

Asia Economics Data Flash

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China January-February data: Growth accelerating, inflationary pressures rising amid robust credit growth

Exhibit 1: Data summary

	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan
CPI														
% yoy	2.7	1.5	1.9	0.5	-0.6	-0.8	-1.2	-1.8	-1.7	-1.4	-1.5	-1.2	-1.6	0.9
% qoq (sa, ann)	4.1	4.4	4.3	3.5	2.5	1.3	0.6	0.9	0.4	0.0	-2.3	-3.4	-5.0	-4.4
% mom (sa, ann)	4.8	-0.5	6.2	6.2	3.0	3.2	4.7	-0.1	-1.0	1.6	0.9	3.9	-8.4	3.1
PPI														
% yoy	5.4	4.3	1.7	-2.1	-5.8	-7.0	-7.9	-8.2	-7.8	-7.2	-6.6	-6.0	-4.5	-3.3
% qoq (sa, ann)	16.6	14.1	9.7	6.5	3.9	1.7	-0.5	-2.6	-3.9	-5.8	-8.7	-14.2	-18.4	-19.0
% mom (sa, ann)	11.0	19.1	20.9	16.8	5.0	6.9	4.8	1.5	-1.3	-2.7	-2.7	-8.4	-3.0	-12.3
IP														
% yoy	20.7	20.7	18.5	19.2	16.1	13.9	12.3	10.8	10.7	8.9	7.3	8.3	3.8	3.8
% qoq (sa, ann)	18.6	18.3	18.4	16.4	16.0	16.8	19.0	22.2	23.4	27.1	22.2	14.4	4.5	-2.1
% mom (sa, ann)	18.8	23.5	16.4	15.7	21.0	19.6	15.6	1.6	38.0	27.7	-6.3	72.9	20.6	2.6
Nominal Retail Sales														
% yoy	17.9	17.9	17.5	15.8	16.2	15.5	15.4	15.2	15.0	15.2	14.8	14.7	15.2	15.2
% qoq (sa, ann)	13.5	14.1	17.9	19.3	21.0	22.2	22.3	22.0	21.0	16.6	11.8	5.5	5.7	7.9
% mom (sa, ann)	25.7	-5.3	25.6	8.3	18.8	22.1	19.2	23.6	21.1	26.2	19.1	15.5	28.2	-12.6
Real Retail Sales*														
% yoy	15.4	15.4	15.9	15.8	17.7	17.3	17.8	18.2	17.7	17.4	17.0	16.4	15.7	15.7
% qoq (sa, ann)	9.1	9.4	13.2	15.0	18.0	20.4	21.8	22.0	20.7	17.0	13.9	11.6	14.0	15.9
% mom (sa, ann)	17.2	-5.7	20.8	1.1	16.7	16.3	15.4	22.4	22.6	25.0	18.5	18.8	20.7	-4.5
FAI														
% yoy	26.6	26.6	20.5	24.2	31.6	35.0	33.6	29.9	35.2	38.7	33.9	30.3	26.5	26.5
% ytd	26.6	26.6	30.5	32.1	33.1	33.3	33.0	32.9	33.6	32.9	30.5	28.6	26.5	26.5
% qoq (sa, ann)	22.8	20.4	22.6	26.5	27.7	25.9	26.9	31.3	34.6	34.5	31.7	32.3	33.5	34.9
% mom (sa, ann)	26.9	41.2	18.5	11.5	21.1	32.1	38.2	16.0	20.1	39.6	36.1	38.5	28.2	27.4
M2														
% yoy	25.5	26.0	27.7	29.7	29.4	29.3	28.5	28.4	28.5	25.7	26.0	25.5	20.5	18.8
% qoq (sa, ann)	19.8	18.6	18.0	20.0	20.3	18.0	23.5	26.3	31.4	39.5	39.8	45.8	37.3	32.3
% mom (sa, ann)	21.0	21.1	17.4	17.5	19.0	23.4	18.5	12.4	41.3	26.8	26.8	68.9	27.6	43.6
CNY Loans														
% yoy	27.2	29.3	31.7	33.8	34.2	34.2	34.1	34.0	34.4	30.6	29.7	29.8	24.2	21.3
% qoq (sa, ann)	18.2	19.9	21.8	23.7	23.7	20.4	29.0	31.8	31.3	38.7	42.8	56.9	45.0	39.8
% mom (sa, ann)	18.1	18.3	18.2	23.2	24.1	23.9	23.2	14.4	52.2	31.5	13.2	79.3	43.4	50.2

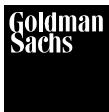
* Our estimates use the Retail Price Index.

Source: National Bureau of Statistics (NBS), People's Bank of China, CEIC, GS Global ECS Research.

- The Chinese government released January-February economic data today. Here are our thoughts:

Activity growth

- January-February industrial production (IP) growth accelerated to 20.7% yoy, from 18.5% yoy in December (our forecast: 19.5% yoy, consensus forecast: 19.5% yoy). This is the highest level since the data series started in 1995. The record high yoy growth is not only due to the low base last year as the sequential IP growth is even higher at 21.5%; seasonally-adjusted; annualized, which is well above the trend IP growth of around 16%.
- January-February fixed asset investment (FAI) growth came in at 26.6% yoy, up from 20.5% yoy in December (our forecast: 27.0% yoy, consensus forecast: 26.0% yoy).
- January-February nominal retail sales growth came in at 17.9% yoy, compared with 17.5% yoy in December (our forecast: 17.8%, consensus forecast: 18.0%). The implied real retail sales growth is 15.3% yoy, down from 15.9% yoy in December. While this level is lower than the 17%-18% real growth recorded in mid-2009, it is still a very strong number historically.



CPI and PPI inflation

- February CPI inflation picked up to +2.7% yoy, up from +1.5% yoy in January (our forecast: 2.3% yoy, consensus forecast: 2.3% yoy). Month-on-month CPI accelerated to +4.8% mom s.a. ann. in February from -0.5% mom s.a. ann. in January. Food prices contributed to the rise, which rose to 6.2% yoy in February from 3.7% yoy in January. However, non-food prices also went up and came in at +1.0% yoy in February from +0.5% yoy in January. February's CPI was distorted by the Lunar New Year which typically sees higher food prices. Sequential growth in January and February was 2.1% annualized. However, considering December's base was particularly high for CPI because of the snowstorm, we believe the underlying CPI sequential growth is probably slightly higher than 3% on an annualized basis. High frequency data from the Ministry of Agriculture suggests food prices have been very stable since the end of the Lunar New Year holiday.
- Meanwhile, PPI inflation came in at 5.4% yoy, up from 4.3% yoy in January (our forecast: 5.3%, market consensus forecast: 5.1%). The implied sequential growth is 11.0% mom s.a. ann from 19.1% in January. Sequential growth in January and February was 15.0% s.a. ann.

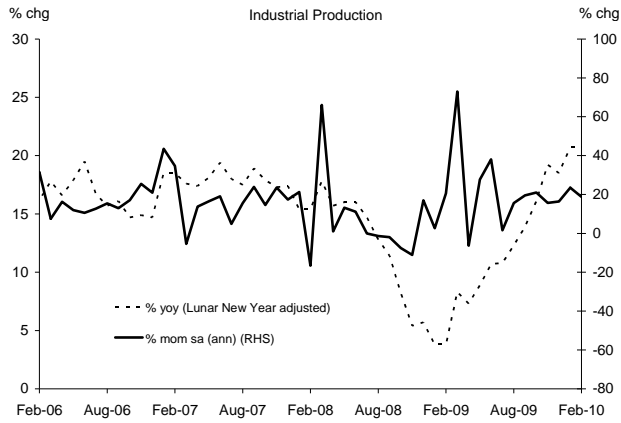
Money and credit

- Newly made CNY loans came in at Rmb700 billion in February (our forecast: Rmb700 billion, market consensus: Rmb600 billion). The growth in CNY loans outstanding in February was 27.2% yoy, down from 29.3% yoy in January.
- February M2 growth slowed to 25.5% yoy from 26.0% yoy in January (our forecast: 24.9%, market consensus: 25.0% yoy). Sequential growth was little changed at 21.0% mom s.a. ann.

Key takeaways

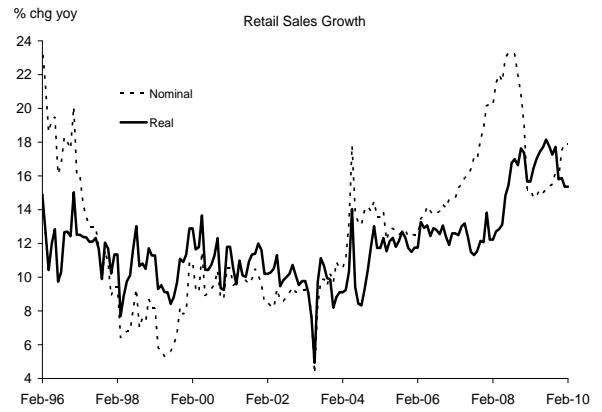
- We believe the **very strong activity growth has been driven by 1) the renewed monetary loosening since the start of 2010; and 2) improving external demand**. Despite the impression of a tighter policy stance given by tightening measures such as reserve requirement ratio (RRR) hikes, **actual monetary conditions have been loosening significantly since the turn of the year** as credit quota, the most important tightening measure in 2H2009, was loosened significantly to a level only next to the level in 1Q2009. As a result, sequential M2 growth has rebounded to 21% s.a. ann. in January-February from 16% in 2H2009 which we believe is excessive (see *Asia: More tightening to come but moving through inevitable headwinds*, Asia Economics Analyst 10/05, March 11, 2010).
- Although inflationary pressures remain moderate for now, we believe if there are no measures more decisive than the modest (although relatively frequent) RRR hikes, we are likely to see higher inflationary pressures**. Recent comments by a number of policymakers that there are no signs of inflation yet are worrisome as it indicates a lack of willingness to take more decisive measures until higher inflation actually occurs. Having said that, we still believe policymakers will take a combination of tightening measures in the coming months to prevent overheating. These measures are likely to be targeted at FAI-related areas given the government's strong emphasis on stimulating private consumption and the unwillingness to fully utilize the exchange rate as a policy tool to influence exports growth. We expect these so called macro tightening measures to include a mixture of credit controls, further RRR and interest rate hikes, administrative controls on investment approvals and funding and other "industrial policies" to curb investment activities in sectors regarded as having problems such as overcapacity.

Exhibit 2: Both yoy and sequential IP growth rates are well above potential level



Source: NBS, CEIC, GS Global ECS Research.

Exhibit 3: Real retail sales growth softened but remains robust



Source: NBS, CEIC, GS Global ECS Research.

We, Yu Song and Helen (Hong) Qiao, hereby certify that all of the views expressed in this report accurately reflect personal views, which have not been influenced by considerations of the firm's business or client relationships.

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