



Economics Group

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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

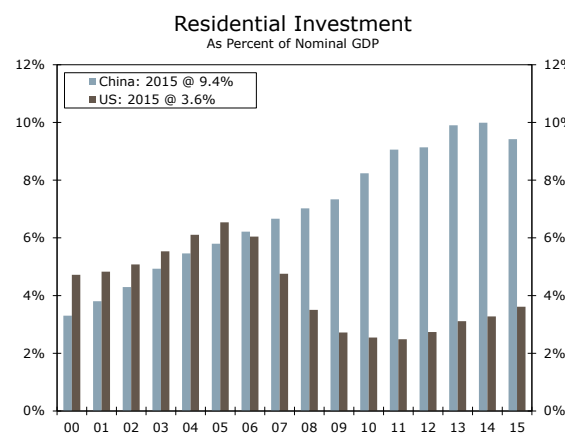
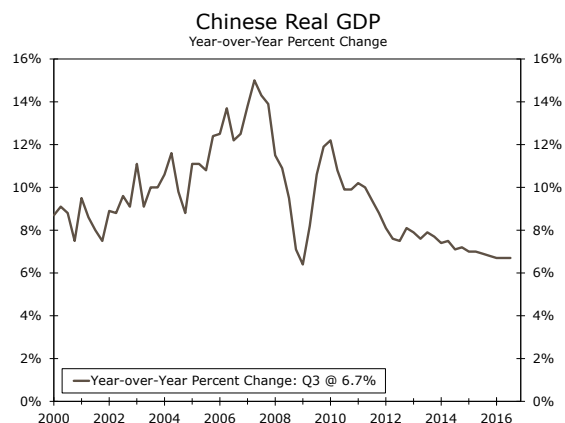
Chinese GDP in Q3 was in line with the overall consensus and with our own call of 6.7 percent growth from a year earlier. After slowing for four successive quarters in 2015, Chinese headline growth has stabilized and has registered 6.7 percent growth for three consecutive quarters. Quarter-over-quarter 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.



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