

# China | October indicators suggest growth moderation continues

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October economic indicators announced today, together with the credit figures released yesterday, were all below the previous readings and the market consensus. As we predicted, the economy continued its 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 one hand and the supply-side reform and corporate deleveraging on the other hand. In addition, the authorities 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%; consensus: 6.7%), with slight upside bias.

Economic moderation is broad-based: Fixed Asset Investment declined to 7.3% ytd y/y (consensus: 7.3% ytd y/y) from the previous month reading of 7.5% ytd y/y, indicating investment was affected by financial tightening and credit shrinking; industrial production decelerated to 6.2% y/y from 6.6% y/y previously (consensus: 6.3% y/y) and retail sales declined to 10% y/y from 10.3% y/y in September (consensus: 10.5% y/y). (Table 1; Figure 3-8)

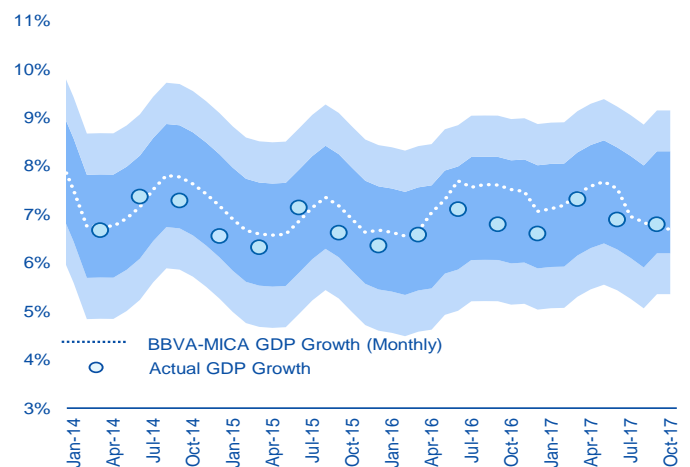
Credit figures all declined as well: after a temporary pick in September, M2 growth declined to 8.8% y/y, while total social financing and new yuan loans dropped significantly from the last month as well. Our MICA model provides a monthly GDP prediction of at 6.7% y/y (vs September: 6.7% y/y), in line with the continuing growth slowdown. (Table 2)

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

	Mean	2016					2017				
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
P	10.0	5.1	5.2	5.3	5.5	5.5	5.5	5.5	5.1	5.1	
CPI	2.9	2.2	1.9	1.4	1.2	1.2	1.4	1.5	1.5	1.7	
Retail sales	15.2	10.0	10.3	10.5	14.7	13.7	12.5	10.6	10	10.3	
Auto sales	10.2	12.7	10.7	9.4	4.7	3.2	1.6	4.2	5.6	5.4	
Exports	10.0	0.6	-0.5	8.0	6.9	11.6	9.5	9.0	7.7	6.5	
Imports	8.2	12.6	18.3	25.3	18.5	16.1	14.7	14.2	13.6	14.4	
Manufacture PMI	-1.1	3.8	4.2	4.1	3.5	2.5	2.6	2.9	3.0	3.2	
Non-manufacture PMI	-0.8	1.4	1.7	2.4	2.1	2.0	1.9	2.0	1.1	1.4	
Caixin PMI	-1.0	5.9	6.9	5.3	4.1	1.9	2.1	1.8	2.6	2.0	
P/E ratio	-2.0	0.9	0.4	18.1	16.2	13.2	15.2	16.9	17.4	17.9	
Real estate sales	17.1	30.0	26.0	25.1	20.1	21.0	19.6	19.5	19.2	18.7	
Credit	15.7	12.6	13.0	12.4	12.9	13.0	12.9	12.9	13.1	13.0	
MICA Forecast (YoY)		7.00%			7.10%			6.70%			
Actual GDP YoY		6.90%			6.90%			6.80%			

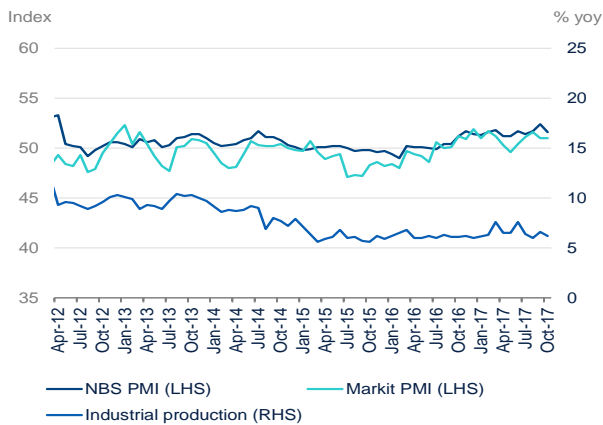
\* Series are non-calendar adjusted. \*\*BBVA Research monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly GDP

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



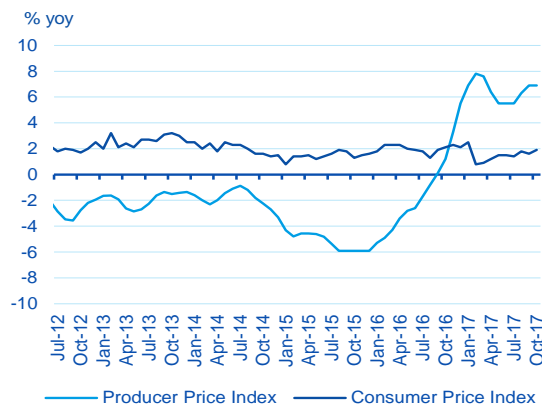
Source: Nowcasting DF Model, BBVA Research

**Figure 3 Industrial production and PMIs decelerated**



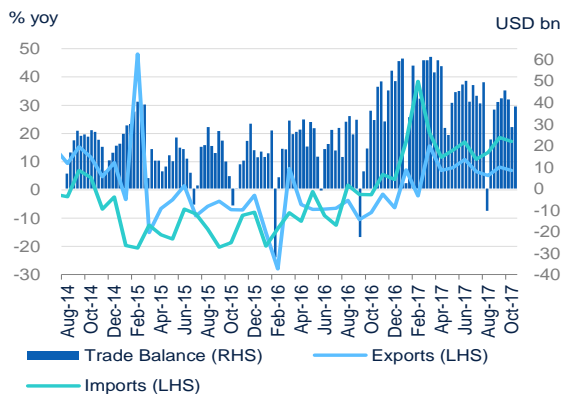
Source: CEIC and BBVA Research

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



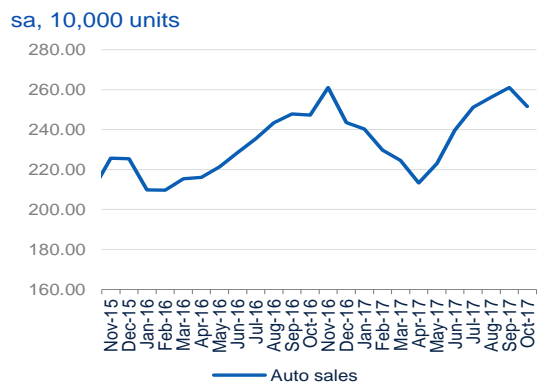
Source: CEIC and BBVA Research

**Figure 5 Exports and imports growth decreased in October**



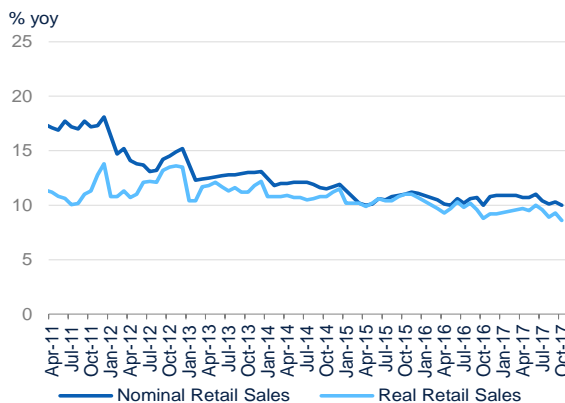
Source: CEIC and BBVA Research

**Figure 6 Auto sales marginally dipped**



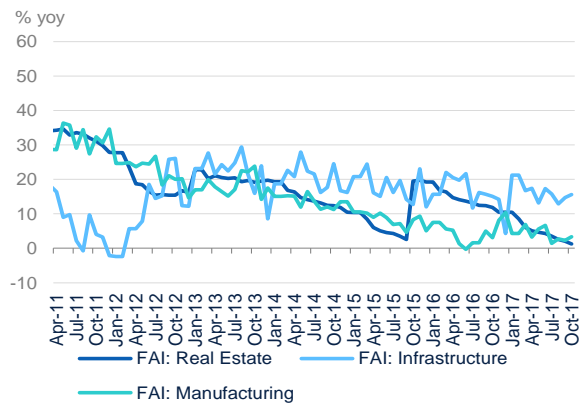
Source: CEIC and BBVA Research

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



Source: CEIC and BBVA Research

**Figure 8 FAI declined especially real estate investment**



Source: CEIC and BBVA Research

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