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Economics Group

Jay H. Bryson, Global Economist
jay.bryson@wellsfargo.com • (704) 410-3274
E. Harry Pershing, Economic Analyst
edward.h.pershing@wellsfargo.com • (704) 410-3034

Chinese GDP Growth Remains Stable in Q3

Real GDP in China grew 6.7 percent from a year earlier in Q3, the third consecutive quarter at this pace of growth. However, despite the recent stability, we look for growth to slow in coming quarters.

Headline Growth Remains Firm

Chinese GDP in Q3 was in line with the overall consensus and with our own call of 6.7 percent growth from a year earlier. After slowing for four successive quarters in 2015, Chinese headline growth has stabilized and has registered 6.7 percent growth for three consecutive quarters. Quarter-over-quarter growth also matched the consensus call of 1.8 percent. A breakdown of real GDP into its demand-side components is not yet available, but data by sector level shows that output growth in the "primary sector," which includes agriculture and forestry, and growth in the "tertiary sector," which includes services, increased year over year from Q2. Growth in the "secondary sector," a category that includes manufacturing and construction, remained flat at 6.1 percent from a year ago.

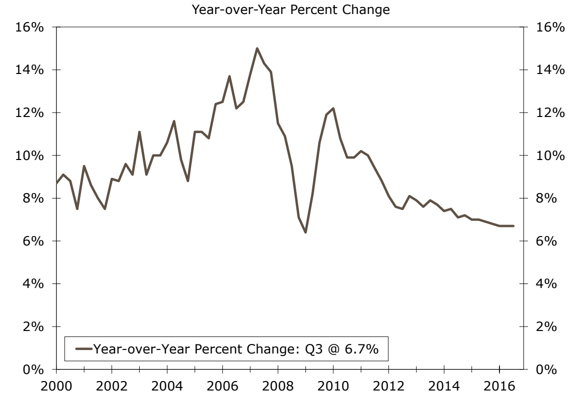
Also published yesterday was China's retail sales and industrial output data for September. Nominal real sales remain robust, increasing 10.7 percent from a year-ago, the strongest growth rate since Dec. 2015. Industrial output, on the other hand, slowed modestly to 6.1 percent from August's 6.3 percent reading. However, motor vehicle and steel production were both up on the month and are 31.5 percent and 4.3 percent higher, respectively, from a year ago.

Much of the slowdown in China over the past few years can be attributed to deceleration in investment spending. However, growth in this component of GDP has recently stabilized, largely, in part to a boom in residential investment. In a recent report, which is available upon request, we discussed the rise in Chinese house prices and housing investment. The People's Bank of China has guided interest rates lower over the past year or so and the government has instructed banks to relax lending standards. These policies have not only stimulated more home-buying, which has pushed up house prices, but they have also caused housing starts to strengthen this year. Given the rebound in building activity in China this year, the share of that country's GDP that is devoted to new housing construction likely has stabilized and may have edged higher again.

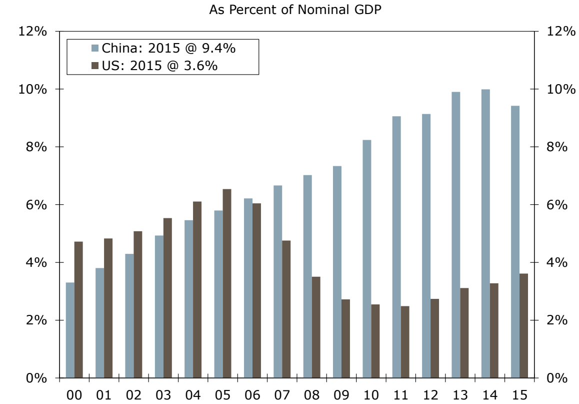
A "Soft Landing"

Residential investment should decelerate in coming quarters, because lending standards likely will not be relaxed even further. We are of the opinion that the Chinese economy will more or less experience a "soft landing," growing 6.0 percent and 5.5 percent in 2017 and 2018, respectively. The slowdown, we believe, will be the result of China's over-leveraged business sector, especially its state owned enterprises which are often kept afloat by the Chinese government. Furthermore, our currency strategy team sees the US dollar strengthening against the renminbi at a modest pace. However, China's central bank's large reserves should help smooth out any large potential currency swings.

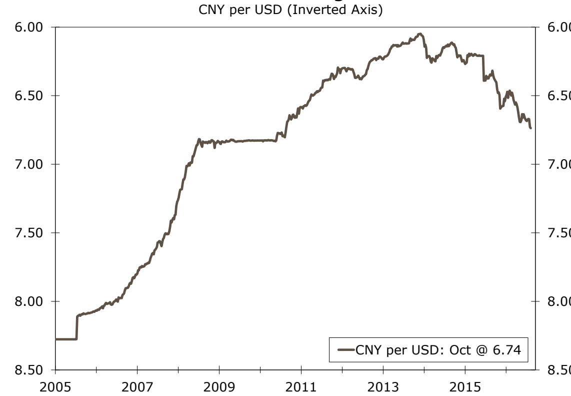
Chinese Real GDP
Year-over-Year Percent Change



Residential Investment
As Percent of Nominal GDP



Chinese Exchange Rate
CNY per USD (Inverted Axis)



Source: Bloomberg LP, CEIC, IHS Global Insight and Wells Fargo Securities

Wells Fargo Securities Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Anika R. Khan	Senior Economist	(212) 214-8543	anika.khan@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloria, CFA	Currency Strategist	(212) 214-5637	eric.viloria@wellsfargo.com
Sarah House	Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Jamie Feik	Economist	(704) 410-3291	jamie.feik@wellsfargo.com
Erik Nelson	Currency Analyst	(212) 214-5652	erik.f.nelson@wellsfargo.com
Misa Batcheller	Economic Analyst	(704) 410-3060	misa.n.batcheller@wellsfargo.com
Michael Pugliese	Economic Analyst	(704) 410-3156	michael.d.pugliese@wellsfargo.com
Julianne Causey	Economic Analyst	(704) 410-3281	julianne.causey@wellsfargo.com
E. Harry Pershing	Economic Analyst	(704) 410-3034	edward.h.pershing@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Dawne Howes	Administrative Assistant	(704) 410-3272	dawne.howes@wellsfargo.com