

China | Now comes moderation

Betty Huang / Le Xia

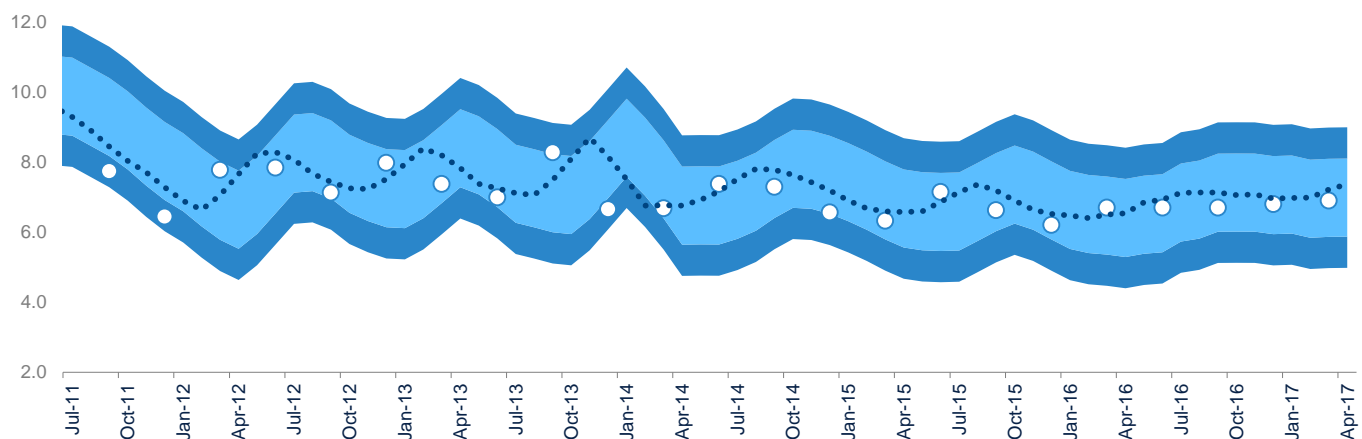
16 May 2017

After registering a stronger-than-expected performance in Q1, China's economy started to show more signs of moderation in April, as reflected in a batch of important activity indicators reported today. Growth moderation is due in part to the authorities' monetary prudence and tight regulations targeted at the risky shadow banking activities as well as the overheating property market. We maintain our growth projection of 6.3% for 2017 (versus the official target of around 6.5%).

Signs of Moderation are broad-based

FAI marginally dropped to 8.9% ytd y/y from the previous month reading at 9.2% ytd y/y (consensus: 9.1% y/y); while industrial production also significantly decelerated to 6.5% y/y from 7.6% y/y in November (consensus: 7.0% y/y). On the other hand, private investment, which is our prime concern of growth sustainability, dropped from 7.7% ytd y/y previously to 6.9% ytd y/y. In addition, retail sales also slide from 10.9% y/y of the previous month to 10.7% y/y (consensus: 10.8% y/y), mainly affected by sharp drop of auto sales. Nevertheless, our MICA model provides a monthly GDP growth rate of 7.0% y/y in April, mainly due to the low base of output in the same period of last year.

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



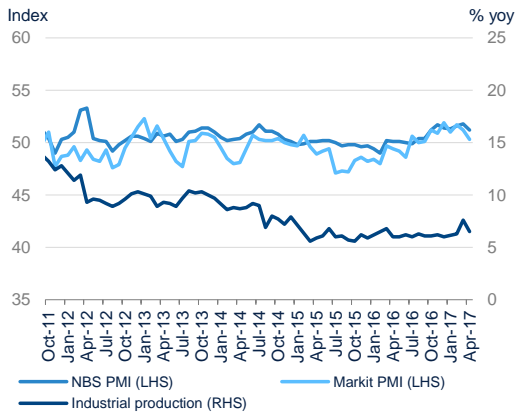
Source: Nowcasting DF Model, BBVA Research

*BBVA Research monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP

Growth headwinds remain

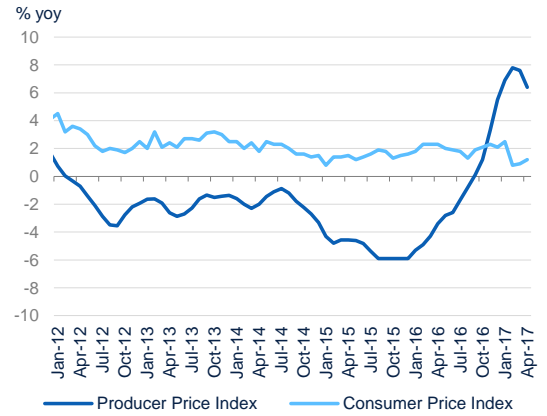
Tightening effects caused by regulatory enhancement haven't fully translated into the real economy yet. That being said, growth moderation is expected to persist in the remainder of the year. Investment is likely to bear the brunt of regulatory stress as it tends to raise firms' financing costs. Meanwhile, the improved external environment could partially offset the downtrend of investment by boosting exports.

Figure 2 NBS PMI and Industrial production dropped



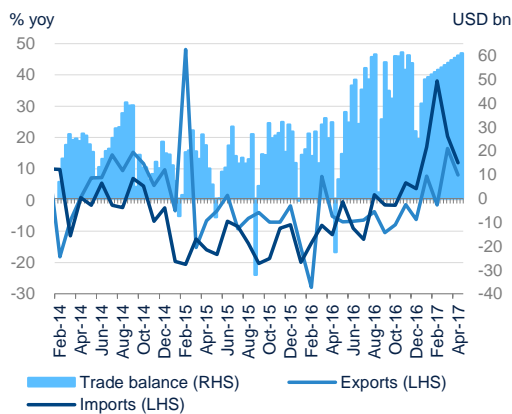
Source: BBVA Research and CEIC

Figure 3 PPI dipped significantly while CPI increased a bit



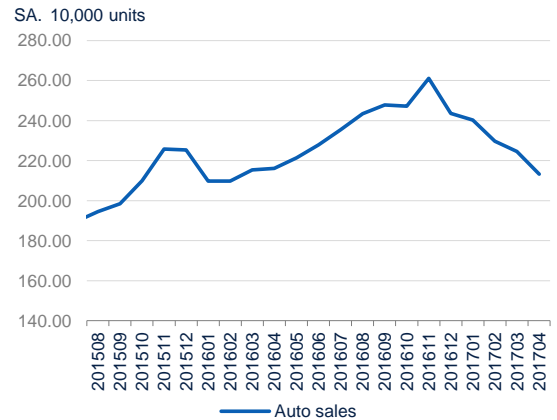
Source: BBVA Research and CEIC

Figure 4 Both imports and exports decelerated



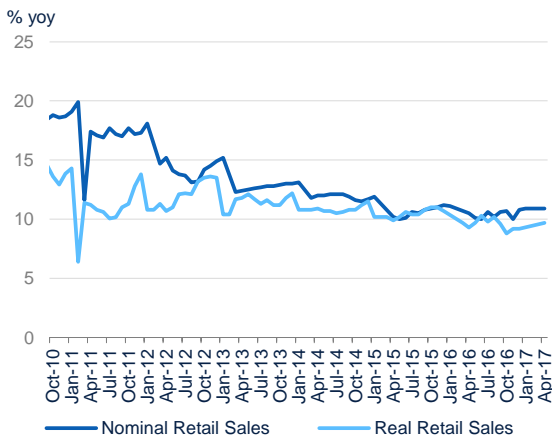
Source: BBVA Research and CEIC

Figure 5 Auto sales declined sharply in April



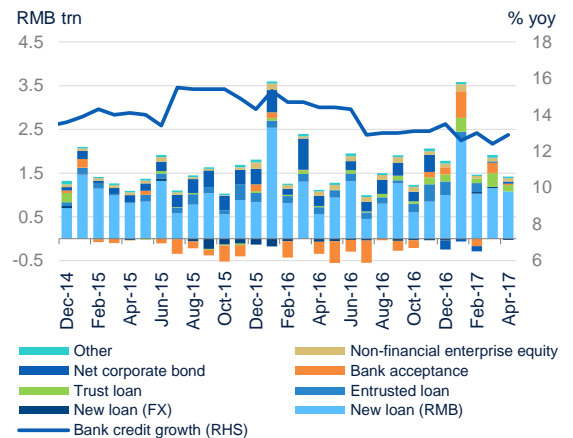
Source: BBVA Research and CEIC

Figure 6 Real retail sales remain steady



Source: BBVA Research and CEIC

Figure 7 Total social financing pivots to loans again



Source: BBVA Research and CEIC

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