

# China

## China posts double-digit GDP growth in Q4

- GDP rose by 10.7% in Q4.
- Inflation set to accelerate in 2010.
- PMI data signposted return of inflation and strength of Q4 growth.

### GDP figures confirm China's economic recovery in Q4

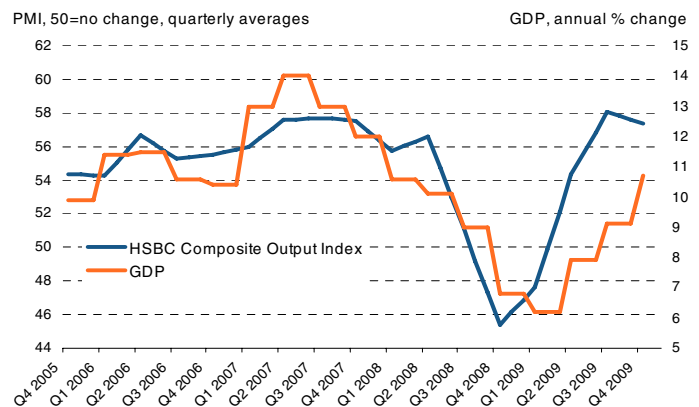
Official data released by the National Bureau of Statistics (NBS) showed that China's economy expanded by 10.7% in the final quarter of 2009, adding to evidence that China has recovered from relatively lacklustre growth seen at the height of the downturn. The increase in GDP was slightly below the market consensus of 10.9%, but up from a revised 9.1% in Q3 and the fastest since the fourth quarter of 2007.

The GDP release also confirms earlier evidence of accelerating growth provided by PMI data, which have a good track record against official statistics. Since its inception in November 2005, the headline HSBC Composite Output Index (compiled by Markit) has displayed a **correlation of 0.69** against annual rates of change in GDP. However, PMI data tend to move in advance of official annual growth rates, and when a three-month lead is applied to the index the coefficient rises to **0.76**.

The return to double-digit growth was also supported by rising export sales in December, which soared by 17.7% on an annual basis after 13 successive months of decline. Data for 2009 suggest that China has now overtaken Germany as the world's largest exporter of manufactured goods, with sales totalling 1.07 billion dollars in the 11 months to November. The export component of the manufacturing PMI provided an advanced indication of the upturn in exports at the beginning of 2009, and has subsequently led the rebound – December's reading was the highest since May 2005.

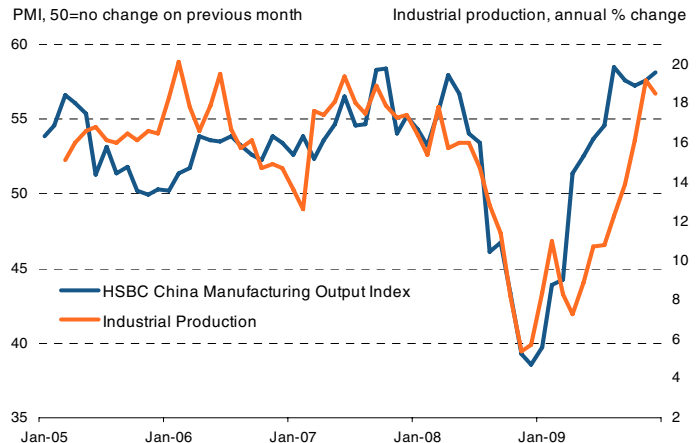
However, in addition to rising exports, strong growth also reflected a low comparison base in the final quarter of 2008, when GDP rose by a relatively meagre 6.8%.

Chart 1: China Composite PMI and GDP



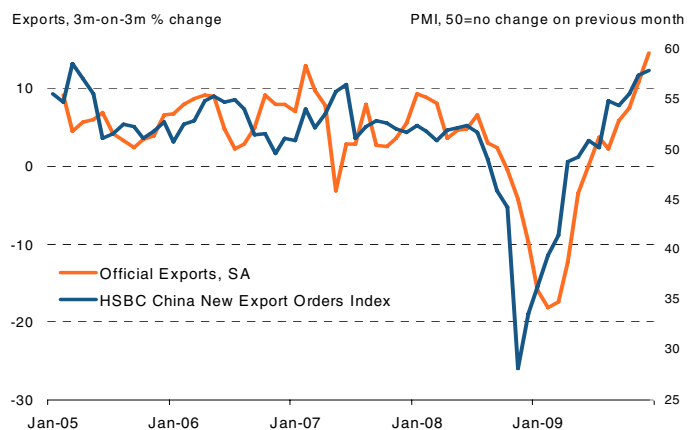
Sources: Markit, NBS.

Chart 2: China Industrial Production



Sources: Markit, NBS.

Chart 3: China Exports



Sources: Markit, NBS.

Official data also indicated that the Q4 rise in GDP was driven by surging activity at factories and workshops across China, with industrial production rising at an annual rate of 18.5% (slightly down on 19.2% a month previously). PMI figures not only accurately tracked the slump in output towards the end of 2008, but led the recent upturn.

### Buoyant growth raises fears that Beijing may act more aggressively to curb inflation

Throughout the course of the global downturn, China pursued a massive fiscal spending package in an attempt to stimulate domestic demand at a time when new export business was plummeting. This, combined with ultra loose monetary policy aimed at encouraging bank lending, helped support the economy during the worst of the financial crisis. However, a surge in lending in the first two weeks of 2010 (which saw banks lend one-tenth of the total lending seen during the whole of 2009) has raised fears that the Chinese government may exit its crisis-mode policies earlier than expected. The first tentative stage of this exit process was taken last week, when the central bank raised its reserve ratio requirement by half a percentage point in January.

Fears of policy tightening have also been fuelled by inflation worries: house prices climbed 7.8% in December and Consumer Price Inflation (CPI) accelerated to 1.9% from 0.6% in the previous month. Many commentators expect inflation to gain momentum in the months ahead, partly due to the base effect from reduced prices one year previously, but also due to a record rise in the money supply – which grew by approximately 30% in 2009.

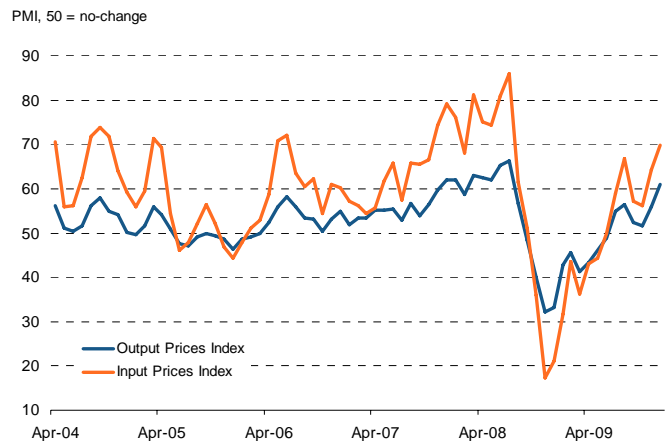
PMI data, which was one of the earliest indicators of China's impressive recovery, likewise indicated that price pressures intensified at the end of Q4, with input and output price measures both rising to levels last seen pre-Lehman.

### Outlook for 2010

As western economies, such as the US and UK, continue on their uneasy recovery paths, China is widely expected to grow at a robust rate in 2010 – with the IMF forecasting growth to average 9% this year – which will likely see it replace Japan as the world's second-largest economy.

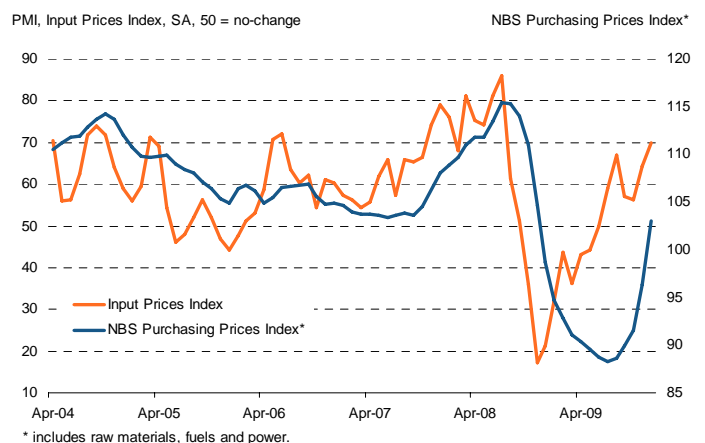
The first insight into the performance of China's economy at the start of 2010 will be provided by the HSBC China manufacturing PMI for January, released 1<sup>st</sup> February, followed by the HSBC China Services &

**Chart 5: Output and Input Prices (PMI)**



Sources: Markit.

**Chart 6: China Purchase Prices**



Sources: Markit, NBS.

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Composite PMIs on the 3<sup>rd</sup> February. To find out how to receive PMI data for China, please contact [economics@markit.com](mailto:economics@markit.com)

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