COMMERZBANK

Economic Research

Economic Briefing

China – Mixed growth data

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China's headline GDP growth in Q3 was a bit firmer than expected at 4.6% year-on-year, but a bit slower than 4.7% in Q2. There are some tentative signs of improvement in September as stronger policy stimulus is taking effect. Recent measures announced will support growth for the rest of the year and into 2025. They will buy some time, but structural problems will need to be resolved via stronger reform efforts.

Growth picked up towards end of Q3

In quarter-on-quarter terms, GDP in Q3 grew 0.9%, in line with our forecast. Q2 growth was downwardly revised to 0.5% qoq from 0.7% previously. We see the improvement in qoq growth in Q3 in part as a statistical payback from a "low" base.

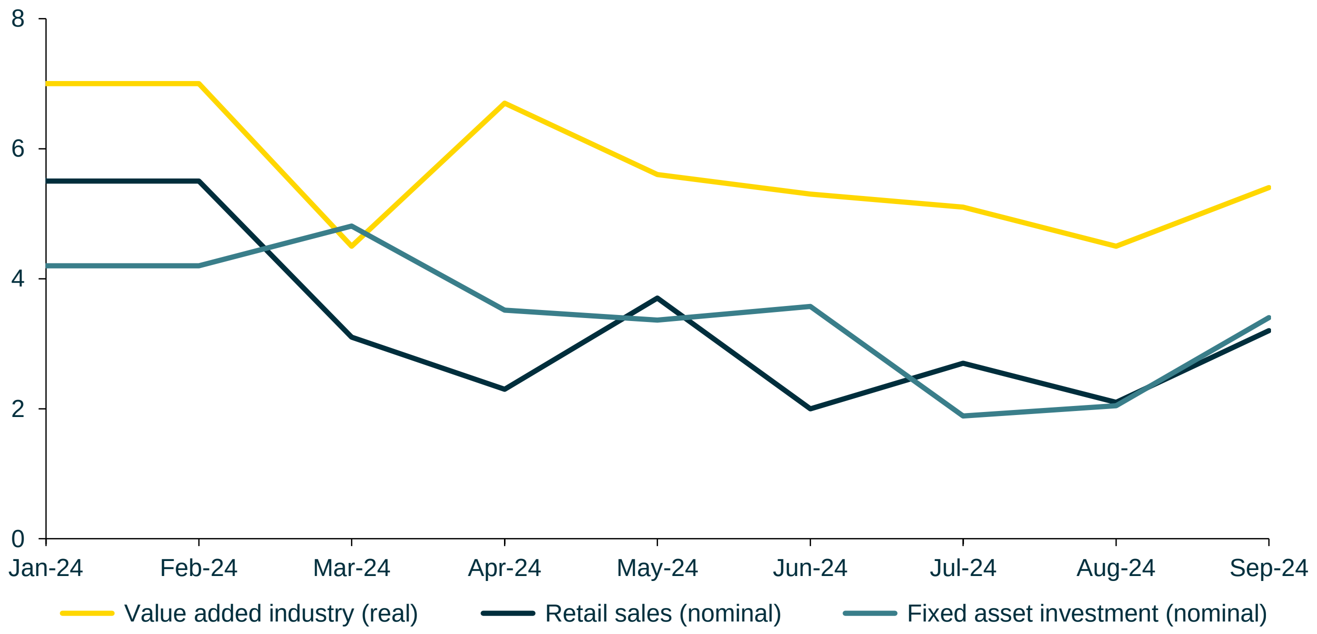
In year-on-year terms, GDP grew 4.6%, above our forecast of 4.4%. It came down a bit from 4.7% in Q2. The preliminary GDP breakdown suggested that industrial production growth held up at 4.6% yoy, albeit slowing from 5.6% in Q2. The service sector growth improved to 4.8% from 4.2% previously. The improvement probably came from fiscal stimulus, but the impact wasn't through consumption.

We say this because our estimates based on the household survey data actually suggested that real household consumption slowed to about 3% yoy from about 4.5% in Q2. This means the improvement in services likely did not come from the consumer industry, nor from real estate given its downturn, but rather from other industries. While fiscal spending was lagging as of August, we suspect that it might have increased sharply in September, which would have led to an improvement in public sector services. We need to wait for the detailed breakdown to pinpoint what drove the pick-up in services.

Meanwhile, September monthly data showed some tentative sign of improvement. Industrial production (or value added in industry) picked up to 5.4% yoy from 4.5% in August, nominal retail sales improved to 3.2% from 2.1% previously, and fixed asset investment also picked up to 3.4% from 2% previously (Chart 1). There was a strong improvement in nominal infrastructure investment which grew almost 18% yoy in September, up from 7.4% on average in July-August. This suggests policy stimulus was at work.

Chart 1 - An uptick in September

Industry value added, retail sales, fixed asset investment, in yoy %



Source: NBS, CEIC, Commerzbank Research

Earlier data from September showed that exports in USD terms grew just 2.4% yoy in September from 8.7% in August. In real terms, we estimate that they grew around 9% yoy from 15.7% in August. The gap between nominal and real exports is due to exporters cutting prices to boost sales.

Reflecting domestic weakness, nominal imports grew just 0.3% yoy in September and we estimate that real imports contracted about 1.5% yoy, similar to August.

CPI inflation fell to 0.4% yoy in September, but it was only supported by temporary food inflation. Core inflation fell to just 0.1% yoy, reflecting weak domestic demand. Meanwhile, PPI contracted 2.8% yoy in September.

Credit data also pointed to ongoing economic weakness. New bank loans made in September fell from a year ago and the decline was broad based across loans to households and businesses. New total social financing (TSF), a measure of overall credit plus equity, also fell from a year ago. The decline was also broad based across categories, with government bond issuance being the only bright spot due to the push by policymakers to bolster stimulus.

On the latter, however, while the central and local governments have raised more funds than they did previously, many of the funds at the local level are sitting idle and waiting to be deployed. The finance ministry had said that there are CNY2.3 trillion (USD325 billion or 1.8% of GDP) in local government special bonds funds available for the rest of this year.

More stimulus is coming

Chinese policymakers have rolled out a mix of fiscal and monetary policy stimulus in recent weeks. We think that while the improvement in the delivery of fiscal budget and new stimulus may help from a cyclical perspective, China's growth will remain under pressure due to the ongoing structural headwinds such as the real estate troubles. It will likely require a change in policy thinking to address these structural problems.

In a series of Economic Briefing and Economic Insights, we discussed the stimulus package by the PBoC (see **China – PBoC's big stimulus**), the measures announced by the Ministry of Finance (see **China – Better budget implementation may create short-term boost**), and discussed our views on the recent stimulus (see **China – Is the stimulus enough?**).

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