



British Embassy  
Beijing

## China Economic Focus – October 2013

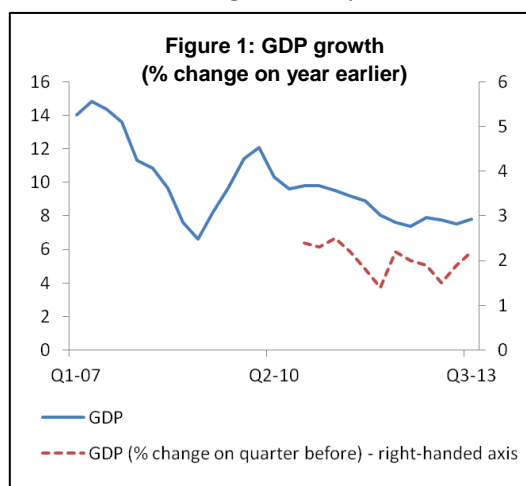
---

### Overview

- China's economy grew by 7.8 percent (year-on-year) in the third quarter of 2013, up from 7.5 percent in the previous quarter. This was in line with forecasts, which have been steadily revised up since August, following a summer of quite bearish commentary. The economy has grown by 7.7 percent over the first 3 quarters of 2013.
- Encouragingly, the labour market appears to be strengthening, with stronger urban and rural income growth and a rising ratio of job applicants to vacancies. Moreover, growth in all sectors of the economy accelerated but the services sector continues to outpace manufacturing (and agriculture). Finally, while overall retail sales were broadly stable, auto sales rose 13.2 percent year-on-year, up from 7 percent last month and the highest growth rate since September 2011.
- Less encouragingly, the latest data illustrate how investment has resumed its role as the predominant driver of Chinese growth, contributing 4.3 percentage points to overall growth so far, relative to 3.5 percentage points from consumption (by contrast, last year consumption was the main contributor to growth). And exports unexpectedly fell last month, illustrating on-going weakness in external demand.
- Inflation last month increased to 3.2 percent, driven largely by rising vegetable prices. Inflation is now at its highest level since February 2013, though importantly it remains below the 3.5 percent target. Last month bank loans increased faster than forecasted but Total Social Financing, a broader measure of credit, decreased slightly from the previous month. Other important data points, including industrial production and fixed investment, were stable or fell slightly.
- Chinese internal policymaking has been quiet this month, ahead of the November 3<sup>rd</sup> Plenum and subsequent Central Economic Work Conference. UK-Chinese economic relations received a major boost during the Chancellor of the Exchequer's visit to China between 13-18 October, with new announcements made about civil nuclear collaboration, the Shanghai Free Trade Zone, inward investment, science and innovation and London as an RMB centre (see [here](#) for further information).
- Further examples of our recent reporting can be found at: <http://www.ukti.gov.uk/export/countries/asiapacific/foreast/china/fcoupdates.html>. Please get in touch if you have any questions or comments.

**China's economy has stabilised**

1. China's economy expanded by 7.8 percent in 2013 Q3 (on a year earlier), picking up from 7.5 percent in 2013 Q2. It was broadly in line with expectations. On quarterly basis (seasonally adjusted), the economy grew by 2.2 percent in 2013 Q3 – the highest reading since 2012 Q2. Most analysts are now expecting overall growth in 2013 to be around 7.6 percent, slightly above the authorities' target of 7.5 percent. **See Figure 1 & 2.**



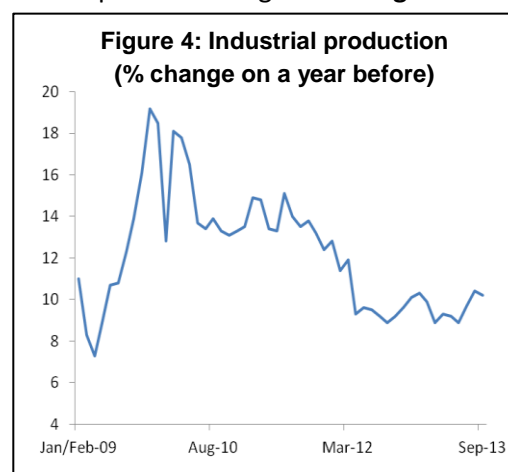
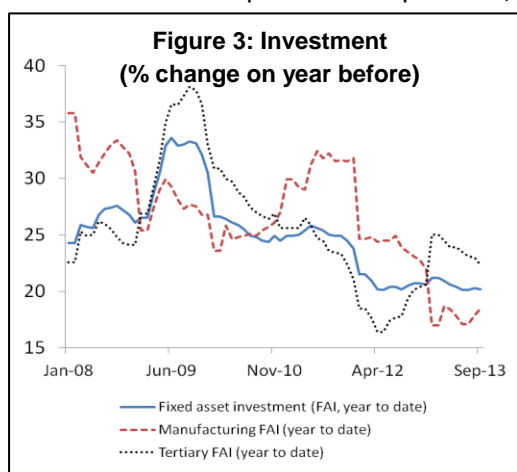
**Figure 2: External growth forecasts for 2013**

Institute	Forecasts
World Bank	7.5 percent
IMF	7.6 percent
HSBC	7.7 percent
Standard Chartered	7.5 percent
Citibank	7.6 percent
UBS	7.6 percent
Goldman Sachs	7.6 percent
JP Morgan	7.6 percent
CICC	7.6 percent
'Official Target'	7.5 percent

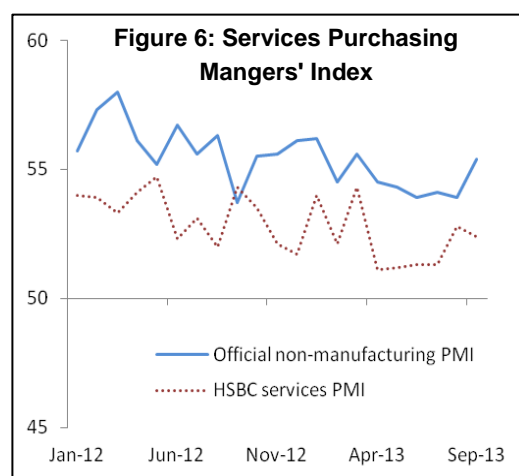
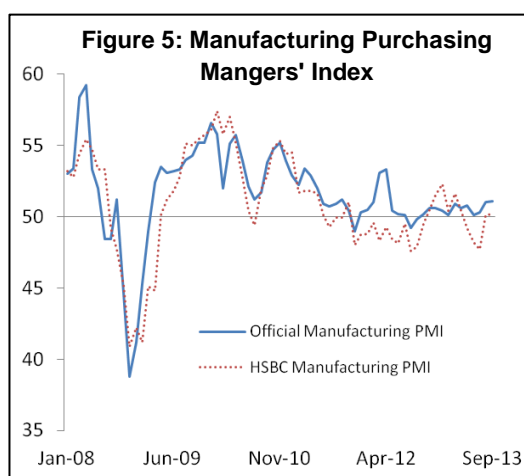
2. Growth of tertiary sector picked up to 8.4 percent in 2013 Q3 (on a year earlier). Manufacturing sector growth increased to 7.8 percent in 2013 Q3, up from 7.6 percent in 2013 Q2. Tertiary sector now accounts for a slightly bigger proportion of China's economy than the manufacturing sector.
3. During the State Council's (China's cabinet) Executive Meeting on 18 October, Premier Li Keqiang described the economy as 'stable and positive'. He urged continuous implementation of previously announced measures, including simplification of administrative approvals, expansion of VAT reform, and tax reduction for micro and small firms.

**2013 Q3 data broadly positive**

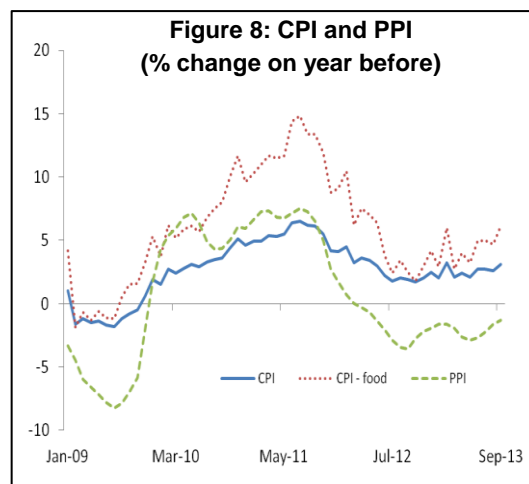
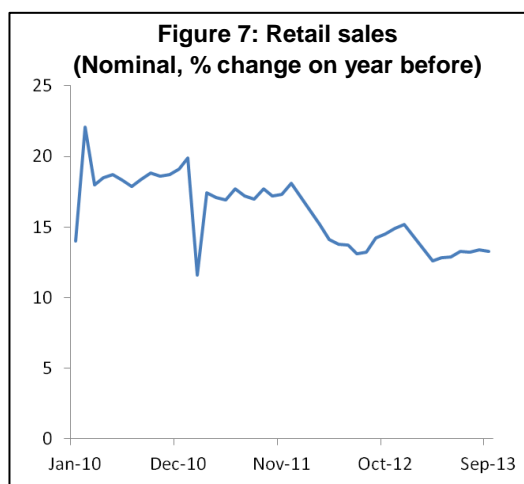
4. Headline fixed asset investment (FAI) grew by 20.2 percent in the first 9 months (on a year earlier), compared with 20.3 percent in the first 8 months. This was slightly below market expectations (20.3 percent). Infrastructure investment, a major contributor to headline FAI, decelerated to 21.6 percent in September, down from 29.3 percent in August. **See Figure 3.**



5. Growth of industrial production (IP) slowed to 10.2 percent in September (on a year earlier), down 0.2 percentage points from August, but higher than 9.2 percent in September 2012. Electricity production growth slowed to 8.2 percent in September, compared with 13.4 percent in August - likely due to the cooler weather. Growth of production of steel, cement and crude oil eased; whereas car production saw a visible acceleration. **See Figure 4.**
  
6. The purchasing manager's indices (PMI), a forward-looking measure of business conditions, continue to improve. The official Manufacturing PMI stood at a 17-month high at 51.1 in September, up from August's 51. This was the 12<sup>th</sup> consecutive month in the expansion zone (above 50). The separate HSBC Manufacturing PMI, seen as a better measure of business conditions for small enterprises, climbed marginally to 50.2 over the past month (50.1 in August). The official services PMI reached a 6-month high at 55.4. HSBC services PMI eased slightly to 52.4 in September (52.8 in August). **See Figure 5 & 6.**



7. Retail sales grew by 13.3 percent in September (on a year earlier), down marginally from 13.4 percent in August. However, on monthly basis (seasonally adjusted), retail sales growth accelerated to 1.24 percent in September from 1.13 percent in August. Growth of rural consumption (14.8 percent) continued to outpace that of urban consumption (13.1 percent). Sales of catering sector, which is likely influenced by the government's austerity campaign, contracted further to - 1.3 percent in September (-0.3 percent in August). Growth of home appliance, communications equipment and automobiles accelerated. **See Figure 7.**

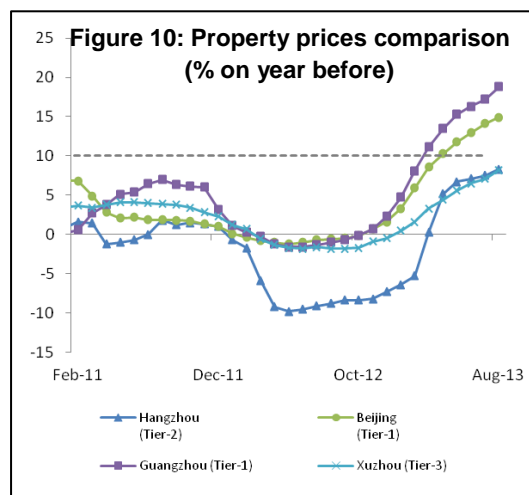
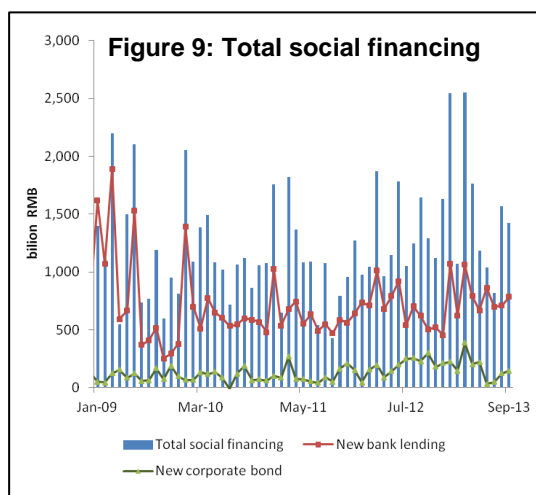


**Inflation pressure remains low**

8. The consumer prices index (CPI) reached a 7-month high at 3.1 percent in September (on a year earlier), picking up from 2.6 percent in August, but remaining below the 2013 target of 3.5 percent. Food prices continued to be the main contributor - it grew by 6.1 percent in September (compared with 4.7 percent in August), contributing 1.98 percentage points to headline CPI. **See Figure 8.**
9. Producer prices index (PPI), a measure of upstream inflation pressure, contracted by 1.3 percent in September (on a year earlier), compared with 1.6 percent in August.

**Total social financing decelerates, new bank lending picks up**

10. Total social financing (TSF), a measure of all forms of new credit, totalled RMB 1.4 trillion (£140 billion) in September, down from RMB 1.57 trillion (£157 billion) in August. The slowdown was mainly due to a sharp drop bank acceptance bills (analysts suggest that monthly data were volatile, thus no need to over interpret it). New issuance of corporate bonds and entrusted loans increased. **See Figure 9.**
11. New bank lending reached RMB 787 billion (£78.7 billion) in September, compared with RMB 711 billion (£71.1 billion) in August. This was in accordance with the trend that banks tend to lend more at the end of each quarter to boost their performance evaluation.
12. Money supply (M2) growth eased to 14.2 percent in September (on a year earlier), compared with 14.7 in August. M2 continued to exceed the official annual target of 13 percent. In the PBoC’s Q3 press conference, its spokesman described the liquidity supply in the banking system as ‘relatively abundant’.



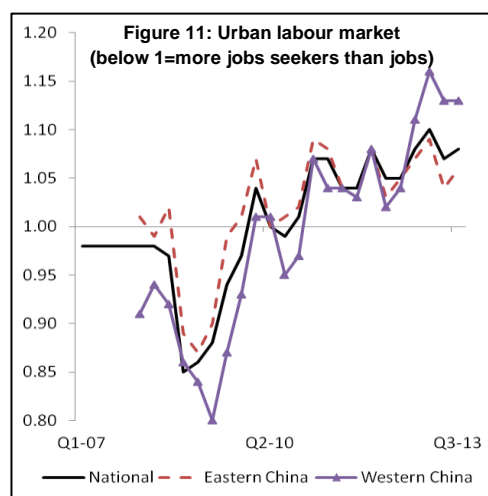
**The authorities reiterate differential property loan policy**

13. Property prices continue to rise quickly. The latest data show that 66 out of 70 cities surveyed saw higher property price in August (on a month earlier), compared with 62 in July and 63 in June. Property prices growth in all Tier 1 cities (Beijing, Shanghai, Guangzhou and Shenzhen) accelerated from July to August. **See Figure 10.**

14. Property investment growth picked up slightly to 19.7 percent in the first 9 months (on a year earlier), compared with 19.3 percent in the first 8 months. Residential property, which accounts for 68.7 percent of property investment, grew by 19.5 percent in the first 9 months, compared with 19.2 percent in the first 8 months.
15. In its Q3 press conference, the PBoC reiterated its policy stance of implementing differential crediting policies to support first home purchase, social housing and small residential property. According to official data, within that, over 75 percent of property loans was granted to first home buyers in the first 9 months; loans for social housing development account for 27 percent as of end September, compared with around 5 percent in 2009.

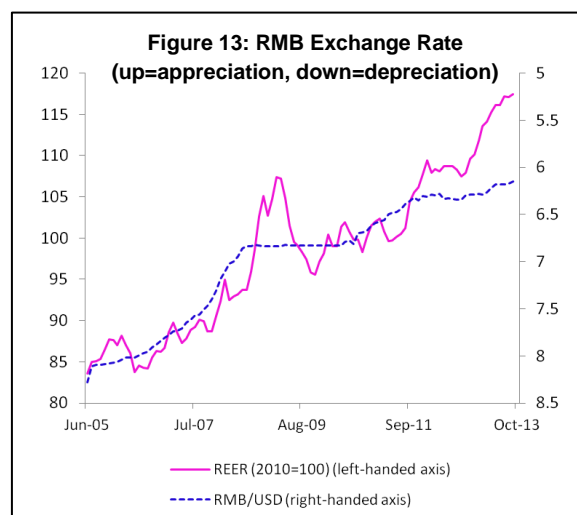
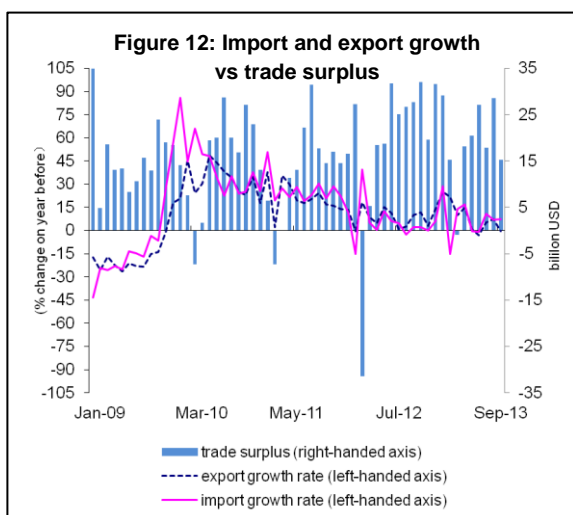
**Labour market remains tight**

16. The labour market remains tight in cities. Official data show that the amount of jobs continued to exceed job seekers in 2013 Q3. Labour market situation in Western China continued to perform better in Western China than the national average. **See Figure 11.**
17. Rural income growth continued to outpace headline GDP – it grew by 9.6 percent in the first three quarters (on a year earlier), up from 9.2 percent in the first two quarters. Growth of urban income was slower than that of rural income, but was performing better - it increased by 6.8 percent in the first three quarters, compared with 6.5 percent in the first two quarters.



**Exports weaken, imports sustain**

18. Exports declined by 0.3 percent in September (on a year earlier), compared with a 7 percent increase in August. It was well below market consensus. The contraction was mainly attributable to a quick slowdown of exports to ASEAN countries. Shipment to ASEAN countries increased by 10 percent in September, compared with 30.8 percent growth in August. Exports to G3 markets (US, EU and Japan), which account for a third of China’s total exports, grew by 1.7 percent in September, compared with 3.2 percent growth in August. Exports to the EU contracted by 1 percent in September, compared with 2.2 percent increase in August.
19. China’s imports remained stable, growing by 7.4 percent in September (on a year earlier), 0.3 percentage points higher than in August.
20. The balance of exports and imports registered a trade surplus of USD 15.2 billion in September, 44.7 percent lower than the trade surplus in August. **See Figure 12.**



***RMB:US\$ exchange rate has been nearly flat***

21. The RMB:US\$ exchange rate (as of 22 October) has been nearly flat over the past month, and has appreciated by 2.4 percent since the beginning of 2013. According to the Bank of International Settlement, the RMB’s real effective exchange rate has appreciated by 6.6 percent in the first 9 months of 2013. **See Figure 13.**

22. RMB deposits in Hong Kong, an offshore market for the Chinese currency, totalled RMB 709.5 billion (£70.9 billion) in August (latest figure), edging up from July’s RMB 695 billion (£69.5 billion). RMB cross-border trade settlement reached RMB 304.2 billion (£30.4 billion) in August, increasing 6.6 percent from July.

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:

- Zhenqian Huang | [zhenqian.huang@fco.gov.uk](mailto:zhenqian.huang@fco.gov.uk) | (+86 10) 5192 4388
- Henry Bell | [henry.bell@fco.gov.uk](mailto:henry.bell@fco.gov.uk) | (+86 10) 5192 4493

To view previous editions, please visit:

<http://www.ukti.gov.uk/export/countries/asiapacific/fareast/china/fcouupdates.html>