

ECONOMIC ACTIVITY PULSE

China | Resilient growth amid policy fine-tuning

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Our monthly GDP model forecast for Q2 GDP increased to 6.6% y/y from its previous projection of 6.4% y/y based on May data. Economic activity indicators appeared to be resilient despite the authorities' policy fine-tuning on concerns of rising risks. Generally, there is no further dip in most of key activity indicators. Some indicators even improved on sequential terms. The only exception is fixed asset investment, which declined to 9.6% ytd from 10.5% ytd in April. The risks to our 2016 GDP growth forecasts remain neutral.

Solid activity indicators in May

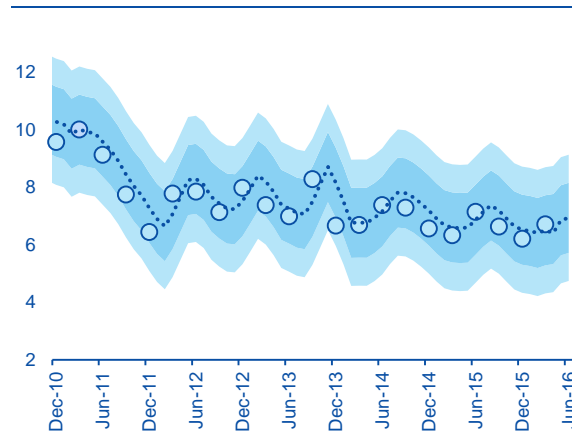
After the significant rebound in the first quarter, the authorities, as we anticipated, took hold of further policy easing from April on concerns of rising risks associated with credit binge. The good news is that the May outturns of key activity indicators were still resilient. Some of them even improved on sequential terms. Both PMI outturns and industrial production growth were broadly flat with their previous readings. On the demand side, retail sales continued to outperform after being adjusted by inflation rate. In particular, auto sales were boosted by the cut of sales tax. In the meantime, credit growth kept a solid pace.

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

	Mean	2015					2016				
		Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	
IP	10.3	9.9	9.8	9.8	9.8	9.9	9.9	9.9	9.9	9.9	
CPI	2.9	1.7	1.6	1.5	1.5	1.7	1.9	2.2	2.5	2.4	
Retail sales	15.5	14.7	15.0	15.4	15.8	13.3	11.3	10.7	7.4	6.7	
Auto sales	10.0	-1.8	4.1	11.1	15.0	13.6	7.7	5.3	5.1	7.9	
Exports	11.3	9.0	9.0	8.1	8.0	7.1	10.6	9.9	10.8	11.8	
Imports	9.3	14.9	17.9	18.9	19.4	11.8	19.7	19.1	19.1	18.8	
Manufactory PMI	-1.1	-2.9	-2.4	-2.0	-1.4	-1.0	-1.1	-0.6	-0.5	0.0	
Non-manufactory PMI	-0.9	-1.2	-1.4	-1.0	-0.4	-0.1	-0.7	-0.8	-0.6	0.1	
Caixin PMI	-1.1	-6.0	-5.3	-4.3	-3.4	-2.9	-3.7	-2.6	-1.4	0.4	
PE ratio	-0.6	49.4	40.1	34.1	25.5	7.5	17.4	17.7	19.2	19.2	
Real estate sales	16.3	15.2	14.9	15.6	14.4	43.6	43.6	54.1	55.9	50.2	
Credit	15.8	15.4	15.4	14.9	14.3	15.3	14.7	14.7	14.4	14.3	
MICA Forecast (YoY)		7.10%		6.40%		6.30%		6.60%			
Actual GDP YoY		6.90%		6.80%		6.70%					
		Contraction		Slow-down		Growth		Boom			

* 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

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

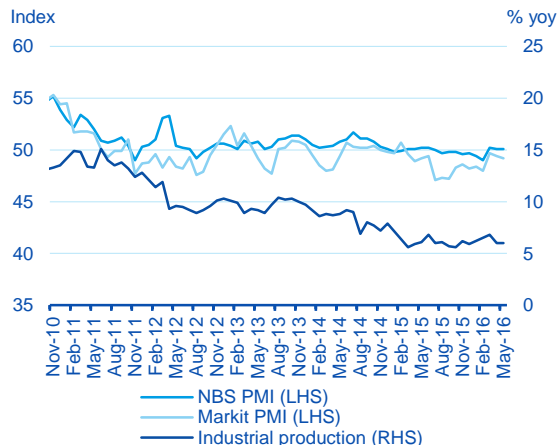


Source: Nowcasting DF Model, BBVA Research

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

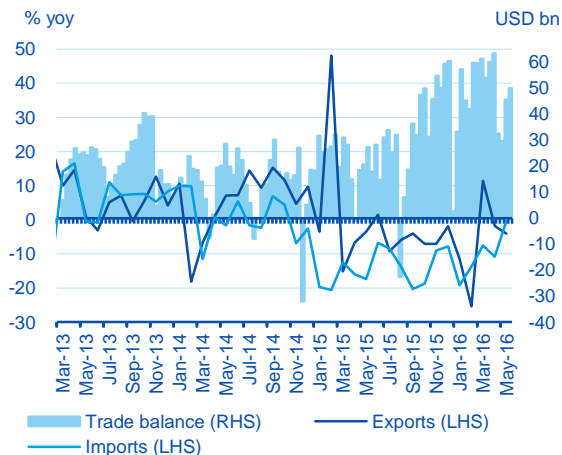
The headwinds to China's long-term growth haven't abated yet. Our model yields an output growth close to 6.6% in 2Q16, slowing down from 6.7% in 1Q16. We expect that more easing measures are to be deployed in the second half of the year. All in all, we consider that the risks to our 6.6% estimate for 2016 GDP growth are balanced.

Figure 3
NBS PMI and IP were flat with the previous levels



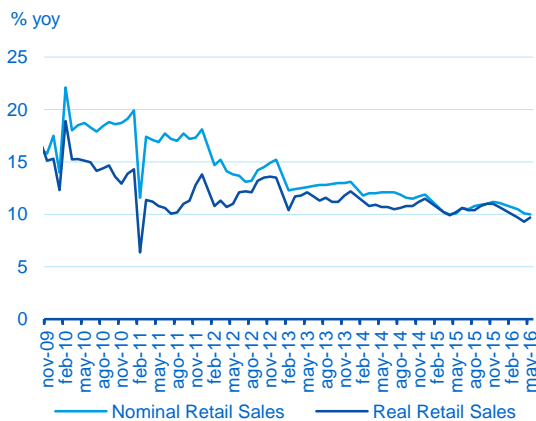
Source: BBVA Research and CEIC

Figure 5
Imports ticked up in May



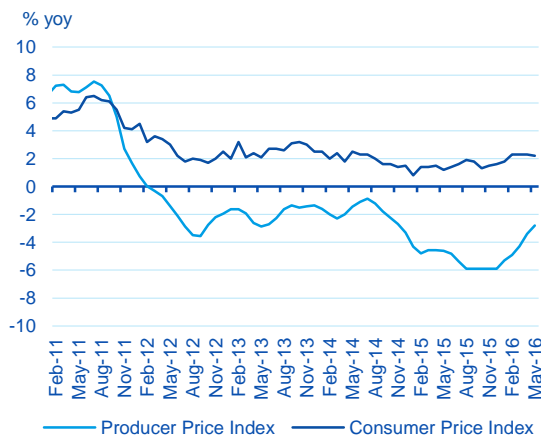
Source: BBVA Research and CEIC

Figure 7
Inflation adjusted retail Sales improved



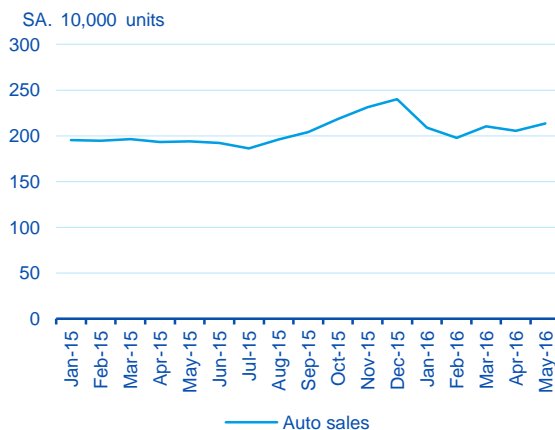
Source: BBVA Research and CEIC

Figure 4
PPI increased on sequential terms



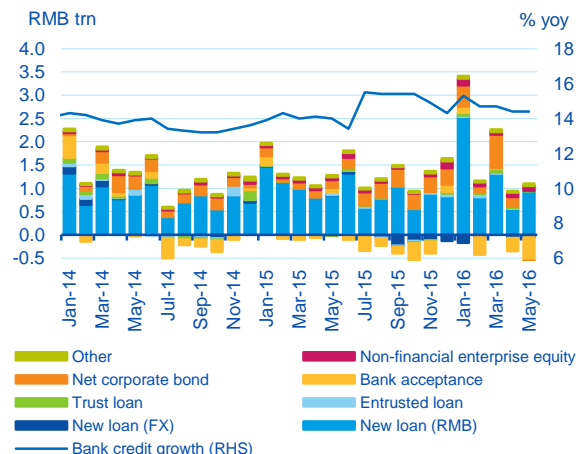
Source: BBVA Research and CEIC

Figure 6
Auto Sales marginally picked up in May



Source: BBVA Research and CEIC

Figure 8
Loan Growth speeds up modestly (YoY)



Source: BBVA Research and CEIC

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