

China Macro Flash

Dec Data Confirm Mild Rebound and Signal Structural Changes

- **GDP growth confirms a cyclical rebound of the economy** — China's GDP grew at 7.9% in Q4, which makes the annual GDP growth 7.8%, broadly in line with market expectations. The lowest growth rate since 1999 marks that China has entered a normalized rate of growth, with weak external demand, demographic changes and rising labor and environmental costs at home. The Dec data on industrial production and FAI reveal that structural changes are taking place with Chinese industries. With contribution to GDP growth (7.8%), consumption accounted for 4.04%, overtaking investment (3.93%) as the largest contributor to GDP growth. Policies are likely to remain supportive in the near term. Macro policies may gradually shift from an easing bias to a neutral position, if external and domestic downside risks decline and inflation starts to trend up.
- **Production by industries with excess capacity decelerated** —Dec. industrial production growth measured by value-added industries accelerated to 10.3% yoy, up 0.2ppt from a month ago, the highest since March 2012. Production growth in ferrous metals, an industry with serious overcapacity, dropped significantly from 23.2 % in Aug to 19.1% in Nov, and further down to 12.2% in Dec, a fall of 7 ppt in a month, the lowest growth rate since Nov 2008. Growth in cement production, another industry with over capacity, dropped from 9.4% in Nov to 5.4% in Dec, down by 4 ppt. We expect a decline in production growth for major overcapacity industries in 2013 and 2014.
- **A decline in FAI growth with the secondary industry** — China's FAI declined slightly from 20.7% in Nov to 20.6% in Dec ytd yoy, a lower FAI growth rate in 2012 compared with 2011, with a slower rate of GDP growth. By industries, FAI in primary industry increased from 25% in 2011 to 32.2%, tertiary industry declined slightly from 21.1% in 2011 to 20.6% in 2012, while the secondary industry FAI went down from 27.3% in 2011 to 20.2% in 2012, a drop of 7.1 ppt. Property investment in Dec stabilized at 16.2% ytd yoy, slightly lower than 16.7% in Nov. However, on a yearly basis, property investment in 2012 dropped by 11.9 ppt.
- **Growth in retail sales continued** — Retail sales growth accelerated from 14.9% in Nov to 15.2% in Dec, the highest growth rate since March 2012. Dec retail sales accelerated in both urban and rural areas: in urban areas sales increased from 15% to 15.2%, and grew from 14.6% to 15.1% in rural areas. A Dec CPI rise has contributed to the growth in retail sales. Recent warming up in the property market brought furniture sales up from 23.9% in Nov to 32.4% in Dec.

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Figure 1. China Economic Data Releases for December / 4Q 2012

Data	Date	For	Actual	Citi Fcst	Mkt Fcst	Prev	2012
Real GDP (YoY)	Jan 18	4Q	7.9	7.8	7.8	7.4	7.8
IP (% YoY)		Dec	10.3	10.4	10.2	10.1	10.0
FAI - urban (% YoY ytd)			20.6	20.5	20.7	20.7	20.6
Retail Sales (% YoY)			15.2	15.2	15.1	14.9	14.3
Real Estate Investment (% YoY ytd)			16.2	-	-	16.7	16.2

Source: Bloomberg and Citi Research estimates

Figure 2. Short comments on the data

** Contribution to GDP growth (7.8% annual): consumption 4.04; investment 3.93; net export -0.17

Comment: consumption surpassed investment

** Seasonally adjusted growth for 4 quarters: 1.5, 2.0, 2.1, 2.0

Comment: Flattish in the last three quarters, confirming a mild rebound

** Working age population (15-59): dropped by 3.45 million, and weight in total population dropped by 0.6ppt to 69.2%

Comment: 2011 was the first year to witness a drop in share; 2012 saw the first drop in the absolute number. This would have long-term impact on potential growth.

** Urban citizen reached 52.6% of the population, 1.3ppt higher than 2011.

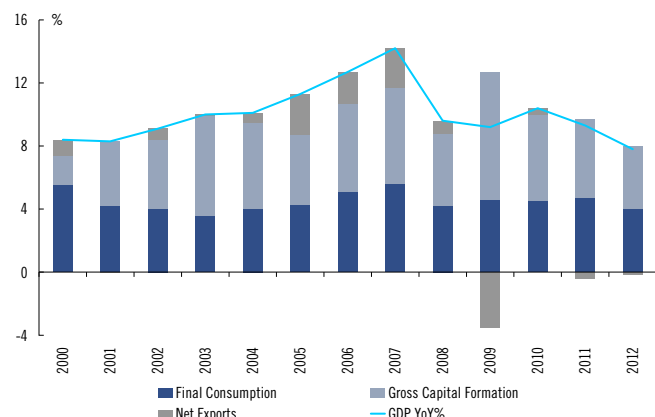
Comment: old-style urbanization continued with over 1ppt increase a year even with below 8% growth.

** The head of NBS made public the Gini coefficients for the first time in recent years: 2003: 0.479, 2004: 0.473, 2005: 0.485, 2006: 0.487, 2007: 0.484, 2008: 0.491, 2009: 0.490, 2010: 0.481, 2011: 0.477, 2012: 0.474.

Comment: very high by international standards and income redistribution will be a focus of the government.

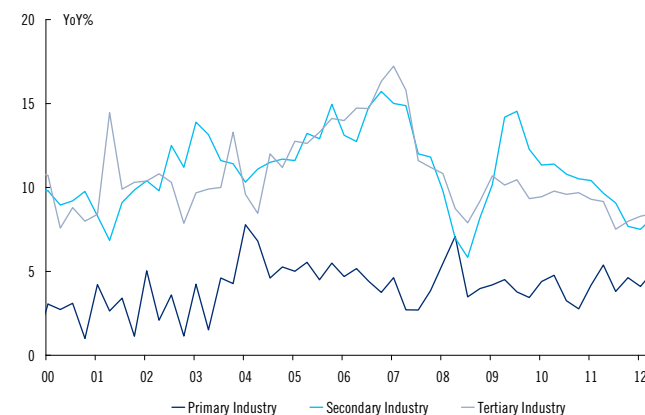
Source: Citi Research

Figure 3. GDP contribution by expenditure



Source: NBS and Citi Research

Figure 4. GDP growth by industry



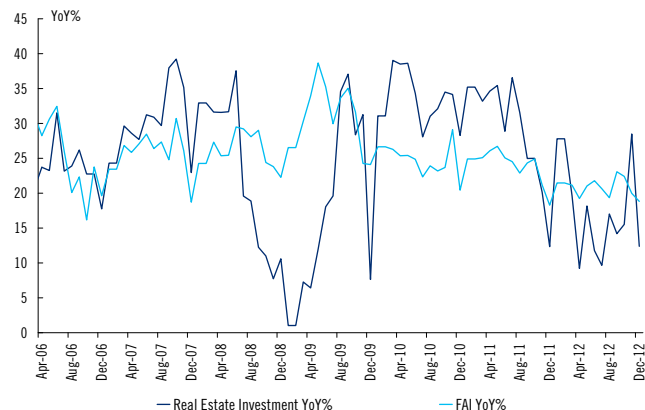
Source: NBS and Citi Research

Figure 5. IP growth picked up in line with PMI



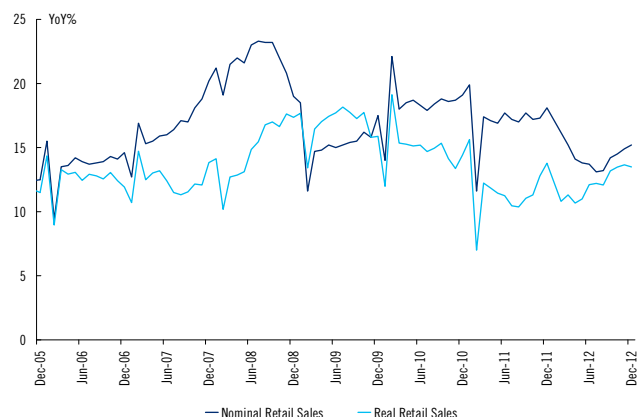
Source: NBS and Citi Research

Figure 7. Both real estate investment and FAI growth dropped



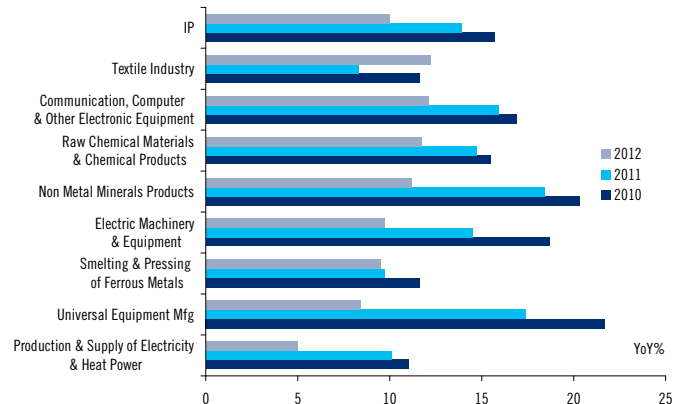
Source: NBS and Citi Research

Figure 9. Growth in retail sales continued



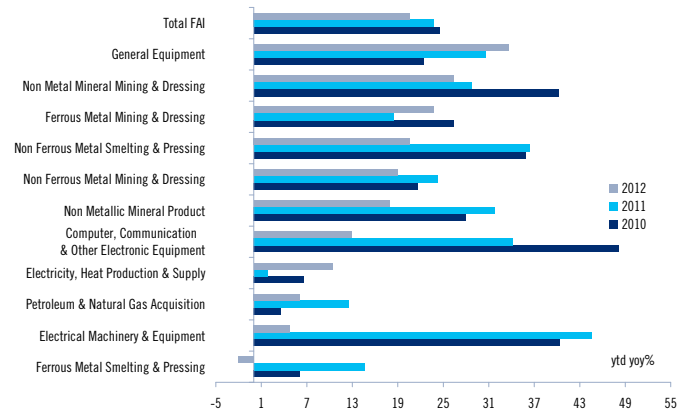
Source: NBS and Citi Research

Figure 6. IP by selected industry



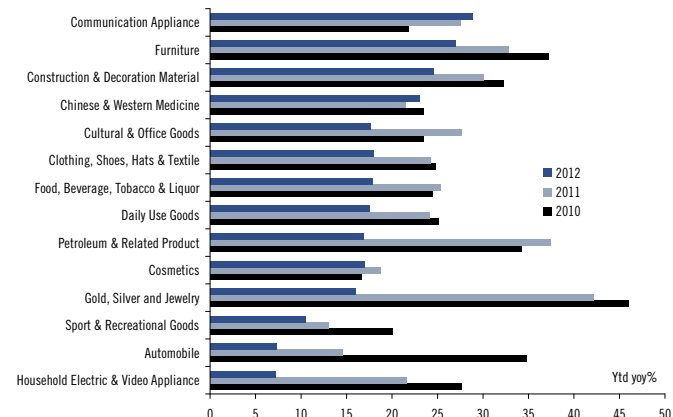
Source: NBS and Citi Research

Figure 8. FAI by major industry



Source: NBS and Citi Research

Figure 10. Retail Sales by major products



Source: NBS and Citi Research

Appendix A-1

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