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Economics Group

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China GDP Growth Slows Further in Q3

Real GDP in China grew 6.9 percent from a year earlier in Q3, the slowest pace of growth since 2009. While the industrial sector continues to weaken, services activity has actually accelerated over the past year.

Shifting Growth Dynamics

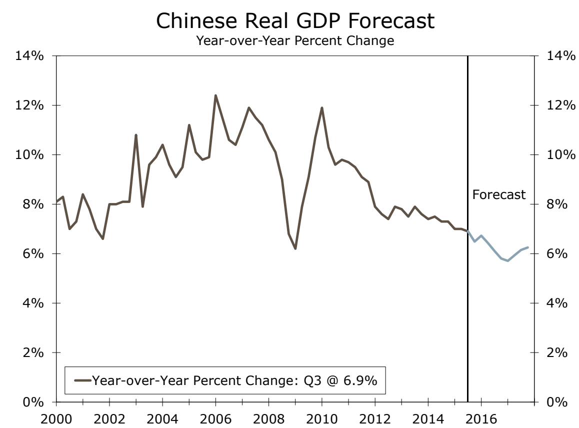
While the 6.9 percent year-over-year growth rate in Chinese real GDP in Q3 was slightly higher than the expectations of most analysts, it still represents the slowest year-ago pace of growth in more than six years (top chart). A breakdown of real GDP into its demand-side components is not yet available, but preliminary data showed that output growth in the "secondary sector," which includes manufacturing, mining and construction, slowed further in Q3. However, growth in services output picked up in the third quarter, marking the fourth-straight quarter of acceleration in Chinese services activity.

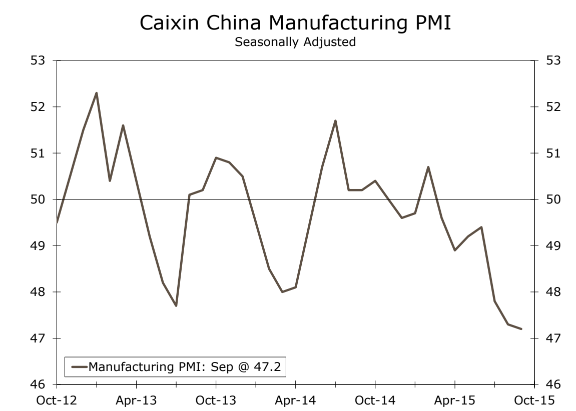
The shift of growth drivers from the industrial sector to the services sector has been widely publicized as a policy objective of Chinese authorities, and these recent figures will thus likely be viewed as a positive development in that regard. Higher frequency data have largely corroborated this story—year-over-year growth in industrial production slowed more than expected in September to 5.7 percent, while the Caixin manufacturing PMI has now been below 50 for seven straight months (middle chart). Meanwhile, retail sales growth came in stronger than expected in September, up 10.9 percent on a year-ago basis.

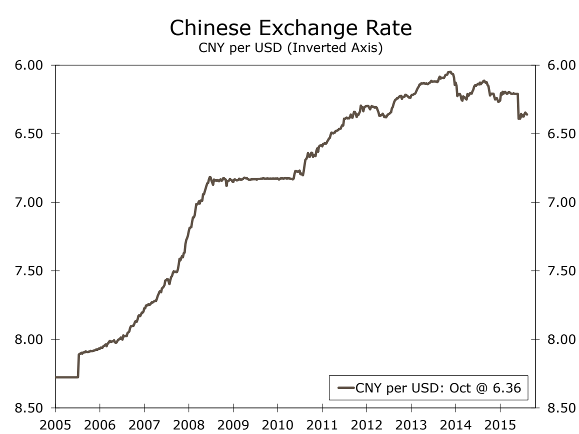
Economic growth is clearly slowing in China, and our current forecast looks for continued deceleration over the next few years. That said, we expect the adjustment will be a gradual one. Chinese authorities have already taken considerable policy measures to soften what many predicted would be a "hard landing." In particular, the People's Bank of China (PBoC) has cut its benchmark lending rate by 140 bps over the past year and has trimmed its reserve requirement ratio for banks by 200 bps year to date. These policy measures have started to show more tangible effects on the economy recently. For instance, loan growth has trended steadily higher since late last year, and Chinese house prices are showing signs of stabilizing after declining for much of the past year. Given the general absence of inflationary pressures in the economy—PPI inflation is well into negative territory, while CPI inflation is only marginally positive—we believe the PBoC has scope to ease policy further if the economy shows more significant signs of weakening in the coming quarters.

Gradual Renminbi Declines Ahead

After the 2 percent devaluation in the renminbi on August 11 that sent shockwaves through global financial markets, the Chinese currency has actually appreciated modestly on balance since then (bottom chart). However, given the generally dovish bias the PBoC has adopted and our expectations for gradual Fed tightening in the coming months, our currency strategy team expects the renminbi to depreciate modestly vis-à-vis the greenback in the coming quarters.







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