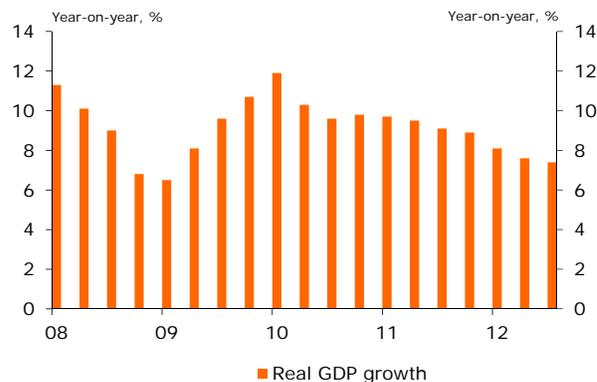


China's growth rate slows further

In the third quarter, China's economic growth continued to slow, as had been expected. However, the data also shows some green shoots. We therefore expect that growth will slightly accelerate in the last quarter, implying the growth slowdown has bottomed out.

Figure 1: GDP growth slows for the 7th quarter in a row



Source: EIU

China's real GDP growth slowed further, to 7.4% year-on-year in the third quarter of 2012, down from 8.1% in the first quarter and 7.6% in the second (see figure 1).

Weak demand for China's exports, particularly from the euro zone and the US, have been having an adverse effect on China's economic activity. In addition, China's own economic policies also contributed to the economic slowdown. Compared to 2011, when Chinese policies were still focused on slowing inflation by limiting credit growth through tight monetary policies and cooling the real estate market, only limited easing has taken place in spite of the reduced inflation pressures. As the labor market has remained resilient to the economic slowdown, there has also been less need for economic stimulus.

In spite of inflation having fallen to below 2% in recent months, monetary easing has so far been restricted to 'fine-tuning'. The reserve requirement ratio (RRR) was brought down to a still high 20% for large banks, down from 21.5%. During the summer, the benchmark interest rates were cut two times to 6% for loans up to 1 year and 3% for 1 year deposits, down from 6.56% and 3.5% respectively (see figure 2). In addition, the room allowed to banks to deviate from the benchmark interest rates was increased.

To stimulate the economy, the government has sped up the approval process for investment projects. As a result, around CNY 1,000bn (EUR 125bn) in mainly infrastructure projects has been approved in recent months. This amounts to only about 25% of the total stimulus package released in 2009.

Furthermore, the measures implemented in 2010 and 2011 to slow the overheating real estate sector remain in place. The measures have been successful in the sense that real estate price rises were first curbed before the prices started to fall in the first half of 2012 (see figure 3). However, the government fears the sector will overheat again if real estate measures are eased. Given the direct and indirect importance of the real estate sector to the economy, these measures continue to negatively affect overall GDP growth.

The August 2012 figures already showed that the recent monetary policy easing and stimulus measures had come too late to reverse the economic slowdown in the third quarter, as industrial production growth, investment growth and credit growth continued to slow. The fact that growth slowed further in the third quarter, for the sixth consecutive quarter, was therefore not unexpected.



China's growth rate slows further

In September, export growth unexpectedly accelerated to 9.9% year-on year, up from 2.7% in August, mainly on the back of strengthened demand from emerging markets in Asia. Although a positive development, it must be said that export growth remains relatively weak, and is also a highly volatile number. The domestic

environment improved as well. Industrial production growth accelerated to 9.2% year-on-year, which appears to be a curb in the downward trend, and infrastructure investment is also rising. Railway investments stand out in particular, increasing by 111% year-on-year. Although private consumption is still unable to drive growth by itself, retail sales grew at a faster pace in September, up by 14.2% year-on-year against around 13% in August. This is another sign the domestic economy is improving. Finally, September's purchasing managers' indices were less negative than in the months before (see figure 4). With the economy showing some signs of improvement and a major leadership transition set to commence in November, which will impede the implementation of policies, no significant further policy easing or economic stimulus measures are expected this year.

Figure 2: Monetary policies 'fine-tuned' only



Source: Reuters EcoWin

In all, growth seems to have stabilized and a slight acceleration is likely in the final quarter, as the measures that have been taken work through to the real economy. Even so, real GDP growth will remain subdued for Chinese standards, with full year growth estimated at around 7.8% in 2012.

Figure 2: Real estate markets cools



Source: Reuters EcoWin

Figure 3: PMI's slightly less negative



Source: Reuters EcoWin

China's growth rate slows further



Rabobank Economic Research Department

	Tel.	E-mail:
<u>Chief economist</u>	+31 30 21	
Wim Boonstra	66617	W.W.Boonstra@rn.rabobank.nl
<u>International Economic Research</u>		
Allard Bruinshoofd*	63272	W.A.Bruinshoofd@rn.rabobank.nl
<i>Macro</i>		
Shahin Kamalodin	31106	S.A.Kamalodin@rn.rabobank.nl
Tim Legierse	62677	T.Legierse@rn.rabobank.nl
Michiel Verduijn	30522	M.P.Verduijn@rn.rabobank.nl
<i>Country Risk</i>		
Erwin Blaauw	62648	E.R.Blaauw@rn.rabobank.nl
Fabian Briegel	64053	F.Briegel@rn.rabobank.nl
Jeroen van IJzerloo*	62406	J.IJzerloo@rn.rabobank.nl
Herwin Loman	31105	H.Loman@rn.rabobank.nl
Reintje Maasdam	31403	R.Maasdam@rn.rabobank.nl
Ashwin Matabadal	61601	A.R.K.Matabadal@rn.rabobank.nl
Reinier Meijer	31568	R.Meijer@rn.rabobank.nl
Anouk Ruhaak	64860	A.N.Ruhaak@rn.rabobank.nl
<u>National Economic Research</u>		
Hans Stegeman*	31407	H.W.Stegeman@rn.rabobank.nl
<i>Macro</i>		
Ruth van de Belt	60143	R.Belt@rn.rabobank.nl
Maarten van der Molen	64214	M.T.Molen@rn.rabobank.nl
Danijela Piljic	31104	D.Piljic@rn.rabobank.nl
Anke Struijs	31408	A.C.A.Struijs@rn.rabobank.nl
Theo Smid	67599	T.H.Smid@rn.rabobank.nl
Paul de Vries	30172	Vries.P@rn.rabobank.nl
<i>Regional</i>		
Rogier Aalders	31393	R.Aalders@rn.rabobank.nl
Cynthia Briesen	31411	C.C.Briesen@rn.rabobank.nl
Frits Oevering	64439	F.J.Oevering@rn.rabobank.nl
Anouk Smeltink-Mensen	66404	A.H.H.M.Smeltink@rn.rabobank.nl
Willem van der Velden*	62478	W.Velden@rn.rabobank.nl
<u>Financial Sector Research</u>		
Yvette Jorissen	64931	Y.M.Jorissen@rn.rabobank.nl
Dick Scherjon	31405	D.P.Scherjon@rn.rabobank.nl
August Sjauw-Koen-Fa	31406	A.R.Sjauw@rn.rabobank.nl
Nicole Smolders	79108	N.M.P.Smolders@rn.rabobank.nl
Leontine Treur	67084	L.Treur@rn.rabobank.nl
Bouke de Vries*	61195	Y.B.Vries@rn.rabobank.nl

*Head