

## China: Moving Into A New Normal Growth Phase

China's annual Central Economic Work Conference concluded on Thur (11 Dec 2014) after a 3-day session (9-11 Dec). It set the tone for a "new normal" growth phase for China in the coming years, and as well as economic priorities for 2015.

Reading the text of the government release, **it is clear that top officials are keenly aware of the need to shift to a "new normal" growth mode**, as the term appears early and repeatedly, and used at least 9 times in the document.

With the trend changing, the government is aware that some underlying risks may be surfacing – but remain manageable – as well as limitations of all-out stimulus measures in this new environment, while at the same time the need to enlarge the role market mechanism to address gaps in supply and demand.

This "new normal" will be in the form of the economic growth rate going from high speed towards medium speed, and a model driven by quality rather than quantity, with expansion towards more efficient use of existing resources, and from traditional growth drivers to new type of growth drivers.

The change in the growth trend is due to the aging of the population, environmental constraints, as well as other factors such as shifting structure of external trade and investment, consumption pattern, investment and its interaction with new technologies/models/products/services, modes of production in goods and services, among others.

As for the priorities for 2015, the Conference set forth the following:

1. Ensuring stable growth with proactive fiscal and prudent monetary policy
2. Exploring new growth drivers and opportunities
3. Accelerating agricultural reform
4. Enlarging domestic and external space for economic growth
5. Improving people's livelihood

As a recap, the number 1 target for the 2013 Conference was to ensure food safety and security and the priorities appear to move back towards the restructuring and rebalancing theme. No economic targets were released at the meeting, but as in past practice would be cascaded in subsequent weeks by various key policymakers via different occasions.

### Implications

As for our assessment of China's growth outlook, the outcome of the Conference is consistent with our view that China is moving into the "new normal" phase, as highlighted in our latest Quarterly Global Outlook 1Q15 published on 5 Dec 2014. We maintain our growth projections for China at 7.2% for 2015, and for 2014 at 7.4%. We remain optimistic of China's growth prospects ahead, as the Chinese government takes active steps and measures to enhance the country's growth potentials while recognizing pitfalls and risks along the way, as well as constraints such as an aging population and environmental impact, among others.

In terms of the RMB outlook, the recent sharp depreciation of the currency looks to be excessive, as PBoC strengthened the daily fixing during this time. The RMB fell from 6.15/USD in early Dec to 6.1879 on 9 Dec, before recovering slightly. Meanwhile, the central parity rose from 6.1373/USD on 5 Dec, to 6.1153 on 11 Dec. We view the currency's recent weakness as largely in response to the ongoing USD strength story, which was boosted by the better-than-expected nonfarm payroll

report released on 5 Dec. With the firming of the daily fixing, it is clear that PBoC intends to maintain a stable trend for the currency, at least in the near term. As we pointed out in our quarterly report, it is important to keep in mind the currency's increased two-way moves and possibility of short-term weakness, as the RMB behaves more like a global currency given the acceleration of RMB internationalization. It is also important to note that for 2014, the RMB is likely to see its first annual decline against the USD since 2009 unless there is any significant change in trend. As such, we are keeping our USD/RMB forecasts at 6.10/USD for end-2014 and 6.03/USD for end-2015.

Link:

Central Economic Work Conference press release (Chinese)

中央经济工作会议在北京举行 习近平 李克强作重要讲话 - 中央政府门户网站

[http://www.gov.cn/xinwen/2014-12/11/content\\_2789754.htm](http://www.gov.cn/xinwen/2014-12/11/content_2789754.htm)

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