

ECONOMIC ACTIVITY PULSE

# China | Growth recovery continues

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October activity indicators came out today, most of which are in line with the market expectations and the previous month readings, such as industrial production and fixed asset investment. But retail sales dropped significantly. On the other hand, most credit indicators are below the market expectations. Altogether, economic activities seem to continue its stabilizing trend in October, while financial risks, such as housing bubbles and RMB exchange rate are of our concern. Based on the data outturns, our MICA model forecast for Q4 GDP is 6.8%, and we maintain our full year GDP forecast at 6.6%.

## Moderated growth was supported by stabilizing FAI and industrial production

FAI picked up slightly from 8.2% ytd y/y to 8.3% ytd y/y (consensus: 8.2% y/y) while industrial production maintained the same level as that of the previous month at 6.1% y/y (consensus: 6.2% y/y). Our previous concern of private investment also slightly picked up from 2.5% ytd y/y previously to 2.9% ytd y/y. However, retail sales dipped from 10.7% y/y of the previous month to 10% y/y (consensus: 10.7% y/y). In the meantime, considering the housing bubble, most of the credit indicators are below the market expectations: total social financing decelerated to RMB 896.3 bn (prior: RMB 1,720.9 bn; consensus: RMB 1,000 bn) and new yuan loans also decreased to RMB 651.3 bn (prior: RMB 1,220 bn; consensus: RMB 672 bn); On contrast, M2 growth accelerated to 11.6% y/y from 11.5% in the previous month (consensus: 11.4% y/y).

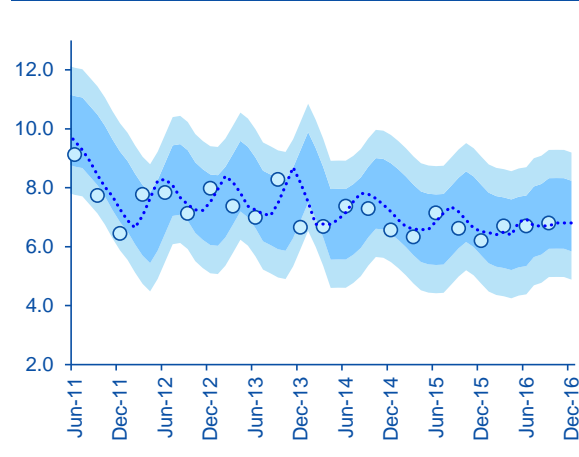
Table 1  
Activity Indicators\* (3MA, YoY, SA)

	Mean	2015				2016									
		Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	
P	10.0	13.2	13.2	12.9	13.5	13.5	13.9	13.2	13.2	13.1	13.0	13.1	13.1	13.1	13.2
CPI	2.9	1.6	1.5	1.5	1.7	1.9	2.2	2.5	2.4	2.2	2.0	1.9	1.9	2.0	
Retail sales	15.1	15.0	15.4	15.8	13.3	11.3	10.7	7.4	6.7	7.4	10.2	10.4	10.5	10.4	
Auto sales	10.1	4.1	11.1	15.0	13.6	7.7	5.3	5.1	7.9	10.6	16.3	21.0	24.8	23.1	
Exports	10.3	-5.0	-4.1	-4.4	-7.1	-10.0	-9.4	-8.6	-1.9	-2.8	-3.4	-2.0	-2.0	-1.1	
Imports	8.3	117.0	-10.5	12.4	10.9	13.7	13.1	10.1	-5.3	-6.3	-7.4	-7.8	-6.7	-10.0	
Manufactory PM	-1.1	-2.4	-2.0	-1.4	-1.0	-1.1	-0.8	-0.5	0.0	-0.2	-0.3	0.3	0.8	1.8	
Non-manufactory PM	-0.8	-1.4	-1.0	-0.4	-0.1	-0.7	-0.8	-0.6	0.1	-0.1	-0.1	0.0	0.2	0.8	
Caixin PM	-1.0	-5.3	-4.3	-3.4	-2.9	-3.7	-2.6	-1.4	0.4	-0.2	1.9	3.8	6.4	6.0	
PIE ratio	-2.0	40.1	34.1	25.5	7.5	-7.4	-17.7	-25.2	-30.2	-33.3	-30.4	-19.1	-7.4	-2.7	
Real estate sales	17.1	14.9	15.6	14.4	43.6	43.6	54.1	55.9	50.7	49.6	44.2	40.2	39.9	40.4	
Credit	15.7	15.4	14.9	14.3	15.3	14.7	14.4	14.3	14.3	13.8	13.5	13.3	13.1		
MICA Forecast (YoY)		7.10%		6.40%		6.30%			6.60%		6.80%	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)

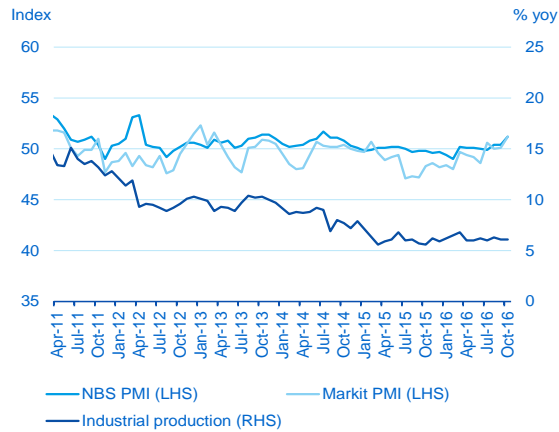


Source: Nowcasting DF Model, BBVA Research

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

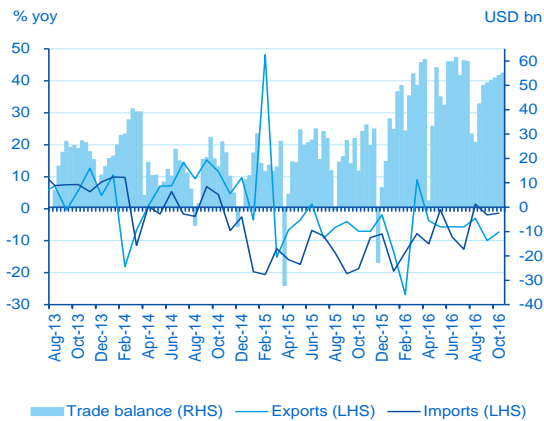
The headwinds to growth still exist in the last quarter of this year, especially on housing bubble and RMB exchange rate. We deem that the risks to our 6.6% full-year growth projection are balanced.

**Figure 3**  
**NBS PMI marginally dropped while IP improved**



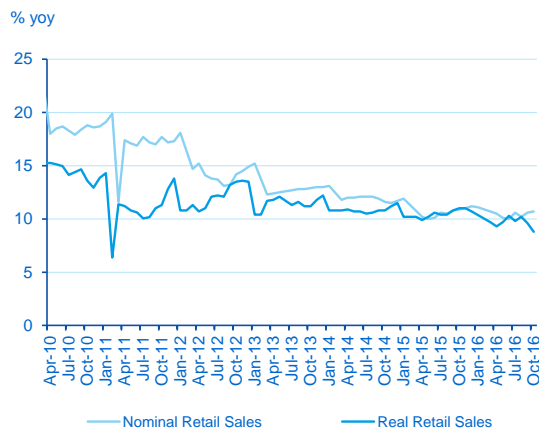
Source: BBVA Research and CEIC

**Figure 5**  
**Bothe imports and exports are lacklustre in June**



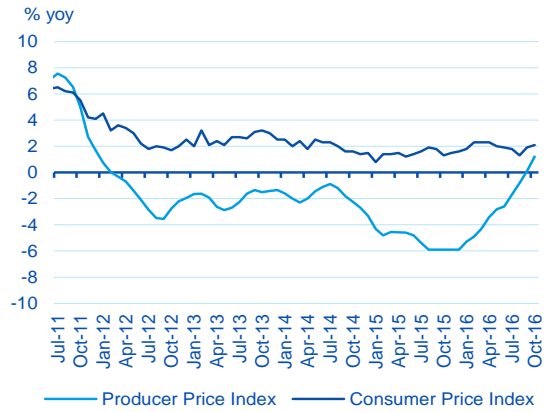
Source: BBVA Research and CEIC

**Figure 7**  
**Real retail sales improved significantly**



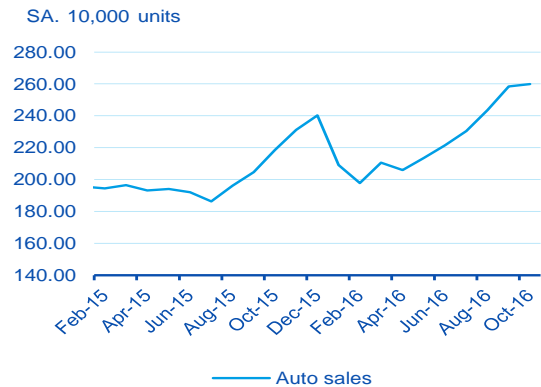
Source: BBVA Research and CEIC

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



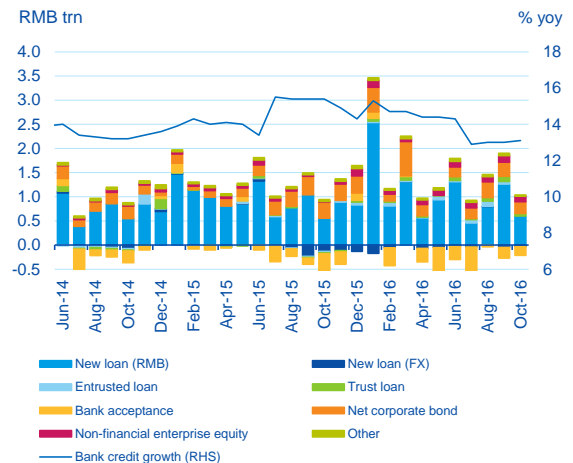
Source: BBVA Research and CEIC

**Figure 6**  
**Auto Sales marginally picked up in June**



Source: BBVA Research and CEIC

**Figure 8**  
**Credit growth speeds up significantly (YoY)**



Source: BBVA Research and CEIC

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