

# China | Growth momentum is stronger than market expectations

Jinyue Dong / Le Xia

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2017 Q2 GDP reached 6.9% y/y, flat with Q1 outturn and higher than the market consensus of 6.8% y/y, suggesting growth momentum is stronger than expected. The strong growth momentum is reflected in a batch of economic activity indicators released today. Both surging external demand and comparatively easing credit condition in June contributed to the good performance. However, risks from debt overhang, capital outflow and shadow banking still exist; more importantly, the ongoing deleveraging in financial sector and over-capacity industries might drag on growth in the medium term. Altogether, we raised our growth projection to 6.5% for 2017 (vs the official target: 6.5%; Bloomberg consensus: 6.7%) .

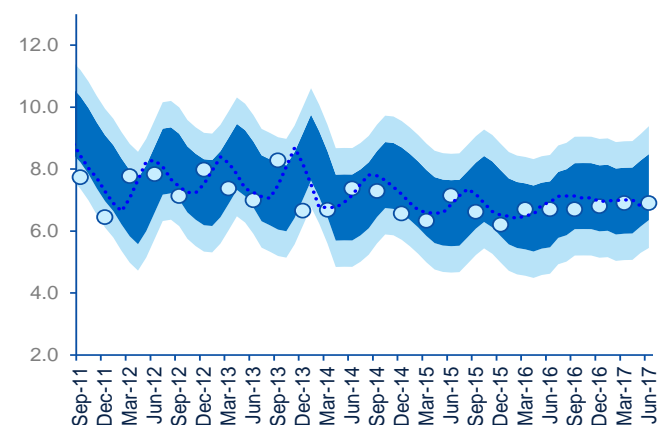
FAI remained at 8.6% ytd y/y as of the previous month (consensus: 8.5% ytd y/y); industrial production picked up significantly to 7.6% y/y in June from 6.5% y/y previously (consensus: 6.5% y/y) and retail sales also accelerated to 11% y/y from 10.7% y/y in May (consensus: 10.6% y/y). (Table 1) Our MICA model provides a monthly GDP growth rate of 7% y/y in June, in line with the strong growth momentum recently. (Table 2) It seems that monetary tightening effects haven't fully translated into the real economy yet. That being said, growth moderation is expected to come sometime 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 help to maintain growth momentum. However, we believe a long run growth slowdown is unavoidable given the ongoing deleveraging measures in financial sector and over-capacity industries.

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

	Mean	2016					2017				
		Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
IP	10.0	6.1	6.2	6.1	6.1	6.1	6.2	6.8	6.8	6.9	6.5
CPI	2.9	1.8	2.0	2.3	2.3	2.2	1.9	1.4	1.2	1.2	1.4
Retail sales	15.1	10.5	10.4	10.5	10.5	10.0	10.5	10.6	10.7	10.7	11.5
Auto sales	10.2	24.8	23.1	20.6	14.7	12.7	10.7	9.4	4.1	1.2	1.6
Exports	10.0	-0.8	-7.1	-6.1	-4.8	-0.5	-0.5	0.0	6.9	11.6	9.5
Imports	8.2	-4.7	-0.6	1.1	2.4	12.6	18.3	25.3	18.5	16.1	14.7
Manufactory PMI	-1.1	0.8	1.8	2.7	3.5	3.8	4.2	4.1	3.5	2.5	2.6
Non-manufactory PMI	-0.8	0.2	0.8	1.4	1.3	1.4	1.7	2.4	2.1	2.0	1.9
Caixin PMI	-1.0	6.4	6.0	5.6	6.1	5.9	6.9	5.3	4.1	1.9	2.1
P/E ratio	-2.0	-7.4	-2.7	-2.9	-6.1	8.9	9.4	18.1	16.2	13.2	15.2
Real estate sales	17.1	39.9	40.4	40.2	37.8	30.0	26.0	25.1	20.1	21.0	19.6
Credit	15.7	13.3	13.1	13.0	13.2	12.6	13.0	12.4	12.9	13.0	12.9
MICA Forecast (YoY)		6.80%			7.00%			7.00%			7.00%
Actual GDP YoY		6.70%			6.80%			6.90%			6.90%

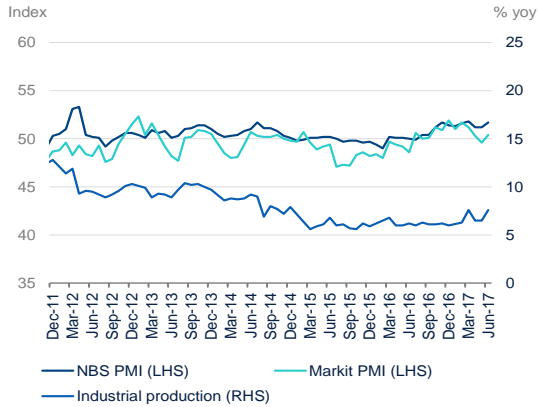
\* Series are non-calendar adjusted. \*\*BBVA Research monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly GDP

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



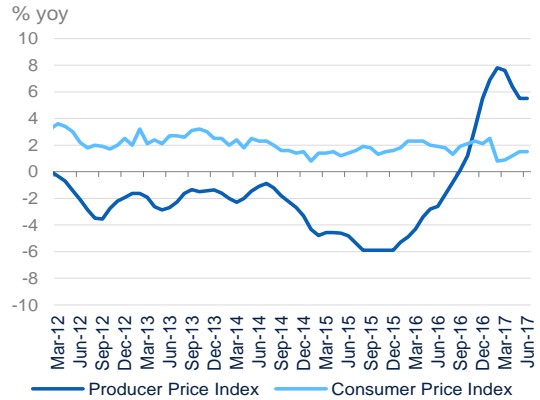
Source: Nowcasting DF Model, BBVA Research

**Figure 3** NBS PMI and IP picked up



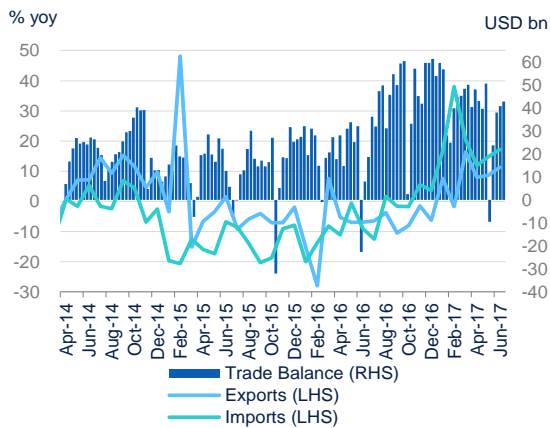
Source: CEIC and BBVA Research

**Figure 4** PPI and CPI started to converge



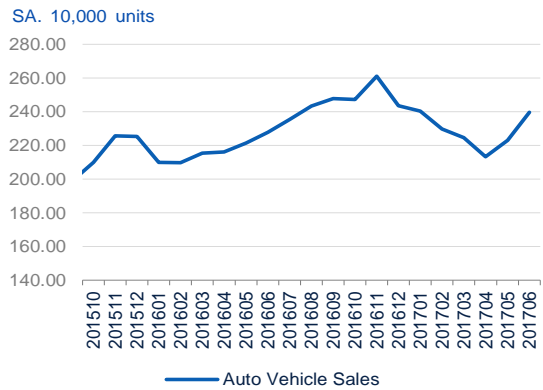
Source: CEIC and BBVA Research

**Figure 5** Both imports and exports accelerated



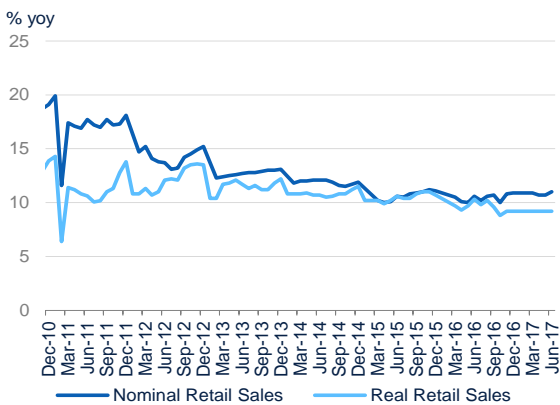
Source: CEIC and BBVA Research

**Figure 6** Auto sales gradually picked up



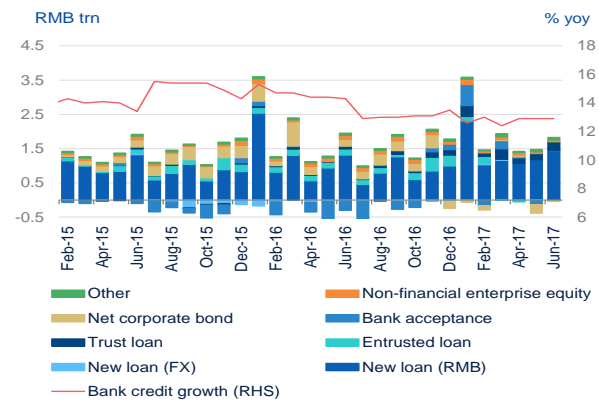
Source: CEIC and BBVA Research

**Figure 7** Real retail sales accelerated as well



Source: CEIC and BBVA Research

**Figure 8** Total social financing and new yuan loans increased significantly



Source: CEIC and BBVA Research

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