

Economic Analysis

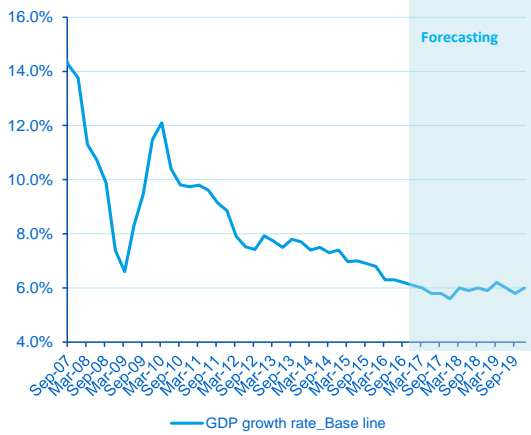
China | Stabilized November activity indicators point to a new direction for economic stimulus

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China's National Bureau of Statistics (NBS) announced a batch of better-than-expected activity indicators for November last Saturday, including industrial production (IP), retail sales and urban fixed asset investment (FAI), which indicate that the economy started to stabilize toward the end of the year due to the persistent easing efforts of the authorities. In particular, industrial production significantly rebounded to 6.2% y/y in November (consensus: 5.7% y/y) from 5.6% y/y in the previous month. Meanwhile, both retail sales and FAI registered the readings better than expected. We believe that the improving growth performance was mainly driven by the cut in sales tax for the low-emission automobile in October, which helped to rev up the auto sales and prompted car makers to accelerate production. The prints of November activity indicators confirm that China's economy has somewhat recovered from mid-year market turmoil and is on track to a soft-landing. We therefore maintain growth projections of 6.9% and 6.2% for 2015 and 2016 respectively (Figure 1). On the policy front, we expect the authorities to employ more tax cuts for stimulus purpose over the next couple of years in addition to other easing measures.

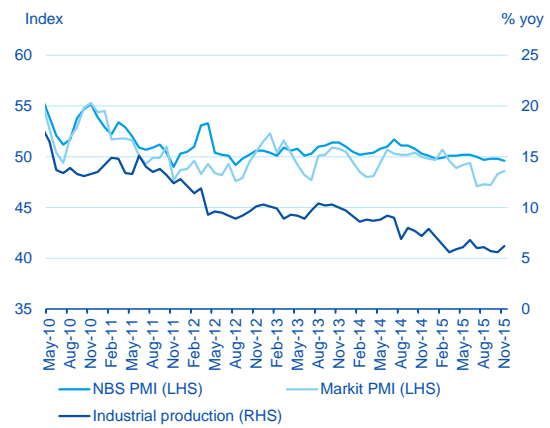
- **Industrial production (IP) and FAI are both better than market expectations.** Industrial production (Figure 2) significantly picked up to 6.2% y/y in November from 5.6% y/y in the last month, beating the market expectation of 5.7% y/y by a large margin. The main driver behind the IP rebound is the pick-up in automobiles production, catalyzed by the recent tax cut on low-emission car purchase in October. On the other hand, it is also noted that the pick-up of the IP year-on-year growth benefited from a favorably low base in November 2014 as well. In the meantime, urban total fixed asset investment growth remained steadily at 10.2% y/y ytd, the same level of the last month (Consensus: 10.1% y/y ytd) (Figure 3). However, the breakdown in the FAI shows that the de-stocking process of the real estate sector is continuing to weigh on new property investment although both manufacturing and infrastructure investment have improved on the authorities' easing efforts.
- **Retail sales continue their steady growth.** Retail sales increased to 11.2% y/y in November, surpassing both the market consensus of 11.1% y/y and the prior reading of 11.0% y/y. The sharp increases in online shopping and communication equipment (both of which grew by 33% ytd y/y) continued to underpin retail sales. The growth of auto sales also jumped to 9.0% y/y in November from 7.1% y/y in October. (Figure 4)
- **The authorities could deploy more tax cuts to stimulate economy in the coming months.** The October tax cut in auto sales has proved to be effective in terms of boosting consumer demand. Compared to infrastructure investment, tax cuts seem more suitable for the purpose of facilitating the economy rebalancing away from investment toward private consumption. We therefore envision that the authorities will increasingly tilt toward tax policy adjustments in their prospective pro-growth measures over the next couple of years. In addition, we expect the PBoC to further loosen the monetary policy through a variety of quantitative tools ranging the RRR cuts to unconventional monetary tools (short-and-medium term liquidity facility, the Central Bank refinancing to commercial banks, etc.)

Figure 1
We maintain our 2015 growth forecasting at 6.9%, and 6.2% for 2016



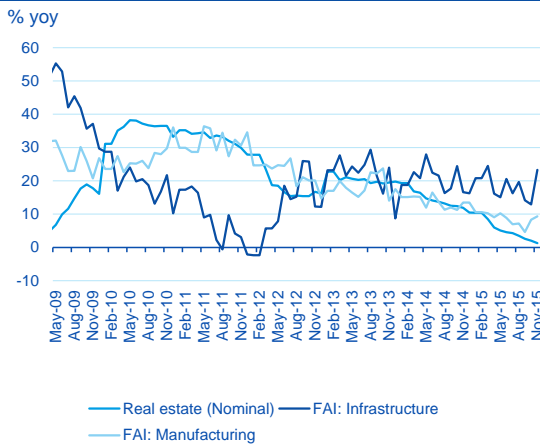
Source: CEIC and BBVA Research

Figure 2
Industrial production picked up significantly from the last month's reading



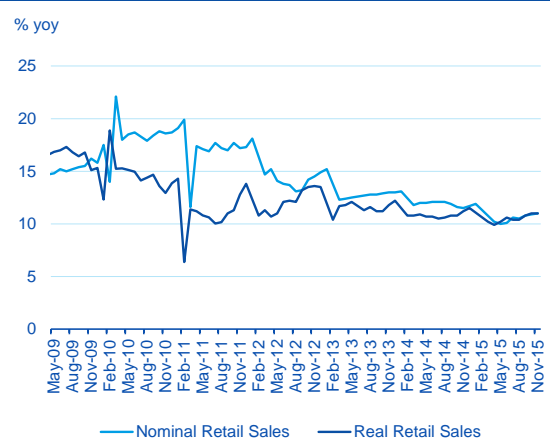
Source: CEIC and BBVA Research

Figure 3
FAI maintained the same level of the last month, but real estate investment is still sluggish



Source: CEIC and BBVA Research

Figure 4
Retail sales is beating both market expectation and the prior reading



Source: CEIC and BBVA Research

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