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TD Economics

International Data Commentary: Chinese GDP growth maintains momentum in third quarter, economic activity on track for a 6.5% or greater expansion in 2016

- Chinese third quarter real gross domestic product (GDP) rose by 6.7% (year-on-year), in line with consensus. Annualized growth on a quarter-over-quarter basis weakened slightly to about 7.4% from 7.8% in the second quarter.

- Nominal GDP for the third quarter of 2016 rose 7.8% (y/y). The difference between nominal and real growth (year-on-year) is a pickup in inflation in the quarter – a reflection of rising commodity prices that should continue to feed through producer prices in the fourth quarter.

- Fixed asset investment (excluding rural areas) rose 8.2% (reported on a year-over-year in year-to-date basis) in the third quarter, slower than the 9% pace in the second quarter. Fixed asset investment has been slowing consistently since early 2013 when it was rising at a 20% y/y rate.

- The service (tertiary) sector remained resilient in the third quarter, rising 7.6% y/y (16Q2: 7.5%), driven by strong growth in retail sales.

- Industrial production rose 6.1% (y/y) in September, marginally weaker than consensus call for 6.4%. Third quarter industrial production was buoyed by increased utilities output, which is unlikely to continue into the fourth quarter. Manufacturing output slowed in the quarter, while the mining sector contracted for the second consecutive quarter.

Key Implications

- Today's data matched market expectations quite well. Growth momentum from the second quarter has held, and if maintained will likely result in 2016 growth breaching the lower bound of the 6.5%-7.0% target range set by Chinese authorities.

- Overall, Chinese economic growth in the second half of this year is on pace to slow a bit less than anticipated in our September QEF, owing to stronger recovery of the primary sector (raw materials extraction/agricultural sector) from its slump in the first half of the year. Still, growth remains on track to match our annual forecasts of 6.4% and 6.0% growth in 2016 and 2017, respectively.

- The rotation of growth toward consumption and the service sector from debt-fueled investment appears to be going according to plan. However, Chinese authorities continue to face challenges while striving to balance short-term growth goals with long-term ambitions of sustainability. Concerns have risen that house prices have once again bubbled up to unsustainable levels in major cities, forcing Chinese authorities to intervene to slow homebuyer demand. Moreover, short-term economic targets will continue to require debt-financed fiscal policy intervention that will only act to exacerbate financial stability risks. In addition, concerns about an over-indebted private sector, fears of insolvent banks, and rising anti-trade rhetoric abroad all serve as just a few of the other obstacles that Chinese authorities will have to overcome in order to achieve a new sustainable growth paradigm driven by consumers and market forces.

Fotios Raptis, Senior Economist
416-982-2556

@TD_Economics