For media distribution, April 2013

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Virginie Maisonneuve's Global Insight
April 2013

By Virginie Maisonneuve, Head of Global and International Equities

With recent Chinese Q1 GDP numbers at 7.7%, should we be worried about growth in China? *Virginie Maisonneuve* says markets should look at China's longer-term picture in light of the new government, and not overly focus on one quarter's data.

The world's two largest engines of growth – the US and China – continue to recover, supporting the normalisation of the global economy. Although there are sticking points in both countries, both economies are heading in the right direction. Added to which, decisive reforms in the world's third largest economy – Japan – should support the global economy.

Chinese growth… is this it?

Within this context, how should we view the latest GDP numbers from China which show growth eased back slightly to 7.7% in Q1, from 7.9% in Q4?

While the numbers show a moderate slowdown, we are not concerned. One-off factors have had a significant impact, such as weakness in food and catering as the anti-corruption campaign curtails business functions. Bird flu has also had a substantial negative impact on food manufacturing as most consumers shun poultry products.

These factors are likely to be short-lived and the impact of the anti-corruption campaign on catering will likely be compensated by higher fiscal spending in other categories later this year. Although the GDP number will understandably take the headlines, digging into the detail reveals positives such as the fourth consecutive gain in the services sector – this is encouraging given China's need to rebalance its economy.

The new leaders need time

In addition, two things should be recognised. First, markets must give the new leadership time to carry out its plans. We believe urbanisation-driven investment will be implemented but may take several months to gain traction. Second, the new leadership team is currently reviewing important areas of reforms covering state-owned-enterprises, fiscal policy and social security. All will yield an improved structure for economic growth in China. As the country adjusts to its size it must focus on quality growth to avoid the pitfalls of over-investment and misallocation of capital. The upcoming structural reforms are therefore key.

Growth in the next few quarters should pick up. We expect this to be helped by the property sector, given healthy land sales and development, and investment in the manufacturing sector following 18% profit growth. Furthermore, as the new leadership establishes itself, policy measures should ramp up, boosting infrastructure spending which has been relatively weak year-to-date.

Although we do not expect growth to return to double digits, we expect it to strengthen this year as it achieves a more sustainable growth path and shifts from an investment-led economy to a consumption-driven economy. In the medium term, the key to understanding China's growth potential is to assess whether investment will take place in areas where it is needed and efficient.

In this environment, and provided the US and Japan continue to provide support, any weakness in the global equity markets should be used to accumulate positions, especially for funds which have benefitted in the past from a healthy allocation to bonds.

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