

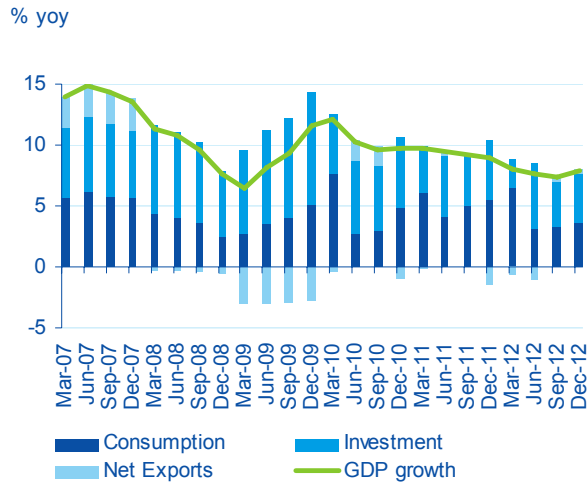
# China Flash

## GDP growth and Q4 activity indicators improve as expected

China's Q4 GDP growth rose to 7.9% y/y after bottoming out at 7.4% y/y in Q3 (Chart 1), largely on the effects of policy stimulus. The Q4 outturn was slightly above our and consensus expectations (7.8% y/y), and brings full-year growth for 2012 to 7.8% (Chart 2). December activity indicators, also released today, generally rose in line with expectations, including industrial production (10.3% y/y; consensus: 10.2%), investment (20.6% y/y; consensus: 20.7%), and retail sales (15.2% y/y; consensus: 15.1%). We view the outturns as an encouraging sign that the growth recovery remains intact. Looking ahead, we expect GDP growth to rise to around 8.0% in 2013 as policy-induced growth in the first half of the year gradually gives way to a more self-sustaining, albeit less vigorous, trajectory in the second half on improving consumption and external demand. We expect policies to remain growth supportive in 2013, with ongoing spending on infrastructure and selected tax cuts. With inflation rising, but still within government comfort levels of 3.5% for 2013, we expect interest rates to stay on hold, although additional cuts in the RRR are possible depending on domestic liquidity conditions.

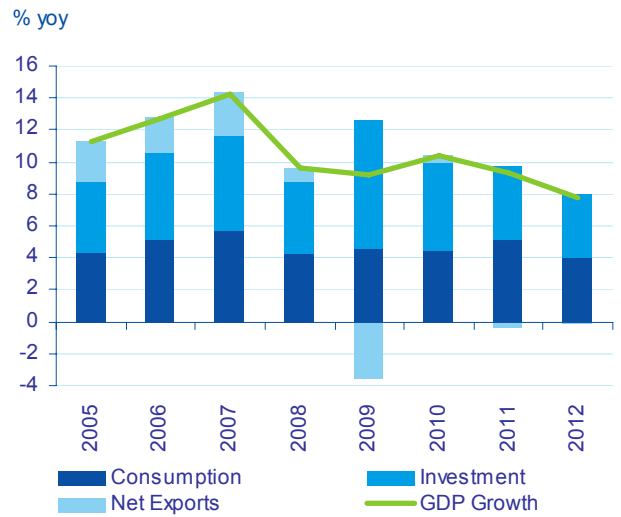
- **GDP growth reaches 7.8% in 2012 as Q4 GDP growth accelerates to 7.9% y/y** (consensus: 7.8%; BBVA: 7.8%). On a sequential basis, officially reported quarterly growth actually slowed to 2.0% seasonally adjusted (8.2% annualized) from a revised 2.1% in Q3 (8.7% annualized), although the sequential data are less reliable given data quality and seasonal adjustment issues. While the full-year growth outturn was the lowest since 1999, it nevertheless comfortably exceeded the government's official target of 7.5%. According to partial data released by the NBS, we calculate that domestic consumption (including by the government) led the recovery in 2012 contributing 4.0 ppts, followed by investment (3.9 ppts), as net exports subtracted -0.2 ppts.
- **Activity indicators in December were broadly in line with expectations.** On the demand side, retail sales accelerated to 15.2% y/y (consensus: 15.1%; BBVA: 15.3%), up from 14.9% in the previous month, and urban fixed asset investment edged down to 20.6% (ytd) (consensus: 20.7%; BBVA: 20.7%) from 20.7%. On a monthly basis, we estimate that fixed asset investment growth in December slowed to 19.8% y/y from 20.7% y/y in November. On the supply side, industrial output continued to rise in December by 10.3% y/y (consensus: 10.2%; BBVA: 10.0%) from 10.1% in November. The data reaffirm that the growth pickup is on track, as suggested by previously released December outturns for PMI, overall credit, and exports.
- **Residential property prices climb further as the real estate sector continues to pick up.** The NBS also released monthly property price data in December today for the usual set of 70 cities. The number of cities reporting rising sales prices for new homes increased to 54 from 53 in the previous month. We estimate that national property prices increased by 0.35% m/m in December (0.43% y/y), slightly up from 0.29% in November (-0.2% y/y) (Chart 6). The data point to an ongoing recovery in the property market since June, despite tightening measures remaining in place. See our annual [Real Estate Outlook](#) for further details on our estimates that the current prices levels are broadly in line with fundamentals.

Chart 1  
GDP growth in Q4 rebounds



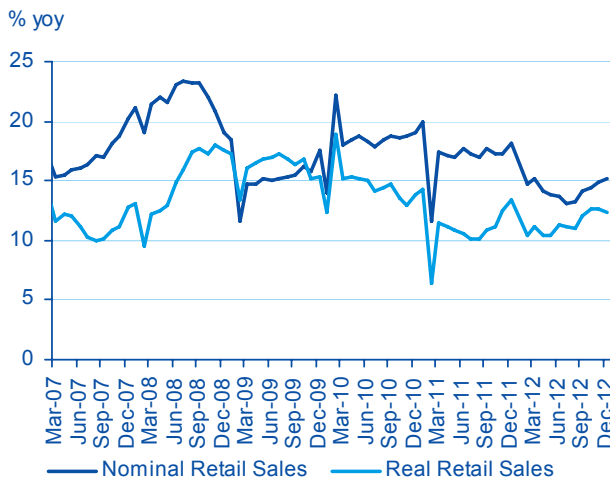
Source: CEIC and BBVA Research

Chart 2  
GDP annual growth reaches 7.9%



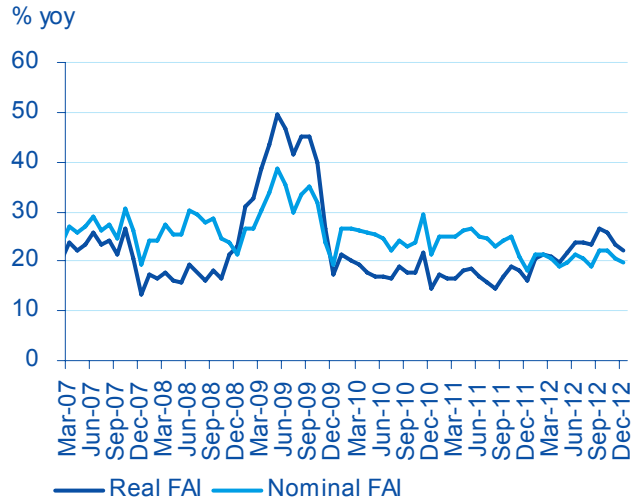
Source: CEIC and BBVA Research

Chart 3  
Retail sales growth continues to strengthen...



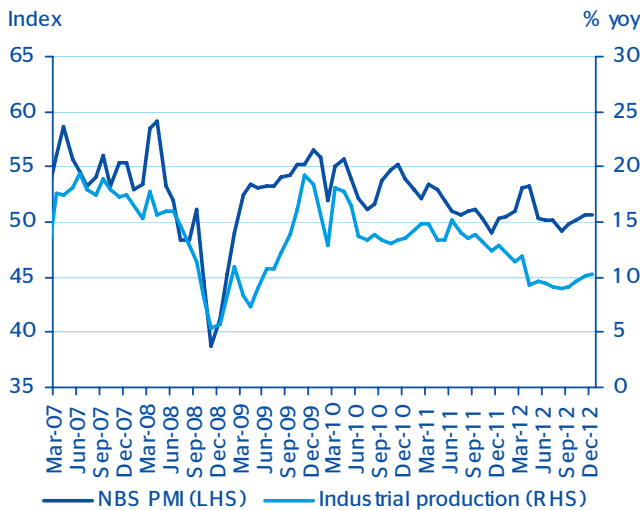
Source: Wind and BBVA Research

Chart 4  
...while fixed asset investment edges down slightly



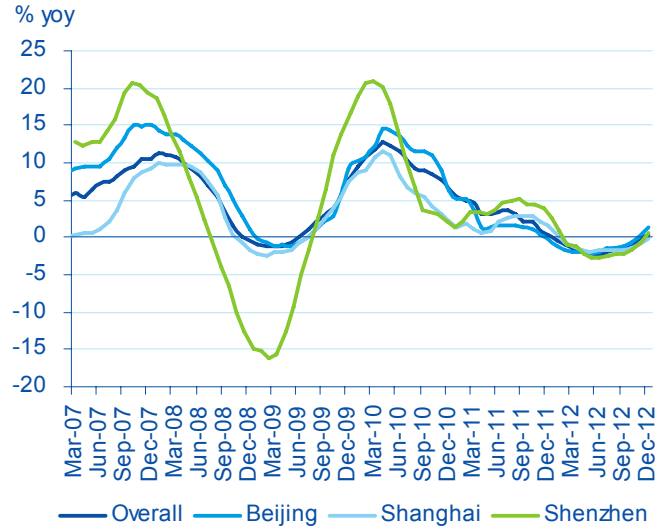
Source: CEIC and BBVA Research

Chart 5  
Industrial production and PMI are still picking up



Source: Wind and BBVA Research

Chart 6  
Housing prices point to an ongoing recovery



Source: CEIC and BBVA Research

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