Economic Analysis

China | Growth stabilization has eased hard-landing concern

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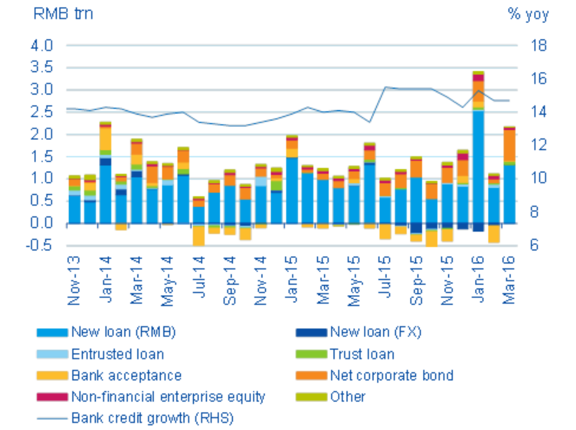
Q1 GDP expanded at 6.7% y/y (BBVA: 6.5% y/y versus Consensus: 6.7% y/y), marginally down from the Q4 2015 outturn of 6.8% y/y and registering the lowest since Q1 2009. (Figure 1) Nevertheless, it is widely regarded as good news in view of the escalating financial turmoil early this year and investors' growing concerns of a hard landing in China. More importantly, today's announced activity indicators and credit figures in March also point to a pickup in growth momentum due to the authorities' stepped-up efforts of growth stimulus and the Fed's dovish stance of monetary policy normalization. (Figure 2) However, a number of headwinds to China's growth haven't abated yet. It is still challenging for China to meet its annual growth target of 6.5%. That being said, we anticipate the authorities to unveil more pro-growth measures to avert a hard-landing in near future.

Figure 1
Q1 GDP stabilized at 6.7% y/y in the first quarter…

Source: CEIC and BBVA Research

Figure 2
… as credit growth accelerated due to stimulus

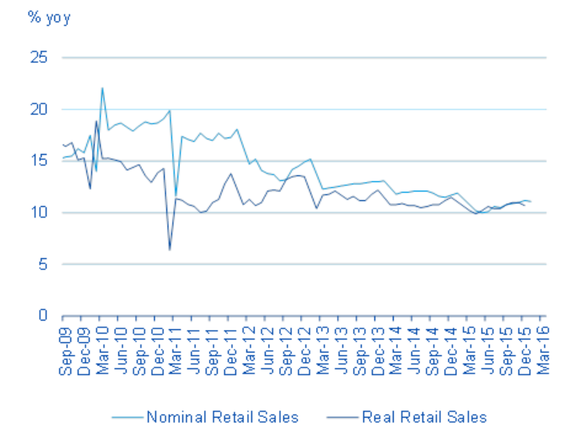


Source: CEIC and BBVA Research

- **March activity indicators are higher than both market expectations and the previous readings…** Retail sales growth modestly increased to 10.5% y/y in March (consensus: 10.4% y/y) from 10.2% y/y in January-February, indicating gradual consumption recovery. (Figure 3) Growth of industrial production surged significantly to 6.8% y/y in March from 5.4% y/y in the previous two months, above the market expectation of 5.9% y/y. (Figure 4) It indicates that manufacturing production significantly increased due to the recovery of domestic and external demand. Following a similar trend, urban fixed asset investment increased to 10.7% YTD y/y in March (Consensus: 10.4% YTD y/y; Prior: 10.2% YTD y/y). (Figure 5) The investment pick-up is led by the rising housing prices as well as the credit boom due to the authorities' easing measures.
- **…so are the credit outturns.** The total social financing, a broad gauge of credit including bank loans, bond issuance and shadow banking activities, surged to RMB 2340 billion from RMB 780.2 billion in the previous month (Consensus: RMB 1400 billion). Among which, the off-balance-sheet lending increased significantly, including trust loan, entrusted loan; so did the direct financing such as corporate bond. Meanwhile, the traditional bank loans (indicated by new RMB loans) also increased significantly to RMB 1370 billion (Consensus: RMB 1100 billion) from RMB 726.6 billion of the last month. In addition, M2 growth rose to 13.4% y/y (Consensus: 13.5% y/y) from 13.3% y/y in February. (Figure 6) The credit figures suggest the authorities' stepped-up easing measures to support short-term growth took effect in March.

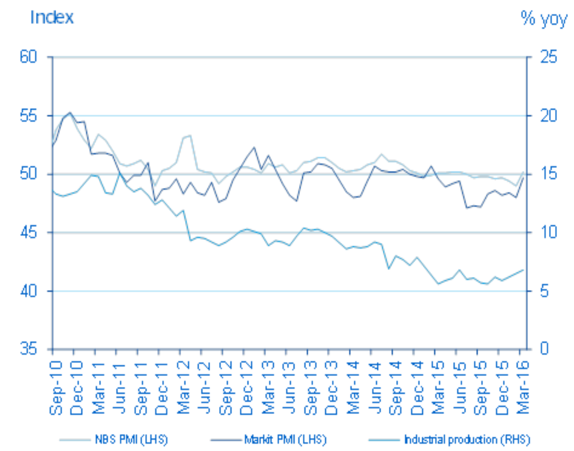
- **Looking ahead, we anticipate more easing measures to be deployed to avoid hard-landing.** Although the green shoots emerged in March, the headwinds to China's long-term growth haven't abated yet. That being said, policy stance needs to continue to be pro-growth, in order to offset the undergoing deleveraging and stabilize growth. At the current stage, the concern of RMB stability may limit the PBoC from trimming interest rate. Therefore, we project another three RRR cuts with 50 bps each time and one asymmetric interest rate cut in 2016. On the fiscal front, the central government has decided to expand fiscal budget deficit to -3.0% of GDP this year to support more tax cut and infrastructure investment. More importantly, certain regulatory forbearance is applied to banks and local governments.

Figure 3
Retail sales modestly picked up, reflecting the gradual consumption recovery



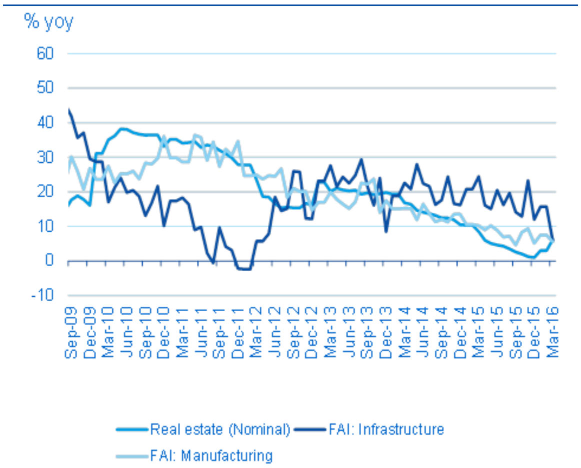
Source: CEIC and BBVA Research

Figure 4
Industry production surprised the market to the upside



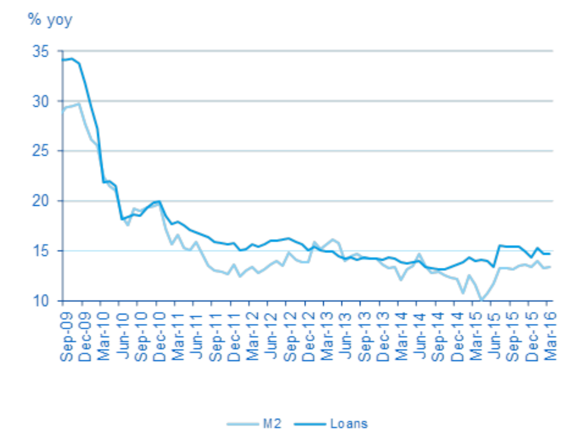
Source: CEIC and BBVA Research

Figure 5
Investment significantly picked up, led by rising housing prices



Source: CEIC and BBVA Research

Figure 6
Bank loans and M2 growth are higher than the previous readings



Source: CEIC and BBVA Research

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