TD Economics

January 19, 2016

Data Release: Chinese economic growth slows in 2015, consistent with expectations

- Year-over-year real gross domestic product (GDP) rose by 6.8% (consensus: 6.9%) in the fourth quarter of 2015. With this last data point, growth for 2015 comes in at 6.9%, in line with the 6.8% we expected in our December quarterly economic forecast, but down from 7.3% in 2014.

- On a quarter over quarter basis, GDP growth slowed to 1.6% (non-annualized), a bit weaker than the consensus (1.8%), and down from the previous quarter's growth rate of 1.8%.

- In other data released, nominal fixed asset investment growth remained on its downward trend in December – a trend resulting from ongoing weakness including outright declines in residential investment and a marked slowdown in infrastructure investment at the local government level. Year-over-year growth in the year-to-date fixed asset investment (excluding rural areas) rose by 10.0% (consensus: 10.2%).

- As it has been through the year, the services sector has held up relatively well, offsetting the deceleration in investment. Year-over-year nominal retail sales growth rose 10.7%, in line with the consensus forecast.

- Industrial production rose 5.9% on a year-over-year basis, also in line with the consensus call for 6.0%. Cement production continued to fall in December, as did steel and non-ferrous metal production.

- Ongoing price weakness resulted in nominal GDP coming in at 6.4%, below real GDP growth of 6.9%. The fall in prices are likely a reflection of commodity prices, but may also reflect an abundance of excess capacity. By extension, the growth rates in the nominal indicators above may be stronger from an inflation-adjusted perspective for the same reasons.

Key Implications

- Slowing Chinese growth, compounded by negative market sentiment of perceived economic weakness, is at the center of the rapid decline in prices across the non-energy commodity complex and reduced global trade, especially with China's Asian-trading partners. The latest set of data supports a slowdown in economic activity, but also confirms its resilience. The data remains in alignment to our view that economic growth will continue to decelerate in 2016, as authorities act to implement changes that gear economic activity toward domestic consumption and services and away from the "old world" economy of industrial production. We believe China real GDP growth will come in at roughly 6.2% for 2016.

- Turbulence in Chinese financial markets this past year amid policy missteps has raised questions for the ability of Chinese authorities to manage the rebalancing of the economy. This is further complicated by the explicit goal of Chinese authorities to reduce excess capacity. This combination raises the odds that the volatility experienced early in 2016 is likely a harbinger of what's to come for the year.

- Recent financial market volatility has followed concerns about capital flight from China. The People's Bank of China (PBoC) has responded to downward pressure on the RMB by selling foreign reserves. The PBoC will likely take additional steps at easing financial conditions, which may include further managed depreciation of the RMB.

- The deceleration in quarterly GDP growth may also be enough for authorities to inject some additional fiscal stimulus in the first half of 2016 as the economy is at risk of underperforming their implicit growth target. This will likely take the form of more stimulus targeted to local government and infrastructure. As a result, fixed asset investment growth may prove to be more resilient in the first half of this year despite continued headwinds from residential investment.

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