Economics

DBS Flash

China: Growth continues to slow

Group Research

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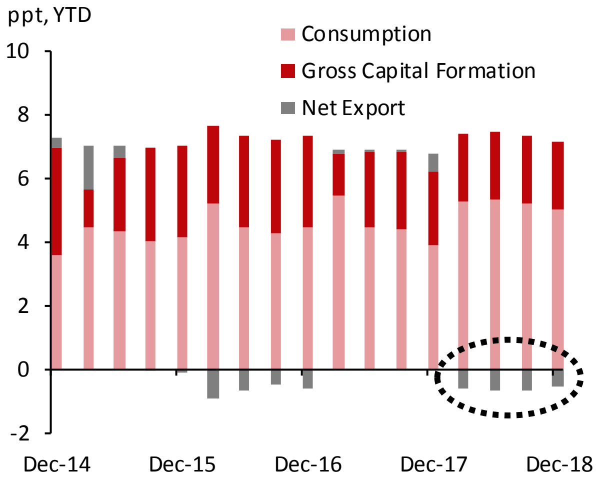
China's real GDP growth fell further to 6.4% YoY in 4Q18 from 6.5% in 3Q18 as expected. Net export continued to drag the overall performance for the fourth straight quarter in spite of slumping oil price (Chart 1). This largely mirrored the negative export growth in December after front-loading activities ended.

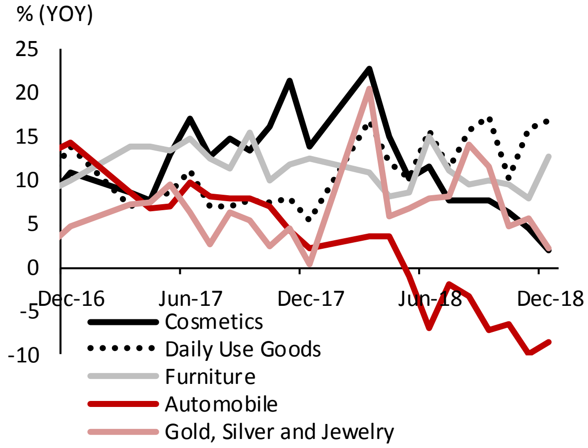
Chart 1: Contribution to GDP growth



The monthly data pointed to a grim outlook for 1Q19. Retail sales inched up to 8.2% YoY in December from 8.1% in November, staying at the lowest range since 1999. Expenditure on most other discretionary goods such as cosmetics, jewellery, and automobile remained weak (Chart 2). Obviously, consumer confidence has been sapped by job insecurity and slower wage growth. Fading credit impulse on the back of regulation tightening points to further weakness ahead.

Policymakers have recently vowed to shore up consumption. Markets applauded the reintroduction of tax break on car purchase after vehicle sales fell for the first time since 1990. The effectiveness, however, may be limited by car ownership hitting saturation point in some cities. Demand from buyers has been dented by Improved public transport, the rise of ride-sharing services and a wave of defaults in P2P lending (which accounted for 10% of car purchases).

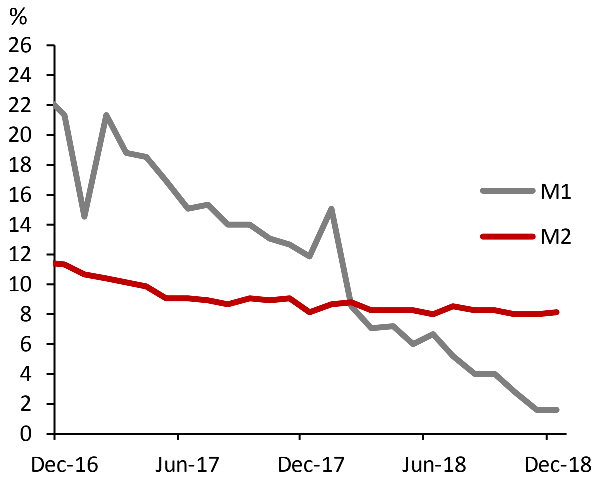
Chart 2: Retail sales by category



There was a negative spill-over effect into real estate which is considered a key barometer of consumer sentiment. Prices of new homes grew at the slowest pace (0.77%) in the eight months in December. High developer cautiousness was evident from failed land auctions which more than doubled to 618 in January-November 2018 from 2017. Real estate investment, which slowed to 9.5% in December from 9.7% a month earlier, will continue be pressured. Meanwhile, the import tariffs imposed by Washington have started hurt factories. Industrial production dropped to 5.7% in 4Q18 from 6.0% in the previous quarter. Receding PPI inflation suggested further falls in corporate earnings.

Infrastructure investment was a bright spot; growth was positive for a second consecutive month (5.7% in December vs 2.5% in November (3mma)). The National Development and Reform Commission (NDRC) greenlighted RMB1.2bn worth of infrastructure projects in 4Q18, the highest in three years. For example, urban rail projects in eight cities and regions (RMB860bn in December) will help to assuage persistent trade-related uncertainties. With no desire to repeat the fiscal largesse of 2008/09, funds for the infrastructure has come mostly from off-budget financing. We expect the quota of special bond issuance (excluded from official budgets) to increase to RMB2tn in 2019 from RMB1.35tn last year. Off-budget expansions will likely include the re-launching of special construction fund.

Chart 3: M1 and M2 YOY growth



Continued monetary policy support is warranted. Spluttering domestic demand was evident in benign loan data while tightness in the corporate funding chain was reflected by slower M1 growth (Chart 3). On 16 January, the People's Bank of China pumped a net RMB560bn via reverse repos, the biggest one-day addition on record. Liquidity injections have been common ahead of the Lunar New Year holidays.

The heftier-than-usual addition came just days after a blanket cut of banks' reserve ratios. The move signifies Beijing's concerns over the heightening pace of growth deceleration. That was in line with our call that "authorities will become increasingly aggressive in rolling out stimulus measures" (see *China: Disinflation is back, 10 January*). We expect two more reductions on the reserve ratio. An interest rate cut is probable should the measures taken hitherto fail to arrest the decline of economic growth by mid-year.

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Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations).