

# CHINA ACTIVITY MONITOR

26<sup>th</sup> Oct. 2011



## Growth holds up in face of headwinds

- **The Capital Economics China Activity Proxy (CAP) signals that the economy was strong to the end of Q3. But weaker growth lies ahead.**
- The CAP is our attempt to track the pace of growth in China without relying on the official GDP figures. It is based on a set of low-profile indicators chosen to reflect activity across a wide section of the economy. (Full details are in our *Asian Economics Focus*, "Can China grow by 8% this year?", 6<sup>th</sup> May 2009.)
- **The economy slowed in Q3, but not by much.** We estimate annualised growth of 8.2% q/q compared with 8.8% in Q2. (See Chart 1.) What's more, the monthly figures point to a small *acceleration* towards the end of the quarter. We suspect that fading export demand will drag on growth over the next few months. But this is not happening yet.
- The statistics bureau's GDP figures are more optimistic about the current pace of growth (9.5% annualised in Q3) but show a similar slowdown from 10% in Q2.
- Our y/y growth estimates also follow a similar path to the official measure of GDP, suggesting that the government's figures are currently more credible than many believe. (See Chart 2.) The y/y growth rate fell last quarter and, given the strong q/q performance at the end of 2010, will probably continue to decline in the current quarter too.
- The five components in the CAP provide a snapshot of activity across the economy that is not available in the GDP data. **The clearest evidence of recent weakness comes from the figures on electricity output, which are a reliable guide to the strength of industry** and, in particular, energy-intensive heavy industry. (See Chart 3.) However, the recent slowdown is at least partly due to supply shortfalls, as drought has hit hydroelectric output, rather than demand. (See Chart 4.) Overall electricity output remains healthy in y/y terms, but this is misleading: output also weakened this time a year ago, as provinces raced to meet an end-year energy efficiency target by closing plants.
- **The number of passenger journeys taken – a gauge of both business travel and discretionary household spending – remains reasonably healthy.** (See Chart 5.) But the spurt early in the summer proved short-lived, dashing any hopes this might have signalled a shift in households' spending behaviour. (See the blue line in Chart 7.)
- **Growth in the volume of freight transported domestically remains faster than the pre-crisis norm, a sign that broad domestic economic momentum is still healthy.** (See Chart 6 and the black line in Chart 7.) **The volume of freight passing through China's ports also continues to grow at a decent rate.** (See Chart 8 and the black line in Chart 9.)
- **Finally, the outlook for property developers may be bleak, but current activity still looks strong.** (See the blue line in Chart 9 and Chart 10.) But the current pace at which property is being completed, despite slow sales, arguably adds to the downside risks.
- Overall, our assessment is that growth was fairly stable in Q3. Slower exports and property construction are both likely soon. But neither is having a big effect yet.

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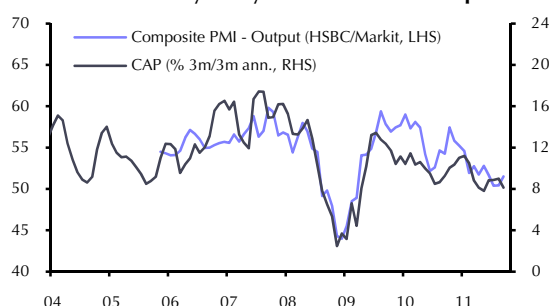
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Chart 1: China Activity Proxy & HSBC/Markit Composite PMI



Sources – CEIC, Thomson Datastream, Markit, Capital Economics

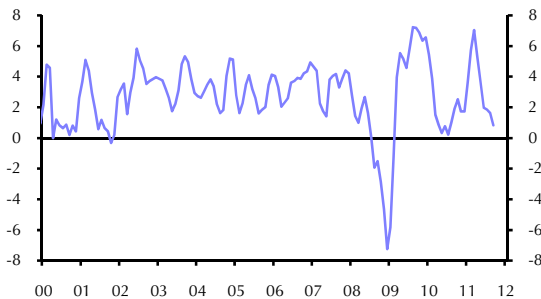
Chart 2: CAP & Official GDP



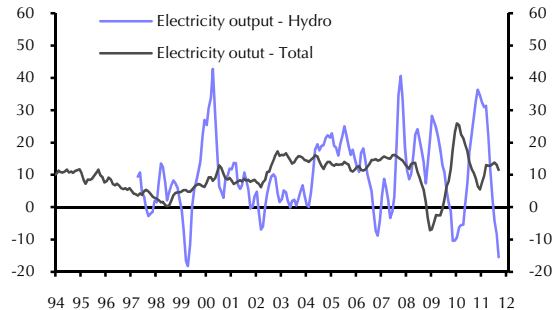
Sources – CEIC, Thomson Datastream, Capital Economics

# China Activity Charts

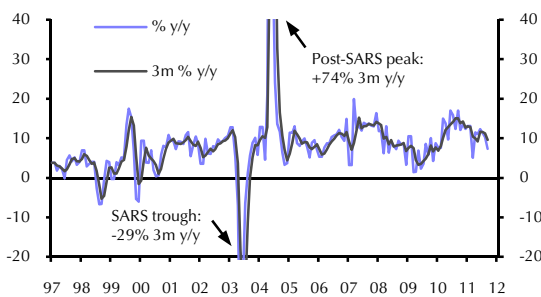
**Chart 3: Electricity Output (Seas. Adj., % 3m/3m)**



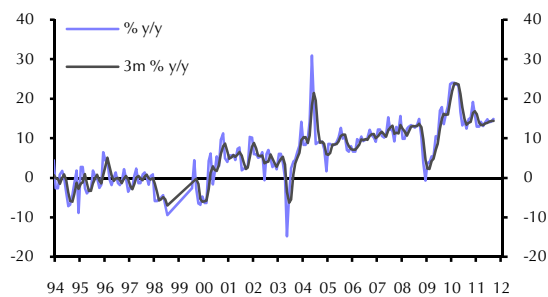
**Chart 4: Electricity Output (3m % y/y)**



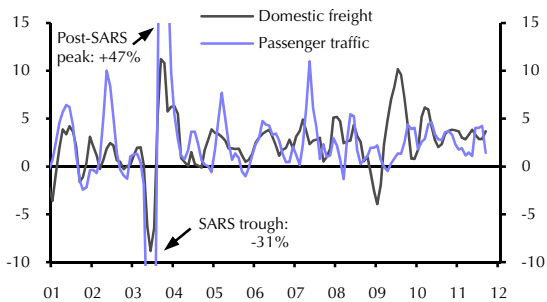
**Chart 5: Passenger Transport**



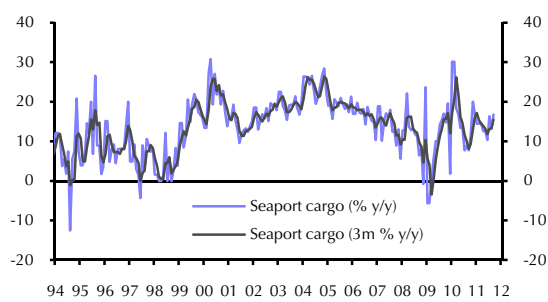
**Chart 6: Domestic Freight**



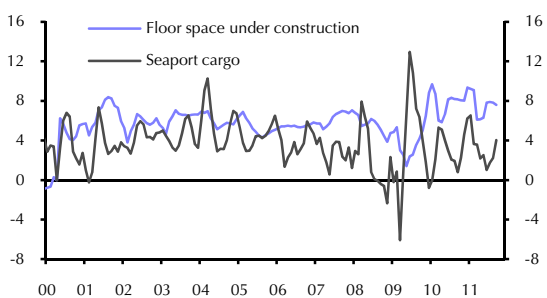
**Chart 7: Selected CAP Components (Seas. Adj., % 3m/3m)**



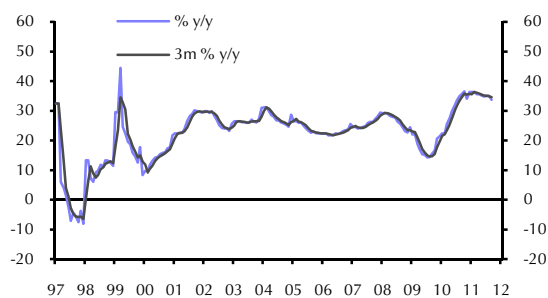
**Chart 8: Seaport Cargo**



**Chart 9: Selected CAP Components (Seas. Adj., % 3m/3m)**



**Chart 10: Floor Area Under Construction**



Sources – CEIC, Thomson Datastream, Capital Economics

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