Economic Analysis

China April indicators remain sluggish, hinting towards more easing measures ahead

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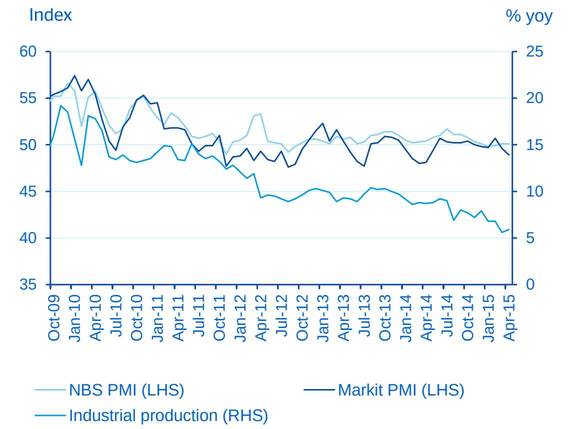
Today, China's National Bureau of Statistics (NBS) announced a batch of economic activity indicators for April, including industrial production, retail sales and urban fixed asset investment (YTD). Almost all of the outturns for April were below both market expectations and the previous month's readings. This suggests that the growth of China's economy continues its downward trend in spite of recent monetary easing measures, which include two Required Reserve Ratio (RRR) cuts, three interest rate cuts as well as an array of other unconventional measures (as we recently investigated in our China Economic Outlook). This confirms that the economic slowdown that we observed in the first quarter of this year has continued in the first month of the second quarter. In order to achieve the official growth target 7.0% for 2015, we anticipate more easing measures in the coming months, including both monetary and fiscal stimulus measures.

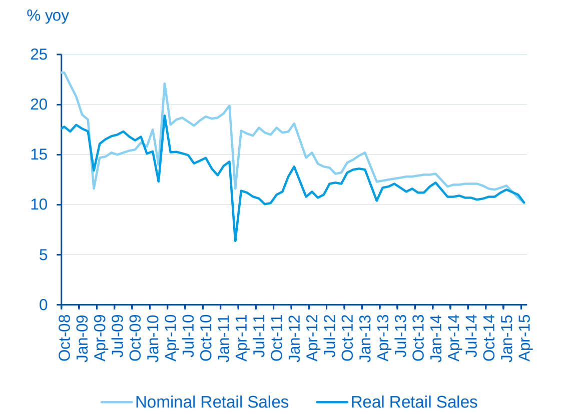
- **Below market expectations: Economic activity indicators remain sluggish in April.** In particular, industrial production came out at 5.9% y/y, below market expectations (Consensus: 6.0% y/y), despite recovering marginally from March's 5.6% y/y (Figure 1). Sectors which are closely related to the property market or suffering from overcapacity concerns were hit the hardest. On the demand side, both consumption and urban investment demand continued their downward trend. Retail sales dropped to 10.0% y/y in April (Consensus: 10.4%), compared to 10.2% y/y in March (Figure 2), while urban total fixed asset investment growth declined to 12.0% y/y YTD (Consensus: 13.5% y/y YTD), down from 13.5% y/y YTD in March (Figure 3).
- **On the policy front, we expect more easing measure ahead.** Under the current low inflation environment, the authorities are still equipped with a wide range of instruments that they can deploy in order to stimulate growth and confront economic slow-down. We envisage that the PBoC will implement additional interest rate cuts equivalent to a total of 50 bps in the third quarter, which will most likely be accompanied by a cumulative 100-bps cuts to the RRR. The PBoC may also resort to unconventional monetary policy tools that aim to inject liquidity into the banking system – also known as "Chinese QE". On the fiscal front, we believe that this year's fiscal deficit budget target (equivalent to 2.3% of GDP as announced in the National People's Congress) is not enough to support the government's 7.0% growth target. Authorities should expand it to around 3.0% to offset the impacts of the ongoing fiscal consolidation at the local government level. All in all, we maintain our growth projection of 7.0% for this year, although risks remain to the downside (Figure 4).

Figure 1
Industrial production was below market expectation, but marginally up from March



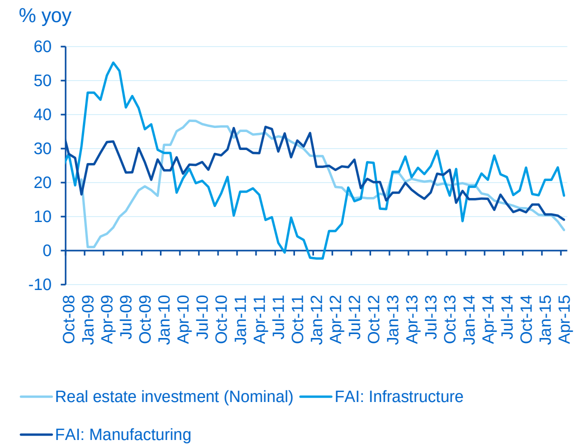
Source: CEIC and BBVA Research

Figure 2
Retail sales slowed down as well



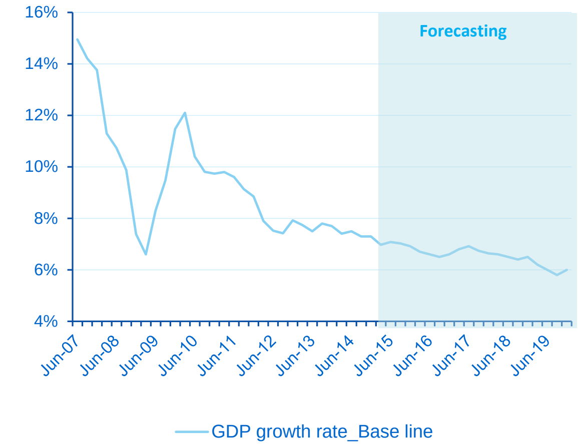
Source: CEIC and BBVA Research

Figure 3
All the sub-items of urban FAI slowed down in April



Source: CEIC and BBVA Research

Figure 4
We maintain our 2015 growth forecasting at 7.0%, with some downside risk



Source: CEIC and BBVA Research

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