

China: 4Q14 GDP Reaffirms “New Normal” Growth Trend

- China is moving into a “new normal” phase with 2014 growth rate of 7.4% at the slowest since 1990, narrowly missing the official target
- To find new growth impetus, China is also diversifying away into the tertiary/services sector as it implements more Free Trade Zones in other parts of the country
- For 2015, we maintain our growth forecast of 7.2% for China, and we look for further supportive measures from PBoC in the form of interest rate cuts early in the year

Holding Steady In 4Q14

China released its 4Q14 GDP report and the remainder of December data this morning (Tue, 20 Jan), which shows the broad economy holding steady in 4Q14 at 7.3%/y pace, same as in 3Q14. This is ahead of consensus forecast of 7.2% and near our target of 7.5% for the quarter. For the full year, the move towards “new normal” growth is more evident, as the broad economy expanded 7.4% in 2014, narrowly missing the official 7.5% target and the slowest pace since 1990, but in line with our call.

Other data releases this morning show the economic activities have stabilized somewhat and regained traction towards late 2014, partly a result of supportive monetary and credit policy measures from the central bank. Overall new loans have picked up RMB9.8 trillion in 2014, compared to RMB8.9 trillion in 2013, as the PBoC fine tuned its credit policy with an eye of keeping the shadow banking in check, which saw aggregate financing in China increasing by RMB16.5tn in 2014, down from the RMB17.3tn increase in 2013. Industrial production rose 7.9%/y/y in December after easing towards near the 7% pace in Nov while manufacturing PMI indices have been holding around the 50 mark. Retail sales gained 11.9%/y/y in December, after falling into the 11.5-11.7% range in the prior three months.

Other data releases from the past week include CPI data that saw inflation rate slowing further to 2% in 2014, from 2.6-2.7% in 2012 and 2013. While there are concerns that China may be falling to the similar type of deflationary trap seen in Eurozone and Japan, it should be noted that the main factors that caused such malaise are not present in China, i.e. lack of growth in nominal income and spending.

For China’s external trade, a record trade surplus of US\$382bn was registered for 2014, up from US\$259bn in 2013 as exports outperformed imports for the full year, at 6.1% vs. 0.5%. While these headline numbers look positive, it should be noted that the practice of exports over-invoicing may yet again be present. For instance, China’s exports to HK rose by US\$41bn in December vs. US\$35bn in November, almost twice the average of US\$28bn for January-September period of 2014. This is likely to again reignite closer official scrutiny as it did before.

Implications

As China’s economy continues to mature, it is inevitable that it would go into a “new normal” phase of slower growth and further diversification, which is what the latest annual Central Economic Work Conference indicated late 2014. The announcement of three additional Free Trade Zones is another indication that China is looking for ways to diversify its economy. In the latest report, services sector growth 8.1% in 2014 has outpaced those of the second sector’s 7.3% and primary sector’s 4.1%.

As for growth outlook, we continue to maintain our 2015 forecast for China at 7.2%, as we look for quarterly growth rate of around 7.1-7.3% for this year. For monetary policy, we still expect PBoC to cut lending and deposit interest rates/RRR in the first half of this year, after the surprise interest rate cuts announced on 21 Nov 2014, to lend further support to business activities especially in agricultural and SME sectors.

As for the RMB, there is still a likelihood that the RMB trading band could be widened again this year, and it is certain that greater volatility and two-way moves will be the "new normal" for the currency as it responds to the broader market, as the CNH did last week in response to the sudden move from Swiss central bank to depeg from EUR on 15 Jan 2015. However, a prolonged depreciation trend for the RMB is unlikely given the ongoing RMB internationalization. The pace of RMB internationalization continues to accelerate, after setting up 10 centers in 2014, two new ones were also appointed so far in the new year, with BOC (Malaysia) being appointed as clearing bank for KL on 5 Jan 2015, and ICBC (Thailand) for Bangkok on 6 Jan 2015. We continue to look for weaker bias in the RMB, with our end-1Q15 USD/CNY forecasts at 6.21, and slightly lower towards 6.18 at end-2015.

China's Key Macro Data												
	2012	2013	2014	2Q14			3Q14			4Q14		
Real GDP Growth %y/y	7.7	7.7	7.4	7.5			7.3			7.3		
Real GDP Growth %q/q SA				1.9			1.9			1.5		
%y/y change	2012	2013	2014	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14
Industrial Output	10.8	9.7	8.3	8.7	8.8	9.2	9.0	6.9	8.0	7.7	7.2	7.9
NBS PMI	50.6	51.0	50.1	50.4	50.8	51.0	51.7	51.1	51.1	50.8	50.3	50.1
HSBC PMI	51.5	50.5	49.6	48.1	49.4	50.7	51.7	50.2	50.2	50.4	50.0	49.6
CPI	2.7	2.6	2.0	1.8	2.5	2.3	2.3	2.0	1.6	1.6	1.4	1.5
PPI	-1.7	-1.9	-1.9	-2.0	-1.5	-1.1	-0.9	-1.2	-1.8	-2.2	-2.7	-3.3
Exports	7.9	7.8	6.1	0.8	7.0	7.2	14.5	9.4	15.1	11.6	4.7	9.5
Imports	4.3	7.2	0.5	0.7	-1.7	5.5	-1.5	-2.1	7.2	4.6	-6.7	-2.3
Trade Balance (US\$ bn)	230.3	259.0	382.5	\$ 18.5	\$ 35.9	\$ 31.6	\$ 47.3	\$ 49.8	\$ 31.0	\$ 45.4	\$ 54.5	\$ 49.6
New Loans (RMB bn chg)	8,203.8	8,891.7	9,781.5	774.5	870.8	1,079.3	385.2	702.5	857.2	548.3	852.7	697.3
Aggregate Financing (RMB bn chg)	15,763.1	17,316.8	16,460.0	1,525.9	1,401.3	1,967.3	273.7	957.7	1,135.5	680.7	1,146.3	1,690.0
M2	13.8	13.6	12.2	13.2	13.5	14.7	13.5	12.8	12.9	12.6	12.3	12.2
Urban Fixed Asset Investment YTD	20.6	19.6	15.7	17.3	17.2	17.3	17.0	16.5	16.1	15.9	15.8	15.7
Retail Sales	14.4	13.1	12.0	11.9	12.5	12.4	12.2	11.9	11.6	11.5	11.7	11.9

Source: CEIC, Bloomberg, National Bureau of Statistics; UOB Global Economics & Markets Research estimates. All data for individual months except noted

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