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In one line: China's official GDP hits 2024 target thanks to Q4 stimulus sugar rush, but domestic demand is still lagging output growth

- China: GDP rose 5.4% y/y in Q4, after climbing 4.6% in Q3. Consensus was 5.0.
Industrial production surged 6.2% y/y in December, after rising 5.4%

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in November. Consensus was 5.4%. Retail sales gained 3.7% y/y in December, after increasing 3.6% in November. Consensus was 3.0%. Fixed asset investment grew 3.2% y/y in January-to-December, after rising 3.3% in January-to-November. Consensus was 3.3%. Property investment sank 10.6% y/y in January-to-December, after falling 10.4% in January-to-November. Consensus was -10.4%. New home prices edged down 0.08% m/m in December, after

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falling 0.2% in November. Bloomberg reports no consensus.

Stimulus pushes up Q4 GDP

China's official GDP growth jumped to 5.4% y/y in Q4, from 4.6% in Q3, thanks to a policy lift to domestic output and stronger export growth at year-end, partly related to front-running ahead of likely higher US tariffs. In q/q SA terms, GDP growth jumped to 1.6% in Q4, from an upwardly revised 1.3%; the initial estimate for Q3 growth was only

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0.9%. Stronger services growth was the main driver, on the back of higher stockmarket activity, property transactions and, later in the quarter, tourism.

But the imbalance between robust supply growth and lagging domestic demand persisted. Supply-side growth indicators - industrial output and services activity - jumped by over 6% y/y in December, outpacing metrics of demand - retail sales and fixed asset investment - which grew

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below 4%. Admittedly retail sales focus on goods consumption, while services consumption is growing faster, but the signs of excess supply in manufacturing sector and property construction are evident, resulting in downward price pressure. The GDP deflator fell 0.7% y/y in Q4, after dropping 0.5% in Q3. Producer prices are likely to continue falling in H1.

The NBS hasn't commented on the revised to Q3 2024 GDP q/q, only its upward revision to the 2023 annual

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GDP data. Moreover, the fact that Q3 GDP q/q growth was revised but not the y/y series is odd, and hard to verify since the NBS hasn't supplied the underlying revised quarterly GDP 2023 data.

Services growth led the way, though manufacturing also picked up in Q4. Secondary sector - industrial output and construction - growth rose 0.6pp to 5.2% y/y, while GDP services growth jumped 1.0pp to 5.8%, the highest since Q2 2023. The

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detailed GDP breakdown hasn't come out yet, but the services production data series provides colour, though tends to be a bit faster than the GDP data. Using this, financial services growth vaulted to 9.4% y/y in Q4, from 5.8% in Q3. This was driven by the stockmarket surge, triggered by the PBoC's announcement of policy support in late September. Tourism was the other driver of faster services growth, especially in December when the transport, storage and delivery sector bounced 8.3% y/y, after

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6.0% in November and just 4.7% in September.

Mixed picture for domestic consumption

Consumption of goods has been less impressive than services, despite the trade-in schemes, implying sluggish sales for non-policy supported goods. Retail sales growth rose 0.7pp to 3.7% y/y in December from November, but largely thanks to base effects. In m/m SA terms, retail sales growth slowed to 0.1% in December, the lowest since

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April, from 0.2% in November. The enhanced trade-in scheme boosted auto sales growth to 3.4% y/y in Q4, versus a 3.9% drop in Q3; but sales growth faded to just 0.5 y/y in December, from 6.6% in November. Sales growth of home appliances - the other main beneficiary of the trade-in programme - rocketed 39.3% y/y in December, after 22.2% in November, a convincing turnaround after declines in June and July. But domestic sales of other consumer discretionary goods have been weak, suggesting lacklustre

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consumption overall, though reviving outbound tourism means that some luxury goods spending went overseas. Cosmetics sales edged up 0.8% in December, and just 0.1% ytd; October and November y/y growth was distorted by the lengthier Singles Day online shopping festival this year. Gold, silver and jewellery sales dipped 1.0% y/y in December, after falling 5.9% in November. Clothing sales have also dropped in most months.

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Overall fixed asset investment growth dipped 0.1pp to 3.2% y/y in January-to-December from the previous month. Slowing seemed likely given the weakest long-term new corporate loan figure for December since mid-2016. Manufacturing investment growth slowed 1.0pp to a still-strong 8.3% y/y in December, while broad infrastructure investment growth dipped 2.3% to 7.4%. The big drag remained property investment, diving 10.6% y/y ytd in December. Residential property sales have

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picked up, notably in key cities, but developers are focusing their finances on completing existing projects, rather than starting new projects. This large supply pipeline likely means a longer delay than the usual - six-to-nine months - in transmission from sales to construction activity. New property prices almost flattened out m/m in December, but pre-owned property prices dropped 0.31%, after a 0.35% drop in the previous month. This points to substantial inventories of pre-owned housing for

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sale; residential sector recovery will be uneven across different cities, led by large cities but with a long tail of weaker city markets.

Manufacturing output growth rose 1.4pp to 7.4% y/y in December, partly thanks to stronger export demand. Exports soared 10.7% y/y in December after rising 6.7% in November, on the back of stronger shipments to the US, Africa and ASEAN. This was probably partly front-running ahead of likely higher

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US tariffs, meaning that export growth should slow this year, certainly in the short-term. Industrial output growth was notably robust in autos - surging 17% y/y in December, after 12.0% in November, and strong growth was posted for ferrous and non-ferrous metal processing, chemicals and equipment manufacturing. The latter is getting a policy boost from the industrial equipment scheme.

Structural adjustment and debt control goals limit room for growth

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stimulus

China has already indicated it will extend and broaden the consumer goods trade-in scheme, for example, allowing more old cars to be traded in for subsidies in buying a new vehicle, and including mobile phones. But this policy has brought forward demand and probably led people to curb spending on other discretionary goods. Overall household spending growth is likely to recover only gradually, held back by the worries about jobs and income prospects

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and the uneven picture for residential markets across the country. Businesses are worried about rising global protectionism, face intense competition and lack pricing power even in stronger sectors like electric vehicles. The PBoC is likely to trim the policy rate modestly but also allow CNY depreciation in response to US tariffs, raising the risk of capital outflows and tighter capital controls. Underlying domestic demand is still shaky as China continues structural adjustment away from

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the property sector towards new drivers like advanced manufacturing. Policymakers are likely step up fiscal policy support in the March budget, balancing growth support with debt risk control. These policy trade-offs mean China will stick to a grab-bag of targeted policy support measures to stabilise growth, even if exports deteriorate on the back of higher US tariffs.

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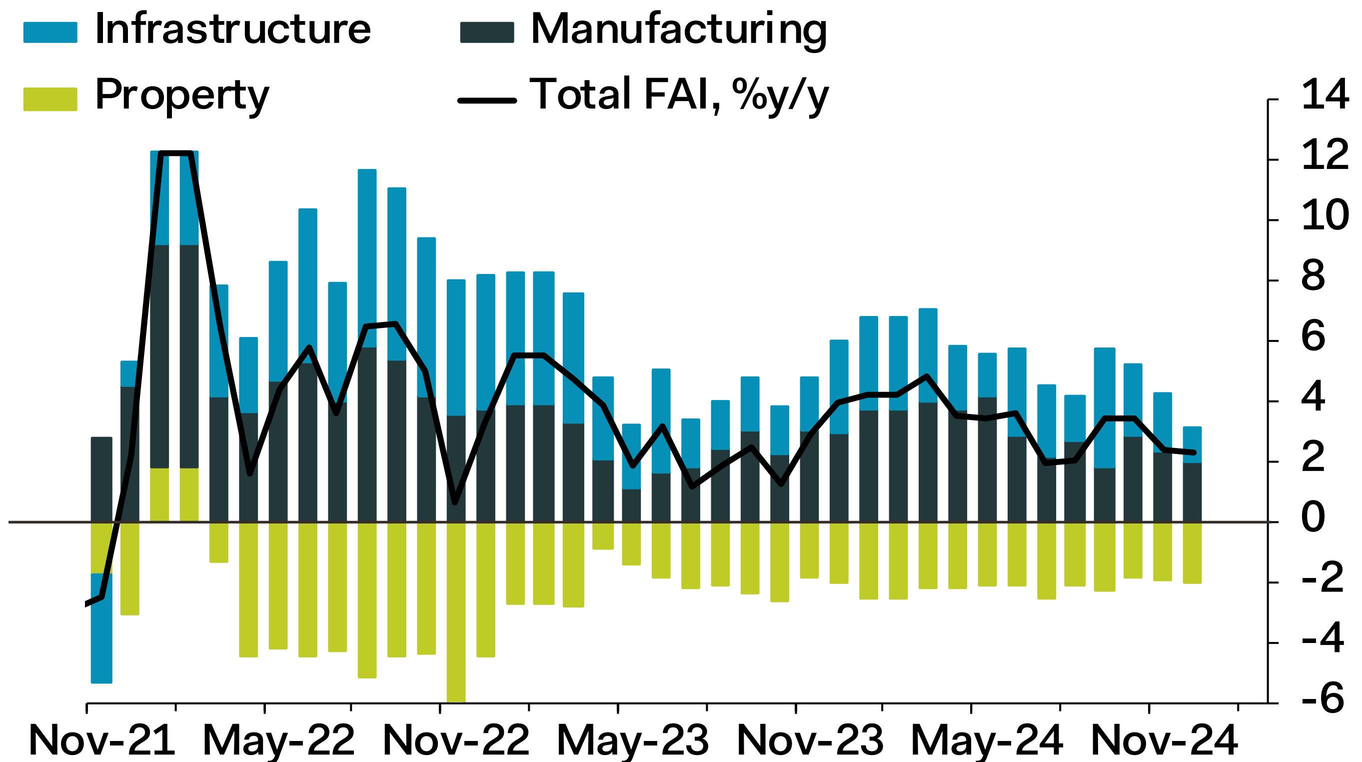
Retail sales, %m/m SA (Right)
Retail sales, %y/y (Left)
Retail sales, %3m/3m SA (Left)

20 16 12 8 4 0 -4 -8 -12

3 2 1 0 -1 -2

Nov 21 May 22 Nov 22 May 23 Nov 23 May 24 Nov 24

Contributions to annual FAI growth, pp



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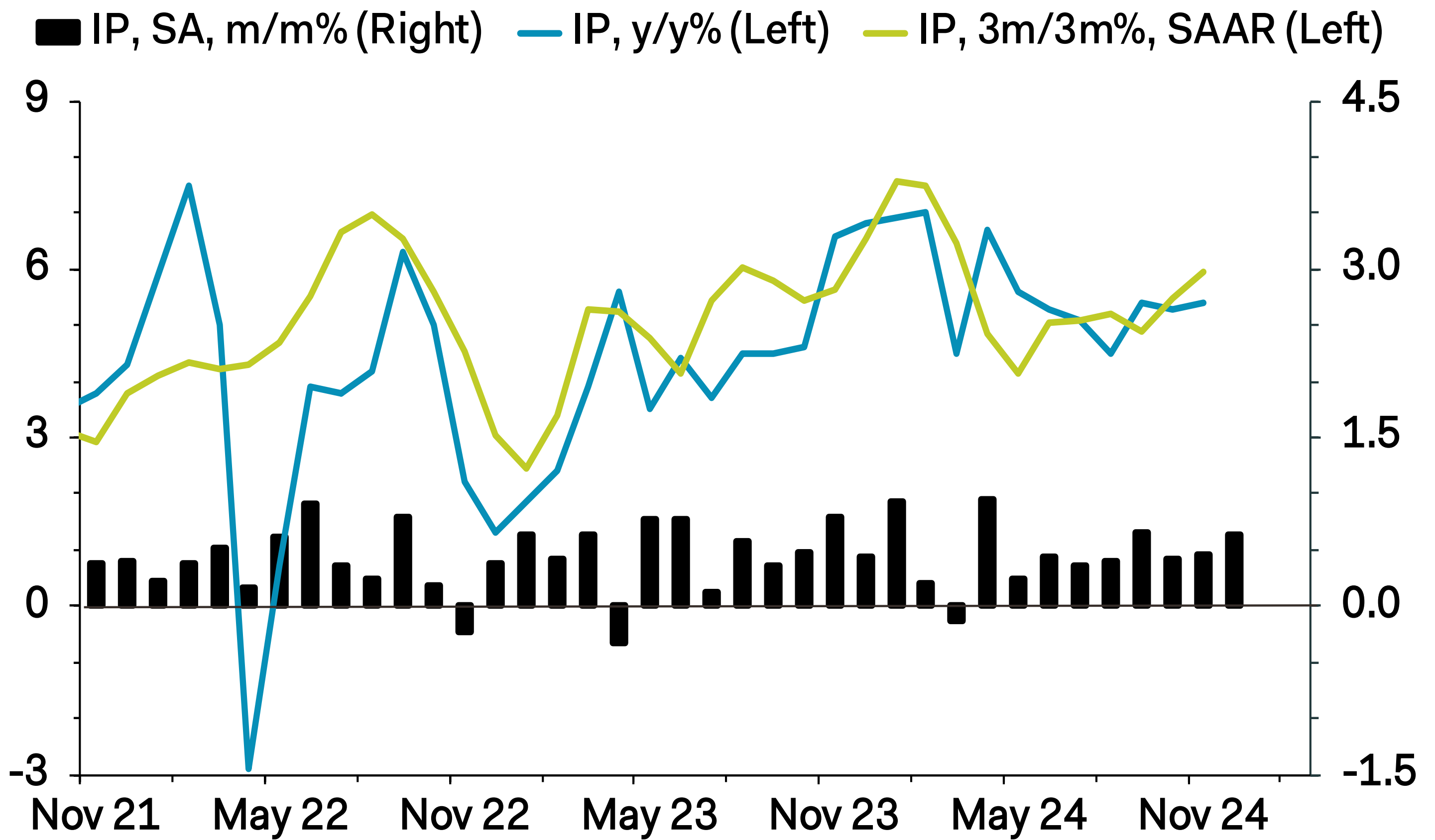

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