# China Flash

## November indicators point to ongoing rebound, but with continued external headwinds

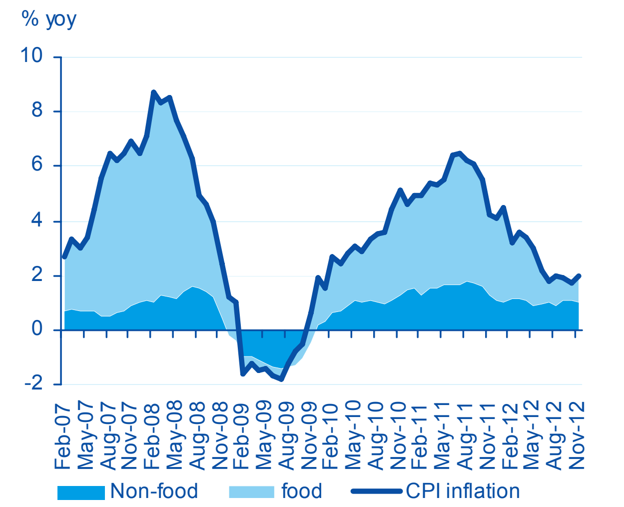
November activity indicators were generally stronger than expected, providing further evidence of an economic rebound in the fourth quarter, albeit marked by headwinds from weak external demand. Industrial production and retail sales growth, released yesterday, accelerated by more than expected (see below), while fixed asset investment remained strong, although unchanged in year-on-year terms from the previous month. The data are consistent with the upbeat November PMI readings released last week (see *China Flash*), and suggest there may be some upside to our 7.6% y/y and 7.9% y/y growth projections for 2012 and 2013. In contrast, however, export data released today disappointed to the downside, underscoring risks from weak external demand. Meanwhile, headline inflation edged up to 2.0% y/y (consensus: 2.1% y/y) in November from higher food prices, as expected, but still within the government's 4% comfort level. While the strength of the November data reduce the likelihood for significant policy easing in the near term, we continue to expect further policy support in 2013 given benign inflation and risks from the external environment. In the coming days, all eyes will be on the government's annual Central Economic Work Conference, in which the 2013 growth target will be set, most likely at unchanged from the current year 7.5%. We also await the release of November credit aggregates data to be released on December 15.

- **November domestic activity indicators strengthen by more than expected.** Industrial production expanded for a fourth consecutive month by 10.1% y/y (consensus: 9.8% y/y), while retail sales quickened to 14.9% y/y (consensus: 14.6%) from 14.5% in October. The growth of fixed asset investment, stayed flat at 20.7% y/y (ytd) (consensus: 20.9%), on slowing water projects and power utility investment; that said, manufacturing investment and real estate investment both were strong, rising by 22.8% y/y ytd and 16.7% y/y ytd, respectively.
- **The trade sector feels the effects of weaker external demand.** Exports decelerated to a weaker-than-expected 2.9% y/y (consensus: 9.0% y/y) after jumping by around 10-11% in each of September and October. In November, demand from the EU, US, and Japan all registered negative y/y growth, while demand from ASEAN, though lower than in previous months, still grew strongly, by 19.3%, from 44.8% in October. Imports slowed to 0.0% (consensus: 2.0% y/y) from 2.4% in October, due mainly to lower purchases of inputs for production of export goods. The net effect was a narrower trade surplus of $19.6 billion in (consensus: $26.9 billion USD).
- **Despite picking up, November inflation remains well within the government's comfort range.** CPI inflation rose to 2.0% y/y (consensus: 2.1% y/y) from 1.7% in October, as food and non-food inflation climbed by 3.0% y/y and 1.6% y/y in November respectively. Meanwhile, PPI deflation moderated to -2.2% (consensus: -2.0% y/y) from -2.8% y/y in October on recovering commodity prices. Looking ahead, we expect inflation to rise gradually in 2013, to 3.3% on average from 2.6% in 2012. Bearing in mind that the government's inflation target of 4% for this year is very likely to be extended to 2013, the benign price outlook should provide room for further monetary policy easing if needed as a buffer against weak external demand.

Stephen Schwartz
Chief Economist for Asia
stephen.schwartz@bbva.com.hk
+852 2582 3218

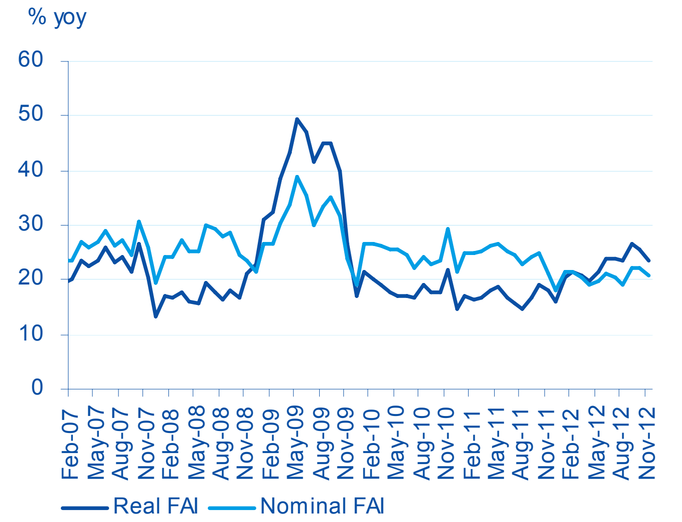
Fielding.Chen
Senior Economist
Fielding.chen@bbva.com.hk
+852 2582 3297

Chart 1
## November CPI inflation ticks up on higher food prices



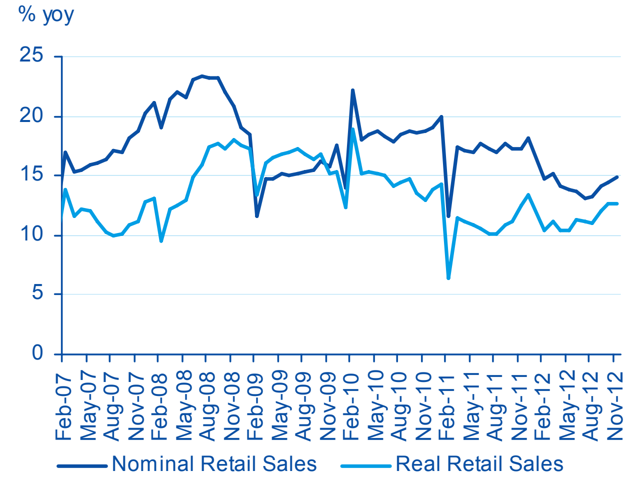

Source: Wind and BBVA Research

Chart 2
## Fixed asset investment holds up



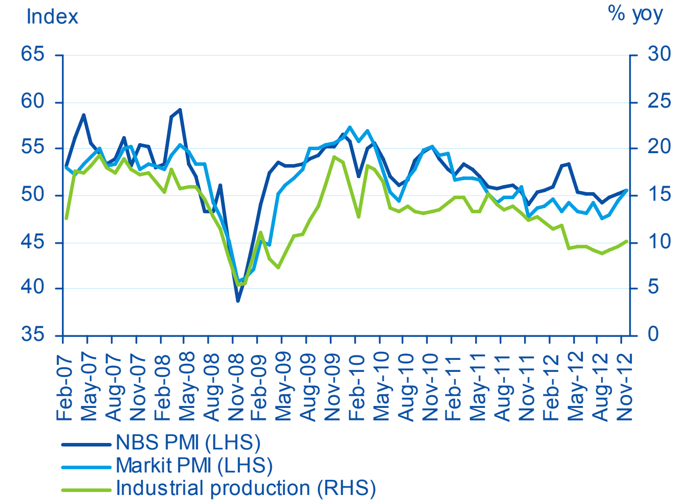

Source: CEIC and BBVA Research

Chart 3
## Retail sales growth rises on stronger domestic demand



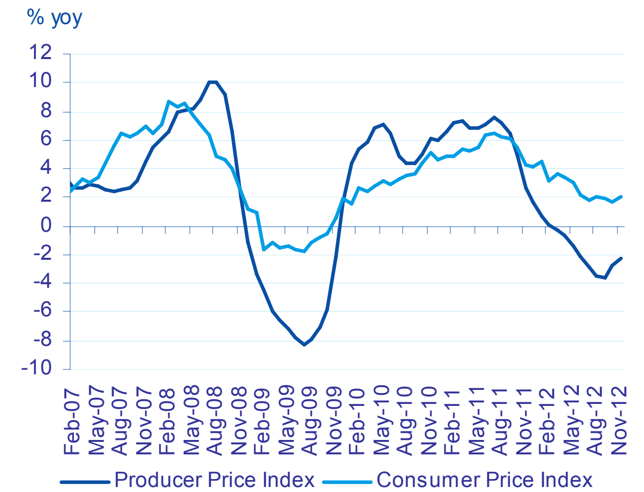

Source: CEIC and BBVA Research

Chart 4
## Industrial production ticks up, in line with improving PMI



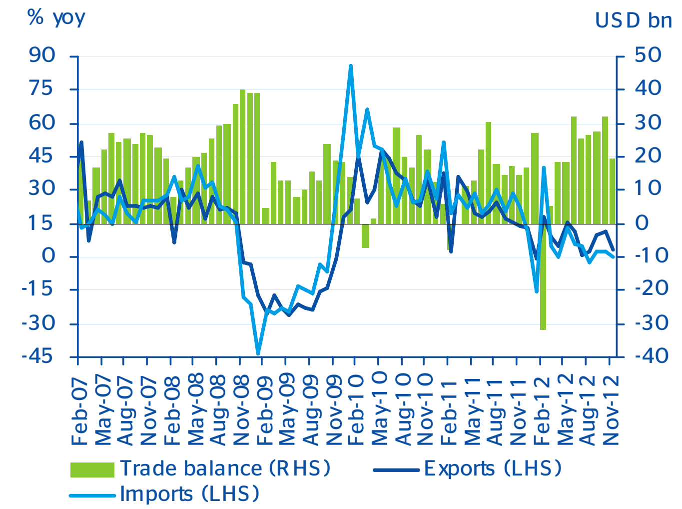

Source: CEIC and BBVA Research

Chart 5
## PPI deflation has bottomed out




Source: Wind and BBVA Research

Chart 6
## Exports weaken on soft external demand




Source: CEIC and BBVA Research

BBVA RESEARCH | 43/F., Two IFC, 8 Finance Street, Central, Hong Kong | Tel.: +852 2582 3111 | www.bbvaresearch.com