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TD Economics

Data Release: Chinese economic growth slows in the first quarter, in line with consensus

- Chinese first quarter real gross domestic product (GDP) rose by 6.7% (year-on-year), matching the consensus expectation. (First quarter growth on a quarter-over-quarter basis should be released later this month, possibly as soon as next week).

- In other data released, fixed asset investment growth slowed further through the first two months of this year before ticking up in March. Both February and March showed a sharp uptick in year-over-year growth in public infrastructure spending, consistent with the total social financing data. Fixed asset investment (excluding rural areas) rose by 10.7% (reported on a year-over-year in year-to-date basis), above the consensus for 10.4%.

- The services sector continued to show signs of resilience, with nominal retail sales growth for March recorded at 10.5% (y/y), a bit stronger than the consensus forecast of 10.4%. Nonetheless, given the usual distortions around the lunar New Year, we're a bit cautious about what this implies about growth this quarter.

- Industrial production rose 6.8% (y/y) in March, stronger than consensus call for 5.9%. Notably, growth in the mining sector staged a bit of a comeback after slowing down substantially through the end of 2015.

- Consistent with an uptick in consumer prices last quarter, nominal GDP for the first quarter of 2016 rose 7.1% (y/y), slightly above real GDP growth of 6.7%. Higher commodity prices this year will likely result in the reversal of the contractionary trend observed in the Chinese GDP deflator for much of 2015.

Key Implications

- This release should assuage some of the uncertainty surrounding Chinese growth for the first half of 2016. If growth continues to track above 6.5%, Chinese authorities will be on pace to meet their target growth for 2016 set within the 6.5% - 7.0% range.

- 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. However, this data acts to put some upside risk on our 2016 forecast of Chinese growth of about 6.3%.

- We continue to anticipate that quarterly GDP growth in the first half of 2016 will be buoyed by infrastructure spending, ensuring that the economy will not underperform the implicit growth target of Chinese authorities. This stimulus will be targeted at local government infrastructure. As a result, fixed asset investment growth should remain somewhat resilient in the first half of this year, especially now that Chinese authorities are encouraging increased residential investment to help curb rising house prices.

- Still, we anticipate ongoing turbulence in Chinese financial markets this year as authorities struggle to manage the precarious task of rebalancing the economy without heightening financial stability risks. This is further complicated by the explicit goal of Chinese authorities to reduce excess capacity, with signs of production slowdowns in some overcapacity industries such as ferrous metal mining showing up in the data already in the first quarter.

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