

# China | Growth started to feel the pain of regulatory tightening

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14 August 2017

After registering a stronger-than-expected performance in the first half of the year, Chinese economy started to show more signs of moderation in July, in line with our expectation. In particular, the authorities' prudent monetary stance and stepped-up regulatory efforts to tackle a number of financial vulnerabilities, including the risky shadow banking activities, overheating property market and debt overhang, seemingly have transmitted to the real economy. Altogether, we maintain our growth projection to 6.5% for 2017 (vs. the official target: 6.5%; Bloomberg consensus: 6.7%) amid growth headwinds.

The signs of moderation are broad-based: FAI declined to 8.3% ytd y/y (consensus: 8.6% ytd y/y) from the previous month reading of 8.6% ytd y/y, indicating investment started to be influenced by credit shrinking; industrial production decelerated significantly to 6.4% y/y in July from 7.6% y/y previously (consensus: 7.1% y/y) and retail sales also slowed down to 10.4% y/y from 11% y/y in June (consensus: 10.8% y/y). (Table 1) Our MICA model provides a monthly GDP growth rate of 6.9% y/y in July (vs June: 7.1% y/y), in line with the growth slowdown. (Table 2)

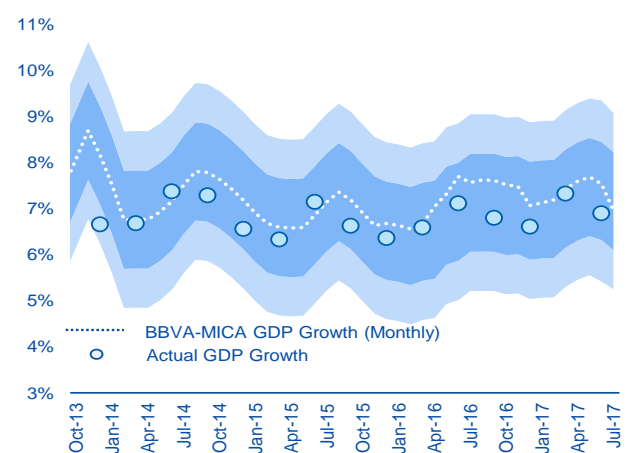
As anticipated in the previous [China Pulse](#), the on-going deleveraging campaign against the financial sector started to adversely impact the real economy. That being said, growth moderation, albeit likely to be mild, is expected to continue in the rest of the year. Investment is most likely to bear the brunt of regulatory squeeze as it tends to raise firms' financing costs.

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

Indicator	Mean	2016				2017						
		Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
IP	10.0	9.1	6.2	6.1	6.1	6.1	6.2	6.3	6.9	6.9	6.5	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	1.5
Retail sales	15.2	10.5	10.4	10.5	10.5	10.0	10.5	10.0	11.7	11.7	11.5	10.6
Auto sales	10.2	24.8	23.1	20.6	14.7	12.7	10.7	9.4	4.1	1.2	1.9	4.2
Exports	10.0	-6.8	-7.1	-6.1	-4.6	0.6	-6.5	6.0	6.9	11.6	9.5	9.0
Imports	8.2	-4.7	-0.6	1.1	2.4	12.6	18.3	25.3	18.5	16.1	14.7	14.2
Manufactury PMI	-1.1	0.8	1.8	2.7	3.5	3.8	4.2	4.1	3.5	2.5	2.6	2.9
Non-manufactury PMI	-0.8	0.2	0.8	1.4	1.3	1.4	1.7	2.4	2.1	2.0	1.9	2.0
Caixin PMI	-1.0	6.4	6.0	5.6	6.1	5.9	6.9	5.3	4.1	1.9	2.1	1.8
P/E ratio	-2.0	-7.4	-2.7	-2.9	-6.1	0.6	6.4	18.1	16.2	13.2	15.2	16.9
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	19.5
Credit	15.7	13.3	13.1	13.0	13.2	12.6	13.0	12.4	12.9	13.0	12.9	12.9
MICA Forecast (YoY)		6.80%			7.00%			7.00%			7.10%	6.90%
Actual GDP YoY		6.70%		6.80%			6.90%			6.90%		

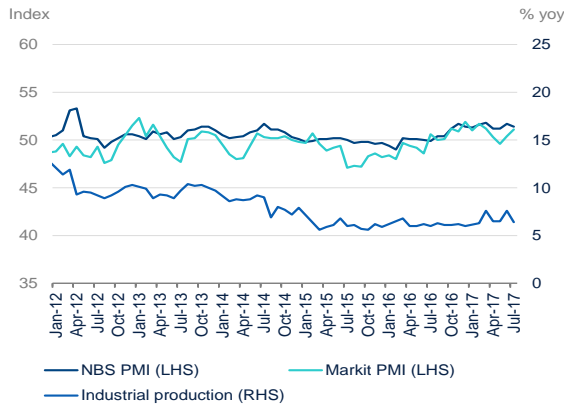
\* Series are non-calendar adjusted. \*\*BBVA Research monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly GDP

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



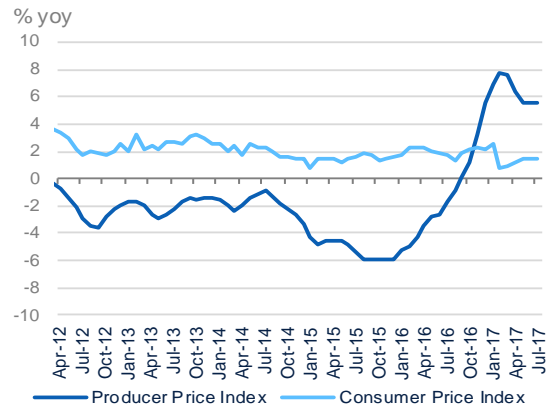
Source: Nowcasting DF Model, BBVA Research

**Figure 3 Industrial production slowed down significantly**



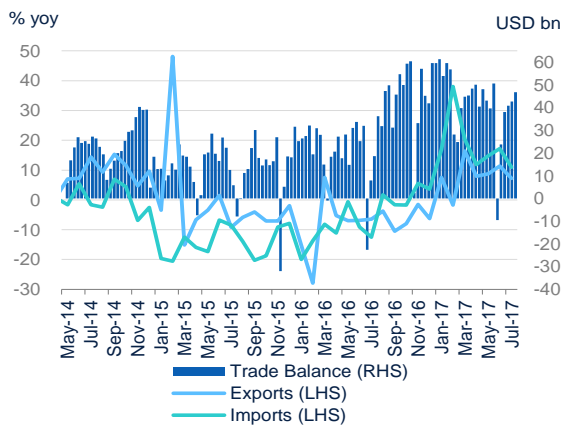
Source: CEIC and BBVA Research

**Figure 4 PPI and CPI displayed some converging pattern**



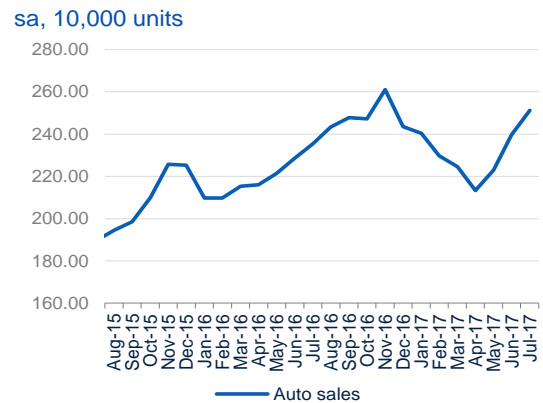
Source: CEIC and BBVA Research

**Figure 5 Both imports and exports decelerated**



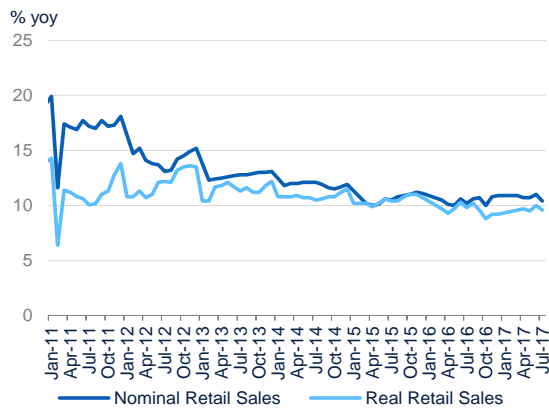
Source: CEIC and BBVA Research

**Figure 6 Auto sales gradually picked up**



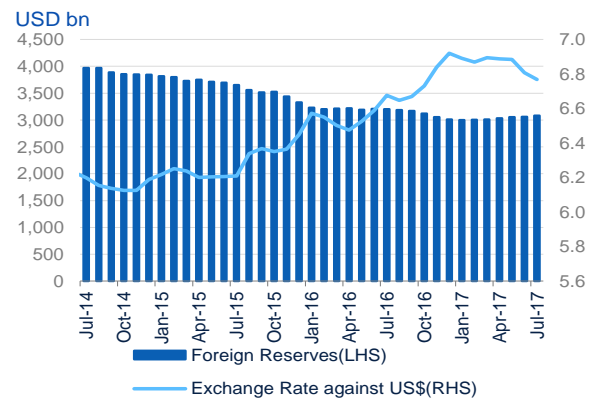
Source: CEIC and BBVA Research

**Figure 7 Retail sales slowed down as well**



Source: CEIC and BBVA Research

**Figure 8 Foreign reserve continued to increase in July**



Source: CEIC and BBVA Research

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