

ECONOMIC ACTIVITY PULSE

# China | Recovery pace is moderating in Q2

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Economic activity indicators moderated in April as the authorities fine-tune the pace of policy stimulus on concerns of rising risks associated with credit binge. The official PMI decreased to 50.1 in April from 50.4 while the Caixin China Manufacturing PMI edged down to 49.4 in April from 49.7 in March. Moreover, industrial production slowed down to 6% y/y from the previous reading 6.8%; retail sales declined to 10.1% from 10.5% in March and FAI ytd y/y also decreased to 10.5% from 10.7% in March. Our forecast for Q2 GDP is 6.4%, which is line with our full-year 6.4% GDP growth forecast. On the policy front, we anticipate the authorities to beef up easing efforts again in the second half of the year.

## The rising risks have prompted the authorities to fine-tune easing policy

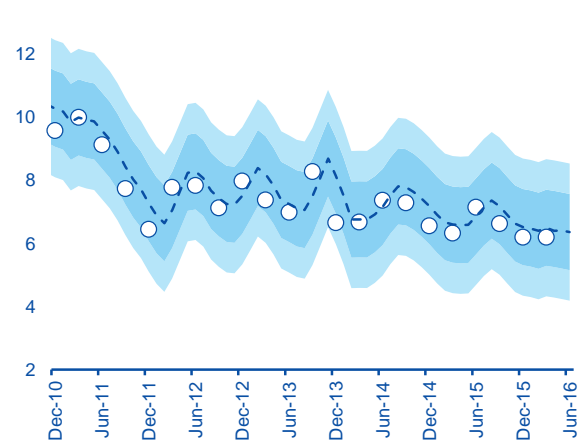
The pickup in economic momentum in Q1 was mainly due to the authorities' stepped-up efforts of growth stimulus. On top of a flurry of monetary easing actions by the Central Bank, the authorities in particular beefed up investment in infrastructure and substantially relaxed tightening measures on the property market. Although these easing efforts have successfully revved up domestic demand, they also lead to the further build-up of leverage on firms' fragile balance sheets and aggravated bubble components in several large cities. In view of this, the authorities started to fine-tune the pace of policy easing of late. In addition to re-tightening the housing policies in some cities, the central bank also indicated that they could hold on further easing actions for the moment. All in all, the authorities seem to be well aware of the risks associated with ultra-loosening stance and are attempting to strike a balance between growth and risks.

Table 1  
Activity Indicators\* (3MA, YoY, SA)

	2015				2016				
	Mea	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Industrial Production	6.0	0.2	4.6	3.1	7.5	4.0	5.5	5.6	
Non-metal Mineral	4.4	-1.5	1.5	-0.2	5.4	2.0	6.5	5.7	
Electricity Production	5.0	2.4	4.4	4.2	6.5	5.3	5.7	4.1	
Auto Sales	14.7	22.0	7.8	-1.0	3.5	-3.9	0.9	-6.0	
Tourist Arrivals	5.5	0.0	-3.1	-2.6	-3.9	-4.5	-8.0	-10.3	
Number of Employed	4.4	3.6	3.3	3.2	3.0	3.0			
Number of Unemployed	0.6	2.8	2.7	1.7	2.0	1.2			
Auto Imports	18.5	25.0	12.3	3.7	5.6	5.7	2.8	0.2	
Auto Exports	9.1	9.7	29.6	21.5	23.1	5.0	7.3	6.6	
Financial Conditions	74.6	77.2	82.2	80.4	80.5	79.1	79.3	84.8	87.8
Credit Growth-13week	21.7	6.2	4.0	7.8	10.2	6.2	9.6	9.4	12.1
PMI Manufacturing	51.9	48.8	49.5	50.9	52.2	50.9	50.3	49.2	48.9
Real Sector Confidence	107.7	99.7	103.6	110.2	108.8	105.9	105.2	104.1	105.7
MICA Forecast									4.0%
GDP YoY		3.9%			5.7%				

Contraction
Slow-down
Growth
Boom

Figure 1  
China: BBVA Research Monthly GDP\*\* (%YoY)



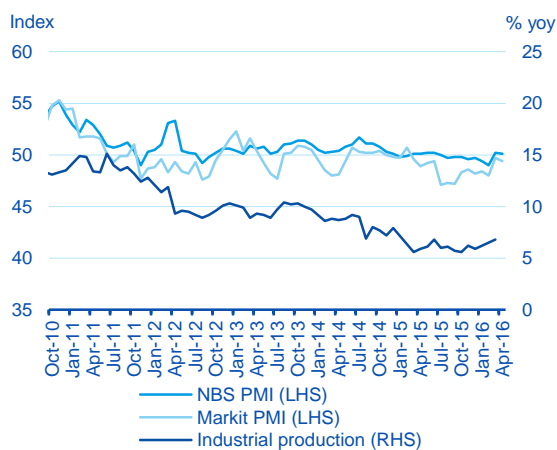
Source: Nowcasting DF Model, BBVA Research

\* Series are non-calendar adjusted. \*\*BBVA Research monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP.  
Source: Nowcasting DF Model, BBVA Research and HAVER

...risks are balanced around our 6.4% full year forecast

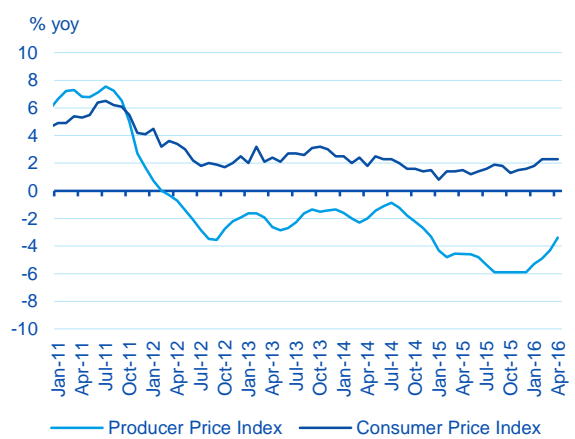
The headwinds to China's long-term growth haven't abated yet. Our monthly GDP figure points at an output growth close to 6.4% in 2Q16, slowing down from 6.7% in 1Q16. Policy stance needs to be pro-growth, especially in the second half of the year when the current pulse of growth is to fade. All in all, we consider that the risks to our 6.4% estimate for 2016 GDP growth are balanced.

Figure 3  
**PMIs and IP slowed down in April**



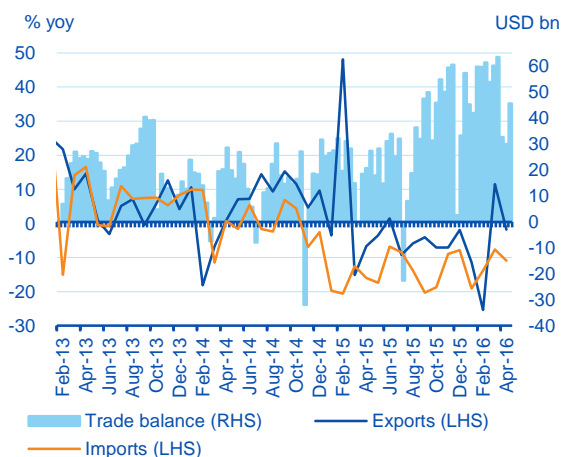
Source: BBVA Research and CEIC

Figure 4  
**PPI increased while CPI maintained in April**



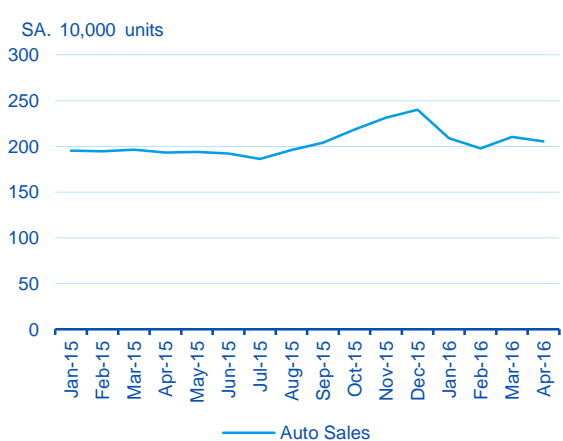
Source: BBVA Research and CEIC

Figure 5  
**Both import and export decreased (YoY)**



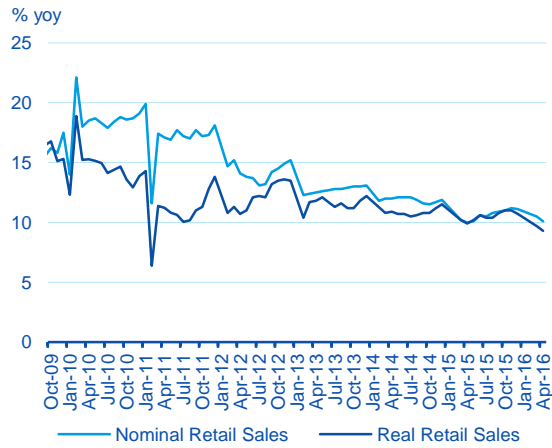
Source: BBVA Research and CEIC

Figure 6  
**Auto Sales stabilized**



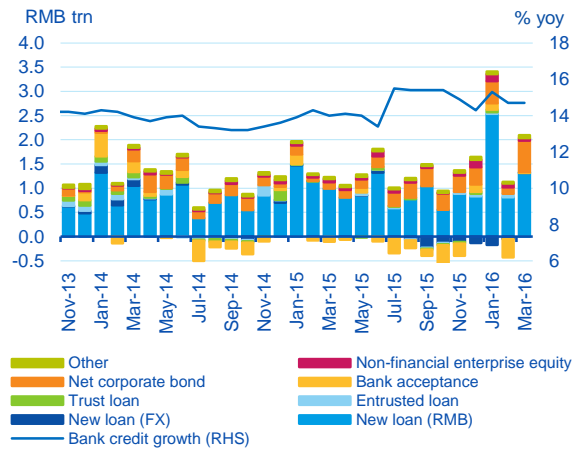
Source: BBVA Research and CEIC

Figure 7  
Retail Sales slowed down as well



Source: BBVA Research and CEIC

Figure 8  
Loan Growth slowed down modestly (YoY)



Source: BBVA Research and CEIC

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