

China | Economic moderation continues

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After registering a stronger-than-expected performance in Q1, Chinese economy continued its moderation in May, reflected in a batch of important activity indicators reported today. Growth moderation is partly due to the authorities' monetary prudence targeted at the risky shadow banking and the overheating property market. Risks from corporate and local government debt overhang, capital outflow and shadow banking still exist. Thus, we maintain our growth projection of 6.3% for 2017 (vs the official target of around 6.5%) .

Growth moderation continues

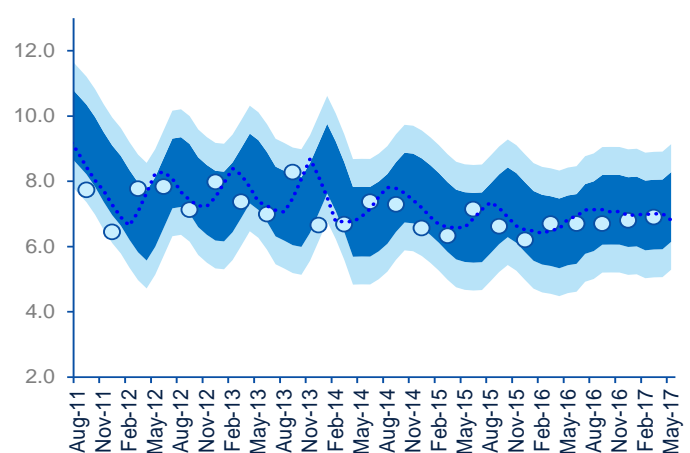
FAI dropped to 8.6% ytd y/y from the previous month reading at 8.9% ytd y/y (consensus: 8.8% y/y). Private investment, which is our previous concern of the growth sustainability, also dropped from 6.9% ytd y/y previously to 6.8% ytd y/y. In addition, industrial production maintained the comparatively low growth rate of 6.5% y/y as in April (consensus: 6.4% y/y) and retail sales also remained at 10.7% y/y as of the previous month (consensus: 10.7% y/y), reflecting the recent sluggish auto sales. Our MICA model provides a monthly GDP growth rate of 6.8% y/y in May, reflecting the recent economic moderation.

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

	Mean	2016					2017						
		Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
P	10.0	8.1	8.0	8.1	8.1	8.2	8.1	8.1	8.1	8.2	8.5	8.4	8.8
CPI	2.9	2.2	2.0	1.8	1.8	2.0	2.3	2.3	2.2	1.9	1.4	1.2	1.2
Retail sales	15.1	17.4	18.2	19.4	18.3	18.4	18.5	18.5	18.2	18.3	18.6	18.7	18.7
Auto sales	10.2	10.6	16.3	21.0	24.8	23.1	20.6	14.7	12.7	10.7	9.4	8.1	8.3
Exports	10.0	13.9	8.4	8.0	8.9	7.1	8.1	8.8	8.5	8.0	8.3	8.3	11.6
Imports	8.2	15.1	7.4	7.0	17.7	8.8	1.1	2.4	12.6	18.3	25.3	18.5	16.1
Manufactory PMI	-1.1	-0.2	-0.3	0.3	0.8	1.8	2.7	3.5	3.8	4.2	4.1	3.5	2.5
Non-manufactory PMI	-0.8	-0.1	-0.1	0.0	0.2	0.8	1.4	1.3	1.4	1.7	2.4	2.1	2.0
Caixin PMI	-1.0	-0.2	1.9	3.8	6.4	6.0	5.6	6.1	5.9	6.9	5.3	4.1	1.9
P/E ratio	-2.0	10.3	20.4	18.4	17.4	2.7	0.9	8.1	8.9	9.4	18.1	16.2	13.2
Real estate sales	17.1	49.6	44.2	40.2	39.9	40.4	40.2	37.8	30.0	26.0	25.1	20.1	21.0
Credit	15.7	14.3	13.8	13.5	13.3	13.1	13.0	13.2	12.6	13.0	12.4	12.9	13.0
MICA Forecast (YoY)		6.60%			6.80%			7.00%			7.00%		
Actual GDP YoY		6.70%			6.70%			6.80%			6.90%		

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

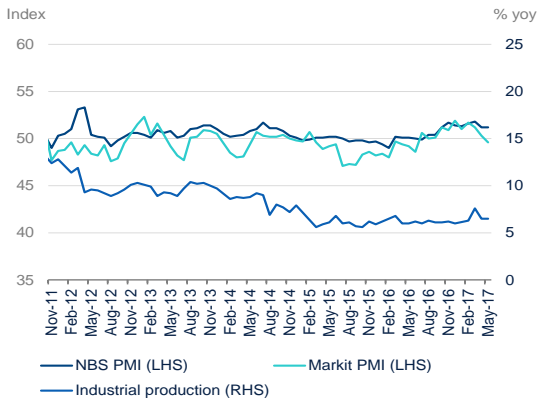
Figure 2 China: BBVA Research Monthly GDP** (%YoY)



Source: Nowcasting DF Model, BBVA Research

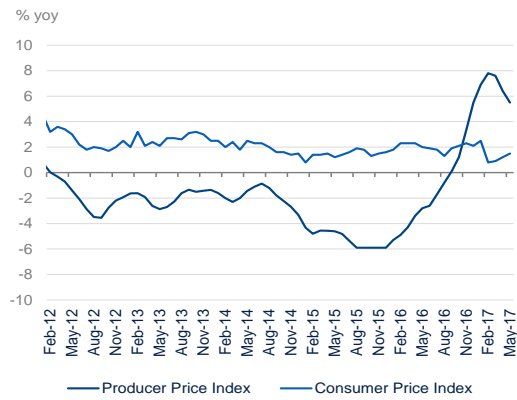
Monetary tightening effects caused by regulatory enhancement haven't fully translated into the real economy yet. That being said, growth moderation is expected to persist in the rest of the year. Investment is likely to bear the brunt of regulatory stress as it tends to raise firms' financing costs.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

Figure 3 NBS PMI and IP maintained the growth rate of the previous month



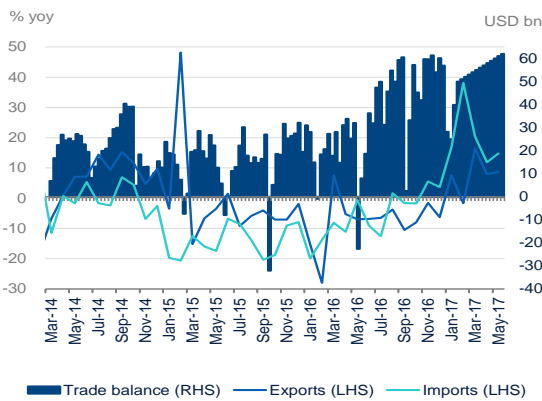
Source: CEIC and BBVA Research

Figure 4 PPI dipped significantly while CPI increased a bit



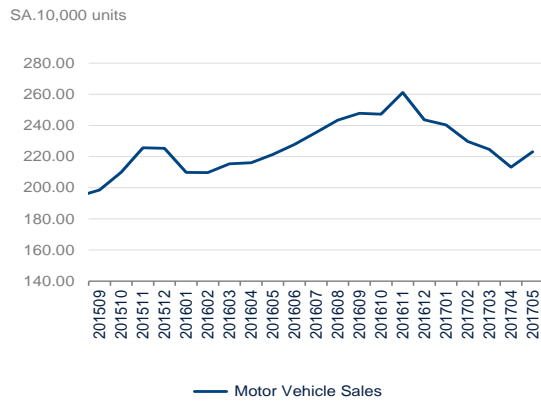
Source: CEIC and BBVA Research

Figure 5 Both imports and exports accelerated



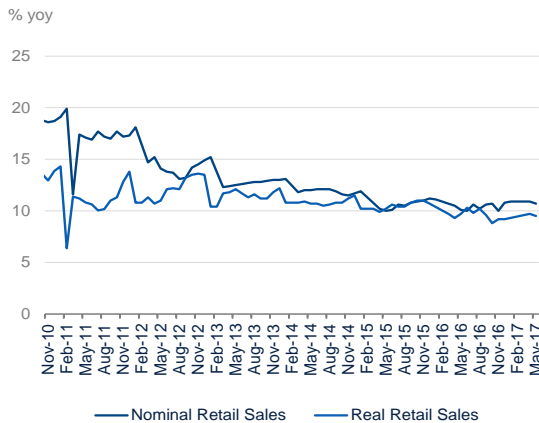
Source: CEIC and BBVA Research

Figure 6 Auto sales declined in May



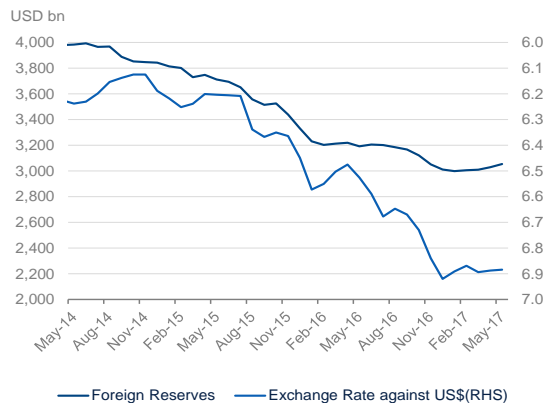
Source: CEIC and BBVA Research

Figure 7 Real retail sales remain steady



Source: CEIC and BBVA Research

Figure 8 Foreign reserve holds up due to RMB appreciation



Source: CEIC and BBVA Research

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