012). The budget also illustrates the growing strains facing China's fiscal architecture (e.g. the asymmetry between local government's expenditure requirements and allocated resources); and
 - **The new economic team**. As Premier, Li Keqiang will have overall responsibility for the economy, supported by his four Vice-Premiers (Zhang Gaoli, Liu Yandong, Wang Yang and Ma Kai). Zhou Xiaochuan will stay on as Governor of the People's Bank; Xu Shaoshi has become the new Chairman of the NDRC and Lou Jiwei has moved from the sovereign wealth fund CIC to become the new Minister of Finance.
- Further information about many of these topics can be found at:
<http://www.ukti.gov.uk/export/countries/asiapacific/foreast/china/fcouupdates.html>. Please get in touch if you have any questions or comments.

National People’s Congress sets growth target for 2013

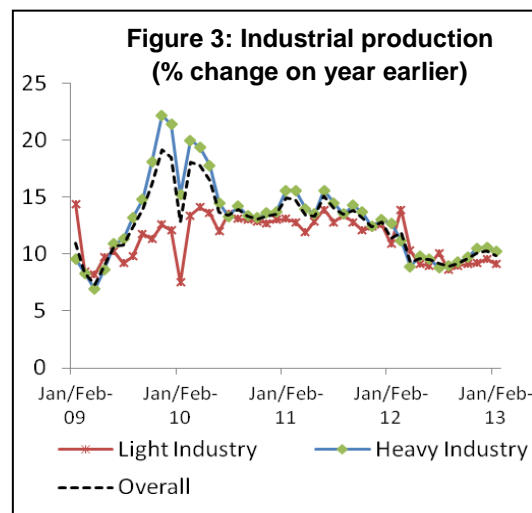
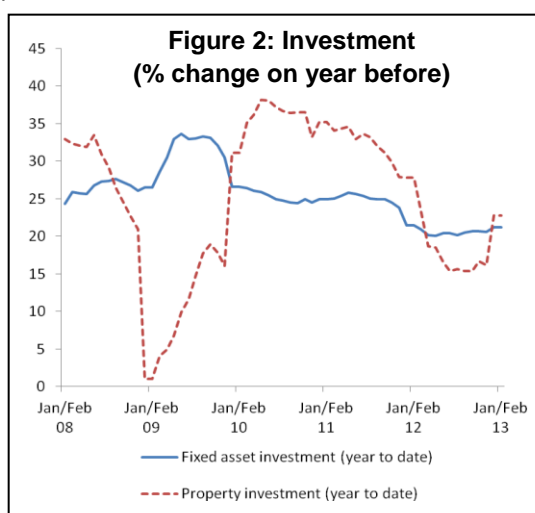
1. China’s economy grew by 7.8 percent in 2012. This was the slowest growth since 1999, and compares with 9.3 percent growth in 2011.
2. Premier Wen announced the main economic targets for 2013 at the start of the National People’s Congress (see Figure 1).
3. The targets are meant to guide expectations, they are not a technical forecast. The key message this year is that the authorities are comfortable with a lower rate of growth. Most analysts are currently forecasting around 8 percent growth for 2013.

Figure 1: Key economic targets (% on a year earlier)

Indicators	2013 target	2012	
		target	actual
GDP	7.5	7.5	7.8
CPI	3.5	4	2.6
Fixed asset investment	18	16	20.3
Retail sales	14.5	14	14.3
Trade	8	10	6.2
M2	13	14	13.8
Unemployment	4.6	4.6	4.1
Non-financial outward direct investment	15	-	28.6

Overall investment levels are stable; property investment increased rapidly at the start of 2013

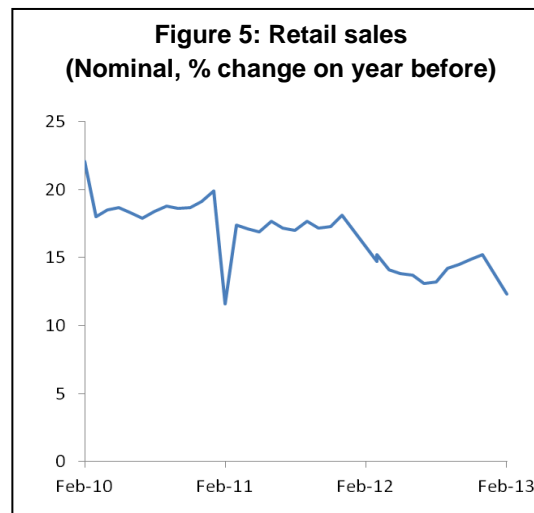
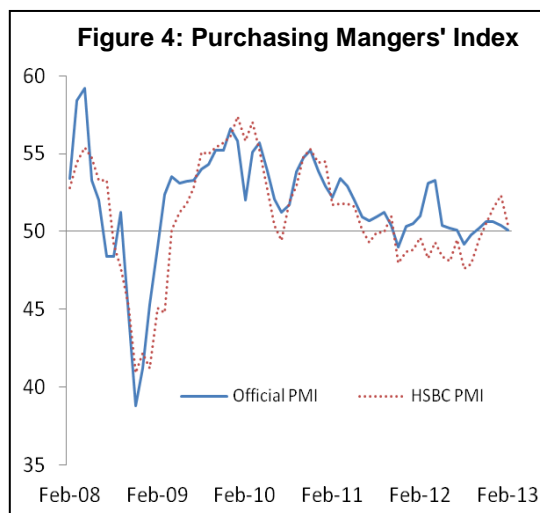
4. Headline fixed asset investment (FAI) growth increased by 21.2 percent in January and February combined (on a year earlier), 0.3 percentage points slower than January and February of 2012 and 0.6 percentage points higher than 2012 as a whole.
5. Property investment rose by 22.8 percent in the first two months, 5 percentage points lower than the same period in 2012 but 6.6 percentage points higher than 2012 as a whole. See Figure 2. Infrastructure investment growth picked up to 23.2 percent, compared with 2012’s 19.6 percent.



Main activity indicators moderated at the start of the year, but it is too early to draw conclusions

6. Growth of industrial production (IP) moderated slightly to 9.9 percent in the first two months (on a year earlier), compared with 10.3 percent in December and 11.4 percent for January and February combined in 2012. Growth of both heavy and light industrial production slowed marginally, and the former continued to outpace the latter. See Figure 3.

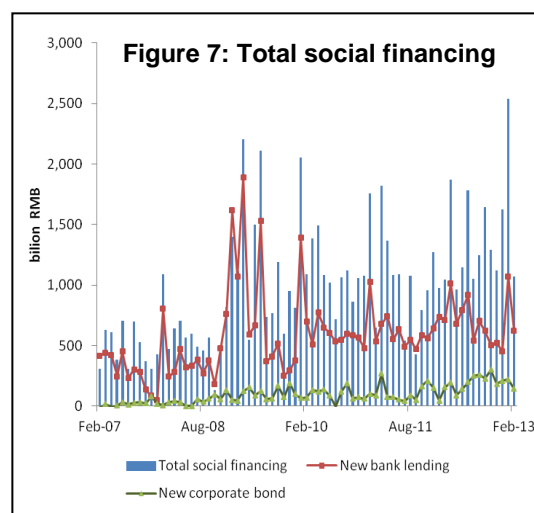
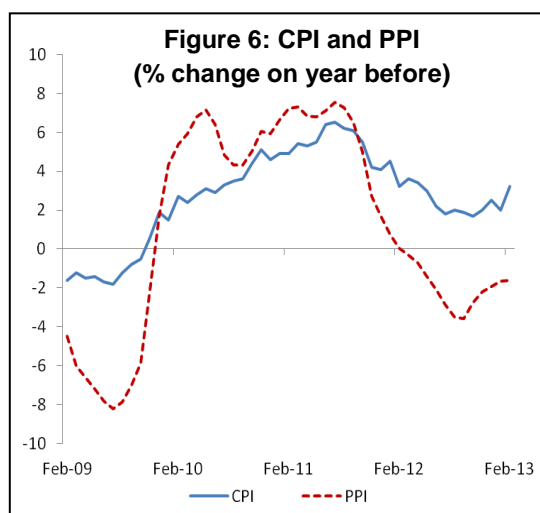
- The official purchasing managers' index (PMI) in February was 50.1, compared with 50.4 in January. This was the 5th consecutive month above 50, suggesting manufacturing continues to expand. The separate HSBC PMI, seen as a better measure of business condition for small enterprises, declined to 50.4, down from January's 52.3. **See Figure 4.**



- Retail sales grew by 12.3 percent in January and February combined (on a year earlier), compared with 15.2 percent in December, registering the lowest growth since February 2011. **See Figure 5.** Slower retail sales' growth is likely attributable in part to President Xi's appeal for lower entertainment spending (catering sector sales showed particularly slower growth this year compared with the equivalent period last year).

Surprise rise to inflation; cautious tone from Governor of the People's Bank.

- The consumer prices index (CPI) increased by 3.2 percent in February (on a year earlier), up from January's 2 percent. Food prices remained the main contributor to headline CPI. A report from the National Statistic Bureau suggested CPI would moderate in March. Speaking to the media on 13 March, Zhou Xiaochuan, Governor of the People's Bank, stated the need for 'heightened vigilance' against price pressures. The producer prices index (PPI) contracted by 1.6 percent in February (on a year earlier), remaining unchanged from January. **See Figure 6.**



Total lending off to a brisk start in January and February

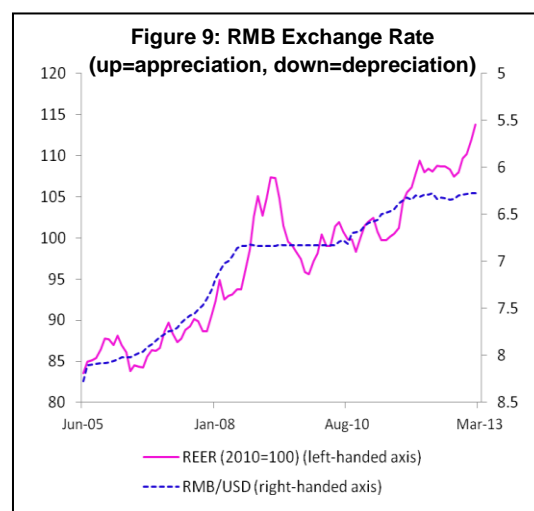
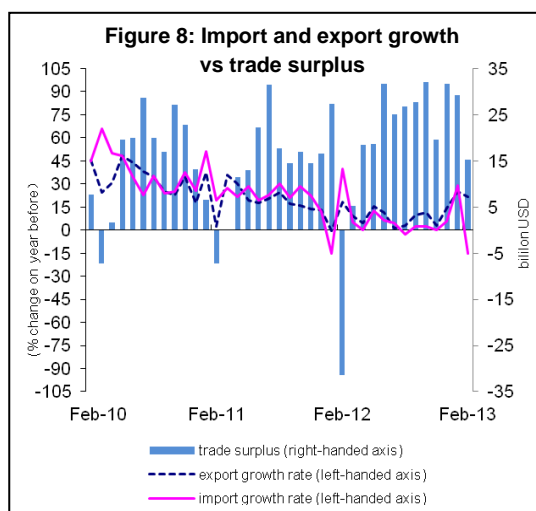
10. New bank lending slowed to RMB 620 billion (£62 billion) in February, below market expectations and January's RMB 1.07 trillion (£107 billion). The average monthly new lending in January and February (removing Chinese New Year effect) was RMB 845 billion (£84.5 billion) – the highest level for the same period of time since 2011.
11. Total social financing (TSF), a measure of all forms of new credit, totalled RMB 1.07 trillion (£107 billion) in February, down from RMB 2.54 trillion (£254 billion) in January. Combining January and February, TSF averaged at RMB 1.805 trillion (£181 billion), suggesting a year-on-year increase of 78.6 percent (on a year earlier), compared with 22.9 percent increase in 2012 as a whole. **See Figure 7.** Money supply (M2) grew by 15.2 percent in February (on a year earlier), compared with 15.9 percent in January, higher than the official M2 target of 13 percent.

Property prices once again heading upwards; further tightening measures introduced

12. Latest 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. That said, property sales surged: combining January and February, sales of property (in volume) increased by 49.5 percent (on a year earlier), compared with 1.8 percent in 2012; and sales (in value) increased by 77.6 percent, compared with 2012's 10 percent.
13. The authorities continued to detail its property tightening policy. On 1 March, the State Council surprised markets by introducing a 20 percent capital gain tax on existing home sales. Reportedly, people have queued up at property exchanges in big cities to finish transaction before the capital gain tax comes to effect. More detailed measures will be announced soon by relevant Ministries including the PBoC (Central Bank) and local governments.

Trade figures difficult to interpret, given distortions around Chinese New Year.

14. February's exports rose by 21.8 percent (on a year earlier), compared with 25 percent in January. Adjusted for working days due to Chinese New Year (17 working days in this February vs 21 days in last February), exports growth rose by 20.6 percent, up from January's 12.4 percent. The growth was mainly shipment to non-G3 economies. China's exports to Hong Kong, Russia, and Malaysia saw a year-on-year increase of over 60 percent in January and February combined.
15. Imports declined by 15.2 percent in February (on a year earlier), compared with an increase of 28.8 percent in February. With working days adjusted, import increased by 6.5 percent in February, up from 3.4 percent in January. Combining January and February, some energy and resources products imports declined in year-on-year terms, including: iron ore, crude oil, bean, copper and complete cars. Imports of coal continued to increase.
16. The balance of exports and imports registered a trade surplus of \$15.25 billion in February, compared with \$29.15 billion in January and \$31.98 billion in February 2012. **See Figure 8.**



BOE and PBoC agree to facilitate discussion on currency swap

17. The RMB exchange rate (against dollar) remained roughly flat since the beginning of 2013. As of mid March, the currency has appreciated by 8.8 percent since it was de-pegged in June 2010. According to the Bank of International Settlement, the RMB’s real effective exchange rate appreciated by 3.2 percent since the beginning of the year (1.6 percentage points’ appreciation in February). The currency has appreciated by 11.6 percent since June 2010. **See Figure 9.**

18. RMB deposit in Hong Kong, an offshore market for the Chinese currency, totalled RMB 624 billion (£62.4 billion) in January (latest data), up 3.7 percent from December. RMB cross-border trade settlement totalled RMB 268 billion (£26.8 billion) in January, up from RMB 264 billion (£26.4 billion) in December and a significant year-on-year increase of 72 percent.

19. On 22 February, Bank of England Governor Mervyn King met PBoC Governor Zhou Xiaochuan in Beijing. They agreed to facilitate discussions on the establishment of a reciprocal 3-year, Renminbi/sterling currency swap arrangement. As of 18 March, PBoC has signed currency swap agreements with 18 countries, with a total amount of RMB 1.82 trillion (£182 billion).

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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