

# China

## Economic growth picks up to 7.8% in third quarter, but may be a peak

- GDP growth picks up to 7.8%
- Retail sales rise at steady rate
- Investment growth slumps
- Industrial production growth weakens, but remains up on recent lows

Economic growth in the third quarter picked up in China, but the prospect of a further improvement in the fourth quarter looks unlikely. Although export growth may revive, domestic demand and investment look set to act as dampeners on the economy. Nevertheless, the government's modest growth target of 7.5% for 2013 should easily be achieved.

### Faster economic growth

China's economy grew at an annual rate of 7.8% in the third quarter, accelerating slightly from 7.5% in the second quarter, according to data from the National Bureau of Statistics. Over the first nine months of the year, the economy has grown 7.7%, suggesting that the government's target of 7.5% economic growth for the year will be achieved.

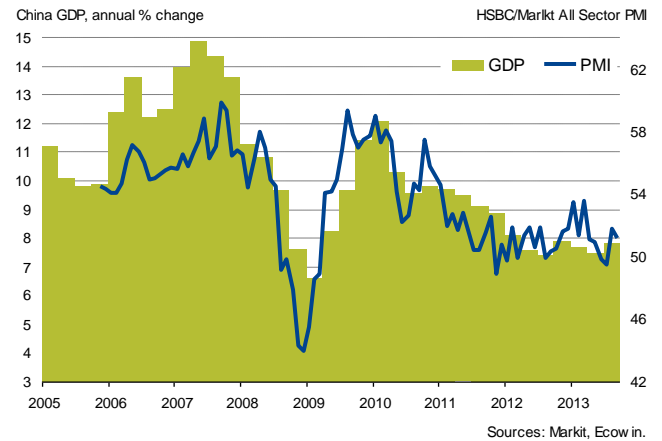
Growth of 7.5% for the whole year would nevertheless be the lowest since 1990 (albeit by a small margin: the economy grew by just 7.8% and 7.6% in 1998 and 1999 respectively, following the Asian financial crisis).

The third quarter GDP upturn was in line with the signal from the PMI surveys. The average composite index reading derived from both the [HSBC/Markit manufacturing and services PMIs](#) rose from an average of 50.6 in the three months to June to 50.8 in the three months to September. However, a dip in the index from 51.8 in August to 51.2 in September hints at a renewed loss of momentum as we move into the fourth quarter. This suggests that the 7.8% expansion in the third quarter may represent a peak in the current growth cycle.

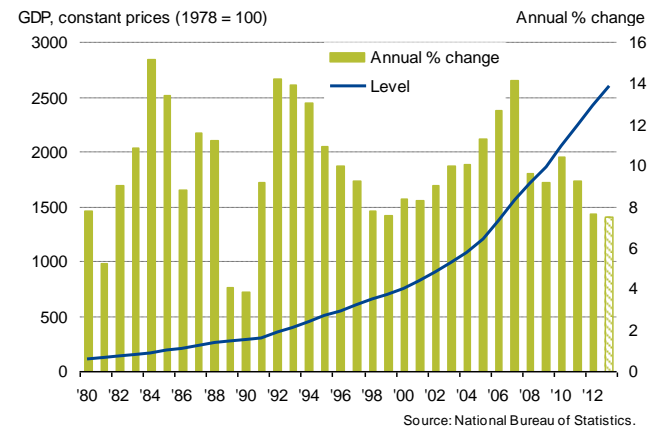
### Steady retail sales growth

The government is engaged in a process of 'rebalancing' the economy away from investment-led

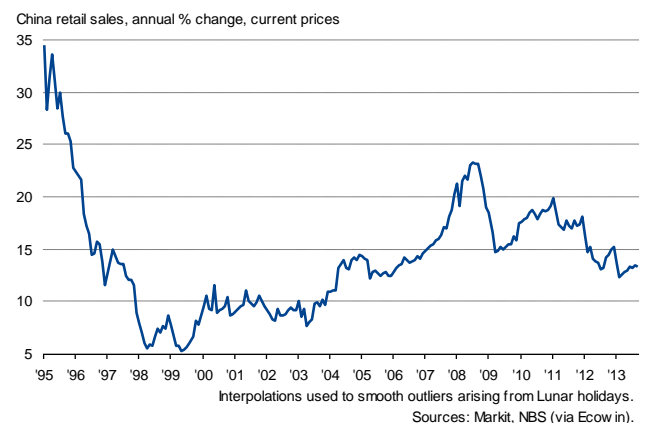
### China GDP and the 'all-sector' PMI



### Long-run GDP trend



### Retail sales



growth and exports towards domestic consumption. The news on the latter is mixed, at best. Retail sales rose at an annual rate of 13.3% in September, unchanged on the average seen over the previous three months. Although up from the seven-year low of 12.3% seen back in February, recent sales growth has fallen well below that seen throughout much of the post-crisis period, though is notably higher than that seen in the 1998-2004 period.

### Investment downturn

While the data on retail sales is somewhat disappointing, suggesting consumption will provide little impetus to economic growth, the data on investment highlight how the downturn in infrastructure spending since the global financial crisis is hitting the Chinese economy. Fixed asset investment grew at an annual rate of 17.7% in September, down from 21.4% in August and the weakest since February 2011. In fact, the rate of increase was the weakest seen for any September since records began in 2004.

### Industrial production growth dip

The industrial sector picked up in the third quarter, but the pace of growth also remains somewhat disappointing. Production grew at an annual rate of 10.2% in September, down from 10.4% in August, and was in line with a slight dip in the HSBC/Markit Manufacturing PMI Output Index from 50.9 to 50.2. However, the pace has picked up from the post-crisis lows of 8.9% seen back in March and June. The average annual growth rate of 9.5% in the first nine months of 2013 compared with 11.1% in the same period of 2012.

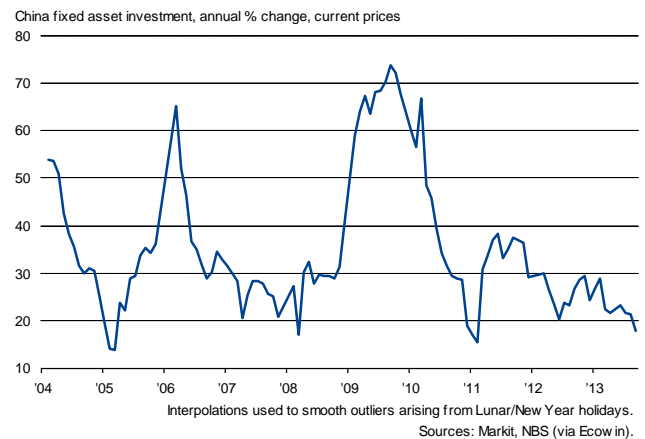
### Exports to revive

A ray of light in China's outlook is exports. Although official data showed a 0.3% year-on-year drop in exports in September, overseas sales are running 4.0% higher in the third quarter compared with the second quarter. Moreover, the HSBC/Markit survey data suggest a further improvement is on the cards in the coming months.

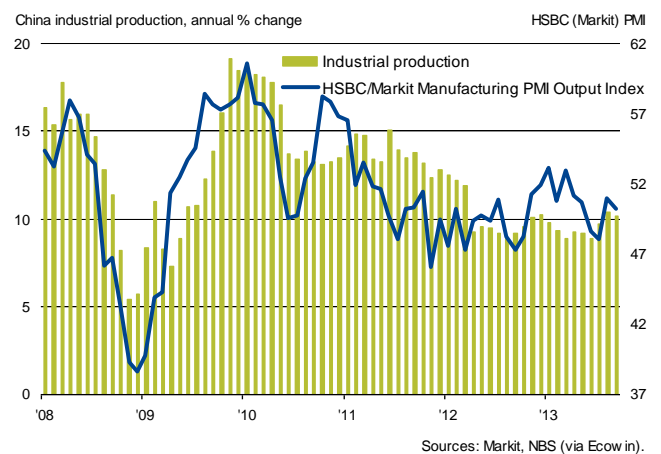
With demand picking up in the eurozone, alongside faster economic growth in major economies such as Japan and the UK, Chinese exporters may help to boost the economy in the fourth quarter. However, the disappointing domestic demand situation, and the government's mini-stimulus package from earlier in the year having a waning impact, an upturn in fourth quarter GDP growth is perhaps unlikely.

The first glimpse of economic growth in the final quarter of the year will be provided by the HSBC/Markit flash manufacturing PMI on 24 October.

### Fixed asset investment



### Industrial production



### Exports



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