

China becomes a consumption driven economy

GDP and other data confirms our view, China is now a consumption story.



Source: istock

Growth figures

GDP grew higher than expected in 2Q17 at 6.9% YoY, leading to an upward revision of the GDP forecast for the whole year. Retail sales rose 11% YoY, beating all forecasts, ours being 10.7% YoY. Fixed asset investment grew 8.6% YTD YoY, slightly higher than our estimate of 8.4%, which was still low compared to the growth of retail sales.

6.8%

Total 2017 GDP forecast

Upward revision from stronger 2Q17 GDP growth

Growth drivers

Consumption and exports are likely to continue to drive growth and continue to support industrial production in the second half of 2017. Investment will play a smaller role in industrial production, especially when property developments in prime locations begin to slow down. Altogether, this should mean slower growth in 2H but at a much more gradual pace than we had previously thought.

We therefore revise our GDP forecasts lower for 2H due to higher base effects in 4Q and slower investment growth. We estimate that GDP growth will slow to 6.8% and 6.7% in 3Q and 4Q respectively. That results in a 6.8% projection for the whole of 2017.