

# China | A soft-landing in 2017

Jinyue Dong and Le Xia

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**December economic indicators reported today, together with Q4 GDP outturns, marginally exceeded market expectations. For 2017 as a whole, China’s economy achieved a soft-landing synchronized with the rest of the world. Looking ahead, the economy is expected to continue its moderation as the authorities’ stepped-up efforts to rein in shadow banking activities are set to weigh on growth in the real sector. Altogether, we maintain our growth projection of 6.3% (versus consensus: 6.4%) for 2018.**

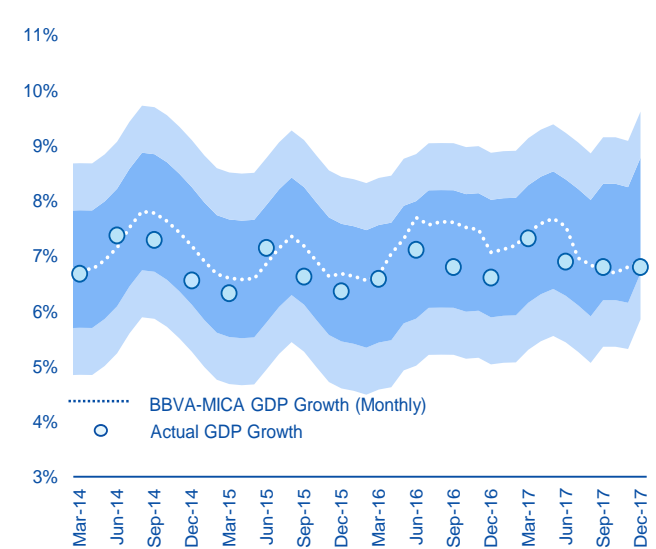
Growth moderation continued in December: Fixed Asset Investment maintained at 7.2% ytd y/y (consensus: 7.1% ytd y/y), indicating investment was constrained by financial tightening; industrial production marginally increased to 6.2% y/y from 6.1% y/y previously (consensus: 6.1% y/y). However, retail sales dipped significantly to 9.4% y/y from 10.2% y/y in November (consensus: 10.2% y/y) mainly due to the Chinese New Year effect. (Table 1; Figure 3-8)

December credit figures decreased significantly: M2 growth dipped to a historical low of 8.2% y/y, so did total social financing and new yuan loans, mainly due to the end-year adjustment for MPA and decreasing capital demand for housing mortgage and investment. Our MICA model yields a monthly GDP prediction of at 6.9% y/y for Q4. (Figure 2)

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

	Mean	2017									
		Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Industrial Production	9.4	6.8	6.8	6.5	6.8	6.6	6.1	6.1	6.2	5.8	
CPI	2.7	1.2	1.2	1.4	1.5	1.5	1.5	1.7	1.6	1.7	
Retail sales	14.4	14.7	13.7	13.5	10.6	10.0	10.3	10.0	9.8	9.0	
Auto Sales	10.0	4.1	12	16	4.2	5.6	5.8	4.1	2.4	0.6	
Exports	8.9	6.9	11.6	9.5	9.0	7.7	6.5	6.7	9.2	10.1	
Imports	8.9	8.5	16.1	14.7	14.2	13.6	14.4	16.4	17.9	13.5	
Manufacture PMI	-0.4	3.5	2.5	2.6	2.9	3.0	3.2	2.4	1.6	0.5	
Non-manufacture	-0.5	2.1	2.0	1.9	2.0	1.1	1.4	1.2	1.3	0.6	
Caixin PMI	-0.2	4.1	1.9	2.1	1.8	2.6	2.0	1.5	0.4	-0.5	
P/E ratio	-0.1	16.2	13.2	15.2	16.9	17.4	17.9	17.4	14.8	13.2	
Real estate sales	23.7	20.1	21.0	19.6	19.5	19.2	18.7	15.3	14.2	14.0	
Credit	17.0	12.9	13.0	12.9	12.9	13.1	13.0	13.1	13.0	12.9	
MICA Forecast				7.0%		6.70%		6.90%		6.80%	
GDP YoY				6.90%		6.80%					
				Contraction		Slow-down		Growth		Boom	

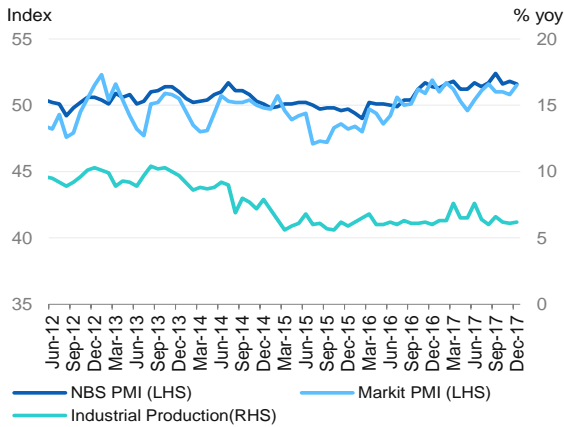
**Figure 2** China: BBVA Research Monthly GDP\*\* (%YoY)



Source: Nowcasting DF Model, BBVA Research

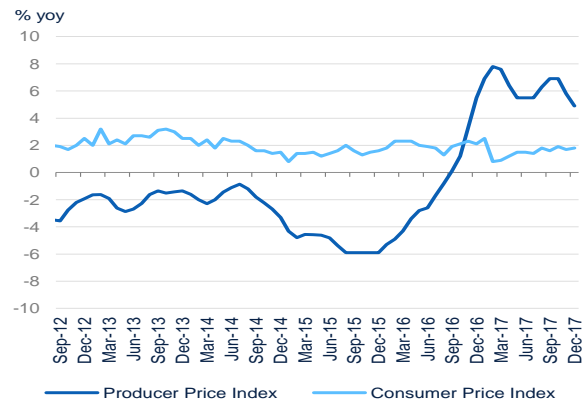
\* Series are non-calendar adjusted. \*\*BBVA Research monthly GDP is dynamic factor model synthesizing high-frequency indicators to proxy monthly GDP

**Figure 3** Industrial production and PMIs indicate moderation continues



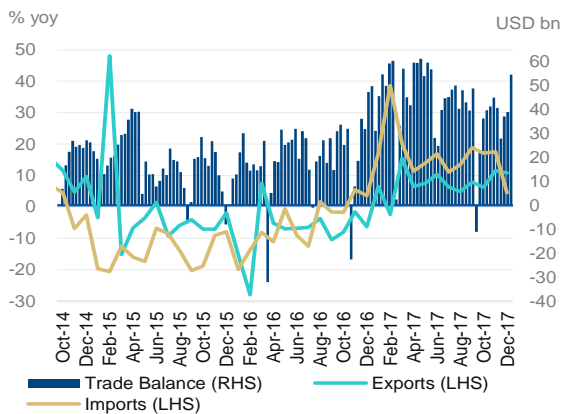
Source: CEIC and BBVA Research

**Figure 4** PPI and CPI started to converge at year-end



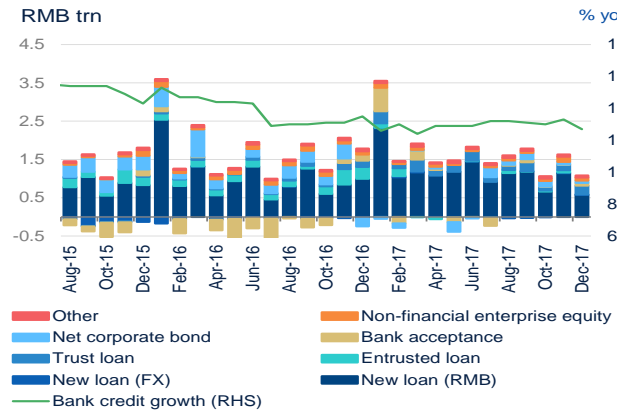
Source: CEIC and BBVA Research

**Figure 5** Exports and imports growth diverged in December



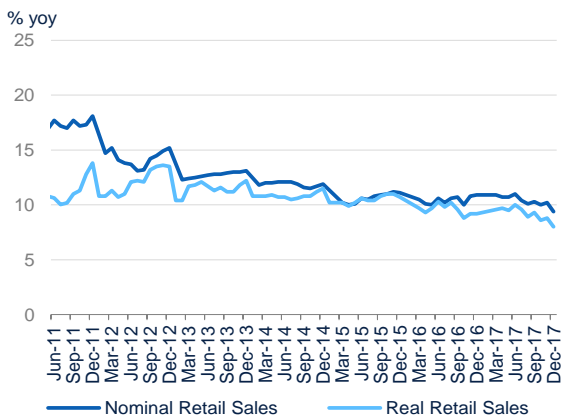
Source: CEIC and BBVA Research

**Figure 6** Credit dropped significantly in December



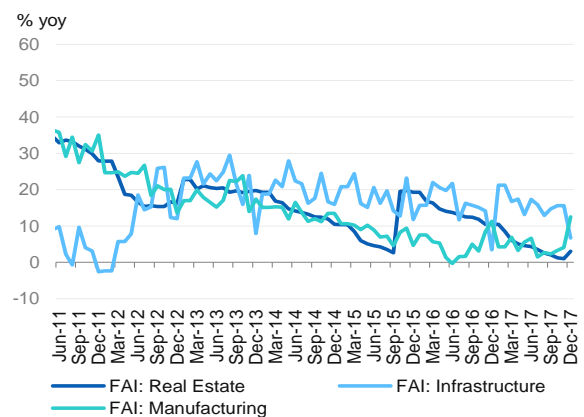
Source: CEIC and BBVA Research

**Figure 7** Retail sales slowed down significantly



Source: CEIC and BBVA Research

**Figure 8** FAI maintained the same growth rate of the previous month



Source: CEIC and BBVA Research

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