



CRISIL Insights

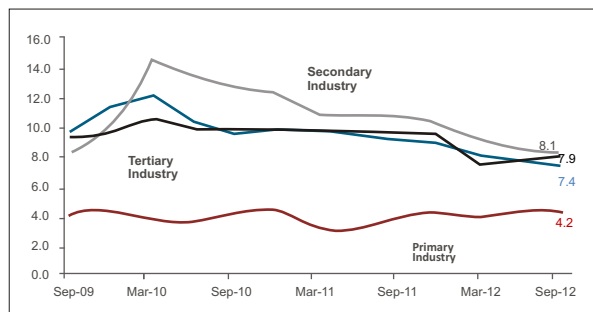
The quarterly CRISIL Insights China series represents our outlook on key macroeconomic parameters like inflation, monetary policy, and trade of the Chinese economy.

China remains in slowdown mode in Q3

China GDP grows at its slowest pace in more than 3 years

- Gross Domestic Product (GDP) growth continued its downward momentum and stood at 7.4% in third quarter of 2012 compared to 7.6% in the second and 8.1% in the first quarter of 2012. This is the slowest pace of GDP growth in more than three years.
- While tertiary industry picked up momentum in the third quarter, a continued slowdown in the secondary sector dragged down overall GDP growth.
- Slowdown in private consumption demand appears to have bottomed out. Retail sales of consumer goods which had decelerated sharply from 15.2% (y-o-y) in March-12 to 13.2% in August-12, reversed trend and grew at an average 14.4% in September-12 and October-12.

GDP Growth





Industrial Production and Investment

Industrial output growth fell to 9.1% in Q3 2012 from 9.5% in Q2 and 16.6% in Q1 2012

Inflation

Consumer price inflation (CPI) declined to 1.9% in Q3 2012 from 2.9% and 3.8% in the previous two quarters

INDUSTRIAL PRODUCTION AND INVESTMENT

Industrial output growth seems to have bottomed out

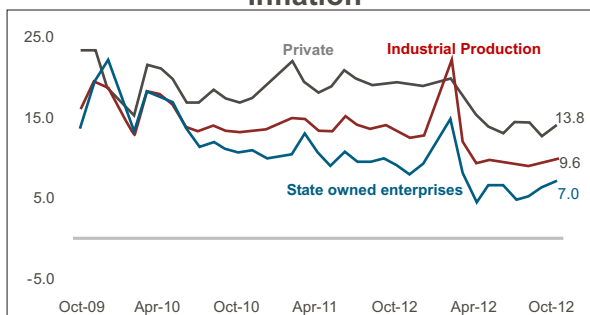
- Industrial output growth fell to 9.1% in Q3 2012 from 9.5% in Q2 and 16.6% in Q1 2012. Recent monthly data, however, shows a gradual revival in industrial output growth, largely driven by state-owned enterprises. After declining to a 36-month low of 8.9% in August, industrial output grew at 9.2% (y-o-y) in September and 9.6% in October 2012.
- Industrial sales growth decelerated sharply to 5.5% in Q3 from 7.8% in Q2 and 14.7% in Q1 2012. Industrial sales, however, picked up significantly in October, growing at 7.5% (y-o-y).
- Fixed investment growth remained strong at 21% in the year to October 2012. A pick-up in state-owned enterprise and new capital construction investments helped compensate for a sharp slowdown in residential investment growth to 10.8% in October (year-to-date) against 19.9% in Q1 2012.

INFLATION

Consumer price inflation eased to 1.9% in Q3 2012

- Consumer price inflation (CPI) declined to 1.9% in Q3 2012 from 2.9% and 3.8% in the previous two quarters. In October, the CPI eased further to 1.7% its lowest level since February 2010.
- Inflationary pressures eased across the board in food, medicines and medical services, transport, tobacco and liquors and household facility. Food inflation has fallen sharply from a peak of 10.5% in January 2012 to 1.8% in October 2012. The only cause for concern is housing inflation (CPI: Residence), which although low, has been slowly picking up since July 2012.
- Producer price index for industrial products also fell to -3.3% in Q3 2012 from -1.4% in Q2 2012.

Inflation



Interest Rates and Policy Stance

The PBoC has kept policy rates unchanged since July 2012

Trade

China's export growth fell to 6.2% in the third quarter from 10.3% in the previous quarter

INTEREST RATES AND POLICY STANCE

PBoC keeps monetary policy unchanged in Q3

- After reducing the base lending rate by a cumulative 56 basis points earlier this year, the PBoC has kept policy rates unchanged since July 2012.
- As retail sales and industrial production picked-up momentum for a second consecutive month in October 2012, the government is unlikely to cut rates during the rest of the year.
- The PBoC has already cut the reserve requirement ratio by a cumulative 150bps between November 2011 and May 2012 to ease liquidity and boost investment growth. No further reductions are expected in 2012.

Exports to Europe contract in Q3

- China's export growth fell to 6.2% (3MMA) in the third quarter from 10.3% in the previous quarter. While growth in exports to Asia remained almost stable at 10.8% (y-o-y), exports to Europe contracted sharply at -10.3% in Q3 vis-a-vis a growth of 2.1% in the previous quarter.
- Imports slowed to 4.3% (3MMA) in Q3 from 9.3% in the previous quarter. The deceleration in imports, driven by slowing domestic growth, continued in October 2012 with import growth falling further to 0.6% (3MMA).
- Trade surplus rose to US\$79.5 billion in Q3 2012 compared to US\$ 68.8 billion in Q2 2012.

TRADE

Trade



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