

ECONOMIC ACTIVITY PULSE

China | Slowed growth on a soft-landing track

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China's 2016 Q4 GDP came out today at 6.8% y/y, marginally higher than the market expectations and the previous month's reading (BBVA MICA model forecasting: 6.9% y/y; Bloomberg consensus: 6.7%). The 2016 full year GDP turned out to be 6.7%, surpassing the authorities' target of 6.5%. On the other hand, today's announced FAI and Industrial production in December decelerated marginally from their previous readings. As growth headwinds are still ahead, such as continuing RMB depreciation, corporate debt overhang and housing market adjustment, we expect growth to continue its downtrend this year.

Growth was supported by stabilizing FAI and IP and upward retail sales

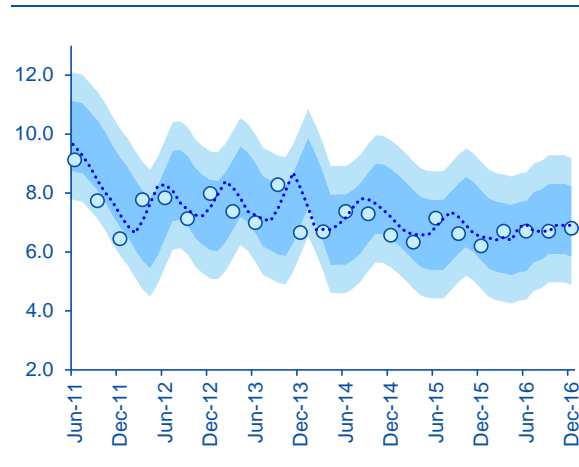
FAI marginally dropped to 8.1% ytd y/y from the previous month reading at 8.3% ytd y/y (consensus: 8.3% y/y); while industrial production also marginally decelerated to 6% y/y from 6.2% y/y in November (consensus: 6.1% y/y). On the other hand, private investment, which is our prime concern of growth sustainability, slightly picked up from 3.1% ytd y/y previously to 3.2% ytd y/y. In addition, retail sales picked up from 10.8% y/y of the previous month to 10.9% y/y (consensus: 10.7% y/y), underpinned by strong auto sales as well as the effect of Chinese New Year.

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

	Mean	2016											
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
IP	10.0	9.8	9.5	9.9	9.2	9.3	9.1	9.0	9.1	9.1	9.2	9.1	9.1
CPI	2.9	1.7	1.9	2.2	2.5	2.4	2.2	2.0	1.8	1.8	2.0	2.3	2.3
Retail sales	15.1	13.3	11.3	10.7	9.8	12.7	7.4	15.2	9.4	10.5	10.4	12.5	10.5
Auto sales	10.1	13.6	7.7	5.3	5.1	7.9	10.6	16.3	21.0	24.8	23.1	20.8	14.7
Exports	10.3	9.7	10.6	9.8	9.8	11.8	9.8	9.4	9.0	9.3	7.1	9.1	9.8
Imports	8.3	11.9	10.7	10.1	10.1	9.3	9.3	7.4	7.0	9.7	9.8	1.1	2.4
Manufactory PMI	-1.1	-1.0	-1.1	-0.8	-0.5	0.0	-0.2	-0.3	0.3	0.8	1.8	2.7	3.5
Non-manufactory PMI	-0.8	-0.1	-0.7	-0.8	-0.6	0.1	-0.1	-0.1	0.0	0.2	0.8	1.4	1.3
Caixin PMI	-1.0	-2.9	-3.7	-2.6	-1.4	0.4	-0.2	1.9	3.8	6.4	6.0	5.6	6.1
P/E ratio	-2.0	7.5	7.4	10.7	25.2	30.2	30.1	35.4	18.4	17.4	2.7	3.9	9.1
Real estate sales	17.1	43.6	43.6	54.1	55.9	50.7	49.6	44.2	40.2	39.9	40.4	40.2	37.8
Credit	15.7	15.3	14.7	14.7	14.4	14.3	14.3	13.8	13.5	13.3	13.1	13.0	13.2
MICA Forecast (YoY)				6.30%		6.60%		6.80%				7.00%	
Actual GDP YoY				6.70%		6.70%		6.70%				6.80%	

* Series are non-calendar adjusted. **BBVA Research monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP.

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

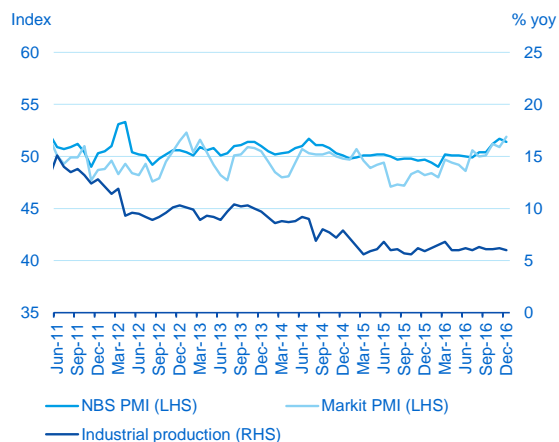


Source: Nowcasting DF Model, BBVA Research

The 6.7% of 2016 full year growth rate met the authorities' target

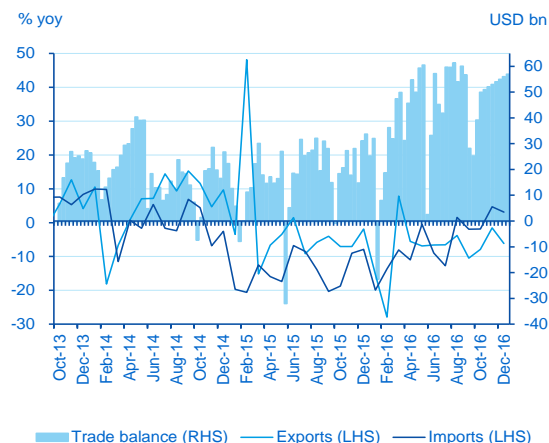
Notwithstanding a number of growth headwinds including tightening measures in the property market, accelerated capital outflows accompanied by faster-than-expected currency depreciation etc, the ongoing economic recovery appears to be more resilient than we anticipated in 2016. However, we believe these headwinds are still ahead which will weigh on the 2017 growth.

Figure 3
NBS PMI and Industrial production stabilized



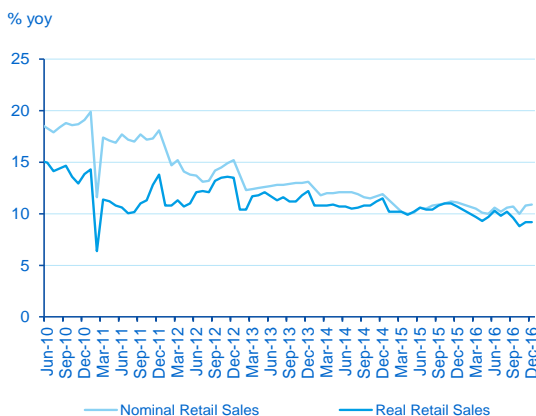
Source: BBVA Research and CEIC

Figure 5
Both imports and exports decelerated



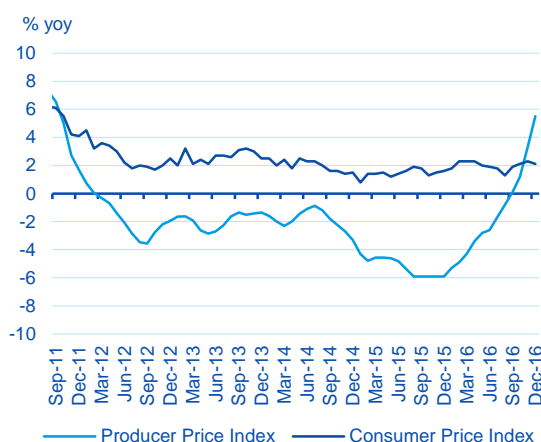
Source: BBVA Research and CEIC

Figure 7
Real retail sales improved as well



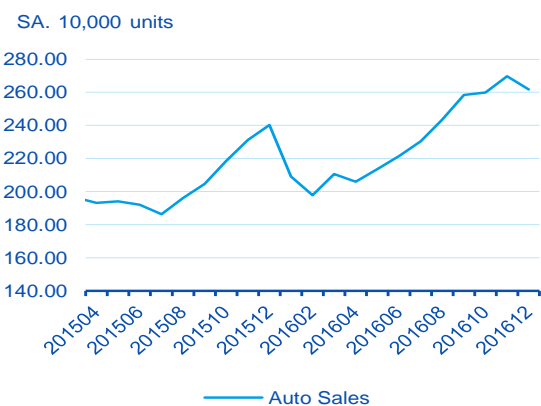
Source: BBVA Research and CEIC

Figure 4
PPI increased significantly while CPI dipped a bit



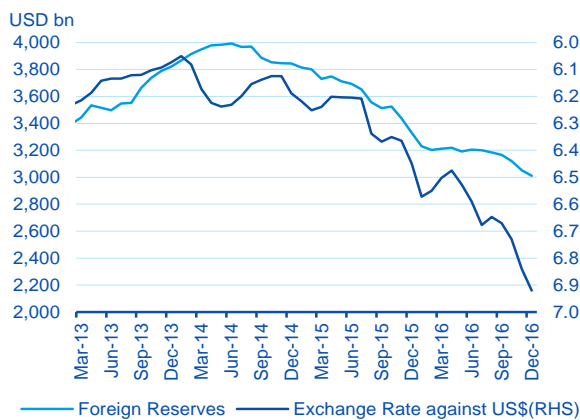
Source: BBVA Research and CEIC

Figure 6
Strong auto sales in December



Source: BBVA Research and CEIC

Figure 8
RMB depreciation is still the main financial risk



Source: BBVA Research and CEIC

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