

# Flash Comment

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## China: Risk of a hard landing is increasing

Growth in industrial production in October slowed sharply to 8.2% y/y (consensus: 11.1% y/y, Danske Bank: 10.3% y/y) from 11.4% y/y in September. Weakness is most evident within heavy industries. Production of crude steel and steel products contracted by 17.0% y/y and 12.4% y/y, respectively (see chart 2). Overall production of building materials remains very weak, with production of cement up only 1.1% y/y. This underlines that the recent slowdown in China is not just due to weaker exports but to a large degree has been driven by weaker domestic construction activity. As seen in chart 1 the slowdown in industrial production has been sharper than the slowdown in exports in recent months.

**Outlook:** Based on the development in industrial production, GDP growth is likely to slip below 8% y/y in Q4 (from 9.0% y/y in Q3) and it can no longer be ruled out that it will drop below 7% y/y in Q1 09. We will eventually have to adjust our GDP forecast down, but we are awaiting information on fixed asset investment to be released tomorrow, before making the final call. Risk of a hard landing in the Chinese economy is increasing. However, we still expect the fiscal stimulus package announced last weekend to boost domestic demand later in 2009 and hopefully prevent further deterioration in the Chinese economy.

**Impact:** We have already seen the policy response to these weak numbers. The Chinese leadership's knowledge about these weak numbers was without doubt one of the main reasons for the announcement of the big stimulus package last weekend, see [Flash Comment - China: Massive fiscal stimulus package announced](#). We still expect CNY to appreciate by about 3% against USD during the next year. Allowing the CNY to depreciate against USD will simply be too great a risk with China recording a record-high trade surplus in October, see [Flash Comment - China: Trade surplus surges to all-time high on slowing imports](#).

Chart 1: Sharp slowdown in industrial activity

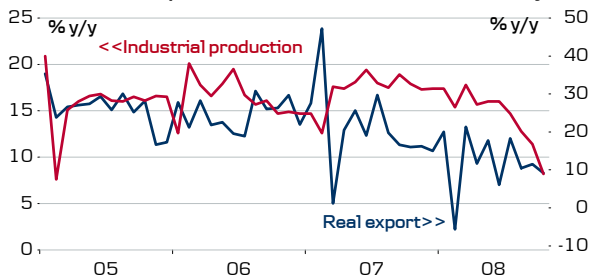
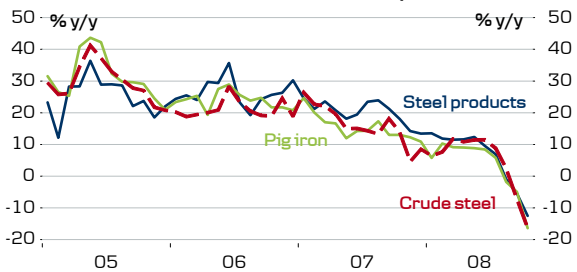


Chart 2: Production of main products



Source: Ecwin

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