

# China | Policy-led growth moderation coupled with mitigated financial risks

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China's Q3 GDP growth declined to 6.8% from its 6.9% y/y reading in 1H (consensus: 6.8% y/y). It suggests that after registering a stronger-than-expected growth in 1H, the economy showed more signs of moderation in Q3 due to the authorities' policy initiatives. These policies include the continuing prudent monetary policy and the regulatory tightening on shadow banking and property market. On the other hand, the authorities pushed forward the supply-side reform, especially they recently enforced the existing environmental policies on high-polluted sectors to eliminate overcapacity. Altogether, we maintain our 2017 growth forecast at 6.7% (official target: 6.5%; Bloomberg consensus: 6.7%), with slight upside bias.

Activity indicator outturns of September are mixed: FAI declined to 7.5% ytd y/y (consensus: 7.7% ytd y/y) from the previous month reading of 7.8% ytd y/y, indicating investment was influenced by the financial tightening and credit shrinking; By contrast, industrial production accelerated to 6.6% y/y from 6% y/y previously (consensus: 6.5% y/y) and retail sales also picked up to 10.3% y/y from 10.1% y/y in August (consensus: 10.2% y/y). (Table 1; Figure 3-8)

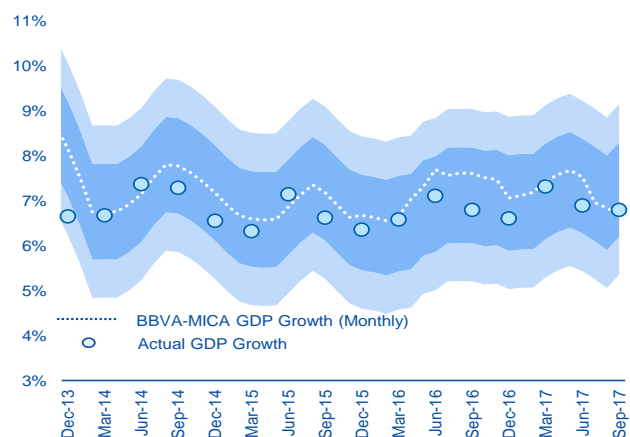
On the other hand, after registering the historical low in August, M2 growth in September marginally picked up to 9.2% y/y, while total social financing and new yuan loans increased from the last month as well. Our MICA model provides a monthly GDP prediction of at 6.7% y/y (vs August: 6.8% y/y), in line with the continuing growth slowdown. (Table 2)

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

	Mean	2016					2017				
		Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
IP	10.0	6.1	6.1	6.2	6.8	6.8	6.8	6.5	6.8	6.8	6.1
CPI	2.9	2.3	2.2	1.9	1.4	1.2	1.2	1.4	1.5	1.5	1.5
Retail sales	15.2	10.5	10.0	10.9	10.0	10.1	10.7	10.5	10.5	10	10.3
Auto sales	10.2	14.7	12.7	10.7	9.4	4.1	1.2	1.8	4.2	5.8	5.1
Exports	10.0	-4.8	0.6	-0.5	8.0	6.9	11.6	9.5	9.0	7.7	6.5
Imports	8.2	2.4	12.6	18.3	25.3	18.5	16.1	14.7	14.2	13.6	14.4
Manufactory PMI	-1.1	3.5	3.8	4.2	4.1	3.5	2.5	2.6	2.9	3.0	3.2
Non-manufactory PMI	-0.8	1.3	1.4	1.7	2.4	2.1	2.0	1.9	2.0	1.1	1.4
Caixin PMI	-1.0	6.1	5.9	6.9	5.3	4.1	1.9	2.1	1.8	2.6	2.0
P/E ratio	-2.0	-5.1	5.9	3.4	18.1	16.2	13.2	15.2	16.9	17.4	17.9
Real estate sales	17.1	37.8	30.0	26.0	25.1	20.1	21.0	19.6	19.5	19.2	18.7
Credit	15.7	13.2	12.6	13.0	12.4	12.9	13.0	12.9	12.9	13.1	13.0
MICA Forecast (YoY)		7.00%			7.00%			7.10%		6.70%	
Actual GDP YoY		6.80%			6.90%			6.90%		6.80%	

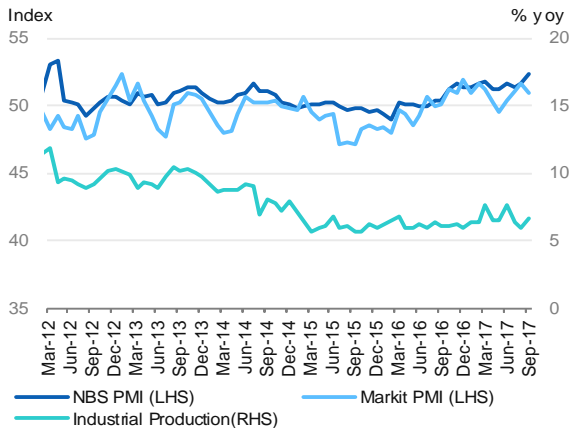
\* Series are non-calendar adjusted. \*\*BBVA Research monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly GDP

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



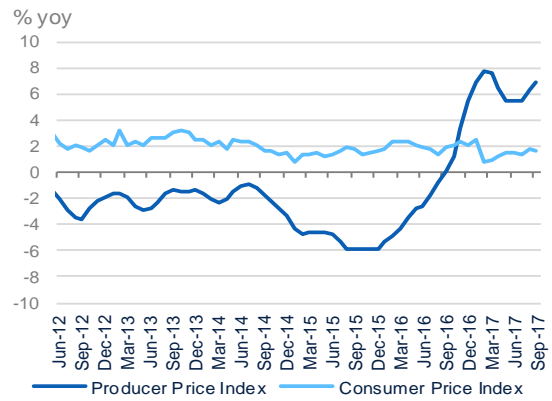
Source: Nowcasting DFM, BBVA Research

**Figure 3 Industrial production accelerated**



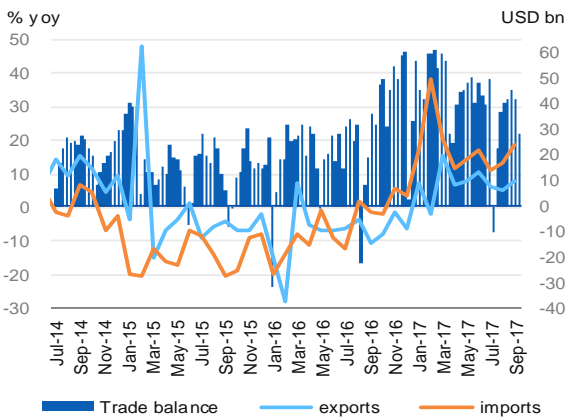
Source: CEIC and BBVA Research

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



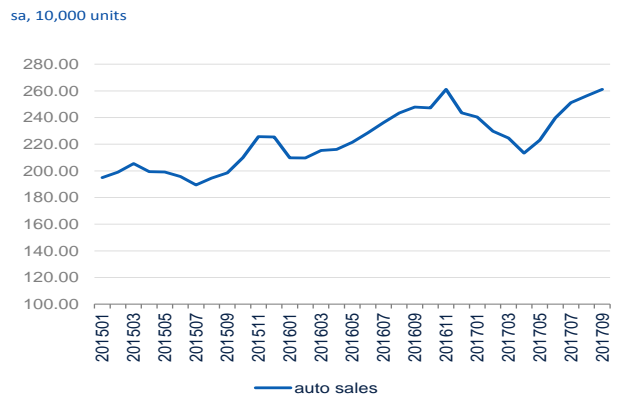
Source: CEIC and BBVA Research

**Figure 5 Exports and imports growth increased in September**



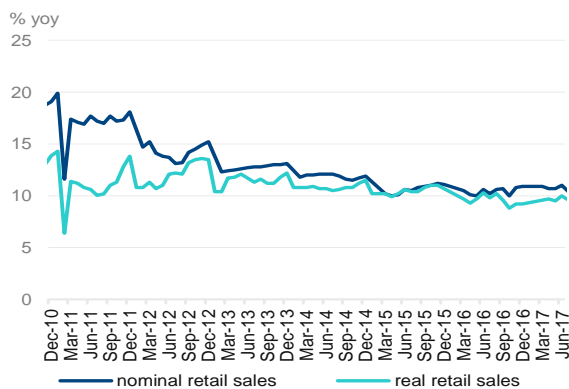
Source: CEIC and BBVA Research

**Figure 6 Auto sales gradually picked up**



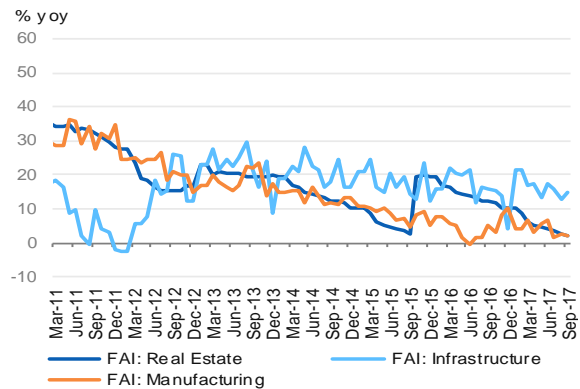
Source: CEIC and BBVA Research

**Figure 7 Retail sales picked up**



Source: CEIC and BBVA Research

**Figure 8 FAI declined in September especially real estate**



Source: CEIC and BBVA Research

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