

ECONOMIC ACTIVITY PULSE

China | Growth stabilized in Q3

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China's 2016 Q3 GDP came out today at 6.7% y/y, in line with the market expectations (BBVA MICA model forecasting: 6.8% y/y; Bloomberg consensus: 6.7%) and flat with the previous quarter's reading as well. A number of monthly indicators are announced at the same time. In particular, both FAI and retail sales improved marginally from the previous month reading, but industrial production dipped a bit. Meanwhile, credit supply maintained its accelerating momentum in September. Based on the data outturns, we raise our 2016 full-year GDP projection to 6.6% from 6.4% previously.

Stabilized Q3 growth was boosted by solid consumption and loosening credit

FAI picked up slightly from 8.1% ytd y/y to 8.2% ytd y/y (consensus: 8.2% y/y) while retail sales increased to 10.7% y/y from 10.6% previously (consensus: 10.7% y/y). However, industrial production dipped from 6.3% y/y in the previous month to 6.1% y/y. Our concern of private investment also slightly picked up from 2.1% ytd y/y previously to 2.5% ytd y/y. In the meantime, credit growth keeps its accelerating momentum: total social financing soared to RMB 1,720 bn (prior: RMB 1,469.7 bn; consensus: RMB 1,390 bn) and new yuan loans also increased to RMB 1,220 bn (prior: RMB 948.7 bn; consensus: RMB 1,000 bn); in addition, M2 growth accelerated to 11.5% y/y from 11.4% in the previous month (consensus: 11.6% y/y).

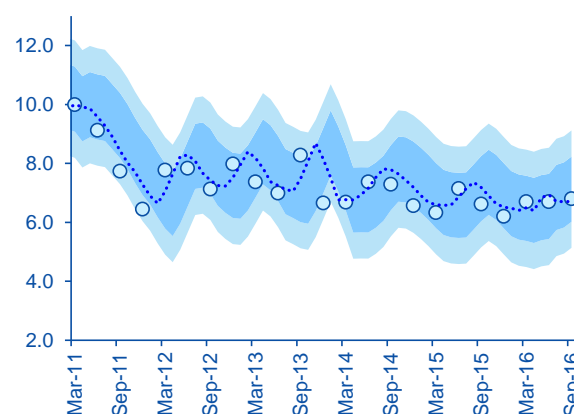
Table 1
Activity Indicators* (3MA, YoY, SA)

	2015					2016											
	Mean	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep			
P	10.0	5.2	5.8	5.8	5.8	5.5	5.2	5.2	5.2	5.3	5.1	5.2	5.1	5.1			
CPI	-2.9	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0	-2.2	-2.5	-2.4	-2.2	-2.0	-1.8	-1.8			
Retail sales	15.1	14.7	15.0	15.4	15.8	13.3	11.3	10.7	7.4	6.7	7.4	10.2	10.4	10.3			
Auto sales	10.1	-1.2	4.1	11.1	15.0	13.6	7.7	5.3	5.1	7.9	10.6	16.3	21.0	24.8			
Exports	10.3	-6.0	-5.8	-6.1	-6.6	-7.1	-10.8	-9.8	-8.4	-7.8	-7.8	-5.4	-5.0	-6.8			
Imports	-8.3	-14.5	-17.9	-16.5	-13.4	-11.5	-13.7	-13.1	-16.1	-15.9	-12.3	-7.4	-7.6	-4.9			
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	0.8			
Non-manufactory PMI	-0.8	-1.2	-1.4	-1.0	-0.4	-0.1	-0.7	-0.8	-0.6	0.1	-0.1	-0.1	0.0	0.2			
Caixin PMI	-1.0	-6.0	-5.3	-4.3	-3.4	-2.9	-3.7	-2.6	-1.4	0.4	-0.2	1.9	3.8	6.4			
PIE ratio	-2.0	49.4	40.1	34.1	25.5	7.5	2.4	-1.1	-5.2	-6.2	-5.3	-28.4	-18.4	-7.4			
Real estate sales	17.1	15.2	14.9	15.6	14.4	43.6	43.6	54.1	55.9	50.7	49.6	44.2	40.2	39.9			
Credit	15.7	15.4	15.4	14.9	14.3	15.3	14.7	14.7	14.4	14.3	14.3	13.8	13.5	13.3			
MICA Forecast (YoY)		7.10%			6.40%			6.30%				6.60%		6.80%			
Actual GDP YoY		6.90%			6.80%			6.70%				6.70%		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)

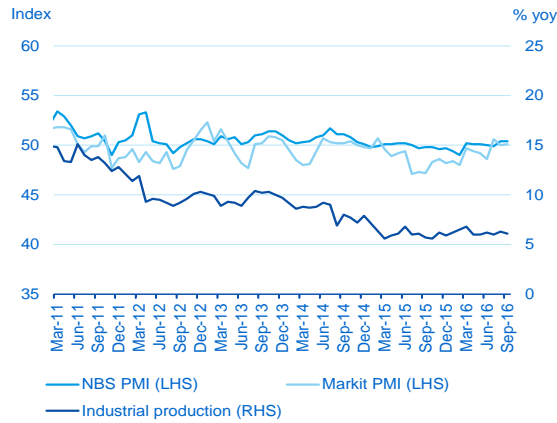


Source: Nowcasting DF Model, BBVA Research

...risks are balanced around our 6.6% full year forecast

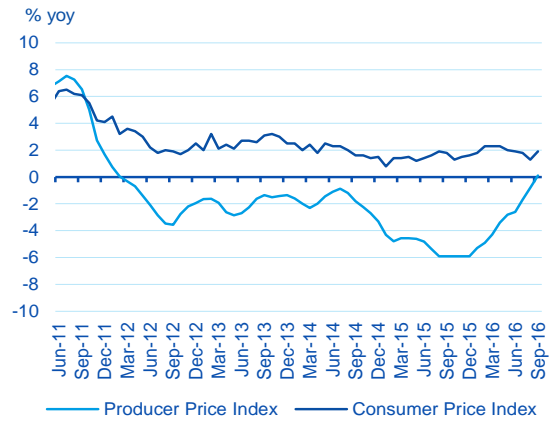
The headwinds to growth still exist in the last quarter of this year, which could prompt the authorities to continue the fiscal and monetary easing measures. We deem that the risks to our 6.6% full-year growth projection are balanced.

Figure 3
NBS PMI marginally dropped while IP improved



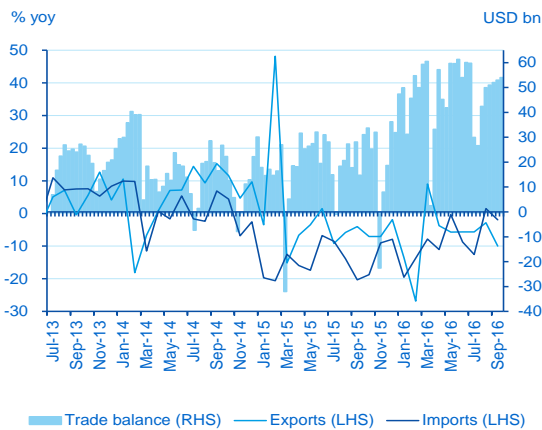
Source: BBVA Research and CEIC

Figure 4
PPI increased on sequential terms



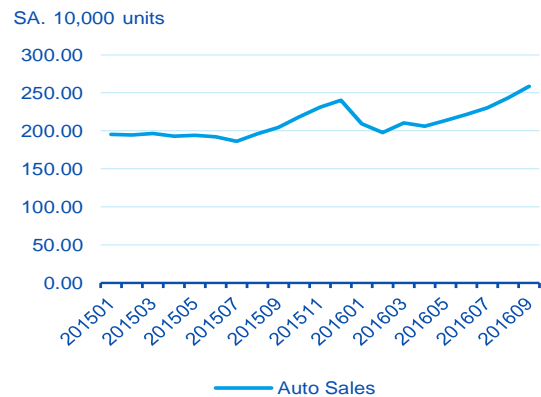
Source: BBVA Research and CEIC

Figure 5
Both imports and exports are lacklustre in June



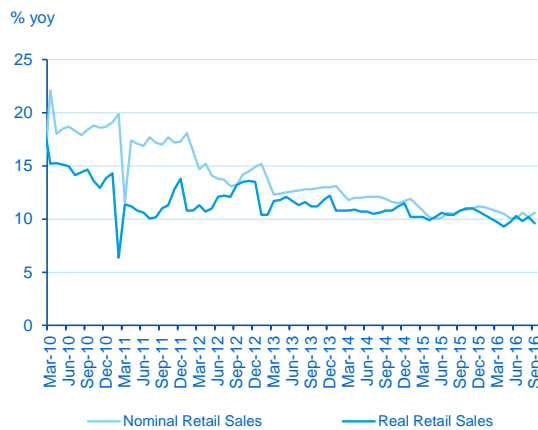
Source: BBVA Research and CEIC

Figure 6
Auto Sales marginally picked up in June



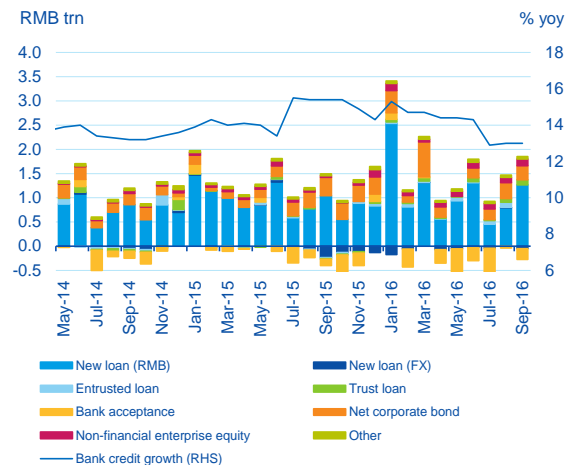
Source: BBVA Research and CEIC

Figure 7
Real retail sales improved significantly



Source: BBVA Research and CEIC

Figure 8
Credit growth speeds up significantly (YoY)



Source: BBVA Research and CEIC

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