

China | Growth moderation amid trade risk and domestic deleveraging

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June 14th, 2018

May economic indicators are announced today, together with the previously released credit data, pointing to an expected moderation in growth. In particular, fixed asset investment, industrial production and retail sales all dropped from the previous readings and below the market expectations. This suggests that headwinds are weighing on growth, mainly from domestic tightening policy and the unsettled trade skirmishes with the US, although the latter of which, in our baseline scenario, is unlikely to evolve into a full-blown trade war between the largest country economies. That being said, the growth is most likely to moderate through the rest of the year. Thus, we maintain our 2018 growth projection at 6.3% y/y, compared with the official target rate at 6.5% and the Bloomberg consensus at 6.5%.

May economic indicators are lacklustre: Fixed asset investment decreased to 6.1% ytd y/y from 7% ytd y/y previously (consensus: 7% ytd y/y), indicating investment slowed down due to financial tightening and deleveraging; retail sales decelerated to 8.5% y/y from 9.4% y/y in the previous month (consensus: 9.6% y/y); industrial production also declined to 6.8% y/y from 7% y/y previously (consensus: 7% y/y). (Table 1; Figure 3-8)

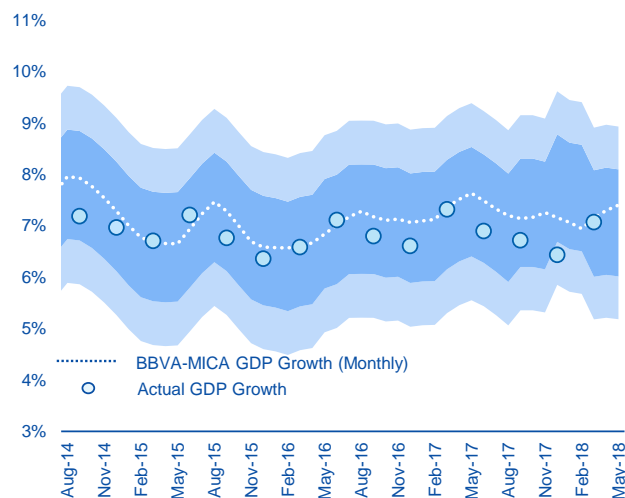
May credit data slowed down as well: Although M2 growth maintained at 8.3% y/y, total social financing and new yuan loans both decreased to RMB 760.8 billion and RMB 1150 billion, respectively. Altogether, our MICA model yields a monthly GDP prediction at 6.8% (prior forecast: 6.9%), in line with the lacklustre economic performance. (Figure 2)

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

	Mean	2017					2018				
		Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	
Industrial Production	9.4	6.1	6.1	6.2	5.8	6.5	6.9	6.8	6.7	6.6	
CPI	2.7	1.5	1.7	1.6	1.7	1.7	1.9	2.0	1.9	1.7	
Retail sales	14.4	10.3	10.0	9.8	9.0	8.4	7.0	5.4	5.1	4.7	
Auto Sales	10.0	5.8	4.1	2.4	0.6	-1.2	0.9	1.8	7.0	10.1	
Exports	8.9	6.5	6.7	9.2	10.1	9.8	17.7	15.3	17.5	10.2	
Imports	8.9	14.4	16.4	17.9	13.5	13.3	14.6	17.9	19.2	20.9	
Manufactory PMI	-0.4	3.2	2.4	1.6	0.5	0.2	-0.7	-1.0	-0.9	0.4	
Non-manufactory	-0.5	1.4	1.2	1.3	0.6	0.8	0.9	0.2	0.3	0.4	
Caixin PMI	-0.2	2.0	1.5	0.4	-0.5	0.0	0.0	0.1	0.3	1.4	
P/E ratio	-0.1	17.9	17.4	14.8	13.2	13.6	13.4	16.5	15.9	0.3	
Real estate sales	23.7	18.7	15.3	14.2	14.0	13.9	14.7	13.6	11.6	10.4	
Credit	17.0	13.0	13.1	13.0	12.9	13.1	12.9	12.9	12.8	12.7	
MICA Forecast		6.70%			6.90%		6.90%		6.80%		
GDP YoY		6.80%			6.80%		6.80%				
		Contraction		Slow-down		Growth		Boom			

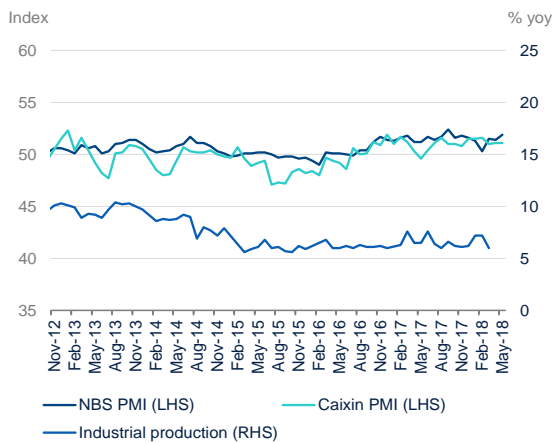
* Series are non-calendar adjusted **BBVA Research monthly GDP is dynamic factor model synthesizing high-frequency indicators to proxy monthly GDP

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



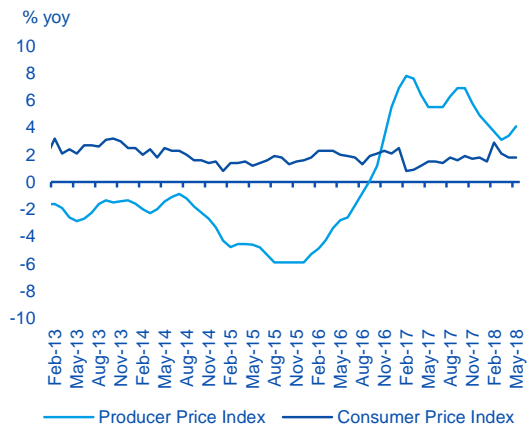
Source: Nowcasting DF Model, BBVA Research

Figure 3 Industrial production decreased while NBS PMI up



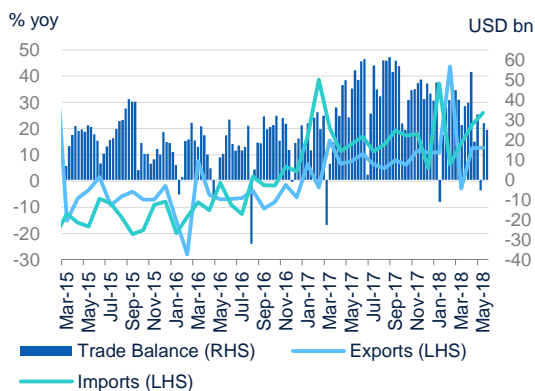
Source: CEIC and BBVA Research

Figure 4 CPI and PPI diverged in May



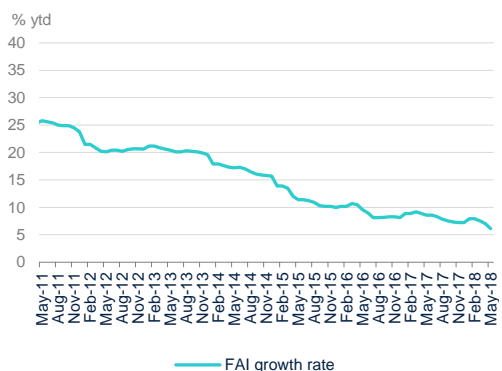
Source: CEIC and BBVA Research

Figure 5 Trade surplus shrank amid the trade war risk



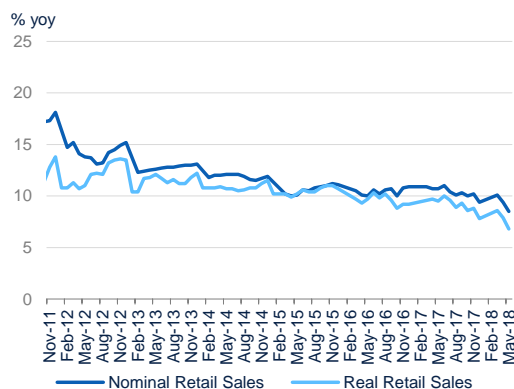
Source: CEIC and BBVA Research

Figure 6 FAI ytd y/y also moderated



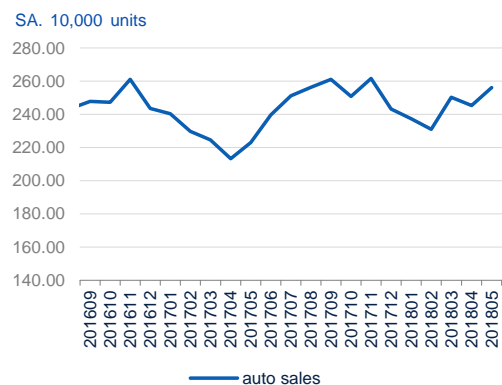
Source: CEIC and BBVA Research

Figure 7 Retail sales also decelerated



Source: CEIC and BBVA Research

Figure 8 Auto sales picked up although aggregate retail sales slowed down



Source: CEIC and BBVA Research

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