

# China | Growth moderation continues

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November economic indicators reported today were generally below the previous readings. Meanwhile, the credit figures kept at a relatively high level as the authorities want to maintain market liquidity toward end-year. As anticipated, the economy continued its moderation in Q4 due to the authorities' policy initiatives, including the continuing prudent monetary policy and the regulatory tightening on one hand and the supply-side reform to cut overcapacity on the other hand. In addition, the authorities enforced the existing environmental policies on highly polluted sectors to eliminate overcapacity. Altogether, we maintain our 2017 growth forecast at 6.7% (versus official target: 6.5%) with some upside bias.

Economic moderation is broad-based: Fixed Asset Investment declined to 7.2% ytd y/y (consensus: 7.2% ytd y/y) from the previous month reading of 7.3% ytd y/y, indicating investment was affected by financial tightening; industrial production decelerated to 6.1% y/y from 6.2% y/y previously (consensus: 6.1% y/y). The only silver lining is that retail sales picked up to 102% y/y from 10% y/y in October (consensus: 10.3% y/y), boosted by the Chinese shopping carnival on November 11. (Table 1; Figure 3-8)

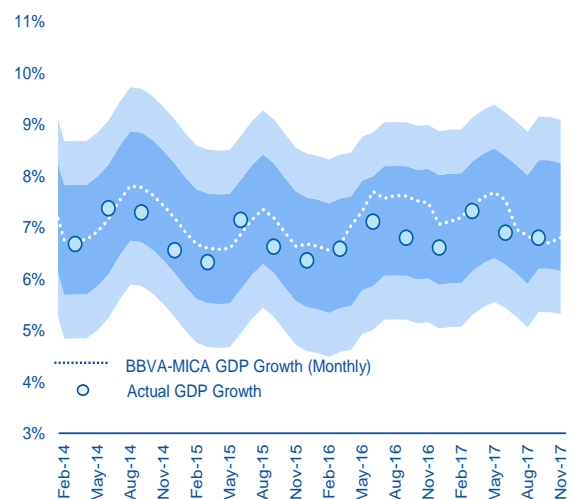
Credit figures held well in November: M2 growth increased to 9.1% y/y, while total social financing and new yuan loans picked up significantly from the last month as well. Our MICA model yields a monthly GDP prediction of at 6.8% y/y (vs October: 6.7% y/y). (Table 2)

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

	Mean	2016					2017				
		Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
IP	10.0	6.2	6.9	6.9	6.9	6.5	6.3	6.5	6.1	6.1	6.2
CPI	2.9	1.9	1.4	1.2	1.2	1.4	1.5	1.5	1.5	1.7	1.6
Retail sales	15.2	10.5	10.6	14.7	13.7	12.5	10.8	10	10.3	10	9.8
Auto sales	10.2	10.7	9.4	4.1	1.2	1.6	4.2	5.6	5.5	4.1	2.4
Exports	10.0	-0.9	8.0	6.9	11.6	9.5	9.0	7.7	6.5	6.7	9.2
Imports	8.2	18.3	25.3	18.5	16.1	14.7	14.2	13.6	14.4	16.4	17.9
Manufactory PMI	-1.1	4.2	4.1	3.5	2.5	2.6	2.9	3.0	3.2	2.4	1.6
Non-manufactory PMI	-0.8	1.7	2.4	2.1	2.0	1.9	2.0	1.1	1.4	1.2	1.3
Caixin PMI	-1.0	6.9	5.3	4.1	1.9	2.1	1.8	2.6	2.0	1.5	0.4
P/E ratio	-2.0	9.4	18.1	16.2	13.2	15.2	16.9	17.4	17.9	17.4	14.8
Real estate sales	17.1	26.0	25.1	20.1	21.0	19.6	19.5	19.2	18.7	15.3	14.2
Credit	15.7	13.0	12.4	12.9	13.0	12.9	12.9	13.1	13.0	13.1	13.0
MICA Forecast (YoY)		7.00%			7.10%			6.70%			
Actual GDP YoY		6.90%			6.90%			6.80%			
		Contraction		Slow-down		Growth		Boom			

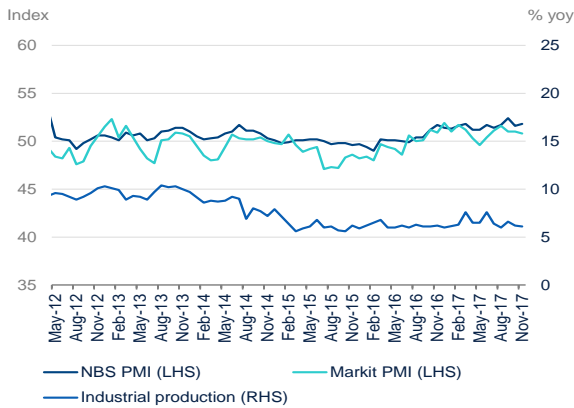
\* Series are non-calendar adjusted. \*\*BBVA Research monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly GDP

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



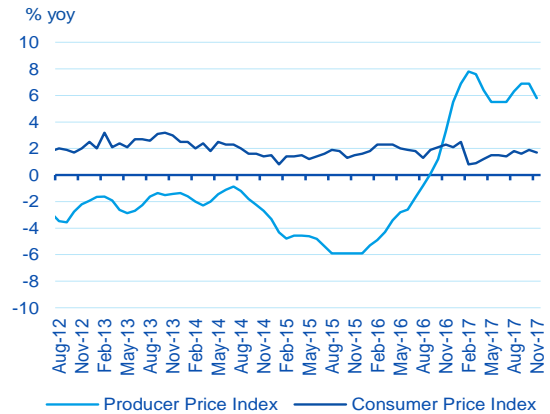
Source: Nowcasting DF Model, BBVA Research

**Figure 3 Industrial production and PMIs decelerated**



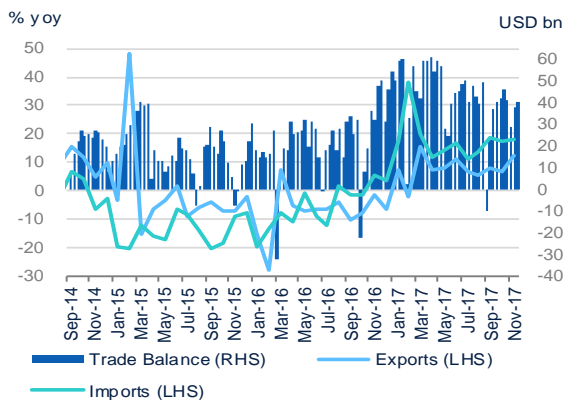
Source: CEIC and BBVA Research

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



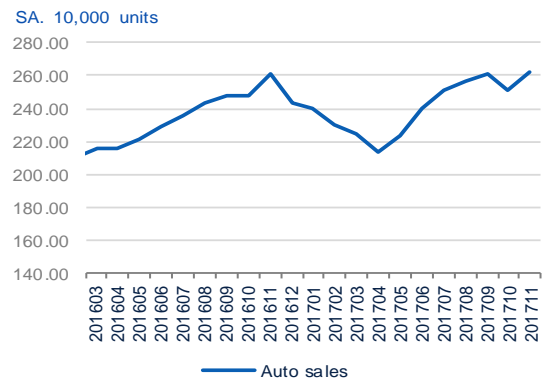
Source: CEIC and BBVA Research

**Figure 5 Exports and imports growth increased**



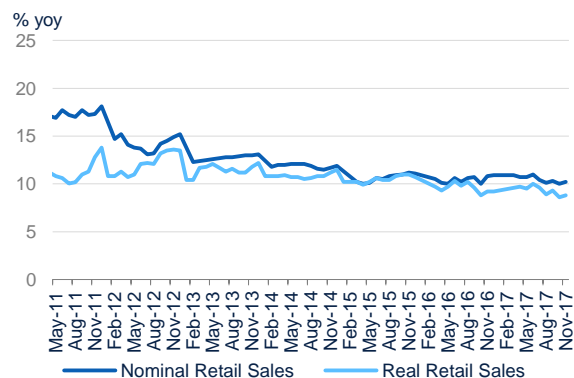
Source: CEIC and BBVA Research

**Figure 6 Auto sales marginally picked up**



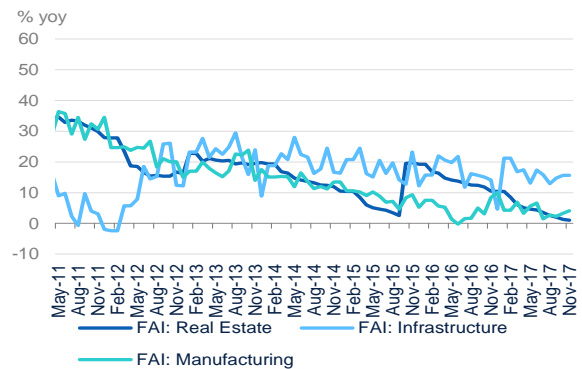
Source: CEIC and BBVA Research

**Figure 7 Retail sales marginally picked up**



Source: CEIC and BBVA Research

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



Source: CEIC and BBVA Research

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