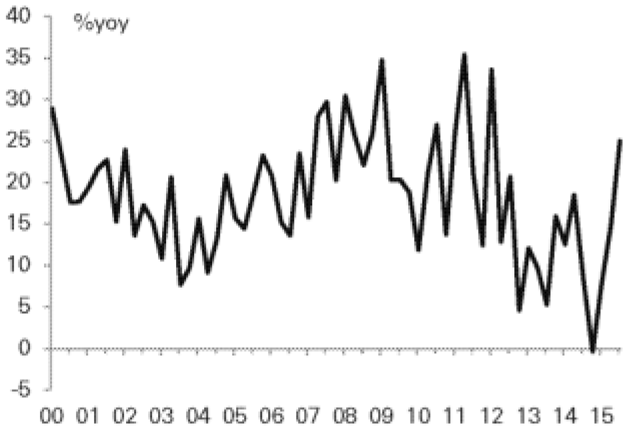
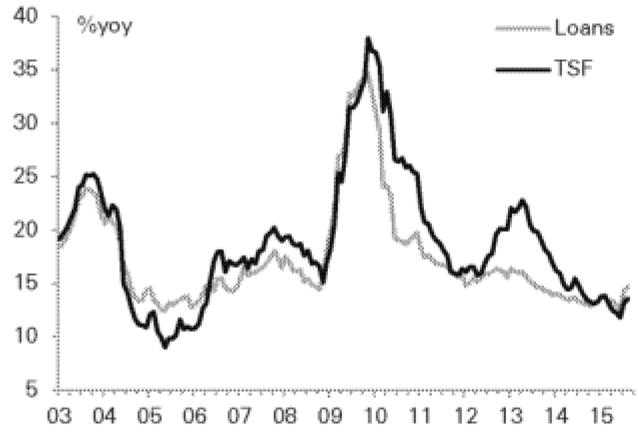
Figure 14: Government expenditure




Sources: CEIC and Deutsche Bank Research

Figure 15: Credit growth (loans vs total social financing)

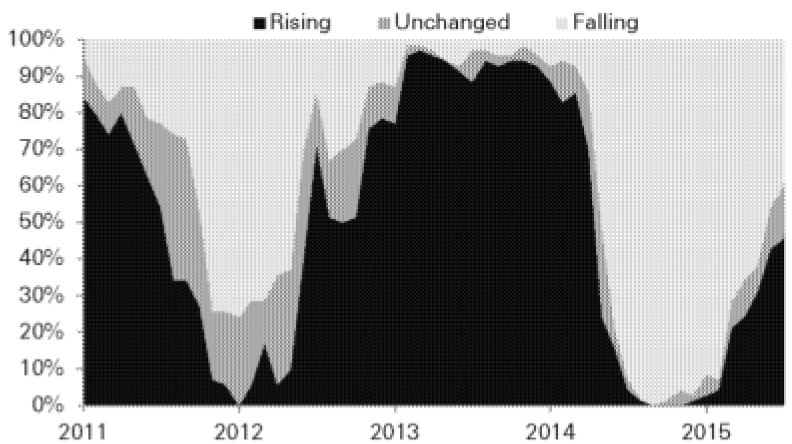



Sources: CEIC and Deutsche Bank Research Note: the measure of total social financing growth we show here excludes entrusted lending and equity issuance by non-financial firms.

But we are more intrigued by developments in the property market. Our view all along has been that the decline in property purchases, investment and then prices over the past two years reflected mostly cyclical factors. Property had gotten too expensive and it was getting increasingly difficult to get financing or approval to buy property in late 2013. As home purchase restrictions have been removed in most cities, interest rates have been cut and incomes have continued to grow, albeit relatively slowly, demand for property revived.

This happened first in the Tier 1 cities about a year ago but spread to Tier 2 cities early this year and now even in some smaller cities prices are edging higher. By August, prices were rising in 37 of the 70 cities the NBS surveys each month, a 16-month high. The recovery in the market in terms of breadth across the country is almost as rapid as it was in 2012.

Figure 16: Proportion of 70 cities where prices are rising, falling or unchanged




Sources: Haver and Deutsche Bank Research

We take the individual city price indexes, weight them by their populations and construct price indexes for the 70-city group and for sub-groups. Figure 17 reports the 70-city price index and the Tier 1 city price index. It shows that in the larger cities on average prices are now rising at nearly a 10%yoy pace. Nationwide, prices are still below where they were a year ago, but they're up about 2% in the past four months.