

# China GDP

## Growth of Chinese GDP accelerated in Q2

- **China's economy expanded 7.9% in the second quarter of 2009.**
- **Stimulus measures boost growth from decade low in Q1.**

Following promising signals from the PMI survey, official data are now also indicating that the Chinese economy is pulling out of the downturn. According to data released by the National Bureau of Statistics on 16<sup>th</sup> July, gross domestic product (GDP) growth accelerated in Q2 to 7.9% from a decade-low of 6.1% in Q1, making China the world's best-performing major economy.

The latest figures underscored the success of policy measures aimed at mitigating a slump in export demand – in particular the massive stimulus spending and credit expansion engineered by Beijing – and suggested that China may achieve its full-year growth target of 8%.

A strong rebound in growth was flagged in advance of the latest release of official data by the China PMI survey, produced by Markit. As illustrated in chart 1, the composite PMI output index (covering manufacturing and services) signalled a clear acceleration in whole economy growth throughout Q2.

The industrial sector has shown a return to health since the turn of the year following the sharp deceleration during the second half of 2008. Industrial production rose 10.7% on an annual basis in June, compared with last November's low of 5.4%. The current level of the CLSA China Manufacturing PMI Output Index suggests that official industrial production data may show further improvement in the coming months (see chart 2).

### Rebalancing towards domestic demand remains key objective

With the global crisis having hit China's export sector hard (exports fell 21.4% year-on-year in June), a shift towards domestic-led growth has become a priority for policymakers. Data from the CLSA China Manufacturing PMI emphasise the leading role played by domestic demand in powering the recovery of growth, with total

Chart 1: China GDP

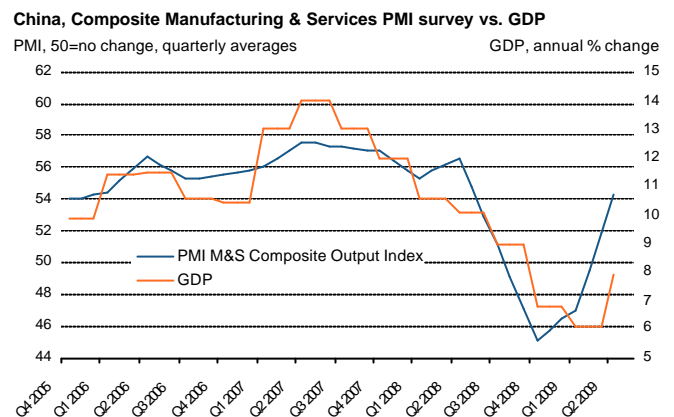


Chart 2: China industrial production

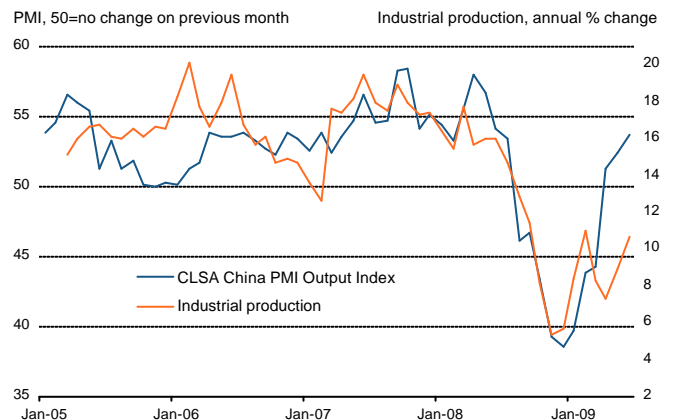
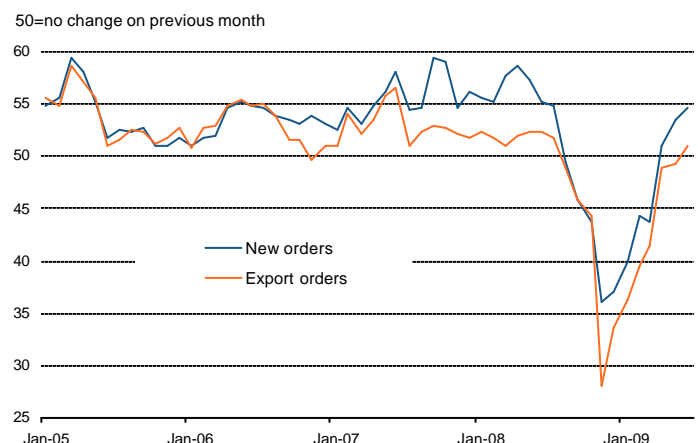


Chart 3: Manufacturing PMI new orders v exports



Sources: Markit Economics, National Bureau of Statistics.

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new orders continuing to outperform the export-only component throughout the recent rebound phase (see chart 3).

Although talk has now turned in some quarters to when China will need to begin tightening its fiscal and monetary policies, the authorities are expected to be reluctant to withdraw too much stimuli until they are certain growth is on a sound footing. It therefore appears likely that Chinese GDP numbers will remain strong during the second half of 2009.

The first insight into the performance of China's economy at the start of Q3 will be provided by the CLSA China manufacturing PMI for July, released 3<sup>rd</sup> August. To find out how to receive PMI data for China, please contact [economics@markit.com](mailto:economics@markit.com).

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## Jack Kennedy

### Economist

Markit

Tel: +44 1491 461 087

Email: [jack.kennedy@markit.com](mailto:jack.kennedy@markit.com)

For further information, please visit [www.markit.com](http://www.markit.com)

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