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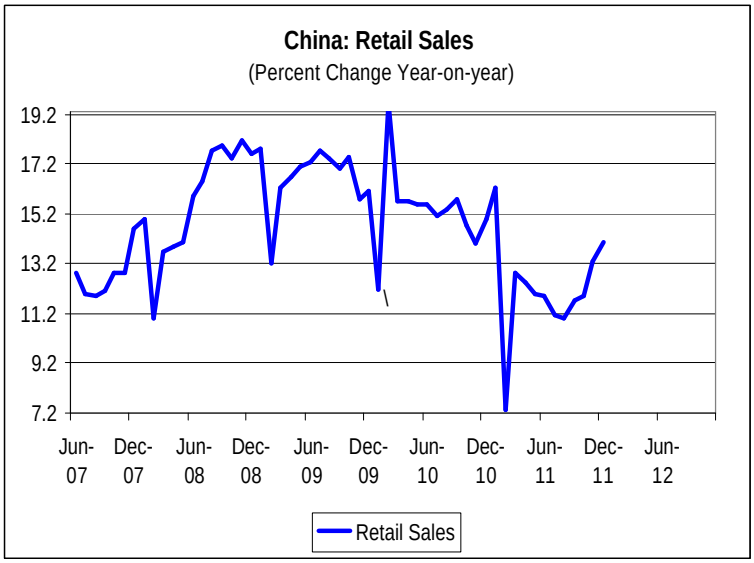
China: Steady

The latest data batch on the Chinese economy provides no surprises, no significant deviation from what has been a visible but seemingly benign cooling trend. One exception: a hint of improvement on the domestic consumption front is contained in the retail sales statistics, which has moved opposite real GDP growth and accelerated in the last few months of the year.

This is a constructive development because export growth continues to slow and China's export markets in Europe are entering recession, and also because a rising consumption share of GDP is a key medium-term necessity from the standpoint of China's policymakers.



They will probably not find in the latest figures any reason to change course, but rather additional validation for their approach, especially as regards timing: the tighter monetary policy applied for the past 18 months would be seen as successful in putting the economy on a cooling path, yet far from recession; and as the global environment becomes more challenging and risky, while domestic inflation drops, a policy easing should now be applied to keep growth at the desired levels by supporting consumer spending. And incidentally, consumption would be not only the desired beneficiary of easier and cheaper credit, but also the recipient of targeted fiscal stimulus.



The bottom line: it remains reasonable to expect some acceleration of lending, further reserve requirement cuts, and possibly some interest rate reductions over the foreseeable future. It also remains reasonable to expect the Chinese economy, in the absence of a financial implosion in Europe, to do relatively well in terms of real GDP growth, even if near-term (the next two or three quarters) activity decelerates further.

Some details of the data:

- Real GDP grew 8.9% year-on-year, marginally below the third quarter's mark (9.1% year-on-year). On a seasonally-adjusted basis growth eased from 2.3% quarter-on-quarter to 2.0% quarter-on-quarter.

- Fixed Urban Asset Investment closed December 24.6% year-on-year, versus 24.1% year-on-year in November. Investment spending remains strong, but it has descended from the close to 29% pace of the second quarter.

- Retail sales jumped from 17.3% year-on-year in November to 18% year-on-year in December. Adjusted for inflation, retail sales appear on an upward path since their August low (11% year-on-year), reaching approximately 14.1% year-on-year in December. These are not extraordinary figures in the context of the historical series (the average since 2006 has been around 14.4%), but mark a clear and substantial improvement, particularly notable if one considers that the improvement has occurred following the withdrawal of stimulus measures that pushed up sales in the recent past.