

# China | Growth picked up at the beginning of 2018

Jinyue Dong

14 March 2018

January and February economic indicators were reported today, most of which exceeded market expectations and the previous readings. This indicates that growth has been in a steady trend during the NPC and CPPCC (“two sessions”). However, the economy is expected to continue its moderation as the authorities’ stepped-up efforts of financial deleveraging and supply-side reforms, which are set to weigh on growth in the real sector. Altogether, we maintain our growth projection of 6.3% (versus consensus: 6.5%) for 2018.

Growth picked up in January and February: Fixed Asset Investment increased to 7.9% ytd y/y from 7.2% ytd y/y (consensus: 7% ytd y/y), indicating investment regains its momentum at the beginning of the year; industrial production also picked up to 7.2% y/y from 6.6% y/y previously (consensus: 6.2% y/y). However, retail sales dipped marginally to 9.7% y/y from 10.2% y/y in the previous month (consensus: 9.8% y/y). (Table 1; Figure 3-8)

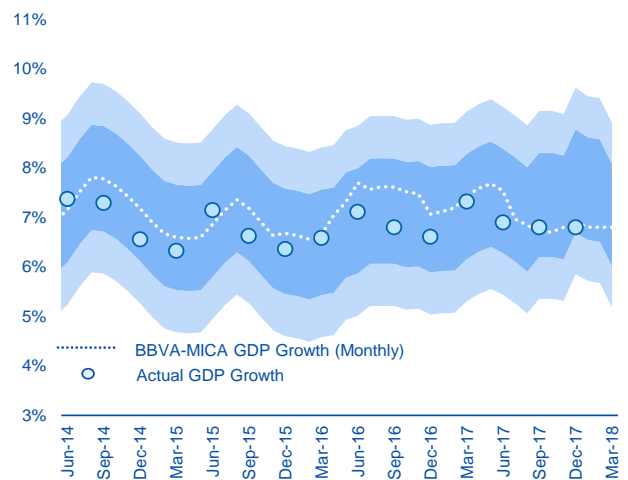
February credit has been eased to some degree: M2 growth marginally increased to 8.8% y/y from 8.6% y/y in January. Total social financing and new yuan loans, although dipped significantly from the January readings due to the seasonal effect, maintained at a reasonable scale. Our MICA model yields a monthly GDP prediction of 6.8% for Q1 2018, compared with 6.9% y/y for Q4 2017. (Figure 2)

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

Mean	2017							2018		
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	
Industrial Production	9.4	6.5	6.8	6.6	6.1	6.1	6.2	5.8	6.5	6.9
CPI	2.7	14	15	15	15	17	16	17	17	19
Retail sales	14.4	13.5	10.6	10.0	10.3	10.0	9.8	9.0	8.4	7.0
Auto Sales	10.0	16	4.2	5.6	5.8	4.1	2.4	0.6	-12	0.9
Exports	8.9	9.5	9.0	7.7	6.5	6.7	9.2	10.1	9.8	17.7
Imports	8.9	14.7	14.2	13.6	14.4	16.4	17.9	13.5	13.3	14.6
Manufactory PMI	-0.4	2.6	2.9	3.0	3.2	2.4	16	0.5	0.2	-0.7
Non-manufactory	-0.5	19	2.0	1.1	14	12	13	0.6	0.8	0.9
Caixin PMI	-0.2	2.1	18	2.6	2.0	15	0.4	-0.5	0.0	0.0
P/E ratio	-0.1	5.2	16.9	17.4	17.9	17.4	14.8	13.2	13.6	13.4
Real estate sales	23.7	19.6	19.5	19.2	18.7	15.3	14.2	14.0	13.9	14.7
Credit	17.0	12.9	12.9	13.1	13.0	13.1	13.0	12.9	13.1	12.9
MICA Forecast	7.0%		6.70%			6.90%		6.80%		
GDP YoY	6.90%		6.80%			6.80%		6.80%		
	Contraction		Slow-down			Growth		Boom		

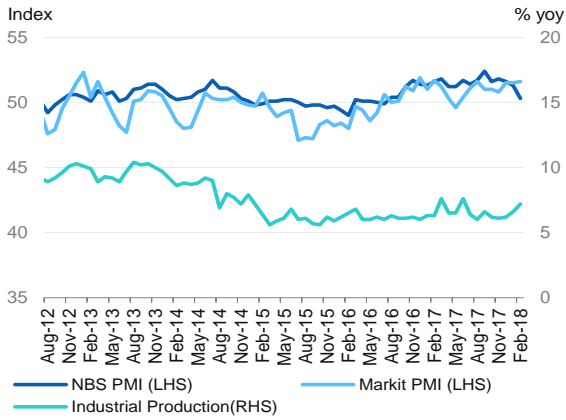
\* Series are non-calendar adjusted. \*\*BBVA Research monthly GDP is dynamic factor model synthesizing high-frequency indicators to proxy monthly GDP

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



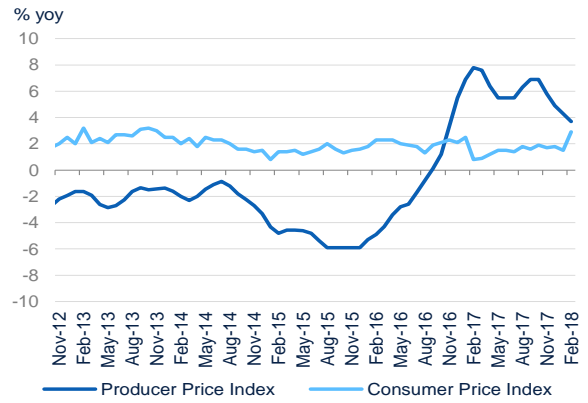
Source: Nowcasting DF Model, BBVA Research

**Figure 3** Industrial production and NBS PMI diverged



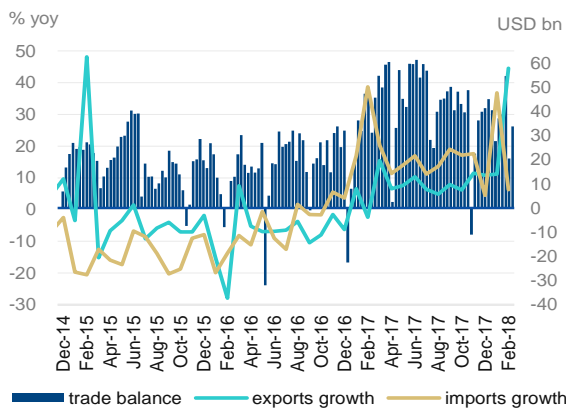
Source: CEIC and BBVA Research

**Figure 4** PPI and CPI started to converge



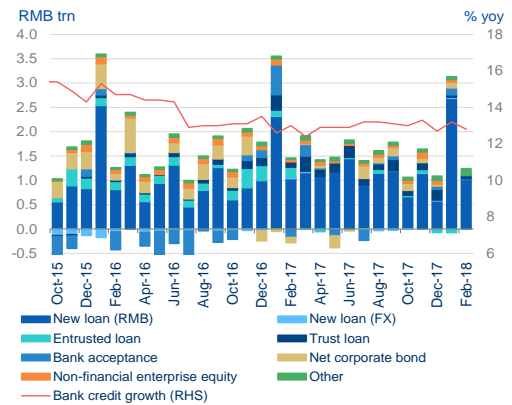
Source: CEIC and BBVA Research

**Figure 5** Exports supports growth at the beginning of the year



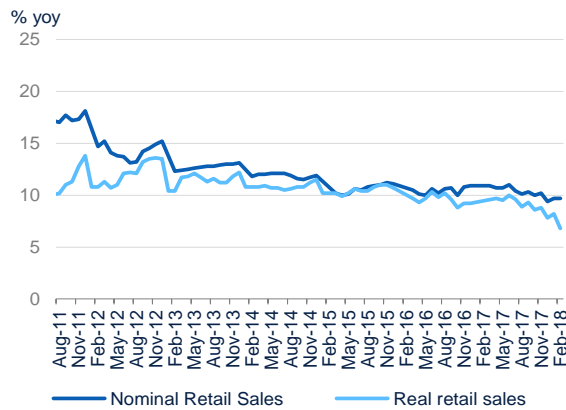
Source: CEIC and BBVA Research

**Figure 6** Credit dropped significantly in Feb due to seasonal effect



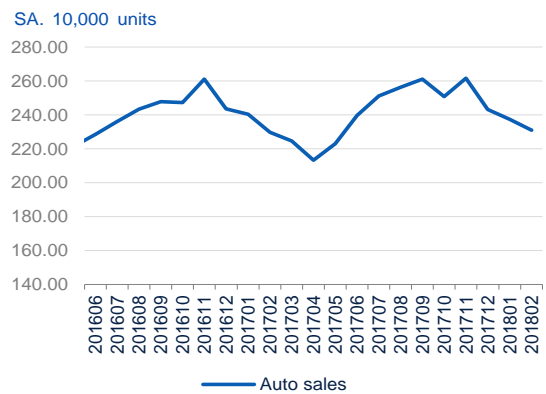
Source: CEIC and BBVA Research

**Figure 7** Retail sales moderated



Source: CEIC and BBVA Research

**Figure 8** Auto sales continued slowing down



Source: CEIC and BBVA Research

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