CAPITAL ECONOMICS 凯投宏观

CHINA DATA RESPONSE

GDP (Q4), Activity & Spending (Dec.)

A slightly stronger end to a weak quarter

- **Growth edged down last quarter, with the slowdown on the official GDP figures corroborated by other data. Conditions improved somewhat in December, but we expect the uptick in industrial output and consumer spending to prove short-lived.**

- **GDP growth edged down from 6.5% y/y in Q3 to 6.4% last quarter**, in line with both the Bloomberg median and our forecast. GDP growth for 2018 as a whole was 6.6%, down from 6.8% in 2017. The official GDP figures have been too stable in recent years to be a good guide to China's economic performance. Our own measure, the China Activity Proxy (CAP), suggests that growth has already slowed by one percentage point since mid-2017. As it happens, **the CAP points to a similar-sized slowdown last quarter from 5.4% y/y to 5.3%**. (See Chart 1.) Our research suggests that the flaws in the GDP figures are concentrated in industry, with the data on services more reliable. We won't get a detailed breakdown of GDP until tomorrow. But for what it's worth, the headline breakdown suggests that service sector growth strengthened slightly last quarter, from 7.7% y/y to 7.9%.

- There were also some positive surprises in the monthly data. Growth in industrial value-added picked up from 5.4% y/y to 5.7% in December (Bloomberg 5.3%, CE 5.3%). **Our own industrial output index, based on the output volumes of key products, also rebounded**, from 3.1% y/y to 3.7%. (See Chart 2.) This uptick comes despite weaker foreign demand – growth in industrial sales for export fell back last month from 7.6% y/y to 4.1%.

- **Stronger consumer spending appears to have helped** - retail sales growth edged up in December, rising from 8.1% y/y to 8.2% (Bloomberg 8.1%, CE 8.1%). **But capital spending remained subdued**. Fixed investment expanded 5.9% y/y in 2018 (Bloomberg 6.0%, CE 5.9%), down from 7.2% in 2017. Comparisons between the year-end figures and previous months data should be taken with a grain of salt given that they are based on different surveys. But for what it's worth, the data point to a slowdown in monthly growth from 7.7% y/y in November to 5.9% last month. This was driven by a drop back in property and manufacturing investment which more than offset an acceleration in infrastructure spending.

- In sum, the latest data suggest that economic growth remained weak by past standards at the end of 2018 but held up better than many feared, in part thanks to a policy-driven recovery in infrastructure spending. Still, **with the headwinds from cooling global growth and the lagged impact of slower credit growth set to intensify in the coming months, China's economy is likely to weaken further before growth stabilises in the second half of the year on the back of expanded policy stimulus**.

Chart 1: GDP & CE China Activity Proxy (% y/y)

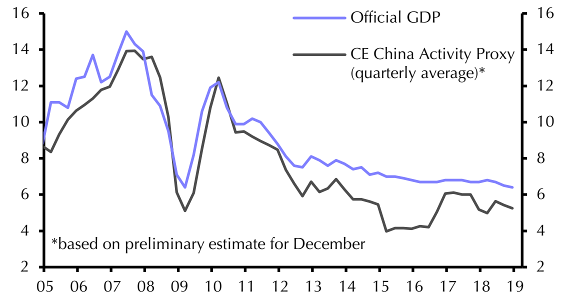
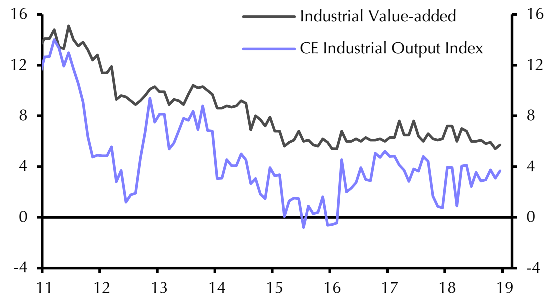


Chart 2: Industrial Production (real, % y/y)



Sources: CEIC, Capital Economics

Julian Evans-Pritchard, Senior China Economist, +65 6595 1513, julian.evans-pritchard@capitaleconomics.com

TORONTO NEW YORK LONDON SINGAPORE SYDNEY

Email **sales@capitaleconomics.com** Visit **www.capitaleconomics.com**