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# TD Economics

**International Data Commentary: Chinese GDP growth remains firm in the fourth quarter, but 2016 marks its slowest expansion since 1990**

- Chinese fourth quarter real gross domestic product (GDP) rose by 6.8% (year-on-year), generally in line with consensus (+6.7%). Annualized growth on a quarter-over-quarter basis weakened to about 7.0% from 7.4% in the third quarter. The Chinese economy expanded at a 6.7% pace in 2016, the slowest since 1990.

- Nominal GDP for the fourth quarter of 2016 rose 9.9% (y/y) – the fast pace of expansion since the fourth quarter of 2013. The difference between nominal and real growth (year-on-year) was due to strong price growth fueled by a pickup in commodity prices that helped drive up producer prices.

- Economic activity on an industry basis was supported by growth in secondary industries (mining, manufacturing, construction), and the tertiary or services industry. Services grew 8.3% y/y in the fourth quarter, up from 7.6% y/y in the previous quarter. It should be noted that service industries comprise the largest share of economic activity in China (52%), and this has been the case since mid-2015.

- Fixed asset investment (excluding rural areas) rose 8.1% (reported on a year-over-year in year-to-date basis) in the fourth quarter, down considerably from the 10% pace at the start of 2016. Fixed asset investment has been slowing consistently since early 2013 when it was rising at a 20% y/y rate, and broadly reflects the shift away from economic dependence on investment and toward services.

- Industrial production rose 6.0% (y/y) in December, broadly in line with the consensus call for 6.1%. Industrial production in the fourth quarter slowed across all three major sectors: mining, manufacturing, and utilities.

**Key Implications**

- The overnight data confirms another year of strong, but slowing, Chinese growth. Momentum from the fourth quarter should carry through to support first quarter growth, which is notoriously volatile given the massive economic disruption caused by the Chinese New Year holiday season.

- Despite growth generally meeting market expectations on both a quarterly and annual basis, 2016 marks the slowest year of economic growth for China since 1990. Moreover, growth continued to be fueled by credit expansion that has sent China's debt-to-GDP ratio to new highs in the corporate, household, and government sectors. This has added to domestic financial stability risks, particularly surrounding the solvency of some businesses in overcapacity industries and the banking sector that is operating in an environment of slowing income growth.

- Looking ahead, the rotation of growth toward consumption and away from debt-fueled investment is a theme that gained notable traction in 2016 and should persist over the next several years as Chinese authorities seek sustainable economic growth. Recent comments by President Xi Jinping are signaling a shift in attitude by Chinese policymakers that meeting arbitrary growth targets at the expense of exacerbating financial stability concerns may not be optimal, particularly in a slowing economy. Having said that, there is still a good chance that Chinese policymakers will announce a growth target for 2017 before the end of February.

- Chinese policymakers will once again have their hands full battling a number of challenges in 2017. Domestic house price growth has only recently started to show signs of slowing despite efforts by authorities late last year to slow activity. The depreciation of the yuan against the U.S. dollar in nominal terms has driven domestic fears of a forthcoming large, one-off devaluation, which in turn has fueled capital outflows and forcing Chinese authorities to respond by tightening capital controls. Most importantly, China will have to react to what will likely be a more confrontational U.S. administration on issues ranging from international trade to the one-China policy. Overall, we see the Chinese economy continuing to slow in 2017 (+6.4% y/y) and 2018 (+6.1% y/y).

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