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Advisory Division

—The macroeconomy—

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Summary

China's real GDP (gross domestic product) grew 7.4% in 2014. This was below the government's target of +7.5%. The last time the figure had dropped below the government's projected target was 1998, some 16 years ago. Amid growing moves to support the economy through fiscal and monetary policy, as evinced by the decision to cut the lending and deposit rates, some economic indicators in December posted improvements on November.

1. Some December economic indicators posted improvements on November

- Real GDP grew by 7.4% in 2014 and 7.3% in October–December
- A glance at December indicators shows production and consumption improving, though investment slowed
- Exports and imports in December both improved on the previous month
- The CPI growth rate increased to +1.5%. The PPI fell further into negative territories
- Real estate prices fell on the previous year for the fourth successive month
- The net increase of new bank loans and the growth in the money supply both slowed, though social financing grew

2. The securing of liquidity, promotion of reform and the prevention/control of risk were adopted as priorities in the area of policy responses and monetary policy

- Securing ample liquidity at a rational level, promoting reform, and strengthening risk prevention

1. Some December economic indicators posted improvements on November

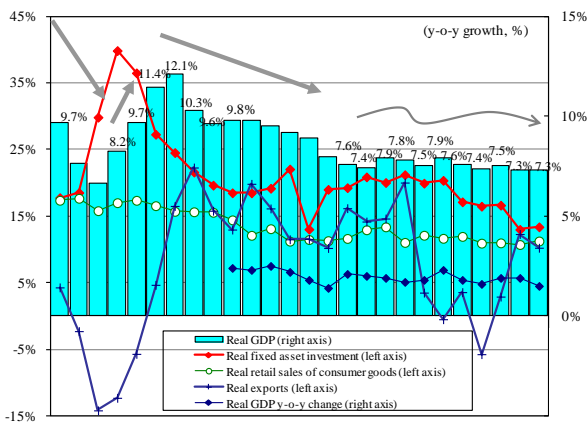
• **Real GDP grew by 7.4% in 2014 and 7.3% in October–December**

On January 20, the National Bureau of Statistics (NBS) announced that China’s real GDP (gross domestic product) in 2014 had grown 7.4% on the previous year. This was below the government’s target of +7.5%. The last time the figure had dropped below the government’s projected target was 1998, some 16 years ago. However, Ma Jiantang, Commissioner of the NBS, claimed it was fair to say China had hit its growth target of ‘about +7.5%,’ with the Commissioner explaining that “the projected target was about 7.5%, so a little higher or lower (than 7.5%) is still about 7.5%”¹.

The real GDP growth rate for October–December was +7.3% on the same period last year (all figures from here on refer to ‘same-period previous-year’ growth unless otherwise specified), the same level as the July–September (see Fig. 1). Growth was up 1.5% on the previous quarter.

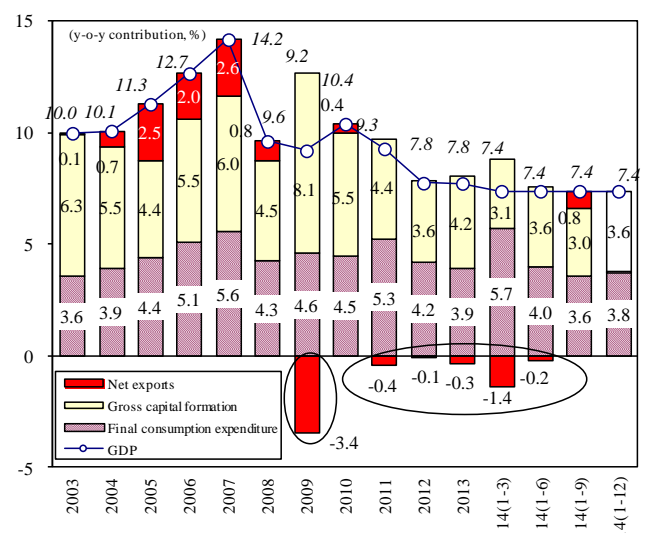
A glance at the GDP contribution rate by demand item shows final consumption expenditure dropping from 2013’s +3.9% to hit +3.8%. The total contribution of net exports and gross capital formation is estimated to be +3.6%, though the details are yet to be released (see Fig. 2).

Fig. 1: GDP and major economic indicators (quarterly)



Note: The real RMB value of exports is indexed using the production price index (PPI); the real value of fixed asset investments is indexed using the price index of investment in fixed assets; and the real value of retail sales of consumer goods is indexed using the retail price index (RPI).
Source: National Bureau of Statistics of China, CEIC

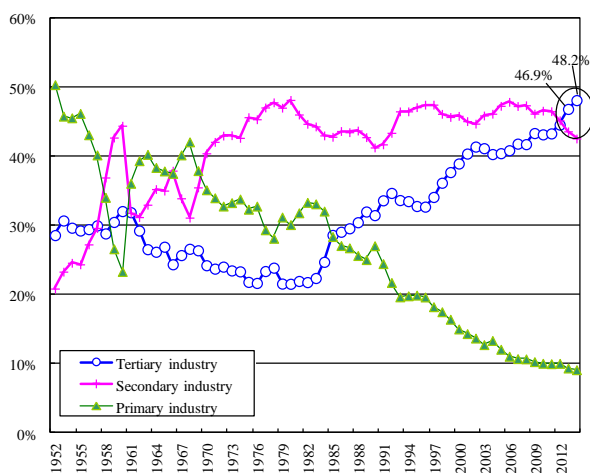
Fig. 2: GDP and major economic indicators



Note: The net exports and gross capital formation figures for January–December, 2014 have not been released.
Source: National Bureau of Statistics of China, CEIC

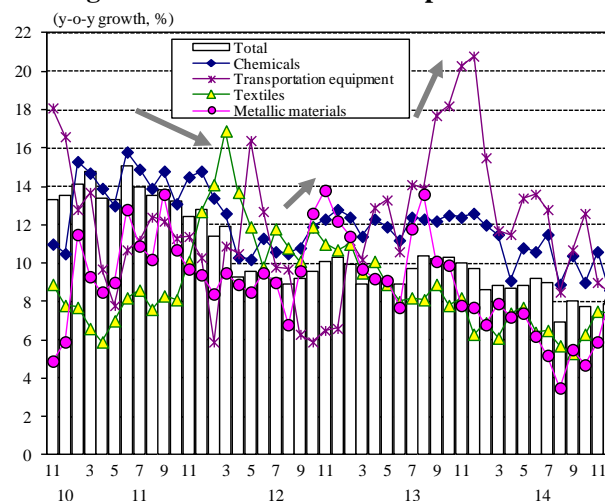
¹ The State Council of the People’s Republic of China, January 20, 2015: “Briefing by the State Council Information Office on China’s economic performance in 2014” (http://www.gov.cn/xinwen/zb_xwb51); Real GDP in 1998 stood at +7.8%, down on the government’s projected target of +8%.

Fig. 3: GDP composition by sector



Source: CEIC, National Bureau of Statistics of China

Fig. 4: Value-added industrial production



Note: The value-added industrial production amount. The figure for January shows the aggregate year-on-year change for the period January–February. Transportation equipment has meant automobiles since March 2012.

Source: CEIC

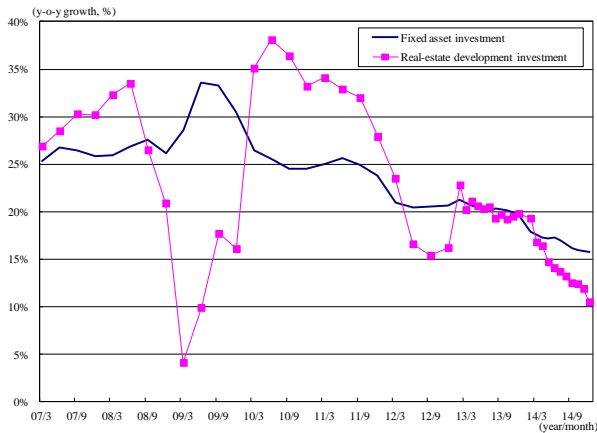
- **A glance at December indicators shows production and consumption improving, though investment slowed**

A glance at the composition of nominal GDP shows the tertiary sector overtaking the secondary sector in 2013 (46.9% compared to 43.7%), with the tertiary industry’s share of GDP rising to 48.2% in 2014 (see Fig. 3).

Some December economic indicators were up on the previous month. Value-added industrial production in December was up 7.9% on the same period last year. This was an improvement on November’s +7.2% (+0.8% on the previous period) (see Fig. 4). The growth rate for 2014 as a whole stood at 8.3%. This was down on 2013 (+9.7%) and also below the government’s target of +9.5%.

Nominal fixed asset investment stood at +14.8% in December, a slight decrease on November’s 14.9% (month-on-month change: +1.2%; 2014: +15.7%). Real-estate development investment growth decelerated to +10.5% in 2014 (see Fig.5). Investment in railway transportation grew by 16.6% in 2014. The standalone figure for December was +6.5%, down on November’s +22.6% (see Fig. 6).

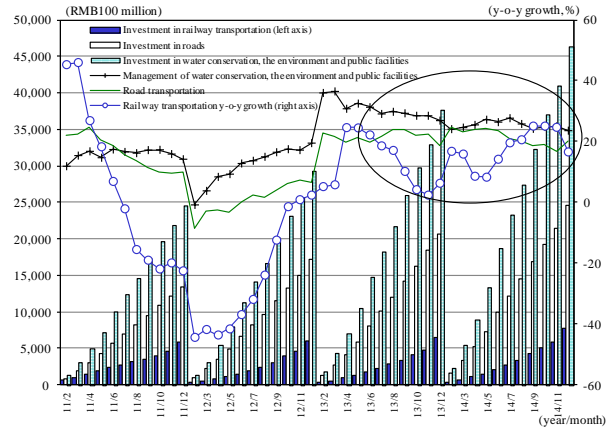
Fig. 5: Fixed asset investment



Note: The figures show a same-period previous-year comparison of the cumulative results for periods lasting from the beginning of the target year until the month in question. The figures for the end of March, June, September, and December were listed until the end of 2012; the monthly figures were listed from 2013 onwards.

Source: National Bureau of Statistics of China, CEIC

Fig. 6: Fixed asset investments in railways, roads, water conservation and the environment

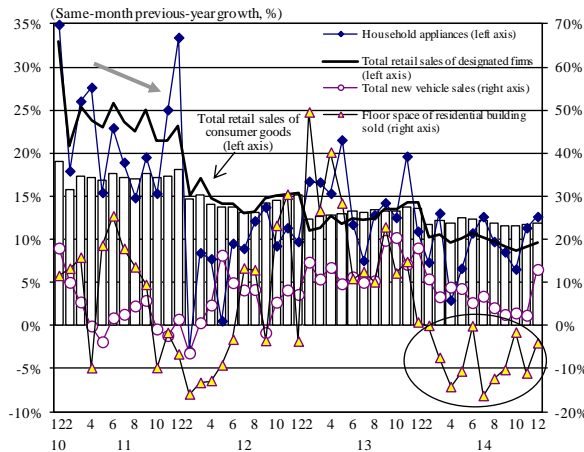


Note: The figures show the cumulative results and a same-period previous-year comparison for periods lasting from the beginning of the target year until the month in question.

Source: National Bureau of Statistics of China, CEIC

Nominal retail sales of consumer goods grew by 11.9% in December, slightly down on November's figure of +11.7%. Once inflationary factors are removed from the equation, though, real growth stood at 11.5%, an improvement on November's figure of +11.2% (+1.0% m-o-m) (see Fig. 7). Internet retail sales grew a whopping 49.7% to hit RMB2.7898 trillion in 2014, with net shopping now accounting for 10.6% of all retail sales of consumer goods.

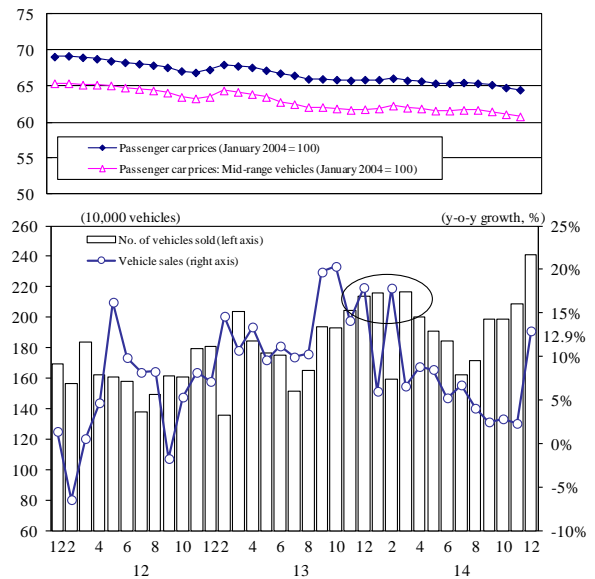
Fig. 7: Retail sales of consumer goods; retail sales by item; floor space of residential building sold



Note: Designated firms: firms with an annual turnover of RMB5 million or over; the household appliance data also refers to sales by these designated companies; February = the cumulative results for January–February.

Source: CEIC

Fig. 8: Automobile prices; number of vehicles sold; y-o-y growth



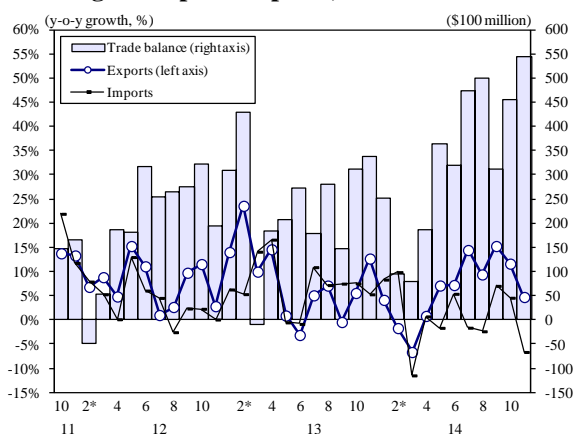
Source: CEIC

Moves by the administration of Xi Jinping to implement its policy of ‘practicing strict economy and combating waste’² have continued to impact consumption related to eating, drinking and gift giving. The dining-out sector grew by 9.7% in 2014, with large establishments posting growth of 2.2%. These figures were both improvements on 2013’s results (+9.0% and -1.8%, respectively).

New vehicle sales in December hit 2.41 million (+12.9%). This was up on November’s figure of 2.091 million (+2.3%) (see Fig. 8). 23.489 million sales were recorded for the whole of 2014 (+6.9%). This represented a slide on the pace of expansion seen in 2013 (21.993 million; +13.9%).

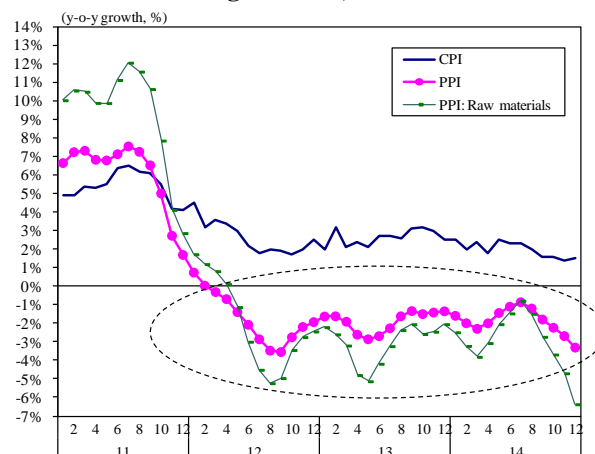
▪ **Exports and imports in December both improved on the previous month**

Fig. 9: Imports/exports; trade balance



Note: Same-period previous-year growth and cumulative figures for January–February.
Source: China Customs Statistics

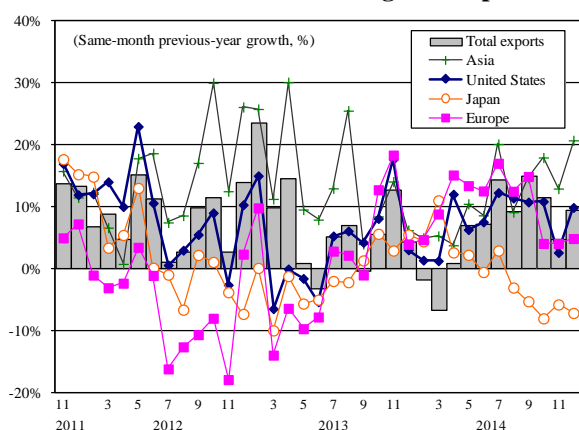
Fig. 10: CPI, PPI



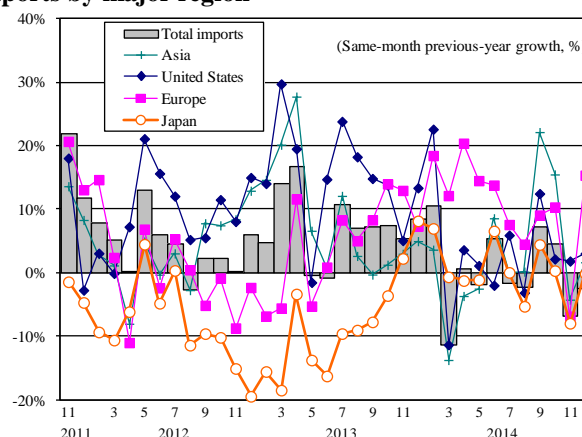
Source: National Bureau of Statistics of China, CEIC

Exports were up 9.7% in December (\$227.51 billion), while imports fell by 2.3% (\$177.9 billion), with the trade surplus hitting \$49.61 billion (see Fig. 9). Imports and exports were both up on the figures for November (Exports: +4.7%; Imports: -6.6%). Exports were up 6.1% (\$2.3428 trillion) for 2014 as a whole, with imports also climbing by 0.4% (\$1.9603 trillion). Total trade was up 3.4% (\$4.3030 trillion), though this fell below the government’s 2014 target for trade growth of 7.5%. The trade balance was in the black to the tune of \$382.5 billion.

² People’s Daily, January 29, 2013: ‘Practice strict economy and combat waste, instructs Xi Jinping’
<http://theory.people.com.cn/n/2013/0201/c40555-20398076.html>

Fig. 11: Imports and exports by major region

Note: The figure for February shows a same-period previous-year comparison of the cumulative results for January–February.
Source: China Customs Statistics, CEIC



Note: The figure for February shows a same-period previous-year comparison of the cumulative results for January–February.
Source: China Customs Statistics, CEIC

A glance at imports and exports by region reveals that the growth in exports to Asia slowed from the latter half of 2012 following a crackdown on fund inflows disguised as trading transactions³. However, exports to the U.S. and Europe (China's main export destinations) bottomed out in the latter half of 2012 and continued to recover thereafter (see Fig. 11). Exports slowed as a result of the crackdown on fund inflows disguised as trading transactions, but the y-o-y impact has declined compared to when the crackdown began in May 2013, with exports, including those to Asia, since recovering⁴.

- **The CPI growth rate increased to +1.5%. The PPI fell further into negative territories**

In December, CPI (consumer price index) growth stood at +1.5%, an increase on November's +1.4%. The month-on-month increase stood at +0.3% (see Fig. 12). The figure for 2014 as a whole was +2.0%, significantly below the government's target of +3.5%.

A breakdown of CPI shows the food price rising 2.9% in December, up on November's +2.3%. This was mainly due to the rising cost of fruit and vegetables as a result of the cold weather, rain and snow⁵. On the other hand, pork prices dropped 4.9% in December, down further on November's figure of -3.8% (see Fig. 13). At +0.8%, December non-food price rises also slowed slightly on November (+1.0%).

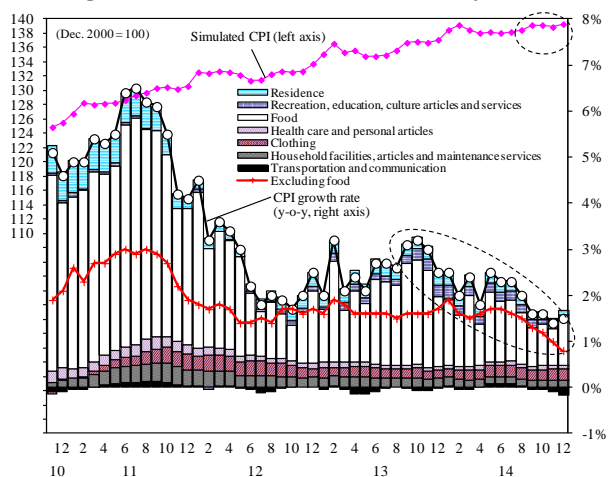
³ Exports to Asia (including Hong Kong) increased from the latter half of 2012 onwards, though a Wall Street Journal report suggested that "the figures have likely been inflated by those trying to skirt China's capital controls and bring hot money into the country," mainly via Hong Kong (the Wall Street Journal, April 10, 2013: 'Doubt Over Export Numbers Colors China's Trade Report'). From May 2013 onwards, the authorities have strengthened efforts and restrictions aimed at controlling these kinds of movements.

⁴ According to Zhong Shan, Vice-Minister at China's Ministry of Commerce, these kinds of fund inflows disguised as trade transactions pushed the export figures up in 2013, and once this factor is removed from the equation, total trade in 2014 was up 6.1%, with exports up 8.7% and imports up 3.3%. The State Council of the People's Republic of China, January 16, 2015: "The State Council Information Office holds a regular policy briefing on national economic and social development" <http://www.gov.cn/zhuanti/2015gwycfh/>

⁵ National Bureau of Statistics, January 9, 2015: 'Yu Qiumei, a senior statistician at the National Bureau of Statistics, deciphers the December CPI and PPI data.' http://www.stats.gov.cn/tjsj/sjjd/201501/t20150109_665730.html

In December, the PPI (production price index) fell by 3.3%. This marked a further slide on November's -2.7%, with the PPI now moving in negative territories for the 34th consecutive month, starting from March 2012 (see Fig. 10). A glance at the m-o-m PPI data points to the ongoing impact of sliding international crude oil prices. The PPI was down 0.6% on the previous month, but refined oil (-0.2%), petroleum/natural gas (-0.1%) and chemical raw materials/products (-0.1%) together accounted for 0.4Pt, or around 67%, of this slide (National Bureau of Statistics).

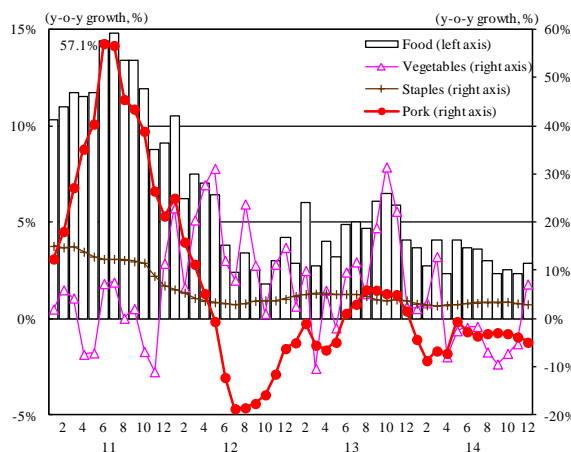
Fig. 12: CPI; Growth contribution by item



Note: The contribution rate of each item is calculated by Mizuho Bank based on the y-o-y growth rate and consumption expenditure statistics for each item. The simulated CPI data is calculated by Mizuho Bank based on the m-o-m growth rate for each month, with December 2000 as the base month.

Source: National Bureau of Statistics of China, CEIC

Fig. 13: Food prices



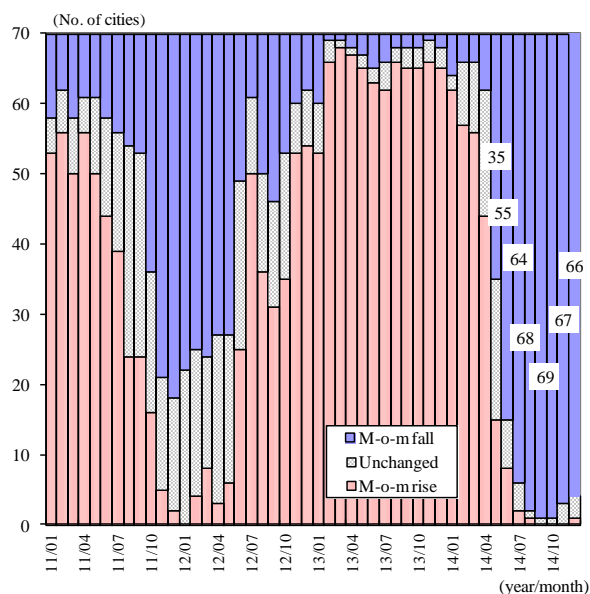
Source: National Bureau of Statistics of China, CEIC

• **Real estate prices fell on the previous year for the fourth successive month**

In December, 66 of the 70 major cities surveyed saw new residential building prices falling on the previous month. This represented a decrease of 1 city on November, when 67 of the 70 major cities surveyed saw m-o-m declines in new residential building prices (see Fig. 14). On a year-on-year basis, prices began falling in September (-1.1), with the figure sliding to -4.3% in December. As in November, only two cities, Xiamen (+2.1%) and Zhengzhou (+0.2%), saw y-o-y increases, though the growth rate has weakened in both cities⁶.

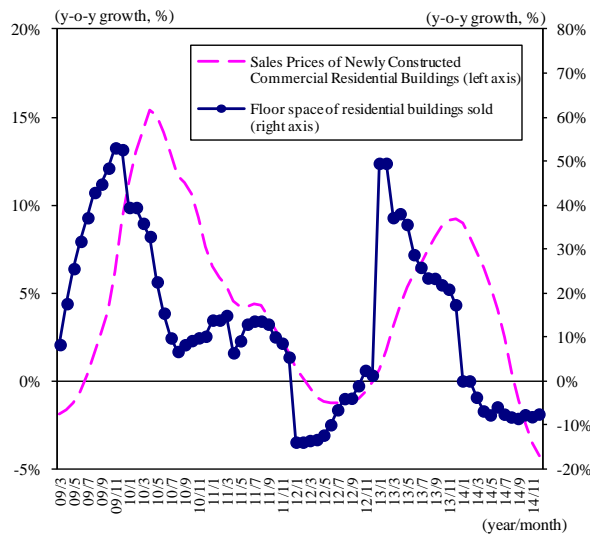
⁶ National Bureau of Statistics, January 18, 2015: 'Sales Prices of Residential Buildings in 70 Medium and Large-sized Cities in December 2014.' http://www.stats.gov.cn/tjsj/zxfb/201501/t20150118_670296.html

Fig. 14: Number of cities recording m-o-m changes in sales prices of residential buildings



Source: National Bureau of Statistics of China, CEIC

Fig. 15: Floor space of residential buildings sold and sales prices of residential buildings



Note: Residential building prices denotes the simple average growth rate for the 70 cities.

Source: National Bureau of Statistics of China, CEIC

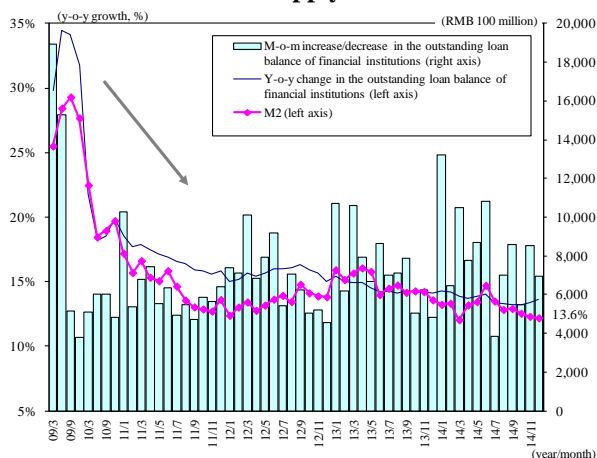
The fall in residential building prices and continuously weak growth rates have promoted a sense that prices will fall even further going forward, with more people now holding back from buying a home. As Fig. 15 shows, a decline (or increase) in the floor space of residential buildings sold results in a decline (or increase) in sales prices of residential buildings several months later, and thus the floor space of residential building indicator act as a signal of how sales prices of residential buildings will move in future. On September 29, the People’s Bank of China (PBOC) announced it was loosening restrictions on mortgage loans⁷. As a result, data related to the y-o-y change in the floor space of residential buildings sold showed signs of bottoming out from October onwards. However, at -7.6% on the previous month, the figure for December remains down on the previous year. With the productive age population falling⁸, it is hard to see the market recovering at the same pace it had previously enjoyed.

The real-estate sector has seen earnings deteriorate on the back of this slump in sales of residential buildings. As a result, new investment is decelerating. Real estate development investment growth stood at +10.5% in 2014, down from +35.2% at the start of 2011 and +19.8% in 2013 (see Fig. 5).

⁷ PBOC, September 30, 2014: ‘Notice of PBC and CBRC (China Banking Regulatory Commission) on Further Improving Financial Services for Real Estate Sector.’ Buyers of second homes can now be enjoy the same down payment ratios and mortgage interest rates as first-time home buyers provided they have paid off the loan on their first home and the purpose of the purchase is to improve the residential environment. http://www.pbc.gov.cn/publish/goutongjiaoliu/524/2014/20140930160525301502298/20140930160525301502298_.html
Mizuho China Business Express (No. 353) <http://www.mizuhobank.co.jp/corporate/world/info/cndb/express/pdf/R419-0358-XF-0102.pdf>

⁸ On January 20, 2015, the National Bureau of Statistics announced that the productive age population (16–59) had fallen to 915.83 million as of the end of 2014, down 3.71 million compared to the end of 2013. The productive age population also fell by 3.45 million in 2012 and 2.44 million in 2013. National Bureau of Statistics of China: ‘China’s Economy Realized a New Normal of Stable Growth in 2014.’ http://www.stats.gov.cn/tjsj/zxfb/201501/t20150120_671037.html

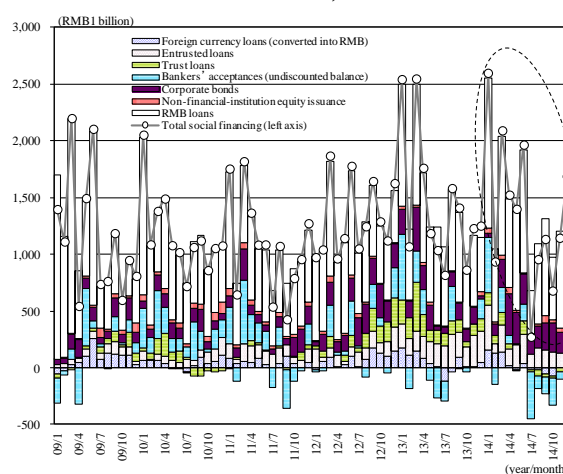
Fig. 16: Financial institution lending; the money supply



Note: The graph shows end-of-quarter figures up until the end of 2010. The figure in the graph shows the y-o-y change in the outstanding loan balance for the most recent month.

Source: PBOC, CEIC

Fig. 17: Total social financing (net increase or decrease)



Source: PBOC, CEIC

- **The net increase of new bank loans and the growth in the money supply both slowed, though social financing grew**

According to the PBOC, December saw a net increase in new bank loans to the tune of RMB697.3 billion. This was down on November's figure of RMB852.7 billion. As for the money supply, M2 increased by 12.2% in December. This was down in November's +12.3% and was also below the government's target of +13% (see Fig. 16). Total social financing, with includes other financing besides bank lending, rose to a net RMB1.69 trillion in December, up on November's figure of RMB1.1463 trillion. The net amount increased for all items, apart from corporate bonds (see Fig. 17).

2. The securing of liquidity, promotion of reform and the prevention/control of risk were adopted as priorities in the area of policy responses and monetary policy

- **Securing ample liquidity at a rational level, promoting reform, and strengthening risk prevention**

On December 23, 2014, the China Banking Regulatory Commission (CBRC) held a working conference to discuss bank supervision and management tasks. At the conference, Shang Fulin, chairman of the CBRC, spoke about the five major features of the new normal in the banking industry. He also outlined measures to tackle risk, uncover market opportunities, and promote a new development model⁹. The priorities for 2015 are outlined in Fig. 18.

⁹ China Banking Regulatory Commission, December 23, 2014, Shang Fulin: 'Lecture at the National Working Conference on Banking Supervision and Administration.' The five major features of the new normal in the banking industry are: (1) A shift to a more composed model of lending growth (quantity to quality; share to strategy); (2) with loan-deposit interest margins shrinking, an active shift to a new profit model; (3) with methods of social financing changing, a major strengthening of the capacity for technological innovation; (4) with non-performing loans on the increase, the prevention of hidden risks in an appropriate manner; (5) the enhancement of law-abidance and compliance.
<http://www.cbrc.gov.cn/chinese/home/docView/0F9AC7E0B604460FA82B7AEB05A85DD1.html>

Fig. 18: CBRC 2015 priority tasks (Working Conference on Banking Supervision and Administration)

| | Item | Remarks |
|---|--|--|
| 1 | Improve the quality and efficiency of financial services | (1) Active support for the implementation of national strategy. One belt and one road*, Beijing-Tianjin-Hebei, Yangtze River economic belt |
| | | (2) Industrial structure adjustment; Discover and nurture new sources of growth |
| | | (3) ** 'Puhui Finance' (Inclusive Financial System) |
| | | (4) Lower fundraising costs |
| 2 | Risk prevention and control | (1) Customer credit risk |
| | | (2) Security price fluctuation risk |
| | | (3) Liquidity risk |
| | | (4) Operational risks |
| | | (5) Social financing risks |
| 3 | Reform and opening-up of the banking industry | (1) Participation through private capital |
| | | (2) Reform of bank operations departments and specialist departments |
| | | (3) Reform of supervision and control systems |
| | | (4) Acceleration of financial infrastructure construction |
| 4 | Building of financial law in the banking industry | (1) Upgrade legal and regulatory systems |
| | | (2) Enhance the level of enforcement of supervision and control laws |
| | | (3) Strengthen law abidance |
| | | (4) Strengthen punishments for people who violate the law |

Note: * Silk Road Economic Belt; 21st Century Maritime Silk Road

** A financial system that provides services to each social class and group in an effective and comprehensive manner. Inclusive Financial System.

Source: China Banking Regulatory Commission, December 23, 2014; Shang Fulin "Lecture at the National Working Conference on Banking Supervision and Administration"

<http://www.cbrc.gov.cn/chinese/home/docView/0F9AC7E0B604460FA82B7AEB05A85DD1.html>

Fig. 19: Major tasks for 2015 (2015 PBOC Working Conference)

| |
|---|
| (1) Promote the deep implementation of the spirit of the 4th Plenary Session of the 18th Central Committee of the Communist Party of China; comprehensively strengthen the building of a financial law framework |
| (2) Continuously implement prudent monetary policies Secure ample liquidity of banking system at a rational level Guide stable and moderate growth of money/credit granting and social financing Strengthen financing to key territories and weak sectors through the utilization of stock (existing funds) and the proficient use of flow |
| (3) Increase financial support for the real economy; lower fundraising costs further |
| (4) Promote speedy financial reform and opening-up Accelerate market-based reforms in the financial sector Continuously improve the formation mechanism for the RMB exchange rate Steadfastly promote the convertibility of the RMB in capital accounts Establish a deposit insurance system Deepen financial institution reforms Promote reforms to the foreign exchange management system Promote regional liberalization and cooperative development Promote innovation and regularized development in the internet finance sector |
| (5) Expand the cross border use of the RMB |
| (6) Promote the harmonious development of financial markets |
| (7) Adopt comprehensive measures to prevent the occurrence of regional/systemic financial risk |
| (8) Participate fully in international economic and monetary policy coordination and rule-making |
| (9) Steadfastly promote the modernization of financial services/management |
| (10) Steadfastly promote Party construction within the PBOC organization |
| (11) Engage thoroughly with policy implementation and internal control |

Source: PBOC, January 9, 2015

<http://www.pbc.gov.cn/publish/goutongjiaoliu/524/2015/20150109161330060852678/20150109161330060852678 .html>

At a working conference held over January 8–9, the PBOC adopted 11 items as major tasks for 2015 (see Fig. 19)¹⁰. With regards to item 2 (prudent monetary policies), the PBOC stated it would ‘secure ample liquidity of banking system at a rational level’ and ‘guide stable and moderate growth of money/credit granting and social financing.’

When it came to financial reform, the PBOC clearly stated that it needed to: establish a deposit insurance system; steadfastly promote the convertibility of the RMB in capital transactions; and deepen financial institution reforms.

Amid growing moves to support the economy through monetary policy, as evinced by the decision to cut the lending and deposit rates in November 2014, signs of improvements are now being seen in China’s economic indicators. However, Prime Minister Li Keqiang has mentioned that “the Chinese economy will continue to face considerable downward pressure this year¹¹,” and thus observers will be watching economic, monetary and fiscal policy closely in 2015 to see how well they support the economy.

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¹⁰ PBOC, January 9, 2015: ‘2015 People’s Bank of China work conference held in Beijing.’

http://www.pbc.gov.cn/publish/goutongjiaoliu/524/2015/20150109161330060852678/20150109161330060852678_.html

¹¹ Speech at the plenary meeting of the State Council. The State Council of the People’s Republic of China, January 19, 2015: ‘Premier presides over meeting to discuss draft of government work report.’

http://www.gov.cn/guowuyuan/2015-01/19/content_2806356.htm