

Economic Analysis

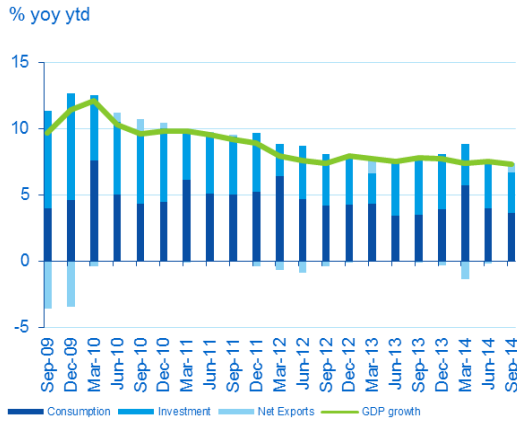
Exceptionally strong exports lifted GDP outturn in Q3

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China's third quarter GDP growth came out at 7.3% y/y, slightly down from 7.5% y/y in the previous quarter (Figure 1) while above market expectations (BBVA: 7.0% y/y versus consensus: 7.2% y/y). In sequential terms, Q3 GDP expanded at a pace of 1.9% q/q sa, decreasing from 2.0% q/q sa in Q2. The downtrend of the economy is mainly due to the persistently sluggish property market as well as its adverse spill-over effects to other related sectors, as evidenced by the significant dip of August industrial production (See our [China Flash](#)). Nevertheless, an exceptionally strong performance in the export sector helped to avert a sharp fall in economic activities. In the meantime, the authorities reported a number of activity indicators in September including industrial production, urban fixed asset investment and retail sales, consistently pointing to anemic domestic demand. On balance, we slightly revise our 2014 GDP projection up to 7.3% from 7.2% previously due to the better-than-expected Q3 outturn.

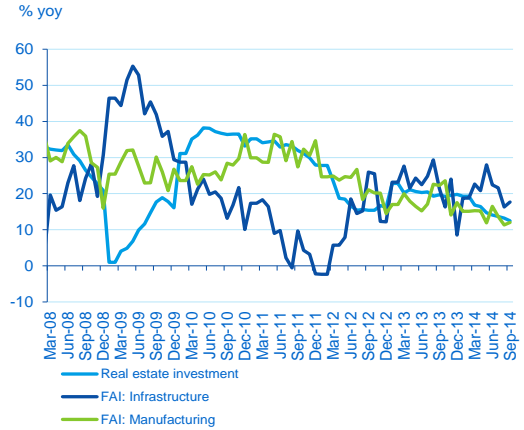
- **Q3 GDP growth is underpinned by strong exports.** Detailed analysis of expenditure components shows that net exports contributed to 2.5% out of 7.3% GDP growth in the third quarter, substantially higher than its contribution in the second quarter (0.8% out of 7.5% GDP growth). Accordingly, the contribution of investment declined to 2.1% in Q3 from 4.0% in Q2 while consumption's contribution edged up to 2.8% from 2.5% in the previous quarter. Despite its exceptional performance in Q3, we are not sure whether the export sector can continuously lend strong support to growth amid the increasing uncertainties surrounding the major advanced economies such as US, EU, and Japan. All in all, investors should remain wary of China's growth outlook despite the third quarter's upbeat outturn.
- **Other activity indicators released today pointed to still weak domestic demand.** Industrial production growth rebounded to 8.0% y/y in September, up from 6.9% in the previous month, but still below its long-term trend. On the demand side, urban fixed asset investment dipped further to 16.1% y/y from 16.5% in August, led by anemic investment in real estate sector. (Figure 2) Meanwhile, retail sales growth edged down to 11.6 % y/y, compared to 11.9% y/y in the previous month (Figure 3).
- **On the policy front, we expect the authorities will continue their "targeted" efforts to sustain growth in the rest of the year.** Indeed, the authorities have promulgated a series of stimulus policies since late September (See our [China Flash](#)), in a drive to lower mortgage rates and revive the property market. They have by far refrained from implementing large-scale stimulus such as universal cuts in reserve requirement ratio (RRR) and benchmark interest rates. Looking ahead, we expect that the authorities will stick to their promise of "targeted easing" in the rest of the year. On the monetary policy, they are likely to deploy short-term tools (for example, Short-term Lending Facility) to ensure liquidity adequacy of the banking sector in a bid to lower financing costs for the corporate sector.

Figure 1
Q3 GDP growth was underpinned by strong exports



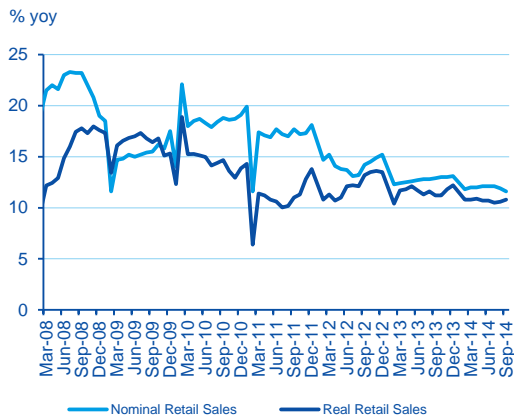
Source: CEIC and BBVA Research

Figure 2
FAI dipped further led by anemic investment in real estate sector



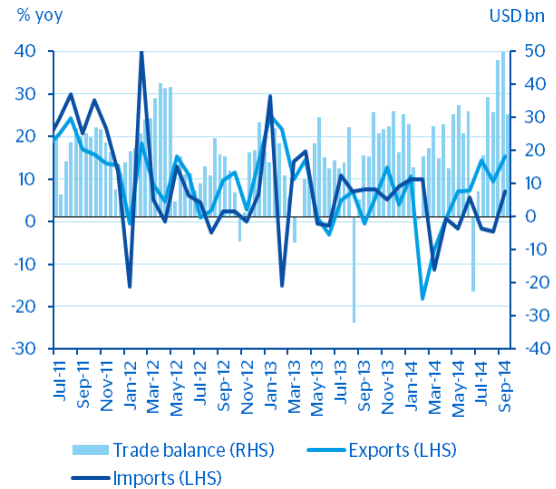
Source: CEIC and BBVA Research

Figure 3
Retail sales growth decreased slightly



Source: CEIC and BBVA Research

Figure 4
Export has picked up in Q3 due to the improving external demand



Source: CEIC and BBVA Research

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