

ECONOMIC ACTIVITY PULSE

# China | Economic activities stopped dropping but growth headwinds are still ahead

Jinyue Dong

China's August activity indicators came out today, most of which are better than the market expectations and the previous month readings. Both industrial production and retail sales improved significantly, but fixed asset investment remained sluggish, which was at the same level as that of July. Based on the newly released data, our MICA model forecast for Q3 GDP is 6.7%. Altogether, economic activities seems reverting from the significant drop of the previous month, but growth headwinds are still ahead, as investment, especially the private investment, remains as a main drag for growth in the future.

## Activity indicators of August improved from the previous month

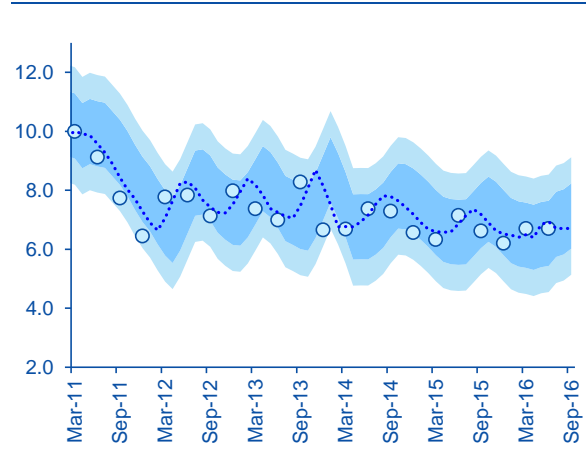
Industrial production accelerated to 6.3% y/y from 6.0% y/y in July (consensus: 6.2% y/y) while retail sales picked up to 10.6% y/y from 10.2% previously (consensus: 10.2% y/y). However, the main concern is still the lacklustre investment, in particular for investment by private firms. In August, aggregate FAI remained the same growth level at 8.1% y/y as of the previous month (consensus: 7.9% y/y). Private investment maintained at 2.1 % ytd y/y, the same growth rate as of the previous month, which is the historical lowest.

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

	Mean	2015				2016								
		Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	
IP	10.3	9.6	9.9	9.9	9.7	9.6	9.9	9.9	9.9	9.9	9.7	9.9	10.1	
CPI	2.9	1.7	1.6	1.5	1.7	1.9	2.2	2.5	2.4	2.2	2.0	1.8		
Retail sales	15.5	14.7	15.0	15.4	15.8	13.3	11.3	10.7	7.4	7.7	7.4	11.2	10.4	
Auto sales	10.0	-1.8	4.1	11.1	15.0	13.6	7.7	5.3	5.1	7.9	10.6	16.3	21.0	
Exports	11.3	6.9	6.5	6.1	5.9	7.1	10.6	9.3	8.6	11.6	9.8	8.4	8.0	
Imports	9.3	14.5	17.6	16.3	16.4	15.9	15.7	16.1	15.1	15.5	13.3	14.4	13.8	
Manufactory PMI	-1.1	-2.9	-2.4	-2.0	-1.4	-1.0	-1.1	-0.8	-0.5	0.0	-0.2	-0.3	0.3	
Non-manufactory PMI	-0.9	-1.2	-1.4	-1.0	-0.4	-0.1	-0.7	-0.8	-0.6	0.1	-0.1	-0.1	0.0	
Caixin PMI	-1.1	-6.0	-5.3	-4.3	-3.4	-2.9	-3.7	-2.6	-1.4	0.4	-0.2	1.9	3.8	
PIERatio	-0.6	49.4	40.1	34.1	25.5	7.5	7.4	17.7	25.2	30.2	33.3	38.1	18.9	
Real estate sales	16.3	15.2	14.9	15.6	14.4	43.6	43.6	54.1	55.9	50.7	49.6	44.2	40.2	
Credit	15.8	15.4	15.4	14.9	14.3	15.3	14.7	14.7	14.4	14.3	14.3	13.8	13.5	
MICA Forecast (YoY)		7.10%			6.40%			6.30%			6.60%			6.70%
Actual GDP YoY		6.30%			6.80%			6.70%			6.70%			

\* 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)

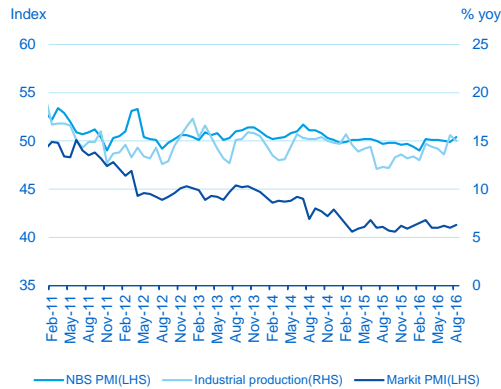


Source: Nowcasting DF Model, BBVA Research

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

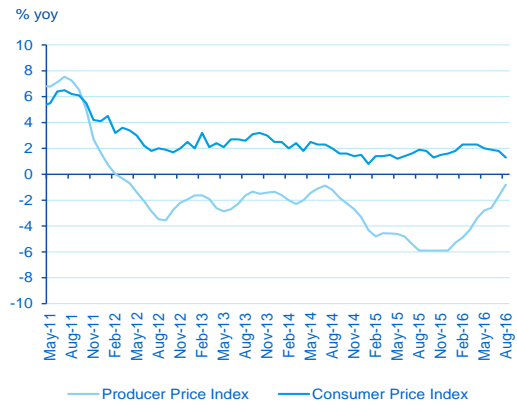
The headwinds to growth are still ahead, which could prompt the authorities to re-introduce more easing measures. We maintain our 2016 GDP forecasting at 6.4% and deem that the risks to our full-year growth projection are balanced.

**Figure 3**  
**Both NBS PMI and IP improved significantly**



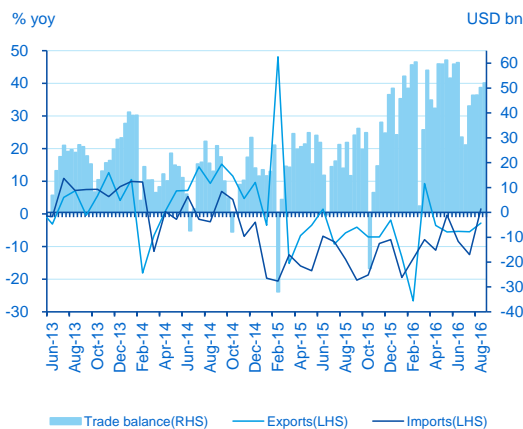
Source: BBVA Research and CEIC

**Figure 4**  
**PPI increased on sequential terms**



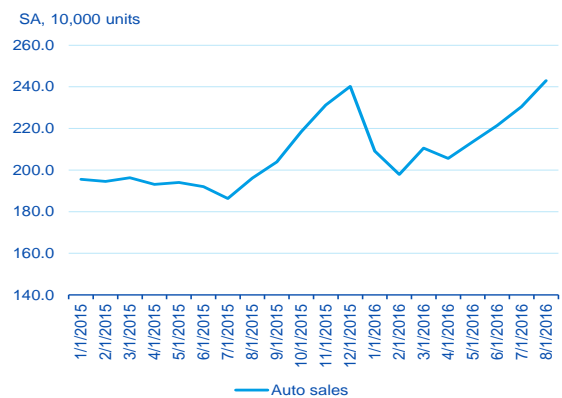
Source: BBVA Research and CEIC

**Figure 5**  
**Both imports and exports improved in August**



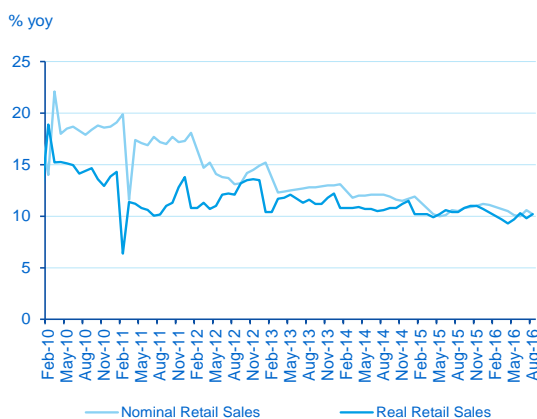
Source: BBVA Research and CEIC

**Figure 6**  
**Auto Sales picked up in August**



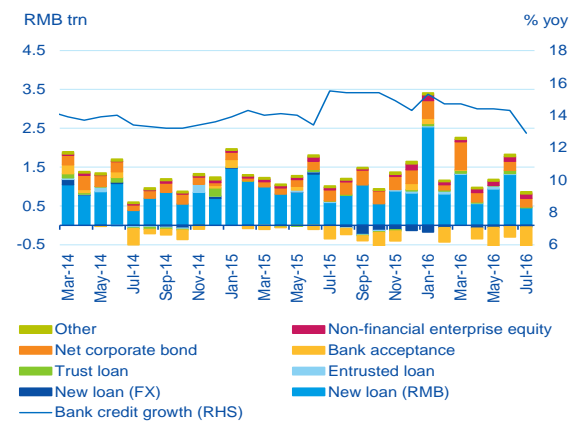
Source: BBVA Research and CEIC

**Figure 7**  
**Real retail sales improved from the previous month**



Source: BBVA Research and CEIC

**Figure 8**  
**Credit growth edged down in July**



Source: BBVA Research and CEIC

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